

City of Durham
Department of Audit Services
Charter

I. PURPOSE

It is the policy of the City of Durham (“the City”) to maintain an audit department as a means of providing the City Council, the City Manager and all levels of management with information to assist in the control of operations and in reaching a conclusion concerning the overall control over assets and the effectiveness of the system of internal control in achieving its broad objectives.

This charter establishes the general authority and responsibility of the Department of Audit Services (formerly – Internal Audit Department) and supersedes Policy P-49, dated December 22, 1980 and the effective date of January 1, 1981).

II. AUTHORITY AND SCOPE OF AUDIT ACTIVITIES

Authority

The Department of Audit Services shall have the authority to conduct financial, compliance, operational, performance, and information systems audits for all departments, offices, activities, and programs under the control of the City. Additionally, the Department of Audit Services shall have the authority to perform special reviews, investigate allegations of misuse of City funds and resources and to administer the City’s annual external audit contract. With approval of the Audit Committee, the Department of Audit Services shall have the authority to obtain contract services of public accountants, management consultants or other professional experts necessary to assist in the discharge of its responsibilities.

To properly carry out their responsibilities, the Audit Services personnel are authorized to have:

Full, free, and unrestricted access to City functions, activities, operations, records, data files, computer programs, property and personnel. In addition, authority is granted to Audit Services staff to request reasonable assistance from appropriate City personnel in acquiring requested records, documents and files, as well as inspection and entry privileges to all assets owned, leased, or borrowed by the City. It is expected that the Audit Services staff will exercise discretion in the review of records to ensure the confidentiality of all matters that come to their attention.

Scope of Audit Activities

Audit coverage will encompass, as deemed appropriate by the Audit Services Director, independent reviews and evaluations of any and all management operations and activities to appraise:

- Measures taken to safeguard assets, including tests of existence and ownership as appropriate.
- The reliability, consistency, and integrity of financial and operating information.
- Compliance with policies, plans, standards, laws, and regulations that could have significant impact on operations.

- Economy and efficiency in the use of resources.
- Effectiveness in the accomplishment of the mission, objectives, and goals established for the City's operations and projects.

Audit activities will be coordinated, to the extent possible, with Federal and State agencies and external auditors, so as to enhance audit efficiency.

Limitation of Authority and Responsibility

In performing their functions, the Audit Services Director and Audit Services staff has neither direct authority over, nor responsibility for, any of the activities reviewed. Audit Services will not develop and install procedures, prepare records, make management decisions, or engage in any other activity that could be reasonably construed to compromise their independence. However, in connection with the complementary objectives of this audit function, Audit Services will recommend accounting policies and procedures for approval and implementation by appropriate management. Therefore, internal audit review and appraisal do not in any way substitute for other activities or relieve other persons in the City of the responsibilities assigned to them.

III. REPORTING STRUCTURE

The Director of Audit Services reports to and is accountable to the City Manager for day-to-day operations. The Director of Audit Services has full access, and is expected to use this access, to the Audit Committee for any matters deemed appropriate. The Audit Services Oversight Committee (ASOC) has oversight responsibilities of the audit function and activities, including review and approval of the annual audit plan and any revisions thereto. The ASOC shall work to ensure maximum coordination between the work of the Director of Audit Services and the needs of the City Manager and the City Council.

IV. RESPONSIBILITIES

- A. The Audit Services Director is responsible for properly managing the department so that (1) audit work fulfills the purposes and responsibilities established herein; (s) resources are efficiently and effectively employed; and (3) audit work conforms to the Government Audit Standards, issued by the Comptroller General of the United States.

The Audit Services Director will report in writing on all audits and reviews conducted and will attend the ASOC meetings on a quarterly basis to report on significant recommendations and the operations of the audit services function.

