

INTERNAL AUDIT TERMS OF REFERENCE

1 Introduction

- 1.1 These Terms of Reference support the Audit Strategy which is the strategic statement of how Internal Audit services will be delivered and developed within East Riding of Yorkshire Council providing assurance that the systems in place are working effectively and efficiently and assisting the Council to achieve its vision and objectives.
- 1.2 They have been prepared against the requirements of the CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code) and set out the purpose, authority and responsibilities of Internal Audit demonstrating how the section complies with the standards contained within the Code.
- 1.3 The requirement for an internal audit function is also set out in legislation. The Local Government Act 1972 s151 requires that authorities “make arrangements for the proper administration of their financial affairs”. More specific requirements for an internal audit function are set out in the Accounts and Audit Regulations 2003(as amended), in 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 proper practices in relation to internal control’.

2 Strategic Statement

- 2.1 The strategic statement as included in the Audit Strategy states:

“Internal Audit will deliver a balanced, comprehensive and proactive risk focused service in a professional and independent manner in accordance with the Code which will enable assurance to be given to the Council on its control environment, including comment upon the effective use of its available resources in achieving its objectives.”

3 Objectives

- 3.1 Internal Audit is an independent assurance function and its primary objective is to –
 - review, appraise and provide an independent and objective assurance to the Council on its control environment which comprises the systems of governance, risk management, and internal control, ensuring that controls are mitigating the Council from increased risk exposure and are effective in achieving the Council’s key priorities.
- 3.2 The key aims to facilitate the discharge of this objective are to:
 - Independently review, appraise and report on the adequacy of the systems of control within the Council and within systems operated by arvato on the Council’s behalf
 - Comment upon the economic, efficient and effective use of resources
 - Provide assurance to management that agreed policies are being implemented effectively
 - Provide assurance to management that internal controls mitigate risks to acceptable levels

- Assist in promoting an environment and culture which will help deter and identify fraud
- To be a source of advice on risk and control issues to facilitate and encourage good practice in managing risks
- Recommend improvements in control, performance and productivity in achieving corporate objectives
- Work in partnership with the Council's external auditor
- Comply with the Code and legislative requirements

3.3 In addition, Internal Audit will:

- Contribute to the management aim of a well-managed authority and support the achievement of the Council's key priorities by recommending improvements in control, performance and productivity.
- Support the Head of Finance in the discharge of her statutory duties as the Chief Finance Officer
- Lead investigations into allegations of fraud, corruption and irregularity in accordance with Financial Procedure Rules and the Counter Fraud Response Plan.
- Provide advice and support to ensure sound systems of control throughout the Council.

4 Scope

4.1 The scope of Internal Audit's remit includes the organisation's entire control environment, which comprises the systems of governance, risk management and internal control in place which help to amongst others:

- Establish and monitor the achievement of the Council's key priorities
- Identify, assess and manage the risks to achieving the Council's key priorities
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies, procedures, laws and regulations
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

4.2 Audit reviews will therefore cover all activities and services and will not necessarily be limited to financial issues.

4.3 This does not imply that all activities and services will be subject to review, but that all will be included in the audit planning process and be considered for review, taking account of assurance and monitoring arrangements in place and an assessment of risk.

4.4 The scope of work also includes providing assurance on:

- Services provided on behalf of other organisations by the Council
- Services provided by other organisations on behalf of the Council.

- 4.5 Internal Audit may also undertake special reviews, providing independent and objective services such as consultancy and fraud related work as requested by Management. Prior to commencement of such work consideration will be given to the impact on the audit plan and the ability of the Section to maintain its objectivity and independence.

5 Authority

5.1 The requirement for internal audit is set out in legislation. Section 151 of the Local Government Act 1972, requires that authorities 'make arrangements for the proper administration of their financial affairs'. The Accounts and Audit Regulations 2003 (as amended), more specifically require that a 'relevant body shall maintain an adequate and effective system of internal audit of its accounting records and systems of internal control in accordance with proper practices in relation to internal control. Any officer or member of that body shall, if the body requires:

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose'

5.2 The Council has given Internal Audit the authority to:

- enter at all reasonable times on any Council premises or land;
- have access to all records, documents and correspondence relating to any matter or business of the Council;
- require and receive such explanations as considered necessary concerning any matter under examination,
- require any employee of the Council to produce cash, stores or any other Council property under their control.
- report uncensored to any department, Director, Chief Executive, Committee, The Cabinet or the Council as considered necessary,

5.3 Additionally, where relevant, appropriate access rights will be negotiated and included in contracts and service level agreements to ensure Internal Audit has the right of access to the accounts, records and all other documentation in relation to the Council's transactions and is entitled to seek and receive explanations from officers of the partner/funded organisation regarding the Council's transactions.

