

### **Introduction**

1. On 1<sup>st</sup> 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).
2. 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. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

### **Authority**

3. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:  
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

### **Responsibility**

4. The responsibility for maintaining an adequate and effective internal audit function within Southampton City Council lies with the Executive Director of Finance, Commercialisation and S151 Officer.
5. For the Council, the internal audit function is provided in partnership with Portsmouth City Council ('PCC') with the service being delivered under the direction and control of a shared Chief Internal Auditor (the Chief Internal Auditor for PCC).
6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

### **Definitions**

7. In accordance with the PSIAS the definition of internal auditing is.

'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'.

8. 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.
9. The Internal Audit Team will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
  - Achievement of organisation's strategic objectives.
  - 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.
10. In accordance with the PSIAS the definition of 'the board' and 'senior management' are.
11. *The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee.
12. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Executive Management Team, Head of Paid Service and Executive Directors, of the council.

### **Purpose and scope**

13. The Internal Audit Team at Southampton 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.
14. 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.
15. The Internal Audit Team 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 Team; 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 the section's remit to give an opinion on the appropriateness of policy decisions.

16. Consultancy activities (i.e., advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit Team assuming responsibility.
17. Special reviews may be conducted at the request of Members, the Head of Paid Service, Monitoring Officer and the Executive Director of Finance, Commercialisation and s151 Officer. The Internal Audit Team may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, Executive Director of Finance, Commercialisation and s151 Officer, Service Director for Human Resources & Organisational Development and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
18. 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 Executive Director of Finance, Commercialisation and s151 Officer as well as the Members of the Governance Committee (the Board) in their next reporting cycle.
19. 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**

20. The Internal Audit Team has operational responsibilities for the auditing of Direct Payments (Adults). It may at times provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems. All other areas of organisational independence is maintained.
21. 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.

22. Internal Audit is supported by the Authority and its independence is seen as key to providing Southampton City Council with an effective service.
23. The Internal Audit Team will have free and unfettered access to the Senior Management, defined as, Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors. In addition, the Internal Audit Team will have free and unfettered access to the Leader of the Council and the Chair of the Governance Committee.

### **Responsibilities of Individual officers**

#### **Chief Internal Auditor**

24. 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 Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance 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 Executive Director of Finance, Commercialisation and s151 Officer and the Governance Committee.
  - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
  - (5) The Internal Audit Team 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 Team 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 Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors as relevant, or escalated to the Governance Committee to resolve.
- (14) They continuously review the quality, effectiveness, and provision of the Internal Audit Team.
- (15) Access to audit 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) They assist the Governance Committee with their agenda and attend each meeting.

#### Individual Auditors

25. 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
- (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 audit 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/ assurance level, 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 via Audit Management Software
- (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 service leads and managers

Executive Director of Finance, Commercialisation and s151 Officer

26. The Executive Director of Finance, Commercialisation and s151 Officer has the authority to ensure that the provision of the Internal Audit Team is sufficient to meet the s151 requirements.
27. The Executive Director of Finance, Commercialisation and 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.
  - (3) The Internal Audit Team is sufficiently resourced and is effective and in the event that it is not that this is raised with the Executive Director of Finance, Commercialisation and s151 Officer and members of the Governance Committee.

Head of Paid Service

28. The Head of Paid Service carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Monitoring Officer

29. The Monitoring Officer is responsible for:
  - (1) Ensuring lawfulness and fairness in decision making
  - (2) Dealing with investigations into matters referred by the Governance Committee and making reports or recommendations in respect of them to the Governance Committee and
  - (3) Providing advice on:
    - the scope of powers to take decisions
    - maladministration

- financial impropriety
- probity.