- B. Generally, the Audit Services Director will notify the department director or manager ("auditee") that a review is scheduled. This written notification should inform the auditee of when the audit is scheduled, who will be performing the audit, and why the audit has been planned (regularly scheduled, management or external auditor request, etc.). The notification should also include the objectives and scope of the audit; the expected start date and planned duration of the audit; and advance preparation needs.
- C. The director or manager of the department under audit is responsible for:

- A. Ensuring that a spirit of cooperation prevails throughout the course of the examination.
 - B. Ensuring corrective action is taken if inadequacies are identified in the written audit reports.
 - C. Informing the Audit Services Director of any actual or suspected fraud or illegal acts for independent review.
- D. The Audit Services Oversight Committee is responsible for ensuring that areas of risk within the City are reviewed on a regular basis; activities susceptible to fraud, waste, and abuse of City resources are audited; and internal controls are in place and implemented.

V. REPORTS AND PROCEDURES

Annual Audit Plan

The Audit Services Director is required to publish an annual audit plan to the Audit Services Oversight Committee and perform the systems audits contained within the plan. The overall results of the audit work will be reported quarterly to the ASOC (who in turn report to the City Council). Unforeseen audit requirements and management requests for investigations into matters of fraud and compliance can create the need for changes in both audit programs and the overall plans; therefore, appropriate flexibility should be incorporated into the annual plan. The ASOC must approve significant deviations from the objectives contained within the annual audit plan.

Communication of Findings

Upon the completion of audit fieldwork, the Audit Services Director should discuss the proposed audit findings and recommendations with the auditee at a closing conference. Audit Services will prepare a report draft with their proposed findings and recommendations along with a space for management's responses. The draft is then forwarded to the appropriate manager to respond and outline corrective actions to be taken. The responses are due 2 weeks after the receipt of the draft report. The auditee's response will include comments, action items, and target dates and will be incorporated in the final report. If a timely response is not received, the City Manager will be contacted for assistance in resolving the matter.

The final audit report will be submitted by the Audit Services Director to appropriate levels of City management. All audit reports will be distributed to the ASOC as they are released, or as part of the normal distribution of audit reports. Audit findings will also be summarized and reported to the Audit Committee on a quarterly basis.

Subsequent to the issuance of the final report, Audit Services should schedule a follow up review to ensure that needed actions based on the audit were actually taken. The director or manager of the department, is responsible for seeing that corrective action on recommendations are made or deficient conditions reported by Audit Services are planned and taken. If the proper corrective action is not taken, the Audit Services Director is responsible for presenting a report on significant matters to the ASOC.

VI. INDEPENDENCE AND CODE OF ETHICS

Independence is essential for effective operation of the internal audit function. It is the policy of the City; therefore, that all audit activities shall remain free of influence by any organizational elements. This shall include such matters as scope of audit programs, the frequency and timing of audits, and the content of audit reports. Furthermore, the Audit Services staff has a responsibility to conduct themselves so that their good faith and integrity are not open to question. Standards of professional behavior are based upon the Code of Ethics issued by the Institute of Internal Auditors.

VII. QUALITY ASSURANCE

A program of quality assurance reviews will help ensure the City's ongoing commitment to financial integrity and resource management. An external reviewer will provide significant value by assessing internal audit operations and sharing an objective perspective of the Department of Audit Services' compliance with professional standards and a comparison to "best practices" of other similar audit organizations.

Therefore, the Audit Services Department will undergo an external quality assurance review at least once every three years. At the conclusion of the review, a report summarizing results and recommendations will be produced. Copies of the quality assurance report will be submitted to the Audit Services Director, and the ASOC. The cost of the review shall be included in the Audit Services departmental budget.

In an effort to continually improve the audit function, the Audit Services staff shall be encouraged to attend continuing education courses and maintain membership in and attend meetings of local, state, and national organizations that serve to promote the modern practice of auditing.

VII. CHARTER AMENDMENTS

Amendments of this charter are subject to the approval of the Audit Services Director and the Audit Services Oversight Committee. Amendments to the Charter may be made by a majority of the members present at the regularly scheduled meetings of ASOC on 7 days' notice.

APPROVED: July 3, 2002, by the Audit Services Oversight Committee.