6 Independence

6.1 In order to ensure full independence the Audit and Technical Manager can report in their own name.

6.2 Internal Audit as an independent assurance function within the Council has direct access to and can report uncensored as considered necessary to:

- The Council
- Cabinet
- Audit Committee or any Committee
- Chief Executive
- Directors
- S151 Officer
- Monitoring Officer

- Senior Managers
 - Leader
- 6.3 Audit assignments are planned and conducted in accordance with the Code using a risk based approach to ensure an independent approach. Reports are produced on an exception basis and are free from any bias and are fully supported by an evidenced based working file.
- 6.4 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 as issued by relevant professional institutions and the Code of Practice for Internal Audit in Local Government. The deployment of work undertaken will ensure conflicts of interest do not arise and independence is maintained.
- 6.5 With the exception of the Audit and Technical Manager, audit staff will not, except in exceptional circumstances, undertake any non – audit duties, enabling them to remain independent of the systems and procedures which are subject to review. The Audit and Technical Manager is also responsible for managing the Insurance & Risk and Technical Groups, so to avoid any conflict of interest audits of these areas are reported directly by the relevant Group Auditor to the Head of Finance.
- 6.6 Internal Audit forms part of the Audit and Technical Section, which is in the Finance Division of the Corporate Resources Directorate. The Audit and Technical Manager reports to the Head of Finance.

7 Ethics

- 7.1 Internal Auditors will demonstrate the following principles in relation to their standards of performance and conduct:
- Integrity – The relationship with colleagues and external contacts will be one of fairness and honesty to establish an environment of trust.
 - Objectivity – Internal auditors will act objectively without being unduly influenced by personal interest or the views of others. This objectivity will be reflected when providing professional opinions, reviews and recommendations.
 - Competence – The knowledge, skills and experience of an auditor will be applied in performance of their duties. Work will not be accepted where the auditor is not competent unless under the guidance and support of a colleague with appropriate skills.
 - Confidentiality – Information derived from audit work will be safeguarded and not disclosed to others unless under a legal or professional requirement to do so. Confidential information arising from audit work will not be used to affect personal gain.

8 Responsibilities

- 8.1 The Council is responsible for establishing and maintaining an effective control environment, and conducting, at least annually, a review of the effectiveness of the system of internal control commenting upon this in the Annual Governance Statement

- 8.2 Managers and not Internal Audit have ultimate responsibility for establishing and maintaining this control environment ensuring it is adequate, effective and efficient, minimising the risks facing the Council. This includes a duty to continuously review internal controls ensuring that they are effective and remain suitable minimising the risk exposure faced by the Council. The existence of Internal Audit does not diminish the responsibility of management.
- 8.3 However, Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly. In order to provide this assurance, the Audit and Technical Manager will provide annually, a formal opinion on the adequacy of the Council's systems of internal control, to support and inform the Council's Annual Governance Statement.
- 8.4 To provide an opinion on the Council's systems of internal control the Internal Audit Section will:
- Maintain a strategy for delivering the internal audit service to meet these terms of reference including how the assurance for the Annual Governance Statement will be demonstrated, audit resources required and their allocation.
 - In discussion with stakeholders, prepare and deliver a risk based audit plan, taking account of the council's risk management processes. The plan will be kept under review to reflect changing priorities and emerging risks.
 - Manage audits to ensure that they are undertaken with due professional care, to the standards set out in the Code of Practice and internal operating procedures.
 - Report on each assignment (and fraud investigation) assessing the adequacy of the system of internal control under examination, making recommendations to improve control and where appropriate improve performance.
 - Seek management responses to work undertaken and follow up on management action as appropriate.
 - Provide advice on internal control.
 - Maintain good relationships with external audit and other external review agencies to minimise duplication of effort where there are overlaps in objectives and in work undertaken and to maximise the benefits of co-operation and co ordination through a managed audit approach.
 - Provide an annual report including a statement, based on the work undertaken, on the adequacy of internal control within the council. This also informs the Council's Annual Governance Statement.
 - Support the Council's Corporate Management Team in compiling the Annual Governance Statement.
 - Lead or advise, as appropriate, investigations into allegations of fraud, corruption and irregularity in accordance with council procedures.
 - Maintain and develop the competence and skills of audit staff including appropriate professional development.
 - Ensure an effective and efficient service is provided to the Council through performance management, monitoring, benchmarking and continuous improvement.
 - Lead or advise as appropriate, investigations into allegations of fraud, corruption and irregularity.
- 8.5 For Internal Audit to fulfil its objectives it requires management to:

- Give Internal Audit access at all reasonable times to all persons, property, accounts and records and provided with explanations by the service staff as are requested. Normally notice is given of audit visits and a mutually convenient date is agreed following consultation with service managers. However in rare and exceptional circumstances Internal Audit can conduct audits without prior notice.
- Provide reasonable accommodation and facilities during the audit. Wherever possible the audit will be conducted with minimum disruption to staff and service delivery. This depends on the cooperation of service staff and any difficulties will be referred to the Head of Service to intervene.
- Respond stating their agreement or disagreement with the findings and recommendations with explanations as appropriate at the draft report stage. Reports are then issued in final and management is expected to implement all accepted recommendations within the agreed timescales.
- Inform Internal Audit, as soon as possible, of all suspected or discovered fraud.
- Ensure procedures to be audited are documented or known to service staff and records must be up to date prior to the audit. It is not the responsibility of Internal Audit to set up procedures where none exist or to bring records into an auditable state as part of the audit.
- Comply at all times with Council Policies and Procedures, the Finance Manual of guidance, Finance and Contract Procedure rules, IT policies with regard to security, and all relevant legislation.

