

**CITY OF PLYMOUTH**

**Subject:** Internal Audit Strategy and Charter  
**Committee:** Audit Committee  
**Date:** 24<sup>th</sup> September 2007  
**Cabinet Member:** Cllr Bowyer  
**CMT Member:** Director of Corporate Resources  
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**Ref:** AUD/SW  
**Part:** I

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**Executive Summary:**

The Code of Practice for Internal Audit in Local Government (the Code) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) lays down the professional standards to which Plymouth City Council's Audit Service works in providing an internal audit service to the Authority.

Following amendments made to the Accounts and Audit Regulations in 2006, CIPFA has revised the 2003 version of the Code. The new Code reflects changes in corporate governance practice that further emphasises the importance of Internal Audit to the proper management of organisations. In addition it more closely aligns practice with current approaches of internal auditors, particularly in respect of recent developments in risk management and the impact on internal audit planning. Ethics are also now included as one of the Standards in the Code.

There are two key documents referred to in the Code which specifically require approval by the Authority. These are the **Internal Audit Strategy**, and the Internal Audit Charter (Terms of Reference). The Code defines the Audit Strategy as "the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference". The Code also requires that "the purpose, authority and responsibility of Internal Audit must be formally defined" in **Terms of Reference** consistent with the Code.

The Audit Committee last approved the current Internal Audit Strategy and Charter (Terms of Reference) in April 2005, which were based on guidance provided in CIPFA's 2003 Code. Procedures and practices within Internal Audit continue to comply with the new Code, but the documents have now been updated to bring them into line with the latest requirements.

Revised versions of the Internal Audit Strategy, and Internal Audit Charter and Terms of Reference are included in Appendix 1 and 2. The changes are not significant and have been **highlighted in bold text** for ease of reference.

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**Corporate Plan 2007-2010:**

The work of Internal Audit assists the Authority in maintaining high standards of public accountability and probity in the use of public funds. The Section has a role in promoting

high standards of service planning, performance monitoring and review throughout the organisation.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

None

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.**

None

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**Recommendations & Reasons for recommended action:**

Audit Committee are recommended to approve the proposed revised Internal Audit Strategy and Internal Audit Charter (Terms of Reference) attached to this report.

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**Alternative options considered and reasons for recommended action:**

None. The Authority needs to adopt an Audit Strategy, and Terms of Reference which comply with the CIPFA Code of Practice for Internal Audit in Local Government. Failure to do so would be contrary to the requirements of the Accounts & Audit Regulations 2003 (as amended), and would fail to meet the mandatory KLOE's for the CPA Use of Resources Assessment

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**Background papers:**

CIPFA Code of Practice for Internal Audit in Local Government 2006

Plymouth City Council Constitution

Accounts & Audit Regulations 2006 (as amended)

Report AC25 04/05 to Audit Committee 4<sup>th</sup> April 2005

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**Sign off:**

Head of Fin	<b>AB</b> 20/8/ 07	Head of Leg		Head of HR		Head of AM		Head of IT		Head of Strat Proc	
Originating SMT Member S W											

## 1.0 BACKGROUND

1.1 The Code of Practice for Internal Audit in Local Government (the Code) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) lays down the professional standards to which Plymouth City Council's Audit Service works in providing an internal audit service to the Authority.

1.2 Following amendments made to the Accounts and Audit Regulations in 2006, CIPFA has revised the 2003 version of the Code. The new Code reflects changes in corporate governance practice that further emphasises the importance of Internal Audit to the proper management of organisations. In addition it more closely aligns practice with current approaches of internal auditors, particularly in respect of recent developments in risk management and the impact on internal audit planning. Ethics are also now included as one of the Standards in the Code.

## 2.0 REQUIREMENTS OF THE CODE OF PRACTICE

2.1 There are two key documents referred to in the Code which specifically require approval by the Authority. These are the Internal Audit Strategy, and the Internal Audit Charter (Terms of Reference).

2.2 The Code defines the **Audit Strategy** as "the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference." The Code also indicates that the Audit Strategy should include:-

- Internal Audit objectives and outcomes
- how the Head of Internal Audit will form and evidence his or her opinion on the control environment to support the annual Statement of Internal Control
- how Internal Audit's work will identify and address significant local and national issues and risks
- how the service will be provided, ie internally, externally, or a mix of the two
- the resources and skills required to deliver the strategy.

