

Review of Internal Audit Terms of Reference

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REASON FOR ITEM

The Code of Practice for Internal Audit in Local Government requires a periodic review of the Terms of Reference of Internal Audit. The Terms of Reference were last reviewed in March 2010, when minor textual amendments were made.

OPTIONS AVAILABLE TO THE COMMITTEE

The committee can comment on the appropriateness of the Terms of Reference.

INFORMATION

The Terms of Reference is attached to this report. Changes have been made at parts 5 and 8 to reflect the fact that the Head of Audit now reports to the Deputy Chief Executive.

A new paragraph, 5.4, has been added to reflect the fact that the Head of Audit now has some operational duties. The committee needs to satisfy itself that it is content that this paragraph, as worded, provides sufficient independence.

London Borough of Hillingdon

Internal Audit Charter & Terms of Reference

1..PURPOSE

1.1. This Charter describes the purpose, authority, and principal responsibilities and operating methods of the council's Internal Audit Section.

2.DEFINITION OF INTERNAL AUDIT

2.1. The CIPFA Code of Practice for Internal Audit in Local Government (2003) defines Internal Audit as *'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It 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.'*

3. PURPOSE

3.1. Internal Audit is an independent appraisal function established within the Council to examine and evaluate activities as a service to the organisation and to contribute advice at an early stage in the implementation of any developments/amendments to processes. The objective of Internal Audit is to assist elected members and officers of the Council in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analysis, appraisals, recommendations, advice and information concerning the activities reviewed.

4. AUTHORITY

4.1. The statutory basis for Internal Audit is the Accounts and Audit Regulations 2003, which require that 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 internal audit practices." Proper internal Audit Practices are defined in the *Code of Practice for Internal Audit in Local Government in the UK*.

4.2. Internal Audit Section takes due cognisance of the standards promoted by other bodies such as the Institute of Internal Auditors (IIA), Auditing Practices Board (APB) and the CCAB accounting bodies.

5. INDEPENDENCE

5.1. The Head of Internal Audit reports to the Deputy Chief Executive and has unrestricted access to the Chief Executive, the S151 Officer, Leader of the Council and to members through the Audit Committee. Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. These include Financial Regulations, Conditions of Service, and Code of Conduct.

5.2. The authority for the production and execution of the audit plan and subsequent audit activities rests with the Head of Internal Audit. The annual audit plan will be presented for approval to the Council's Corporate Management Team (CMT) and to the elected members via the Audit Committee. Based on the work carried out the Head of Internal Audit will produce an Annual Audit Opinion on the systems and controls operating in the year.

5.3. The Head of Internal Audit will also report to the Annual Governance Statement Working Group any audit issues likely to merit inclusion in the statement and contribute to the Audit Committee's Annual Report to the Council.

5.4. The Head of Audit now has operational duties in respect of Corporate Fraud and Planning Enforcement. Where audits are required in these areas the Terms of Reference for the audits will be discussed with and all findings will be reported directly to the Deputy Chief Executive, prior to the implementation by the Head of Audit.

6. ACCESS

6.1. To meet its objectives, Internal Audit shall have unrestricted access to all Council records (whether manual or computerised systems), cash, stores and other property, and to enter Council property or land. Such access shall be granted on demand and not subject to prior notice. Internal Audit will have the authority to obtain such information and explanations as it feels necessary to fulfil its responsibilities.

7. RESPONSIBILITIES

7.1. Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

7.2. Internal Audit responsibilities include but are not limited to:

- a. Examining and evaluating the adequacy of the Council's system of internal control;
- b. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- c. Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- d. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- e. Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assignments;
- f. Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
- g. Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
- h. Promote anti-fraud and anti-corruption practices and assist management in the investigation of fraud/corruption and other irregularities.
- i. Engage in the process of gathering and assessing the evidence for the assessment of the control environment thereby contributing to the production of the Annual Governance Statement

7.3. In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the Code of Ethics and the Code of Practice for Internal Audit in Local Government promulgated by the Chartered Institute of Public Finance and Accountancy and other such professional bodies of which internal auditors are members.

7.4. There will be a regular rotation of staff between audit areas and unless there are clear operational reasons staff will not audit the same area more than twice in succession. Auditors will not be assigned to audit an area where they have;

- undertaken operational duties within the previous three years.
- declared a relationship or other interest

7.5. In line with the International Standards internal audit may engage in consulting activities including, advice, facilitation, and training. Internal Audit will accept proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations but will not assume management responsibility or decision-making. For significant pieces of work a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations will be reached with managers. Such agreements will ensure that there is a clear separation of the role of Internal Audit from the decision making process.

7.6. In order to ensure the proper discharge of its responsibility, Internal Audit will:-

- a. Prepare the strategic and annual plan for approval by the Corporate Management Team, taking into account the risks of service departments.
- b. Conduct audits in accordance with established and best practice, as enshrined in CIPFA's Internal Audit Manual, which has been supplemented by internal procedures.
- c. Promptly consult and report its findings to the relevant level of management, including members as necessary, making recommendations for improvements where weaknesses are identified.
- d. Monitor the progress of implementation of recommendations and report this to members. It is for management to accept and implement internal audit findings and recommendations or to accept the risk resulting from taking no action. However, it is for the Chief Internal Auditor to bring to the attention of management and/or members any risk they feel is not being adequately addressed.
- e. Educate the organisation to understand that the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- f. Maintain good working relationships with officers at all levels, Members, External Auditors and any other external review agencies.
- g. Make adequate arrangements for the monitoring and review of audit work to deliver a quality audit service.

8 RESOURCES

Revised March 2010

8.1 Internal Audit resources will be determined by the Deputy Chief Executive and S151 Officer acting on behalf of the members of the Audit Committee and will reflect the corporate needs of the council. Resources will also reflect the need to allow the S151 Officer to discharge his obligations.

8.2. The staffing structure will comprise suitable qualified posts with a mix of professional specialisms to reflect the needs of the organisation. Resources may be bought in for specific specialisms such as IT audit.