

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
MONDAY 20TH NOVEMBER 2006

Report on Internal Audit – Terms of Reference - Update

OPEN	
COMMUNITY STRATEGY	Internal Organisational Theme
THEME	
CORPORATE THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Financial & Asset management
STRATEGY:	Audit resource
CABINET MEMBER:	Cllr. John-Paul Campion
RESPONSIBLE OFFICER:	Head of Financial Services
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APPENDIX	Internal Audit – Terms of Reference - Update

1. PURPOSE OF REPORT

To propose updated Terms of Reference for the work undertaken by Internal Audit, attached as Appendix 1 and obtain approval for their adoption.

2. RECOMMENDATIONS

The Audit Committee is asked to RECOMMEND to Cabinet:-

The approval of the updated Terms of Reference for the work undertaken by the Internal Audit section, as attached as Appendix 1.

3. BACKGROUND

3.1 The Executive at its October 2003 meeting approved Terms of Reference for the Council's Internal Audit section. This report noted that the Terms of Reference would be reviewed at least once every three years by the Head of Financial Services and any amendments reported to members.

3.2 In accordance with best practice, the purpose, authority and responsibility of Internal Audit should be formally defined in terms of reference which:

- (a) are consistent with the CIPFA Code of Practice for Internal Audit in Local Government;
- (b) establish the responsibilities and objectives of Internal Audit;
- (c) define the organisational independence of Internal Audit, including accountability and resource requirements;

- (d) specify the requirements for the professional skills and experience of the manager of the Internal Audit section;
- (e) establish Internal Audit's right of access to all records, assets, personnel and premises, and its authority to obtain such information and explanations as considered necessary to fulfil its responsibilities; and
- (f) enable the Council's Chief Auditor to deliver an annual audit statement on the adequacy of the council's internal control system.

3.3 The Code of Practice also requires the terms of reference for the internal audit function to be formally agreed by members and the council's corporate management team.

3.4.1 The attached Appendix sets out the terms of reference for the Internal Audit section at Wyre Forest District Council. The document will also serve as an Audit Charter so that auditors and clients of the internal audit service can understand what internal audit is there to do and provide.

4. KEY ISSUES

4.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the terms of reference for the internal audit function to be formally agreed by members and the Council's corporate management team.

5. FINANCIAL IMPLICATIONS

5.1 The costs of the Internal Audit section are provided for in the Council's approved budget.

6. LEGAL AND POLICY IMPLICATIONS

6.1 The requirement for an internal audit function is contained within Section 151 of the Local Government Act 1972 that requires local authorities to "make arrangements for the proper administration of their financial affairs". The Council has delegated these powers to the Head of Financial Services as provided in the Council's Constitution – Financial Procedure Rules (Financial Regulations) section 11.1.

6.2 More specifically the Accounts and Audit Regulations 2006 require local authorities to:

"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".

7. RISK MANAGEMENT

7.1 There are no risk management issues arising from this report other than those mentioned in section 6.

8. CONCLUSION

8.1 The Terms of Reference for Internal Audit as updated comply with updated legislative requirements and best practice.

9. CONSULTEES

9.1 CMT.

10. BACKGROUND PAPERS

10.1 Executive 30th October 2003 – Internal Audit – Terms of Reference
Statutory Instruments 2003 No. 533 & 2006 No. 564 – The Accounts and Audit Regulations 2003 & The Accounts and Audit (Amendment)(England) Regulations 2006

Wyre Forest District Council

Internal Audit -Terms of Reference - Update

1. Objective

- 1.1 The Accounts and Audit Regulations 2003 & The Accounts and Audit (Amendment) (England) Regulations 2006 (Statutory Instruments 2003 No. 533 & 2006 No. 564) Regulation 6 states:

“A relevant body shall 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.”

- 1.2 These Terms of Reference enable Internal Audit to operate adequately and effectively. This is achieved by clearly stating internal audit's **Function, Responsibilities, Authority and Reporting Lines**, which are designed to ensure it meets the modern requirements for internal auditing and also so that auditors and audit users can fully understand what internal audit is there to do and provide.

2. Function

- 2.1 Internal audit is an **objective review** function of the Council's arrangements for managing and controlling its services and activities, both financial and operational. An Internal Audit review assists the Council, through its managers, to serve the best interests of its stakeholders and make the best possible use of resources in the course of meeting its aims and objectives.
- 2.2 The primary task of Internal Audit is to review the systems of internal control operating throughout the authority and provide an independent and objective opinion to the Council on the degree to which the internal control environment supports and promotes the achievement of the council's objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 2.3 The Head of Financial Services has recognised that Internal Audit needs to be independent of any policy making process or managerial responsibility, resources permitting, in order to provide objective advice, and monitors the advice provided to ensure that objectivity is achieved.
- 2.4 The Internal Audit section operates under the direction of the Financial Services Manager who reports to the Head of Financial Services. The Financial Services Manager also has responsibility for the Benefits section and the Support Services section.
- 2.5 The Internal Audit section comprises an Audit Services Manager, Principal Auditor, Senior Auditor, Auditor and Trainee Audit Assistant. This structure is supplemented by the use of external audit contractors to provide specialist skills (i.e. computer audit) and to cover for internal vacancies.