2.3 The Code also requires that "the purpose, authority and responsibility of Internal Audit must be formally defined" in **Terms of Reference** consistent with the Code which should:-

- establish the responsibilities and objectives of Internal Audit
- establish the organisational independence of Internal Audit
- establish the accountability, reporting lines and relationships between the Head of Internal Audit and:
  - (i) those charged with governance
  - (ii) those to whom the Head of Internal Audit may report
- recognise that Internal Audit's remit extends to the entire control environment of the organisation
- identify Internal Audit's contribution to the review of the effectiveness of the control environment
- require and enable the Head of Internal Audit to deliver an annual audit opinion
- define the role of Internal Audit in any fraud-related or consultancy work
- explain how Internal Audit's resource requirements will be assessed

- establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanation as it considers necessary to fulfil its responsibilities.

2.4 The Audit Committee last approved the current Internal Audit Strategy, and Charter (Terms of Reference) in April 2005, which were based on guidance provided in CIPFA's 2003 Code. Existing procedures and practices within Internal Audit continue to comply with the new Code, but the documents have now been updated to bring them into line with the latest, 2006 version of the Code.

2.5 Revised versions of the Internal Audit Strategy, and Internal Audit Charter and Terms of Reference are included in Appendix 1 and 2. The changes are not significant and have been ***highlighted in bold italic text*** for ease of reference.

### **3.0 RECOMMENDATIONS**

3.1 Audit Committee are recommended to approve the proposed revised Internal Audit Strategy and Internal Audit Charter (Terms of Reference) attached to this report.

## PLYMOUTH CITY COUNCIL INTERNAL AUDIT SERVICE

### INTERNAL AUDIT STRATEGY

#### INTRODUCTION

1. This strategy document is a statement of how the Internal Audit Service will be delivered as per its terms of reference. Those “terms of reference” are contained within the Internal Audit Charter that has been approved by the Council’s Audit Committee. The key objective of Plymouth’s Internal Audit Service is to provide a high quality and cost-effective internal audit service that meets the professional standards laid down in the CIPFA Code of Practice for Internal Audit in Local Government. This strategy will be reviewed and updated as appropriate to meet any changing requirements or priorities.

#### SERVICE DELIVERY AND PLANNING

2. The Internal Audit Service will continue to be delivered internally, where possible, with a continuing commitment to demonstrating that this represents a cost-effective means of providing a high quality and professional service. Evidence to support this will continue to be provided from a variety of sources, which will include benchmarking comparisons with other authorities, quality reviews and satisfaction surveys from clients. Other key evidence will be available from initiatives such as the Comprehensive Performance Assessment, and the external auditor’s annual review of Internal Audit. ***The Chief Auditor will report on the results of the performance management and quality assurance programme in the annual Audit Report to Audit Committee.***
3. With the growing emphasis on partnership arrangements, internal audit partnership arrangements will be encouraged and developed as appropriate to avoid duplication, ensure consistency of approach and maximise cost-effectiveness. In such arrangements the aim will be that partners should place reliance on the work of whichever internal audit service carries out the work.
4. Where internally provided audit resources are inadequate to deliver the annual audit plan, or there are not the required skills available, then external contractors may be employed to cover shortfalls in specific areas.
5. There will also be continued liaison with the Council’s external auditors, to ensure that they can place reliance on the work of Internal Audit, with joint working where appropriate, so that the overall audit service for the Council is delivered as efficiently, effectively and economically as possible.
6. ***Risk Registers will be used, where appropriate, to identify areas of potential audit coverage which link to the Authority’s objectives and priorities. Annual risk-based audit plans will be drawn up and agreed with Service Directors and their senior managers, prior to submission to the Audit Committee for review and approval. Audit plans will be fixed for a period of no longer than one year and will be flexible to reflect the changing priorities of the Authority.***
7. This planned audit work will lead to individual assignment reports to relevant managers, and periodic summary reports to Service Directors. The findings and opinions from these audits and reports will contribute to the Council’s annual Statement on Internal Control (or Corporate

Governance Report), which will consider key internal control systems, corporate governance, performance management and risk management arrangements.

8. The Chief Auditor will submit periodic reports and a formal annual report to the Audit Committee, which will include an audit opinion on the overall adequacy, and effectiveness of the Council's internal control, risk management and corporate governance environment, and will draw attention to any issues which are considered relevant to the preparation of the Council's Statement on Internal Control.