8.6 Managing the risk of fraud and corruption is also the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for prevention and detection of fraud and corruption, however audit staff will be alert in all their work to risks and exposures that could allow fraud or corruption to occur. The roles and responsibilities of Management and Internal Audit in the investigation of allegations of fraud and corruption are set out in the Council's Counter Fraud Response Plan.

9 Internal Audit Resources

9.1 Internal Audit will be delivered primarily by Council employed staff. These internal staff will be suitably qualified and experienced. The qualifications and experience will be enhanced through the identification of personal development and training requirements linked to organisational needs through the employee development review process.

9.2 Internal Audit's current establishment comprises 13.67 full time equivalent posts split over 5 levels from the Audit & Technical Manager to Auditor. The number of posts and structure of the Internal Audit Section will be kept under review to ensure the Section can deliver the agreed audit plan and assurances required for the Annual Governance Statement. Where appropriate specialist skills from within other departments or external sources will be procured to assist with an audit or investigation, should these be required.

9.3 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 Section the Audit and Technical Manager in conjunction with the Head of Finance will procure the required additional resources and formally report this to the Director of Corporate Resources and the Audit Committee.

10 Relationships

- 10.1 The Internal Audit section recognises that good working relationships and effective communications are fundamental to the delivery of an effective Internal Audit service. As such Internal Audit will seek to maintain good professional relationships with all relevant stakeholders.
- 10.2 The Audit & Technical Manager will consult with relevant parties during the audit planning process.
- 10.3 The Audit & Technical Manager will attend the Audit Committee and assist the Committee in meeting its terms of reference.
- 10.4 All staff will maintain good professional relationships through an effective dialogue with relevant officers during the delivery of audit reviews to ensure a true understanding of the area is obtained and that a fair, constructive and value added report is provided.
- 10.5 Regular consultations will be held between Internal and External Audit to achieve the most effective audit coverage and to avoid duplication of effort. Audits will be planned and delivered through a managed audit approach to ensure that Internal Audit work can be relied upon to enable External Audit to fulfil their statutory duties.
- 10.6 An Internal/External audit joint working protocol will be agreed and adhered to.
- 10.7 The Audit & Technical Manager will seek to establish a dialogue with relevant agencies with a view to improving understanding and exchanging relevant information.
- 10.8 Internal Audit staff will maintain a dialogue and network with other professionals both within the local area and through relevant professional bodies to ensure that best practice is considered on an ongoing basis.

11 Audit Committee

- 11.1 Internal Audit is an assurance function and therefore must report to those charged with Governance, the Audit Committee fulfils this role
- 11.2 The Audit and Technical Manager or appointed deputy will attend all meetings of the Audit Committee.
- 11.3 In order that the Audit Committee and Internal Audit can meet their objectives, the following reports will be received and considered by the Audit Committee:
 - Terms of reference for Internal Audit
 - Internal Audit Strategy and Plan
 - Progress against the Audit Plan, major control issues arising and the adequacy of management response – quarterly
 - Annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment
 - Annual review of the Local Code of Corporate Governance.

- 11.4 The Audit and Technical Manager will maintain an effective working relationship with the Audit Committee and assist the Committee in its own review of its remit and effectiveness. Where necessary the Audit and Technical Manager will have the opportunity to meet privately with the Audit Committee.

12 Reporting

- 12.1 A report will be produced on each assignment (and fraud investigation) giving an opinion on the system of internal control under examination, making recommendations to improve control and where appropriate improve performance, productivity and value for money.
- 12.2 The Internal Audit Section will seek management responses to work undertaken and follow up on management action arising from audit work undertaken. However 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.
- 12.3 Directors will receive a quarterly report on progress against the audit plan, key issues arising from audits, the adequacy of their Directorate's management responses and a summary of common internal control issues arising across the Council.
- 12.4 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 date.

13 Annual Audit Opinion

- 13.1 The outcomes of each audit assignment contained within the audit plan, is directed towards giving an opinion on the adequacy and effectiveness of the Council's control environment at the end of each financial year. A summary of the opinion and matters arising from the work completed are contained in the Audit & Technical Managers annual report.
- 13.2 The opinion may also consider a number of other sources of assurance that are available to the Audit and Technical Manager.

14 Review

- 14.1 These terms of reference will be reviewed annually and any amendments will be submitted to the Audit Committee for approval.