



Internal Audit Terms of Reference

1. Introduction

- 1.1 These Internal Audit Terms of Reference describe the purpose, authority and principal responsibilities of the Councils' Internal Audit Section.
- 1.2 Internal Audit are required to comply with the Public Sector Internal Audit Standards (PSIAS) in undertaking its work. The Internal Audit Section will follow the guidance in this document as 'proper practice' in the provision of the Internal Audit Service to the Council. A Quality Assurance and Improvement Programme (QAIP) has been developed to provide assurance of Internal Audit's continuing compliance with the requirements of the PSIAS (**Appendix 1**).
- 1.3 The Audit Committee is the 'Board' for the purposes of the internal audit activity. The Internal Audit Manager shall report functionally to the Audit Committee on:
 - Internal Audit Terms of Reference
 - The annual risk based plan, including adequacy of resource
 - Performance of the Internal Audit Team
 - The opinion on assurance as to levels of internal control
- 1.4 Internal Audit is located within Finance Resources and the Audit Manager reports directly to the Executive Director, Finance Services, who is a member of the Management Team. The Management Team is the 'Senior Management' of the Council for the purposes of the internal audit activity.
- 1.5 The Internal Audit Manager, in consultation with the Executive Director, Finance Services will meet with the Audit Committee to discuss governance and risk. If required, the Internal Audit Manager can meet in private with the Audit Committee, as provided for in the Committee's terms of reference.
- 1.6 The Terms of Reference for Internal Audit need to be reviewed every three years and the results presented to the Audit Committee (or subsequent body) for approval. Next review is due – **May 2020**.

2. Scope and Objectives Internal Audit

- 2.1 Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to that organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources and management of business risks.
- 2.2 The scope of Internal Audit's remit includes the Council's entire control environment. In determining where effort should be concentrated, the Audit Manager will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives. This scope encompasses any work undertaken either by a partnership agreement or under contract to the Council.
- 2.3 Internal Audit's objectives are to:
- Provide an independent and objective internal audit service that helps the Council to meet its stated objectives
 - Support the Executive Director, Finance Services in the discharge of her duties as Section 151 Officer (the officer responsible for the proper administration of the financial affairs of the authority).
 - support and assist in embedding corporate governance, effective internal controls and risk management throughout the Council
 - help to identify areas for improvement and make recommendations to address these
 - offer advice and assurance on achieving effective internal controls
 - comply with the Public Sector Internal Audit Standards (PSIAS).
- 2.4 In order to carry out its role effectively, Internal Audit has unrestricted access to all records and assets deemed necessary to the Audit Manager. This right of access is included in the Council's Financial Regulations.
- 2.5 Channels of communication with Members are set out in the Member/Officer Protocol June 2009. In addition, where necessary, the Audit Manager has unrestricted access to:
- The Chief Executive
 - Members, including the Leader of the Council
 - Individual Executive Directors
 - All Other Employees
- 2.6 Internal Audit may provide advice, facilitation or training to assist managers in meeting the objectives of the Council. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

2.7 Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

2.8 Internal Audit shall be informed of allegations of fraud, in accordance with the Anti-Fraud and Anti-Corruption Strategy. The Audit Manager, along with other relevant officers as stated in the Strategy, will assess the allegation and determine the required course of action.

3. Independence

3.1 In order to achieve its objectives effectively, Internal Audit must be seen to be independent. This is achieved by:

- The organisational status and the objectivity of Internal Audit
- Ability to report to all senior management and to members.
- Not being part of the systems and procedures being audited.
- Where internal audit is asked to provide any services in a consultancy role, this should be made clear in the project brief

3.2 Audit advice and recommendations, including where Internal Audit has been consulted about significant changes to the internal control systems, are given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls, and operations at a later date.

3.3 Individual auditors should have an impartial, unbiased attitude, characterised by integrity and an objective approach to work, and should avoid conflicts of interest. They should not allow external factors to compromise their professional judgement.

3.4 An Internal Auditor should not undertake an audit covering an area where the auditor has a competing professional or personal interest. Any such conflicts should be notified to the Audit Manager who will consider if the audit should be reallocated to another auditor.

4. Authority

4.1 There are two principal pieces of legislation that impact upon local authority internal audit provision:

- S 151 of the Local Government Act 1972 – requires the Council to ensure that one of the officers has responsibility for the proper administration of its financial affairs.

- Section 5 of the Accounts and Audit Regulations 2015 (as amended) – states that a relevant body 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*'.

4.2 Internal Audit is also governed by policies, procedures, rules and regulations established by the Council. These include Financial Regulations, Contract Standing Orders, Conditions of service, codes of conduct and anti-fraud and anti-corruption strategies.

4.3 Where key services are to be provided to the Council by other contractors or through a partnership, in order for internal audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in contracts or agreements concerned.

4.4 Any officer or Member of the Council must, if required:

- Make available such documents of the Council which relate to its accounting and other records as appear to the auditor to be necessary for the purposes of the audit or investigation;
- Supply any auditor (both internal and external) with such information and explanation as the auditor considers necessary for their purpose;
- Allow entry to auditors (both internal and external) at all reasonable times to any Council premises or land;
- Produce to auditors (both internal and external) cash, stores or any other Council property or records under their control.

