

CITY OF PLYMOUTH

Subject: Internal Audit Strategy and Charter
Committee: Audit Committee
Date: 23 July 2010 (deferred from 28 June 2010)
Cabinet Member: Cllr Bowyer
CMT Member: Director for Corporate Support
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Ref: AUD/SW
Part: I

Executive Summary:

- 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 should work in providing an internal audit service to the Authority.
- 1.2 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.
- 1.3 The Audit Committee last approved Plymouth's Internal Audit Strategy and Charter (Terms of Reference) in September 2007. However, now that Internal Audit is being provided by Devon Audit Partnership, the opportunity has been taken to revise and update the Strategy and Charter which takes into account the new arrangements.
- 1.4 Revised versions of the Internal Audit Strategy, and Internal Audit Charter / Terms of Reference are included in Appendices 1 and 2.

Corporate Plan 2010-2013:

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.

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

None

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

None

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.

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 2006 (as amended).

Background papers:

CIPFA Code of Practice for Internal Audit in Local Government 2006

Plymouth City Council Constitution

Accounts & Audit Regulations 2006 (as amended)

Report Audit Committee 24th September 2007

Sign off:

Head of Fin	AB 11/6/10	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 should work in providing an internal audit service to the Authority.

1.2 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.

2.0 REQUIREMENTS OF THE CODE OF PRACTICE

2.1 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.

2.2 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.

2.3 The Audit Committee last approved the current Internal Audit Strategy, and Charter (Terms of Reference) in September 2007. Existing procedures and practices within Internal Audit continue to comply with the Code, but the documents have been updated to reflect the changes made in the arrangements at Plymouth whereby internal audit provision is now being provided by Devon Audit Partnership.

2.4 Revised versions of the Internal Audit Strategy and Charter are included in Appendices 1 and 2.

3.0 RECOMMENDATIONS

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



PLYMOUTH CITY COUNCIL

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 the Devon Audit Partnership'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

2. The Internal Audit Service will continue to be delivered substantially by the Partnership's own staff, (although schools have the option to use a different provider in accordance with the relevant Services for Schools brochure) There will be a continuing commitment to demonstrating that the Partnership provision represents a cost-effective means of delivering a high quality and professional service, as well as providing added value to the Partner Authorities. Evidence to support this will continue to be provided from a variety of sources, which will include sharing best practice and auditor specialisms across the Partner authorities, benchmarking comparisons with other authorities, quality reviews and satisfaction surveys from both clients and the external auditors, and accreditation under the Investors in People scheme. Other key evidence will be available from initiatives such as the external auditor's annual review of Internal Audit. The Head of the Devon Audit Partnership 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 working will be encouraged with other audit providers in order to develop more effective working practices, promote the Partnership further in the region, avoid duplication, ensure consistency of approach and maximise cost-effectiveness. In such arrangements it is expected that internal audit will be provided by the lead partner; with the aim that all partners should be able to place reliance on the work of whichever internal audit service carried out the work. There will also be continued liaison with the respective 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 client authorities is delivered as efficiently, effectively and economically as possible.

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. The key priority, and “core business” of Devon Audit Partnership, will continue to be the provision of a high quality and valued service to its client authorities, their Members, directorates and units. The provision of a service to external clients will continue where this is clearly of benefit to Devon Audit Partnership and the founding councils. Such arrangements, and any opportunities for new ones that might arise, will be subject to regular review.

ASSURANCE WORK

6. Annual audit plans will be drawn up and agreed with Service Directors and their senior managers. Audit plans will be risk-based and in line with the risks identified in corporate and directorate risk registers. Risk Registers will be used, where appropriate, to identify areas of potential audit coverage which link to the Authority’s objectives and priorities. The overall annual audit plan will be submitted to the Audit Committee for review and agreement. 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 Head of Devon Audit Partnership Audit 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 Annual Governance Statement, which will consider key internal control systems, corporate governance, performance management and risk management arrangements.

