

Internal Audit Terms of Reference

1 Background

- 1.1 The requirement for an Internal Audit function is as a result of local government legislation – section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2003 also identify the need for an Internal Audit function. The regulations require the Council to “maintain an adequate and effective system of Internal Audit of its accounting records and of its systems of internal control in accordance with the proper Internal Audit practices.”
- 1.2 The Office of the Deputy Prime minister defined the CIPFA Code of Audit Practice for Internal Audit in Local Government 2003 as “proper Internal Audit practices” and the Terms of Reference have been prepared in accordance with the Code.

2. Objectives and Responsibilities of Internal Audit

2.1 Objectives

- 2.1.1 Internal Audit provides an independent and objective opinion to the Council on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the Council's objectives. It independently and 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.

2.2 Scope

- 2.2.1 The scope of Internal Audit work includes reviewing and commenting on the corporate governance arrangements of the Council as well as specific areas of risk management and internal control. It includes all the council's operations, resources, services and responsibilities in relation to other bodies. This coverage will enable Internal Audit to report an opinion on the internal control environment to the Council.

2.3 Responsibilities

- 2.3.1 Internal Audit will ensure that its Internal Audit work meets the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government (2003). These standards cover the following areas:
- Ethics for Internal Auditors
 - Organisational Standards
 - Operational Standards
- 2.3.2 Internal Audit will ensure that all reviews give assurance to management on internal controls or identify risks to the control environment. Through their work Internal Audit will seek to improve the internal control systems of the Council.

3. Reporting Lines and Relationships

- 3.1 Internal Audit is required to report to “those charged with governance”. The Council has established a Final Accounts and Audit Committee to undertake these responsibilities on its behalf and to advise the Council. The Committee's Terms of Reference set out its responsibilities for Internal Audit. The Audit Manager will report to the Final Accounts and Audit Committee the audit opinion on the control environment of the Council. The Final Accounts and Audit Committee will approve the Internal Audit plan and review the performance of Internal Audit.
- 3.2 Administratively, Internal Audit forms part of the Corporate Services Unit of the Council, with the Audit Manager reporting to the Finance Team Leader as the Council's Responsible Officer.
- 3.3 Results of audit work are addressed to Strategic Managers and Team Leaders as appropriate. Executive summaries are also available to the Chief Executive and Final Accounts and Audit Committee Members.

4. Independence and Accountability

- 4.1 Internal Audit has the right to report in its own name and to have freedom of access to all senior officers and Members. In particular the right of access to the Chair of the Final Accounts and Audit Committee, Chief Executive, Monitoring Officer and Responsible Financial Officer are key to ensuring the independence of audit.
- 4.2 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.
- 4.3 Internal Audit is accountable through the reporting lines identified above in section 3. In addition Internal Audit's activities will be linked to the Council's strategic objectives and conducted in accordance with the Council's policies and procedures.
- 4.4 Accountability for the response to the risks identified by Internal Audit lies with management, who either identify and implement the appropriate actions or accept the risk.
- 4.5 To further clarify the independence of the audit section, its members will be required to complete a Declaration of Possible Conflicts, which will be updated on an annual basis and reviewed by the Section 151 Officer.

5. Audit Responsibilities in relation to Anti-fraud work

- 5.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption, but should be alert to the risks. Managers should inform the Audit Manager of all suspected or detected fraud, corruption or impropriety so that they can consider the adequacy of the relevant controls and evaluate the implications for the audit opinion on the internal control environment.
- 5.2 Internal Audit will provide advice on the risks of fraud to management and help to raise awareness of fraud issues. This is in accordance with the Council's Anti-Fraud and Anti-Corruption Strategy. In circumstances of

suspected fraud it may be appropriate for Internal Audit to advise or assist with an investigation, including liaison with the police. Internal Audit's role in investigation is set out in the fraud response plan.

6. Internal Audit's Rights of Access

6.1 In accordance with the Accounts and Audit Regulations 2003 the Council's Financial Regulations provide Internal Audit with authority to:

- Access council premises at reasonable times.
- Access all assets, records, documents, correspondence and control systems.
- Receiving any information and explanation considered necessary concerning any matter under consideration.
- Require any employee of the authority to account for cash, stores or any other authority asset under his/her control.
- Access records belonging to third parties, such as contractors, when required.

6.2 In order to allow Internal Audit to perform its work, the Council's Financial Regulations also set out clear responsibilities for the members of the Corporate Management Board. These are:

- To 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.
- To ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

7. Internal Audit Resources

7.1 The Audit Manager is responsible for proposing an Audit Plan to the Final Accounts and Audit Committee for approval each year. This will be risk-based to reflect the finite resources available. If in the opinion of the Audit Manager or of the Final Accounts and Audit Committee the level of resources in any way limit the scope of Internal Audit or prejudice the ability of Internal Audit to meet its objectives, they should advise the Council accordingly.