### Members

30. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance Committee and include ensuring that:
31. They are satisfied on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
32. They are satisfied that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
33. They receive, and make recommendations on, such reports as are required in relation to all audit matters including the Annual Audit Plan.
34. The Committee shall specifically have responsibility for oversight on the following functions:
  - (1) ensuring that Council assets are safeguarded.
  - (2) maintaining proper accounting records.
  - (3) ensuring the independence, objectivity and effectiveness of internal and external audit.
  - (4) the arrangements made for cooperation between internal and external audit and other review bodies.
  - (5) considering the reports of internal and external audit and other review and inspection bodies.
  - (6) the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and nonfinancial risks (including measures to protect against, detect and respond to fraud).

### Auditees

35. In accordance with the Council's constitution (0.9 Part 4 – Financial Procedure Rules). All persons under the controls of SCC; staff, members, contractors, temporary and agency staff must ensure that:
  - (1) They maintain a constructive approach to Internal Audit.
  - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
  - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.



- (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- (5) They respond promptly and formally to audit reports within the agreed timescale
- (6) They implement agreed actions and within an agreed timed action plan.

#### External Auditors

36. The Internal Audit Team 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.
37. 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

38. On a regular 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 Committee, following consultation with the, Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance Committee.
39. An update on progress and performance to the audit plan will be presented at each Governance Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
40. 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 summary as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
41. 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. In the event that risks are accepted they may be raised with the Senior Leadership Team to ascertain whether such acceptance is in line with the strategic direction and risk appetite of the Council. As a result they may also be reported to Members of the Governance Committee 'the Board' in their next reporting cycle. Where agreed action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be raised with the Executive Director concerned.



42. All reviews of the Annual Audit Plan will be presented for approval [to the Governance Committee] along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
43. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor.

#### **Access to records and personnel**

44. 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 the Council's constitution (0.9 Part 4 – Financial Procedure Rules) and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
45. 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**

46. 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.
47. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit Team in order for it to fulfil its purpose and effectively carry out professional duties in 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 Executive Director of Finance, Commercial and s151 Officer and reported to the Governance 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.
48. 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.
49. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the Executive Director of Finance,

Commercial and s151 Officer, if the Chief Internal Auditor 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**

50. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit & counter fraud activities. In order to achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded electronically. Along with the recording of one-to-one meetings and an Annual Performance Review on each individual auditor.
51. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit Teams performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
52. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the Executive Director of Finance, Commercial and s151 Officer and the Chair of Governance Committee. All results i.e., compliance or non-compliance with the standards, will be communicated to the Governance Committee along with an improvement plan if required and regular progress reports.
53. Any significant deviations from the Standards will be included in the Annual Governance Statement.
54. The effectiveness of the Internal Audit Team will be measured by.
  - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high-risk exceptions highlighted in Audit reviews.
  - (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)
  - (6) Satisfactory responses received from clients by means of end of year questionnaires.

### **Management of Internal Audit Activities**

55. The Chief Internal Auditor will ensure that the work of the Internal Audit Team 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.

56. The priorities of the Internal Audit Team 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 along with each directorate's performance as reported to Governance Committee. 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.
57. 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.

This Charter and Code of Ethics are agreed by

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Elizabeth Goodwin

Chief Internal Auditor

Date

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John Harrison

Executive Director of Finance, Commercial and s151 Officer

Date

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Cllr David Fuller

Chair of Governance Committee

Date

**Related Papers:**

Audit Strategy and Audit Annual Plans

Public Sector Internal Audit Standards and Code of Ethics

Accounts and Audit Regulations (updated)

## **Annex 1**

### **Code of Ethics**

#### **Extract from the Public Sector Internal Audit Standards 2016**

##### **Public sector requirement**

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform 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.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

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

##### **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. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

##### **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 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.

##### **Public sector interpretation**

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

## **Public Sector Internal Audit Standards**

### **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 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](http://www.public-standards.gov.uk)

## **Annex 2**

### **Assurance Services**

**Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

**Developing systems audit:** in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

**Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

**Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

**Fraud and irregularity investigations:** Internal audit will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

**Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.