FRAUD-RELATED WORK

8. 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. Wherever possible, specific proactive fraud testing will be carried out, as opposed to reactive investigation of allegations or instances of irregularities. 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. Where there are conflicting demands on audit resources from planned assurance work and investigations, resources will be allocated on the basis of risk, sensitivity and other priorities.

RESOURCES AND SKILLS

9. The staffing structure of the Devon Audit Partnership will comprise a mix of qualified, technician and trainee posts with a mix of professional specialisms to reflect the varied functions of the service. In order to deliver the agreed annual audit plans, 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 coverage in specialist areas such as computer and contract audit and the investigation of frauds and irregularities.

10. 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 Council or from suitably experienced external contractors.

11. A programme of training will be provided to team members as appropriate, to meet training needs identified through the Partnership's 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 learning and development courses available through the Partnership Councils, internal training within Devon Audit Partnership, joint training with other organisations such as other local authorities, Health Internal Audit teams, and some external courses and seminars.

ALLOCATION OF AUDIT RESOURCES

12. 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, corporate and operational risk registers 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 Head of Devon Audit Partnership 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.

13. 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.

14. 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 / TERMS OF REFERENCE

This Charter describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by Devon Audit Partnership.

OBJECTIVES

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the 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 2006), 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"

AIMS

Devon Audit Partnership aims to provide a high quality, professional and valued Internal Audit Service to the Members, directorates and units of Devon County Council, Torbay Council, Plymouth City Council and external clients, bringing added value to its clients and stakeholders.

FUNCTION

Internal Audit is an independent review function provided by the Devon Audit Partnership as a service to Members and all levels of management at its client authorities. It supports the "responsible officer" (Section 151 officer under the Local Government Act 1972), in meeting their statutory responsibilities for the proper administration of financial affairs. The Head of the Devon Audit Partnership is responsible for the effective review of all aspects of risk management and control throughout the organisations' activities, and those of its external clients.

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.

INDEPENDENCE

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. To ensure this, Internal Audit operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- segregation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

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 for Corporate Support is the "Section 151 officer" and one of the ways this duty is discharged is by maintaining an adequate and effective internal audit service. All Internal Audit activity is carried out in accordance with the client authority's Financial Regulations.

REPORTING LINES AND RELATIONSHIPS

The Head of the Devon Audit Partnership fulfils the role of Chief Auditor for each of the client authorities and has line management responsibilities via the Director of Finance for Devon County Council to the Partnership Management Board which comprises the 3 Section 151 Officers from the founding authorities.

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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership show progress against the Plan through a summary of audit work carried out over the period.

ROLE AND SCOPE

The role of Internal Audit is to understand the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation. As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the risk management framework and internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge their statutory duties

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- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting VFM and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

ACCESS

Internal Audit shall have unrestricted access to all records (whether manual or computerised systems), assets, personnel, premises, property or land, including those of partner organisations, and has authority to obtain such information and explanations as it considers necessary. Such access shall be granted on demand and not subject to prior notice.

In addition, Internal Audit, through the Head of Devon Audit Partnership, where deemed necessary, will have unrestricted access to:

- the Chief Executive
- Members
- individual Chief Officers and other senior officers
- Director of Finance / Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

RESPONSIBILITIES

The Chief Executive, Chief Officers and other senior officers 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,

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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 Value for Money Studies;
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests.
- Advising on internal control implications of new systems

In order to discharge these responsibilities the Head of the Devon Audit Partnership will:

- develop, in consultation with Service Directors, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan;
- maintain a programme of quality assurance and a culture of continuous improvement;
- submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

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.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews or by the Audit Commission who place reliance on the work performed by Internal Audit. Testing compliance with the standards laid down in the CIPFA Code of Practice for Internal Audit in Local Government is an essential approach to such a review.

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.

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Where deemed necessary, the Internal Audit report will be 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 Head of the Devon Audit Partnership in his role as Chief Auditor will submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken.