

CANNOCK CHASE DISTRICT COUNCIL

*INTERNAL AUDIT
TERMS OF REFERENCE*

March 2009

Internal Audit Section - Terms of Reference



1 Introduction

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its governance arrangements comprising of risk management and internal control. Responsibility for governance rests fully with Service Managers, who shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.
- 1.2 Internal Audit contributes to the proper, economic, efficient and effective use of the Council's resources by objectively examining the adequacy of its governance processes and reporting on their effectiveness in achieving the Council's objectives.
- 1.3 The Internal Audit Section is therefore responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

2 Objectives of Internal Audit

- 2.1 The primary objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. This is achieved by reviewing and evaluating: -
- The completeness, reliability and integrity of financial and other management information;
 - The systems established to ensure compliance with corporate and departmental policies and procedures and legislative requirements; and
 - The means of safeguarding assets.
- 2.2 The other objectives of the Internal Audit section are:
- To provide advice and support to ensure an effective control environment is maintained;
 - To contribute to the achievement of Corporate objectives by recommending improvements in control and performance which will assist the achieving the "Building and Excellent Council" objective; and
 - To provide advice and guidance to ensure Managers have developed effective arrangements to prevent and detect fraud and corruption including input in to the key policies such as Financial Guidelines and Anti-fraud and Corruption Policies.

3 Scope & Authority of Internal Audit

- 3.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires that all Local Authorities must “make arrangements for the proper administration of their financial affairs”. More specific requirements are set out in the Accounts and Audit Regulations 2003 (as amended 2006), which require the Council to “maintain an adequate and effective system of internal audit of their accounting records and control systems in accordance with proper internal audit practices”. This is reinforced in the Council’s Financial Regulations.
- 3.2 All of the Council’s activities, regardless of funding source, may be subject to review by Internal Audit. Internal Audit work will cover all of the operational and management controls within the Council. This does not imply that all systems will be subjected to review, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.
- 3.3 The scope of audit work extends to services provided through partnership arrangements. The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance themselves or rely on assurance provided by other auditors. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.
- 3.4 The Internal Audit Section will consider the adequacy of the controls established by managers to secure propriety, economy, efficiency and effectiveness in all areas.
- 3.5 It is not the remit of the Internal Audit Section to question the appropriateness of policy decisions. However, the Section is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.
- 3.6 The Internal Audit Section may also conduct any special reviews, providing independent and objective services, such as consultancy and fraud related work as requested by Management. There will always be due consideration in planning this work to ensure that the Section maintains its objectivity and independence. The impact of taking on additional work on the audit plan will be taken into account and where necessary reported to the Head of Governance & Organisational Development and the Audit and Governance Committee.
- 3.7 Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to ensure appropriate procedures are put in place to prevent and detect fraud. 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.
- 3.8 In line with the Council’s Anti-fraud and Corruption Framework, the Chief Internal Auditor should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit section will advise and assist Managers in the investigation of the fraud and corruption.

4 Responsibility of Internal Audit

- 4.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements. The review of the effectiveness of the governance arrangements is informed by the work of the internal auditors and the managers within the authority who have responsibility for the development and maintenance of governance arrangements and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 To assist with this review the Chief Internal Auditor will produce an annual report covering each service area and any corporate issues that have been subject to Internal Audit review in the year. This annual report will include an opinion, based on the areas examined, on whether the Council's governance arrangements, including those for economy, efficiency and effectiveness, are adequate and have been properly applied in the year.
- 4.3 In order to provide the required opinion the Internal Audit Section will undertake a programme of work on the advice of the Chief Internal Auditor. The programme of work will aim to achieve the following objectives:
- to appraise the soundness, adequacy, and application of the whole internal control system;
 - to ascertain the extent to which the systems of internal control ensure compliance with current policies and procedures;
 - to ascertain the extent to which assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
 - to ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;
 - to ascertain the integrity and reliability of financial and other information provided to management, including that used in the decision making processes;
 - to ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources;
 - to investigate, where appropriate, frauds or significant breaches of the internal control system.
- 4.4 Managers and not Internal Audit have ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective. This responsibility includes the duty to review continuously internal controls and ensure that they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.
- 4.5 Responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later stage.

5 Statutory Requirement and Standards of Approach

- 5.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2003 (as amended 2006) and the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government issued in 2006 and any subsequent guidance, which updates or replaces this Code.
- 5.2 The Internal Audit Section will adopt a predominantly risk based systems approach to auditing to meet its primary objective of reviewing the governance arrangements of the Council. In undertaking its work the Section will:
- identify all elements of control systems on which it is proposed to place reliance;
 - evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;
 - provide advice on the management of risk, predominantly but not exclusively surrounding the design, implementation and operation of systems of internal control;
 - produce clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
 - ascertain that those systems of internal control are designed and operate to achieve the most economic, efficient, and effective use of resources;
 - draw attention to any apparently uneconomical or unsatisfactory result flowing from decisions, practices or policies;
 - contribute to the general management and conduct of business through the provision of expertise on appropriate working-groups and participation in ad-hoc exercises, subject to adequate resources being available in the audit plan; and
 - liaise with External Auditors.

6 Independence of Internal Audit

- 6.1 The Internal Audit Section will remain independent of the systems and procedures which are subject to its review. To enable the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations Internal Audit staff will not undertake any non-audit duties. All audit staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines.
- 6.2 In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status and from the fact that the Chief Internal Auditor has no other areas of responsibility other than the Internal Audit function.