5. Internal Audit Responsibility

5.1 The main areas of Internal Audit responsibility are to:

a. Review, appraise and report on:

- The soundness, adequacy and application of internal controls;
- The reliability of systems for ensuring that expenditure is properly authorised/incurred and income is properly/promptly brought into account;
- The extent to which the assets and interests are accounted for and safeguarded from loss;
- The suitability and reliability of financial and other management data;
- The Economy, Efficiency and Effectiveness of systems and procedures.

- b. Assist line management to investigate all frauds and irregularities, whilst acknowledging that managing the risk of fraud and corruption is the primary responsibility of management.
- c. To assist in the review and reporting on the effectiveness of the operation of the Council's Local Code of Corporate Governance and to promote good standards of Corporate Governance, including the review of Financial Regulations and Contract Standing Orders.
- d. To contribute to the production of the Council's Annual Governance Statement, required under Regulation 5 of the Accounts and Audit Regulations 2015 (as amended).
- e. Advise on internal control implications of new systems.
- f. Where either:
 - Key systems are being operated, or key systems provided by other organisations on behalf of the Council or
 - Key systems are being operated, or key systems provided, on behalf of other organisations by the Council

the Audit Manager will decide, in consultation with all parties, whether Internal Audit conduct the work to derive the required opinions on the reliability of systems and controls or should rely on the opinion provided by other auditors.

6. Audit Style and Content

6.1 The primary task of Internal Audit is to review systems of internal control operating throughout the Council, and in this will adopt a predominantly risk – based approach to the audit. The Audit Manager will manage the provision of the Internal Audit service to the Council by:

- Preparing a rolling five-year strategic audit plan for approval by the Audit Committee and the Executive Director, Finance Services.
- Translating the strategic plan into annual plans for agreement by the Executive Director, Finance Services.
- Ensuring audit work is supervised, recorded and reported.
- Preparing an annual report on the work of internal audit for agreement with the Executive Director, Finance Services and then for submission to the Audit Committee, giving an overall opinion on the reliability of the system of Internal control.

7. Audit Reporting

- 7.1 All audits will result in the issue of formal reports. Reports will be issued to the relevant Executive Director, Service Manager and relevant staff and copied to the Chief Executive, the relevant Cabinet Portfolio Holder, the Executive Director, Finance Services, and a copy placed on InSite, where it will be made accessible to members of the Audit Committee and other Executive Directors. The Audit Manager will make regular progress reports to the Audit Committee summarising all internal audit reports issued.
- 7.2 In addition, all audits will be followed up approximately six months from the issue of the final audit report, in order to ascertain progress on agreed recommendations. A report (a follow-up report) will then be issued to the previous recipients (as outlined in 7.1 above) and summary information provided to the Audit Committee as part of the Audit Manager's report on progress against the annual audit plan.

8. Audit Resources

- 8.1 The staffing of the Internal Audit Section will be kept under review by the Executive Director, Finance Services and the Audit Manager, bearing in mind the resource requirements identified in the strategic audit plan and the overall needs of the Council.
- 8.2 If the Audit Manager or those charged with governance consider that the level of audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of internal audit, they should advise the Council accordingly.

Internal Audit Quality Assurance and Improvement Programme

Introduction

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders (the Audit Committee, Management Team, the external Auditor and Service Managers) that Internal Audit:

- Performs its work in accordance with its Terms of Reference, which is consistent with the Public Sector Internal Audit Standards (PSIAS);
- Operates in an efficient and effective manner;
- Is adding value and continually improving Internal Audit operations.

The Audit Manager is ultimately responsible for the QAIP, which covers all areas of Internal Audit activities. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodic, and external assessments must be undertaken at least once every five years.

Internal Assessment

Ongoing reviews

Ongoing reviews provide assurance that the processes in place are working effectively to ensure that quality is delivered on an audit by audit basis. This includes continuous monitoring of:

- Engagement planning and supervision (preapproval of the audit scope, budgeted hours and assignment of staff);
- Standard working practices (including working paper templates, file review and report sign-off);
- Application of the procedures contained in the Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards;
- Feedback from customer surveys for each audit;
- Analysis of Key Performance Indicators established to monitor Internal Audit effectiveness and efficiency.

Periodic reviews

Periodic assessments are designed to assess conformance with Internal Audit's Terms of Reference and the efficiency and effectiveness of internal audit. Periodic assessments will be conducted through:

- File reviews of each audit at draft report stage;
- Monthly team meetings to assess progress against plan, discuss any issues arising with audits and identify any forthcoming issues;
- Training needs assessment as part of the corporate Performance Management process;
- Regular reports to Audit Committee on progress against plan, other work undertaken and any identified changes to the audit plan for the year;
- Annual self-assessment of conformance with the PSIAS.

External Assessment

External assessments will appraise and express an opinion about Internal Audit's conformance with the PSIAS, and include recommendations for improvement as appropriate.

An external assessment will be conducted every five years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be agreed by the Executive Director, Finance Services and the Audit Committee.

Reporting

Internal assessments will be reported to the Audit Committee as part of the progress reports, and on an annual basis in the Audit Managers Annual Report and Opinion.

External assessments will be reported to the Audit Committee when a full copy of the external assessors report will be presented, together with an action plan from the Audit Manager to address any recommendations.

Follow-up on any agreed actions will be included in Annual Report and Opinion to the Audit Committee.