

## **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 the Devon Audit Partnership (DAP).

### **DEFINITION OF INTERNAL AUDIT**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **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”*

### **AIM**

Devon Audit Partnership aims to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of Plymouth City Council, adding value whenever possible.

### **FUNCTION**

Internal Audit is an independent review function provided as a service to Members and all levels of management of the Authority. 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.

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. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation 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.

The Head of the Devon Audit Partnership fulfils the role of Chief Auditor at the Authority.

## **CODE OF ETHICS**

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

## **STANDARDS**

The Public Sector Internal Audit Standards (PSIAS) come into effect from 1 April 2013. The PSIAS sets out the International Standards for the Professional Practice of Internal Auditing. The Head of Devon Audit Partnership is expected to report conformance on the PSIAS in his / her annual report.

### *Purpose of the PSIAS*

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

### *Scope*

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing. The provision of assurance services is the primary role for internal audit in the UK public sector.

The PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.

## **REPORTING LINES AND RELATIONSHIPS**

The Head of the Devon Audit Partnership fulfils the role of Chief Auditor for Plymouth City Council and he or she will report to the Director of Finance for Plymouth City Council and 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 at least 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, progress reports received during the year, and the Annual Internal Audit Report.

## **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, 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 his / her statutory duties
- 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 value for money 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, 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.

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 External Audit. Ensuring compliance with the PSIA standards is an essential approach to such a review.

## **PROFICIENCY AND DUE PROFESSIONAL CARE**

The Head of Devon Audit Partnership will ensure that internal auditors possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Head of DAP will ensure that the internal audit activity collectively possess or obtains the knowledge, skills and other competencies needed to perform its responsibilities.

The Head of DAP must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

## **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.

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.

**Devon Audit Partnership**

**January 2013**



**Auditing for achievement**