## RESOURCES AND SKILLS

9. The staffing structure of Internal Audit will comprise a mix of qualified, technician and trainee posts with a mix of professional specialisms to reflect the varied functions of the service.
10. In order to deliver the agreed annual audit plan, the appropriate level of resources will be made available to the audit team, which will include the required mix of skills and specialisms. This will include general audit skills in respect of reviews of internal control, risk and governance arrangements, and appropriate specialisms in areas such as computer, contract audit and the investigation of frauds and irregularities.
11. Where audits require access to specialist expertise and knowledge that is not available within the audit team (e.g. legal, health and safety matters) advice and input will be sought from the wide range of specialists and experts employed within the City Council or from suitably experienced external contractors.
12. A programme of training will be provided to team members as appropriate, to meet training needs identified through the Corporate Appraisal Scheme and to ensure that team members are able to deliver a professional service in line with current best practice. The training will be delivered through the most appropriate mix of internal Plymouth City Council courses, internal training within the Internal Audit Service, and external courses and seminars.

## ALLOCATION OF AUDIT RESOURCES

13. Allocation of audit resources will be facilitated through an audit needs assessment across the whole Authority, which will be based on auditor knowledge and experience, and liaison with Directors and other managers. Risk assessments will be undertaken to prioritise internal audit coverage taking into account the relative risks of the Council's various activities and systems. The Chief Internal Auditor will also liaise with the Council's External Auditor, in order to co-ordinate their individual plans and ensure the effective allocation of overall audit resources and avoid duplication of effort.
14. Whilst some audit reviews will be carried out on a regular cyclical basis (e.g. schools' audits), audit resources will, increasingly, be allocated on the principle of continuous planning which takes into account key risks as they emerge.
15. By its nature, fraud-related work is unpredictable in terms of its timing and extent. All reported irregularities will be investigated in line with the established strategies and protocols. Audit resources will be allocated within the audit plan for this demand-led and variable activity based on best estimates available from previous years' work. ***In addition, pro-active fraud testing will be covered dependent upon assessed risk and resource availability.*** In alternate years, when the Audit Commission's National Fraud Initiative (NFI) takes place, an appropriate level of additional resource will be allocated for this fraud-related work.
16. Audit resources will be allocated to other consultancy work in the annual audit plan based on best estimates available from previous years' work. Where there are conflicting demands on

audit resources from planned assurance work, investigations and other consultancy projects, resources will be allocated on the basis of risk, sensitivity and other priorities.

## PLYMOUTH CITY COUNCIL

### INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE

This Charter describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Section.

#### OBJECTIVES

Internal Audit is an assurance function that primarily provides an independent and objective opinion to Plymouth City Council on the **internal** control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

#### STATUTORY ROLE

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003 (**as amended**), which state in respect of Internal Audit that:

*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices"*

Section 151, Local Government Finance Act 1972

Section 151 of the 1972 Act requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Plymouth City Council the Director of Corporate Resources is the "Section 151 officer" and one of the ways this duty is discharged is by maintaining an adequate and effective internal audit service.

#### REPORTING LINES AND RELATIONSHIPS

The Chief Auditor has line management responsibilities to the **Head of Finance, Governance and Planning, and the** Director of Corporate Resources. The Council has an Audit Committee whose terms of reference include responsibility for monitoring the performance of Internal Audit and approving its annual audit programme. The Chief Auditor reports to it on a six monthly basis and the reports include an 'opinion' on the standard of internal control within the authority. The Audit Committee is responsible for endorsing the Audit Plan, and the six-monthly reports from the Chief Auditor show progress against the Plan through a summary of audit work carried out over the period.

#### INDEPENDENCE AND ACCOUNTABILITY

Internal Audit is independent of the activities, which it audits to ensure the unbiased judgments essential to its proper conduct and impartial advice to management. To ensure this, Internal Audit operates within a framework that allows unrestricted access to senior management, reporting in its own name and segregation from line operations

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

#### ACCESS

Internal Audit shall have unrestricted access to all Council records (whether manual or computerised systems), cash, stores and other property, to obtain explanations and to enter Council property or land. Such access shall be granted on demand and not subject to prior notice.

## RESPONSIBILITIES

Service Directors and the Assistant Chief Executive are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management.
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including the Best Value programme, and Value for Money Studies;
- Working in partnership with other bodies to secure robust internal control that protect the Council's interests.

In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the Council's Code of Conduct and the Code of Practice for Internal Audit in Local Government promulgated by the Chartered Institute of Public Finance and Accountancy and other such professional bodies of which internal auditors are members.

## REPORTING

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the **risk and** adequacy of controls in the area that has been audited, **which, together, will form the basis of the annual audit opinion on the control environment.**

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each recommendation. If a recommendation is not accepted by the manager, this must also be stated. The Chief Auditor is responsible for assessing whether the manager's response is adequate.

Every Internal Audit report is subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Chief Auditor will submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken.