



INTERNAL AUDIT TERMS OF REFERENCE

Produced by the Head of Internal Audit and subject to annual review

- CORPORATE MANAGEMENT TEAM: MARCH 2012
- AUDIT COMMITTEE: 28 MARCH 2012

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INTRODUCTION

Councils are responsible for ensuring that the financial management of the body is adequate and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

It must then undertake an adequate and effective internal audit of its accounting records and system of internal control in accordance with the proper practices in relation to internal control.

These requirements are set out the Accounts and Audit (England) Regulations 2011 (the Regulations). Proper practice with regard to Internal Audit in this context is the CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code).

In producing the Terms of Reference and its supporting Strategy, account is also taken of:

- CIPFA: Statement on the Role of the Head of Internal Audit in public service organisations 2010 (the CIPFA Statement)
- CIPFA: Audit Committee Practical Guidance for Local Authorities
- CIPFA: A toolkit for Local Authority Audit Committees
- The Council's Financial Procedure Rules.

THE ROLE OF INTERNAL AUDIT

Internal Audit is primarily an assurance function. Its purpose is to provide an independent and objective opinion on the adequacy and effectiveness of the whole system of internal control that contributes to the achievement of the Council's business objectives. This includes controls established to manage working arrangements with partners or third parties.

In this context, the system of internal control includes the Council's governance framework which is described in the Local Code of Governance as:

- the principles and values by which the Council operates
- the key strategic business management process it applies in order to enable it to deliver the services required by its local community.

Full definitions of the terms 'system of internal control' and 'good governance' are attached at **Appendix 1**.

DISCHARGING THIS ROLE

In discharging this role, the Code requires the Head of Internal Audit to produce a Terms of Reference and an annual Strategy, which outlines how the service will be delivered. In producing the risk based Audit Plan which forms part of the Strategy, account should be taken of the Council's risk management and performance management arrangements and other sources of assurance available.

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The CIPFA Statement says the Head of Internal Audit must also be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. He / she should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in.

A needs assessment should then be produced that determines the resources and skills required to deliver the Strategy.

Relevant stakeholders should be consulted when constructing the Audit Plan.

This Terms of Reference, the Strategy and Audit Plan should then be presented to senior management to endorse. It should also be approved but not directed by the Audit Committee.

In delivering the Audit Plan, Internal Audit should objectively examine, evaluate and report upon the adequacy and effectiveness of the arrangements in place to:

- manage the business
- accurately identify risks at a process, system, policy initiative, programme and project level as well as at service activity level
- establish appropriate controls to mitigate these risks wherever possible
- evidence that the controls established are working consistently throughout the year.

Internal Audit is required to do sufficient, evidenced work to form a supportable conclusion on each activity reviewed. The main findings and conclusions from this work should be summarised as should any specific concerns the Head of Internal Audit has. The aim of every audit report should be to give an opinion on the risk and controls of the area under review.

Internal Audit supports management by recommending improvements to the system of internal control that help protect the business and its assets and assists in the efficient and effective use of resources. In doing this, Internal Audit supports the delivery of all of the Council's aims and priorities.

The Head of Internal Audit is then required to produce an annual report that gives an opinion on the adequacy and effectiveness of the system of internal control for the year. The annual opinion is based on the cumulative impact of the work done on the Council's ability to deliver its key objectives.

The Council must also undertake annually an assessment of the effectiveness of the internal audit service, the findings of which must be considered by the Audit Committee.

POWERS OF INTERNAL AUDITORS

In order to discharge their duties, Internal Auditors should have the authority to:

- enter, at any reasonable time, any premises or land owned, leased or controlled by the Council
- examine all records, documents, correspondence or information held by employees, members, or other third parties, pertinent to their audit work

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- obtain such information and explanations from any employee or member as necessary concerning their audit work to enable them to fulfil their duties
- require any employee (and by arrangement any partner employee or contractor) to produce for examination, Council assets (including cash) under their control.

Equivalent powers should be built into all partnership or service level agreements and contracts whether for goods or services.

INDEPENDENCE AND ETHICS

In each sector, auditors are required to comply with a set of professional standards. In local government, these are set out in the Code where:

- standard 2 covers Audit Independence
- standard 3 covers Ethics for Internal Auditors

In order to ensure that audit staff are aware of these requirements and agree to be bound by them, the Council's auditors sign an independence and ethical governance statement. These are formally reviewed twice a year as part of the appraisal process and staff are reminded to declare any interests at each team meeting. Any such declarations are taken into account when allocating individual audit assignments.

Internal Audit should endeavour to comply with the standards outlined below in delivering its work.

BASIC PRINCIPLES OF INDEPENDENCE

- Internal Audit should be independent of the activities it audits to maintain impartiality and enable effective professional judgements and recommendations to be made
- Audit advice and recommendations, where Internal Audit operates as a critical friend, are given without prejudice to its right to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date
- The status of Internal Audit within the organisation should enable it to function effectively. The CIPFA Statement outlines that the Head of Internal Audit should be sufficiently independent within the organisational structure to allow them to carry out their role effectively
- The Head of Internal Audit should have direct access to, and freedom to report in his / her name, without fear or favour, to all officers and members particularly those charged with governance. The CIPFA Statement outlines that the Head of Internal Audit must have unfettered access across the organisation especially to Chief Executive, the Chair of the Audit Committee, the senior management team and external audit
- The Head of Internal Audit should have the opportunity to meet privately with the audit committee

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- Internal Audit should have sufficient resources to enable required professional standards to be met and sufficient work to be completed on which to base the annual audit opinion in support of the Governance Statement
- The Head of Internal Audit's should be managed by a member of the senior management team
- The Head of Internal Audit should have sufficient status in the organisation to effectively discuss the Strategy, Audit Plan, audit reports and action plans with senior management and members
- Officers must ensure that there will be no conflict of interest before appointing external suppliers to undertake any other work who provide internal audit services to the Council.

ETHICS PRINCIPLES

- Internal Auditors should demonstrate integrity in all aspects of their work
- Internal Auditors must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity
- Internal Auditors should apply knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently
- Internal auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so
- Confidential information gained in the course of audit duties should only be shared with bona fide recipients and must not be used to effect personal benefit.

In determining the accommodation needs of the service, these confidentiality requirements should be taken into account.

In striving to ensure confidentiality with regard to individual audits, distribution lists should be agreed for each job with the relevant Directors / Heads of Service / Service Managers. Internal Audit reports contain a disclosure stating reports should not be shared with anyone else without the permission of the Head of Internal Audit and the relevant Director.

Where Internal Audit provide a service to a third party, the results of this work should only be reported to the body concerned.

These are the minimum standards for the performance and conduct of all internal auditors, and should be read in conjunction with ethical codes issued by professional bodies of which individuals may be a member.

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OTHER AUDIT WORK

FRAUD AND CORRUPTION

As part of its assurance work, Internal Audit has access to a record of all suspected or detected fraud, corruption, bribery or impropriety, and uses this to inform the opinion on the internal control environment and in developing its work programme.

Although outside its core remit, Internal Audit also takes the lead in helping management to embed an anti fraud and corruption culture throughout the Council to further mitigate this risk. Internal Audit also undertakes ad hoc investigations and supports investigations into allegations of fraud, corruption or bribery as required.

GRANT CLAIM WORK

Requests for Internal Audit to audit / give an opinion on the use of grant funding falls outside the core work required to support the Head of Internal Audit's annual audit opinion.

This work is undertaken if either in house staff resources are available or funds are provided to purchase additional audit cover.

CONSULTANCY WORK

Internal Audit will also, where resources and the skills exist, provide additional services such as consultancy work.