3. Responsibilities

3.1 The Council is required to provide sufficient resources to enable an adequate and effective Internal Audit service to be provided. The service will be managed by the Financial Services Manager who must be both professionally qualified and an experienced individual of a calibre reflecting the responsibilities arising from the need to liaise both internally and externally with senior management and professionals. The Financial Services Manager should have wide experience of internal audit and management.

3.2 The Financial Services Manager will be required to determine the priorities of, deliver, and manage the internal audit service for the Council. In discharging these duties the Financial Services Manager.

3.3 The Financial Services Manager will:

- a) Ensure that he/she has a comprehensive understanding of the council's systems, structure and operations.
- b) Prior to the beginning of each financial year, following consultation with the Corporate Management Team, provide:
 - a three year strategic audit plan based on risk, showing which of the Council's services/activities are due to receive audit attention over the period. The plan to include all core activities at least once every three years with higher risk areas receiving more frequent attention, whilst at the same time meeting the requirements of "Managed Audit", whereby internal and external audit work in partnership.

The strategic plan is viewed flexibly as issues may arise during the currency of the plan which divert Internal Audit away from planned work. The plan is seen as a statement of intent, which can be amended, as necessary, without having a damaging effect on the overall direction of the audit service.

- A detailed operational plan showing how resources will be allocated in the coming financial year in order to meet the requirements of the strategic plan. Each audit will be designed to meet current auditing best practice.
- c) During the course of and at the close of each financial year provide:
 - Quarterly progress reports on actual progress compared to the plan. Such reports to include reports on internal control matters with associated internal audit recommendations and manager's comments on implementing the recommendations.
 - The quarterly reports include if necessary any matters that will impact on Internal Audit's ability to meet the requirements of the strategic plan.
 - d) Compile an annual outturn report for the Audit Committee summarising the overall results for the year and providing a statement on the adequacy of the Council's control environment.

- e) Aim to achieve at least 90% of the annual audit plan.
- f) For each audit ensure that Internal Audit has cognisance of the advice of the current CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- g) as appropriate for each systems audit liaise with the chief officer and/or nominated lead manager concerned regarding:
 - the scope and objectives of each audit
 - audit findings and draft recommendations which will be discussed prior to issuing the draft audit report
 - the draft audit report which will contain a summary of the quality of the control system and detailed findings and recommendations
 - the final audit report incorporating the manager's comments on the recommendations made.
 - Three months after the issue of the final audit report internal audit will assess the implementation of the recommendations previously made and report as necessary

3.4 The Financial Services Manager will ensure that the Section 151 officer (Head of Financial Services) is briefed without delay on any matter coming to the attention of internal audit that could have a material impact on the finances of the Council. Similarly the Head of Financial Services will be briefed on the progress of audits having a corporate aspect and/or matters involving fraud or malpractice.

4. Scope of Internal Audit

4.1 The scope of Internal audit is unrestricted and covers the entire internal control environment of the Council. The internal control environment comprises the Council's policies, procedures and operations in place to:

- (a) establish and monitor the achievement of the Council's objectives;
- (b) identify, assess and manage the risks to achieving the Council's objectives;
- (c) facilitate policy and decision-making;
- (d) ensure the economical, effective and efficient use of resources;
- (e) ensure compliance with established policies, procedures, laws and regulations;
- and
- (f) secure assets and data and to ensure an anti fraud and corruption environment exists.

4.2 Where services are provided under contract or partnership arrangements, then these should allow an appropriate access for Internal Audit to those matters relating to the Council's business. This includes areas where the Council acts as the Accountable body.