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- 6.3 Internal Audit staff are often consulted during system, policy or procedure development. This is a good practice as it enables comments to be made on potential control weaknesses and tries to ensure that systems, policies or procedures are adequate prior to being introduced. However, this does not preclude Internal Audit staff from reviewing and making comments for improvements during routine audits or other reviews where they were consulted during the system, policy or procedure development stage.
- 6.4 The Internal Audit Section determines its work priorities in consultation with senior management, the s151 Officer and the Audit & Governance Committee.
- 6.5 The Chief Internal Auditor reports to the Head of Governance & Organisational Development but has the right to report directly to the s151 Officer, Chief Executive, Monitoring Officer, Chair of the Audit and Governance Committee or External Auditor where it is deemed necessary.
- 6.6 The Chief Internal Auditor is responsible for the content of all written reports produced by the section. The Chief Internal Auditor has the right to report in his own name and offer an audit opinion without “fear or favour” to all officers and members and in particular to those charged with governance at the Council.

7 Rights of Access

- 7.1 In order to perform their duties Internal Audit has the authority, as set out in the Council’s Financial Regulations, to:
- enter at all reasonable times, any Council premises or land;
 - have access to all records, documents, correspondence and computer systems relating to the Council and its activities;
 - require and receive such explanations as necessary concerning any matter under examination;
 - require any employee of the Council to produce records, cash, stores or any other Council property under their control, necessary to carry out their duties;
 - have the right to direct access to the s151 Officer, Chief Executive, Leader of the Council and External Auditors, where it is deemed necessary.
- 7.2 Where necessary such rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval.
- 7.3 The Internal Audit Section will comply with any requests from External Auditors for access to any information, files or working papers obtained or prepared during the audit work that they need in order to discharge their responsibilities.

8 Internal Audit Resources

- 8.1 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 the resources are inadequate to meet the objectives of the Internal Audit Section, the Chief Internal Auditor in conjunction with the Head of Governance & Organisational Development, will formally report this to the s151 Officer, Chief Executive and the Audit & Governance Committee where relevant.
- 8.2 The staffing structure of the section will comprise a mix of professional, technician and trainee posts in order to provide a wide knowledge and skills base. The Chief Internal Auditor is responsible for ensuring that Internal Auditors receive appropriate training and experiences to fulfil their duties and that levels of competence are maintained via the use of continual professional development.
- 8.3 Where necessary access to appropriate specialists from other departments or external sources should be made available to the Internal Audit Section to assist in any audit or investigation requiring detailed specialist knowledge.

9 Internal Audit Management

- 9.1 The Chief Internal Auditor is responsible for the day-to-day management of the Internal Audit Section. The Chief Internal Auditor will:
- prepare an Audit Strategy;
 - prepare an audit plan to review all relevant areas, and to update the plan regularly to account for changes in Council priorities and risks. The plans will be presented to the Audit & Governance Committee on a regular basis;
 - produce operational plans for each auditor to achieve the annual audit plan;
 - issue an Audit Brief for each assignment undertaken setting out the scope and objectives of the work, timescales and reporting arrangements, and obtain the approval of the relevant Head of Service for the Audit Brief;
 - ensure that all audit work is completed to high standards in accordance with relevant professional standards;
 - establish and maintain effective relationships with managers of all levels and obtain feedback from them on the work of the section including the use of user satisfaction surveys;
 - monitor the work of the Audit & Governance Committee and consider, where appropriate, whether changes need to be made to the Internal Audit Plan as a result of the issues arising from the work of the Audit & Governance Committee.
 - establish and maintain effective relationships with the External Auditors; and
 - monitor the effectiveness of the service delivered to clients and compliance with relevant standards.

10 Reporting Lines

- 10.1 The Chief Internal Auditor reports to the Head of Governance & Organisational Development. However, alternative reporting lines are available to the Chief Internal Auditor where these are deemed necessary as set out in section 6.5
- 10.2 The Chief Internal Auditor will present the annual audit plan to Directors, the s151 Officer and the Audit & Governance Committee.
- 10.3 An annual report will be presented to the Audit & Governance Committee covering the work of the Internal Audit Section in the year and setting out an overview of the areas under each Director. This report will also be a key source of assurance for the Council's Annual Governance Statement.
- 10.4 The Chief Internal Auditor will monitor and report on the agreed performance indicators on a regular basis. Regular reports on the work of the Internal Audit Section will be presented to the Audit & Governance Committee.
- 10.5 The Internal Audit Section will produce a written report for all assignments.
- 10.6 The Chief Internal Auditor will be responsible for reviewing the implementation of recommendations. At the Chief Internal Auditor's discretion the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Monitoring Officer, Chief Executive, or relevant Director and the Audit & Governance Committee.
- 10.7 The Chief Internal Auditor will report to the s151 Officer any serious weaknesses or significant fraud. The matter may also be reported to the Chief Executive, DMT, Monitoring Officer or External Auditors and the Audit & Governance Committee as appropriate.

11 Relationship With Elected Members

- 11.1 The Head of Governance & Organisational Development and the Chief Internal Auditor will maintain a working relationship with the Chair and other members of the Audit & Governance Committee and the Audit & Governance Working Group. Where necessary the Chief Internal Auditor will have direct access to the Chair of the Audit & Governance Committee.

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