

Portsmouth City Council - Internal Audit Charter & Code of Ethics

Draft September 2013

Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit Charter & Code of Ethics.

Authority

2. The Accounts and Audit Regulations, define the requirement for an internal audit function within Local Government stating that:

‘A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

Definition of Internal Auditing

3. In accordance with the PSIAS the definition of 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".

4. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
5. The Internal Audit Section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the achievement of the Authority's strategic objectives.
 - Internal control environment;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.

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Purpose and scope

6. The Internal Audit Section at Portsmouth City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
7. The Annual Internal Audit Opinion must incorporate;
 - The Opinion;
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
8. The Internal Audit Section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit Section; however consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in Internal Audit's remit to give an opinion on the appropriateness of policy decisions.
9. Consultancy activities (i.e. advice, facilitation and training) will be considered based on their potential to improve the management of risks and the Authority's operations.
10. Special reviews may be conducted at the request of Members, Strategic Directors and the s151 Officer. The Internal Audit Section may also conduct investigations as requested by the Investigation Steering Group - ISP (consisting of the Monitoring Officer, s151 Officer, Head of HR, Legal and Performance and the Chief Internal Auditor or her deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
11. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Corporate Governance Group (consisting of the Chief Executive, Monitoring Officer, s151 Officer, Head of HR, Legal and Performance and the Chief Internal Auditor) as well as the Members of the Governance & Audit & Standards Committee (the Board) in their next reporting cycle.

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12. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

Organisational Independence

13. The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
14. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
15. Internal Audit is supported by the Authority and its independence is seen as key to providing Portsmouth City Council with an effective service.
16. The Internal Audit Section will have free and unfettered access to the s151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.

Responsibilities of Individual officers

Chief Internal Auditor

17. The Chief Internal Auditor must ensure that:
 - (1) They identify the overall remit of audit activity
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the s151 Officer, Strategic Directors, Heads of Services and Chair of Governance and Audit and Standards Committee
 - (3) The Internal Audit resources are appropriate and sufficient i.e. in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the s151 Officer, Head of HR, Legal and Performance and the Governance and Audit and Standards committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.

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- (5) The Internal Audit Section complies with the PSIAS and Code of Ethics at all times.
- (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
- (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
- (8) The Internal Audit Section maximises the use of technology for an effective service delivery.
- (9) Confidentiality is maintained at all times.
- (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
- (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
- (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.
- (13) Where management has accepted a level of risk that may be unacceptable to the Authority, that the matter is discussed with the s151 Officer/ Strategic Director/ Chief Executive as relevant, or escalated to the Governance and Audit and Standards Committee to resolve.
- (14) They continuously review the quality, effectiveness and provision of the Internal Audit Section.
- (15) Access to assignment records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) Assist the Governance and Audit and Standards Committee with their agenda and attend each meeting.

Individual Auditors

18. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit

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- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the assignments objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality
- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation
- (19) Act with due care to provide "reasonable" assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and managers

S151 Officer

19. The s151 Officer has the authority to ensure that the provision of the Internal Audit Section is sufficient to meet his s151 requirements, although the day to day management is carried out by the Head of HR, Legal and Performance.
20. The s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework

Head of HR, Legal and Performance

21. The Head of HR, Legal and Performance must ensure that:
 - (1) The Internal Audit Section and the Authority comply with their responsibilities as detailed within this Charter and Code of Ethics and Standards.

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- (2) The Internal Audit Section is properly resourced and is effective.
- (3) The Audit performance as detailed in the KPI's is achieved.

Members

22. The Members as the corporate body have the responsibility to ensure that there is a current and effective internal audit function. These responsibilities are delegated to the Governance & Audit & Standards Committee and include ensuring that:
 - (1) The function complies with PSIAS.
 - (2) The Internal Audit Section's status is sufficient within the organisation, is independent organisationally and in its reporting and is free to set its priorities.
 - (3) There is a strategy and annual plans focused on the risk and control framework.
 - (4) The Internal Audit Section is properly and sufficiently resourced to give effective coverage.
 - (5) Significant weaknesses identified by audit are addressed.
 - (6) Agreed actions are implemented.

Auditees

23. In accordance with Financial Rules Managers must ensure that:
 - (1) They maintain a constructive approach to Internal Audit
 - (2) They make available employees, documents, computerised systems and information in a timely manner to allow the audit to progress within agreed timescales
 - (3) They respond promptly and formally to audit reports within the agreed timescale
 - (4) They implement agreed actions and within an agreed timed action plan.

External Auditors

24. The Internal Audit Section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
25. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

26. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance & Audit & Standards Committee, following consultation with the Chief Executive Officer, Strategic Directors, Heads of Service and relevant members.

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27. An update on progress and performance to plan will be presented at each Governance & Audit & Standards Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
28. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in their entirety as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
29. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions, which will be presented to the Governance & Audit & Standards Committee to challenge if they so wish. Where action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be escalated to the Governance & Audit & Standards Committee for resolution.
30. All reviews of the Annual Audit Plan will be presented for approval along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
31. All reports issued in relation to any Audit assignment activity will be issued in the name of the Chief Internal Auditor. Any issues of concern maybe escalated at Strategic Board Level (Strategic Director's) as well as at the Governance & Audit & Standards Committee.

Access to records and personnel

32. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in Financial Rules and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
33. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

34. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
35. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit Section in order for it to fulfil its purpose and effectively carry out professional duties in

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accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the Head of HR Legal and Performance and reported to the Governance & Audit & Standards Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.

36. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
37. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer and the Head of HR, Legal and Performance, if the CIA has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

38. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activities. In order to achieve this internal on-going supervision will be carried out after each audit assignment with the results recorded in 'TeamMate' (the electronic working papers). Along with the recording of one-to-one meetings and annual Performance Development Records on each individual auditor.
39. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit Sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
40. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the Head of HR Legal and Performance and the Chair of Governance & Audit & Standards Committee. All results i.e. compliance or non-compliance with the standards, will be communicated to the Governance & Audit & Standards Committee along with an improvement plan if required and regular progress reports.
41. Any significant deviations from the Standards will be included in the Annual Governance Statement.
42. The effectiveness of the Internal Audit Section will be measured by;

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- (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews 100%
- (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
- (3) Satisfactory External Audit reviews (when carried out)
- (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
- (5) Audits completed to plan (90% of high risk audits completed)

Management of Internal Audit Activities

43. The Chief Internal Auditor will ensure that the work of the Internal Audit Section is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.
44. The priorities of the Internal Audit Section will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
45. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

26th September 2013

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This Charter and Code of Ethics are agreed by

Lyn Graham
Chief Internal Auditor
Date

Jon Bell
Head of HR Legal and Performance
Date

Chris Ward
s151 Officer
Date

Cllr Terry Hall
Chair of Governance & Audit & Standards Committee
Date

Related Papers:

Audit Strategy and Audit Annual Plans
Public Sector Internal Audit Standards and Code of Ethics
Accounts and Audit Regulations (updated)

Code of Ethics

Extract from the 'Public Sector Internal Audit Standards' Code of Ethics

Public sector requirements

Internal auditors in UK public sector organisations must confirm to the Code of ethics as set out below, If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's (Institute of Internal Auditors) Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

1. Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes

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those activities or relationships that may be in conflict with the interests of the organisation.

- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk