



AUDIT AND INVESTIGATIONS UNIT

Internal Audit Terms of Reference

INTRODUCTION

The CIPFA Code of Practice for Internal Audit (2006) requires the council to formally define the terms of reference for Internal Audit.

This document describes the purpose, authority, and principle responsibilities of the council's Internal Audit Team.

DEFINITION AND FUNCTION OF INTERNAL AUDIT

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

AUTHORITY & STATUS

Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 which requires that authorities "*make arrangements for the proper administration of their financial affairs*". This includes having an effective internal audit of activities. Further, the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006) require that a relevant body must "*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*". Those proper practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 206.

RESPONSIBILITIES AND OBJECTIVES

The council, through its Corporate Management Team and Service Directors is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The council is responsible for conducting, at least annually, a review of the effectiveness of governance and internal control arrangements. These responsibilities will be discharged through the Audit Committee.

Internal Audit plays a vital role in advising the council that these arrangements are in place and operating adequately. In order to provide that assurance the Head of Audit & Investigations will provide an annual report setting out his opinion on the adequacy of the system of internal control. This opinion will support the Annual Governance Statement.

Internal Audit will conduct such reviews as it deems necessary to inform the Head of Audit and Investigation's opinion. In addition, Internal Audit will conduct reviews which Departmental Management Team's consider would be beneficial to the organisation. Such reviews will be agreed with relevant directors. These reviews will also inform the annual opinion. These reviews will be conducted within an annual plan, agreed each

year with the Audit Committee. The annual plan will be developed with reference to an overarching three year strategy designed to cover all material systems and risks.

The objective of internal audit will be to deliver this plan, provide sufficient information to inform the Head of Audit and Investigation opinion, to provide directors with an assurance assessment for those processes under review and to make recommendations for improvement where necessary.

The scope of Internal Audit's remit will include all systems, operations and processes for which the council is responsible, including subsidiary bodies, schools, partnerships and any shared services for which the council has financial responsibility.

Ultimate responsibility for ensuring that internal controls throughout the council are adequate and effective lies with management and not Internal Audit. Managers are responsible for establishing effective arrangements for internal control, ensuring compliance with all relevant statutes and regulations and that public funds are properly safeguarded and used economically, efficiently and effectively.

The Audit Committee will be responsible for approving the Internal Audit Terms of Reference and Strategy and annual audit plan; receiving reports from the Head of Audit & Investigations on the results of the work of Internal Audit or other matters that the Head of Audit & Investigations regards as necessary.

PLANNING

The annual audit plan will be developed through discussions with senior officers throughout the council and external audit. This plan will take into account the council's main areas of risk and its risk management processes. The plan will be kept under review during the year to take account of and reflect changing priorities and emerging risks.

Each individual assignment will be planned and managed in accordance with CIPFA Code of Practice and internal procedures to ensure that work is undertaken with due professional care.

INDEPENDENCE

To be effective, Internal Audit must remain sufficiently independent of the activities it audits. This is to enable the auditors to perform their duties in a manner which ensures impartial and professional judgements and recommendations. Internal Audit will operate without interference from senior officers and will be allowed to conduct any reviews or enquiries it sees fit in order to fulfil its professional responsibilities. The Head of Audit and Investigations will be free, if the need arises, to report in his own right without fear or favour to any officer of the council or member of the council, the Audit Committee or Full council.

The Head of Audit & Investigations will have unrestricted access to those charged with governance and specifically to elected Members and the Chief Executive. In addition, Internal Audit is accorded unrestricted access to all Chief Officers and employees of the

council. The Head of Audit and Investigations will have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the council.

REPORTING LINES & RELATIONSHIPS

The Head of Audit and Investigations will report to the council's Director of Finance and Corporate Services. However, to maintain independence, the Head of Audit & Investigations may report directly to the Chief Executive and Members when appropriate to do so and in order to fulfil their responsibilities.

The Head of Audit & Investigations or those audit staff managing or conducting assignments will report regularly to all senior managers on the result of individual audits affecting their area of responsibility. Internal Audit will strive to work with management in the resolution of matters arising from individual audits, fraud and irregularity investigations and in any additional requests for support and advice in which Internal Audit is involved. A primary aim is to add value to the organisation through consensus, where possible.

Relationships with the external auditor and other review bodies will be governed by mutually acceptable arrangements as set out in protocols or similar agreements to maximise the potential for mutual reliance on and use of each party's works.

The Head of Audit and Investigations will meet regularly with the Chair of the Audit Committee to appraise them of any significant matters arising.

INTERNAL AUDIT RESOURCES

Internal Audit provision is currently provided via a small in-house team working in partnership with Deloitte and Touche Public Sector Internal Audit Ltd under a contractual arrangement. The current arrangements and resources will continue to be kept under review to ensure that the team can deliver the agreed Audit Plan and assurances required for the Annual Governance Statement.

The council has a duty to provide sufficient resources to allow an adequate and effective internal audit service to be provided. Where it is felt that resources are inadequate to meet this objective, the Head of Audit & Investigations will bring this to the attention of the Director of Finance and Corporate Services and Audit Committee.

RIGHT OF ACCESS

The Head of Audit & Investigations and staff within the Team will have the authority to:

- Enter any municipal building, land or area where records relating to any activity of the council, its partners, contractors or any organisation partly funded by the council are held. This includes all schools receiving funding from the council.

- Have access to all records, data computer systems, correspondence and any source of information relating to any matter under examination and remove any records as deemed to be necessary.
- Require and receive explanations considered necessary concerning the matter under examination from any employee including Chief Officers.
- Require any person holding or controlling cash, stores or any other council property to produce such items to be examined. These may be removed as deemed necessary.

FRAUD & CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

Audit procedures, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have the responsibility for the prevention and detection of fraud and corruption; however audit staff will be alert when conducting assignment to risks and weaknesses in controls which could allow fraud and corruption to occur.

The council's Financial Regulations lays out the responsibilities of Chief Officers, Managers and other employees in relation to any suspicion of fraud or irregularity. The role of the Audit & Investigations Team is to fully investigate any suspicion of fraud, irregularity or corrupt practice, report to management and those charged with governance and to liaise, where appropriate with the Police and other government agencies.

CONSULTANCY WORK

Internal Audit may be asked by directors to undertake consultancy work. Acceptance of the assignment will be dependent on available resources, the nature of the work and any potential impact on assurance.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain responsibility for the ultimate decisions taken within the area under review.

REPORTING & ANNUAL AUDIT OPINION

The primary purpose of Internal Audit reporting is to communicate to management within the council information that provides an independent opinion on the control environment and risk exposure and to prompt management to implement agreed actions.

A report will be produced following each audit (and fraud investigation) giving an assurance opinion on the system of control under examination, making recommendations to improve control and, where appropriate, to improve performance and efficiency.

Management will be required to respond to all recommendations and internal audit will undertake follow-up work to ensure the implementation of accepted recommendations.

The Head of Audit & Investigations will provide an annual report to those charged with governance, the Audit Committee, timed to support the Annual Governance Statement. This annual report will:

- Include an opinion on the overall adequacy and effectiveness of the council's control environment.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Audit & Investigations judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken by Internal Audit against the planned work.

In addition the Head of Audit will provide summary reports on a quarterly basis to the Audit Committee reporting on the progress of the audit plan and any emerging issues.

REVIEW

These Terms of Reference will be reviewed periodically and any amendments will be submitted to the Audit Committee for approval.