5. Authority

- 5.1 In the course of carrying out internal auditing functions and responsibilities, internal audit employees, under the direction of the Financial Services Manager, shall have authority as detailed in Financial Regulation 11.1:
- a) to enter, at all reasonable times, any land, building, vehicle or plant owned or used by the Council
 - b) to have access at all times to all records, documents or correspondences, including any stored by mechanical, electric or electronic means relating to the affairs of the Council
 - c) to possess or to take copies of any record, document or correspondence
 - d) to require any information and explanation from any member or employee of the Council concerning any matter under examination
 - e) to require any employee or member of the Council to produce records, cash, stores or any other property under his/her control.
- 5.2 It is the responsibility of Chief Officers, as stated in Financial Regulations paragraph 1.3, to ensure that adequate internal controls are in place in their areas of responsibility and that they are notified without delay of any instances where systems are failing to operate properly. Internal controls are to ensure systems meet their objectives in a secure, efficient and well ordered manner. Internal audit is not a substitute for this but its role is complimentary in providing managers with information, professional advice and independent assurance as to the adequacy of their internal control processes.
- 5.3 It is the responsibility of Chief Officers to put in place adequate controls to prevent and detect fraud. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow fraud or corruption.
- 5.4 The Council's Financial Regulations paragraph 11.3 require Chief Officers to immediately inform the Head of Financial Services of any loss or financial irregularity or suspected irregularity or of any circumstances which may suggest the possibility of such loss or irregularity.
- 5.5 The Financial Services Manager is responsible for the compilation of the Council's Fraud response plan and for ensuring that relevant investigations are conducted in accordance with the plan.

6. Audit Independence & Reporting Lines

- 6.1 In order to provide impartial and unbiased assessments of Council operations Internal Audit must be independent of those operations.
- 6.2 Internal Audit staff must have no operational responsibilities in the areas they audit.
- 6.3 The Financial Services Manager will be responsible for the content of internal audit reports which shall be in his/her own name (see exception below).

- 6.4 The Financial Services Manager has direct responsibility for the Benefits section and for the Support Services section. Audits of these areas will be undertaken under the auspices of the Head of Financial Services and will be reported in the latter's name.
- 6.5 Quarterly and annual audit reports to the Audit Committee will be prepared by the Financial Services Manager.
- 6.6 For management matters the Internal Audit section will report to the Head of Financial Services through the Financial Services Manager.
- 6.7 The Financial Services Manager will prepare an Annual report to the Audit Committee. This report should:
- a) include an opinion on the overall adequacy and effectiveness of the Council's internal control environment
 - b) disclose any qualifications to that opinion, together with the reasons for the qualification
 - c) present a summary of the audit work undertaken to formulate the opinion
 - d) draw attention to any issues the Financial Services Manager judges particularly relevant to the preparation of the statement on internal control
 - e) compare the work actually undertaken with the work that was planned
 - f) comment on compliance with the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as appropriate
- 6.8 The Financial Services Manager will prepare a Quarterly audit report to the Audit Committee. This will be a summary of the work done together with the findings and recommendations in the quarter including emerging issues in respect of the whole range of areas to be covered in the formal annual report.
- 6.9 Draft systems and other audit reports will be discussed and agreed with the Manager/Chief Officer. If there is a disagreement on any matter in the report, a note will be included to this effect in the final report.
- 6.10 The Financial Services Manager will hold regular (normally monthly) briefing sessions with the Head of Financial Services.
- 6.11 The Financial Services Manager will have the right of access at any reasonable time to the Chief Executive, Monitoring Officer, Leader and Cabinet Member for Finance & Corporate Affairs should this be necessary.

7. Audit Opinion

- 7.1 Internal Audit recommendations will be categorised/ranked in terms of significance. Audit recommendations will be classified in accordance with the following definitions:

Fundamental/Significant – Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation.

Other (Merits Attention) – Current procedure is not best practise and could lead to minor efficiencies.

7.2 The level of assurance that internal audit can give on the operation of internal controls within a system being reviewed will be classified in accordance with the following definitions:

- Full – Robust framework of controls – provides substantial assurance
- Some – Sufficient framework of controls – provides adequate assurance
- Limited – Some lapses/significant breakdown in framework of controls. At least one significant recommendation.

7.3 The annual opinion given by the Financial Services Manager will be based upon the level of assurance arising from audits undertaken relating to the financial year.

8. IMPLEMENTATION OF AGREED AUDIT RECOMMENDATIONS

8.1 It is the responsibility of managers to ensure that all agreed recommendations arising from an audit report are implemented in accordance with the agreed timetable.

8.2 For each audit undertaken where recommendations are to be implemented, a follow up audit will be scheduled no sooner than 3 months of the conclusion of the audit.

8.3 At the conclusion of each follow up review a summary will be issued detailing the progress made to the chief officer and/or lead officer.

8.4 The Financial Services Manager will regularly review the overall progress of the implementation of audit recommendations across the Council and report as necessary to the Corporate Management Team and the Audit Committee.

Notes

1 This document should be subject to review at least once every three years by the Head of Financial Services.

2 In the absence of the Financial Services Manager all provisions relating to him/her above will apply to the Audit Services Manager (in the first instance)/Principal Auditor.

November 2006

Audit Committee 20/11/06