
STRATEGY AND TERMS OF REFERENCE FOR INTERNAL AUDIT

1 SUMMARY

- 1.1 The strategy and terms of reference for Internal Audit (STRIA) documents the aims, approach and responsibilities of the Internal Audit function.

2 INTRODUCTION

- 2.1 The STRIA was developed to meet the requirements of the 2006 CIPFA “Code of Practice for Internal Audit in Local Government in the United Kingdom” (The Code), and built upon the existing Audit Charter that had been in place since 2003 to meet the requirements of the 2003 version of The Code.
- 2.2 The current STRIA was approved by this Committee on 16 March 2010. It was also resolved that this document be reviewed annually to ensure that it meets with changing circumstances and requirements to enable Internal Audit to provide effective assurance of the systems of internal control employed at Rochford District Council.
- 2.3 The Accounts and Audit (England) Regulations 2011 come into force on 31 March 2011 and these have required changes to the STRIA text under the paragraph, **Statutory Basis for Internal Audit**
- 2.4 A review has taken place and changes to the STRIA have been proposed for 2011/12. The main change is within **Roles & Responsibilities** and relates to an expansion of the definition of access rights to Council activities to bring the STRIA in line with Financial Regulations and The Accounts and Audit (England) Regulations 2011. Other minor changes in wording are highlighted in the text of the STRIA. The document has also been updated to reflect the fact that from 01 April 2011 there will no longer be a position of Deputy Chief Executive. The proposed document is attached as appendix A for Committee consideration and approval.

3 RECOMMENDATION

It is proposed that the Committee **RESOLVES**

- (1) That the revised Strategy and Terms of Reference for Internal Audit be approved
- (2) That the Strategy and Terms of Reference for Internal Audit continue to be reviewed and reported annually within the Annual Governance Statement but not reported separately for annual approval unless significant changes are recommended.

Yvonne Woodward

Head of Finance

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.

APPENDIX A

DRAFT
Rochford District Council
Strategy and Terms of Reference for Internal Audit
2011/12

Strategy Statement

The overall strategy of Internal Audit is to deliver a risk-based Audit Plan in an independent, professional manner; to provide an Opinion to the Council on the level of assurance that it can place in the internal control environment; to make recommendations to improve it; and to support the achievement of the Council's objectives.

Statutory Basis for Internal Audit

To ensure that authorities make arrangements for the proper administration of their financial affairs, The Local Government Act (1972) and *the Accounts and Audit (England) Regulations 2011* make statutory provision for a local authority to *undertake* an adequate and effective internal audit of its *documents and records* and of its system of internal control in accordance with proper internal audit practices.

The Council requires internal auditors to function professionally, adhering to the codes of ethics, standards and guidelines of relevant professional bodies and, in particular; Internal Audit is required to conform to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The Code).

Internal Audit derives authority from Members, in particular the Audit Committee, the Chief Executive and Head of Finance (HoF), as the Section 151 Officer.

The Terms of Reference for the Audit Committee are:

“To Exercise the Council’s functions in relation to:

- Matters arising out of internal audit and control reports;
- The scope of internal audit activity;
- Review of the adequacy of governance and risk management arrangements and internal control; and
- Consideration of matters arising from external audit as are referred to it by the External Auditor.”

Internal Audit will provide assistance as required to support the objectives of the Audit Committee.

Objective and Status

The Internal Audit Service at Rochford District Council is an assurance function to primarily provide an independent and objective opinion to the Authority on the degree to which the internal control environment supports and promotes the achievement of the Authority's objectives.

Internal Audit 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. As such, Internal Audit contributes to the Council's overall governance framework and in particular to the production of the Annual Governance Statement.

This document establishes the Terms of Reference to enable Internal Audit to meet its objectives and responsibilities. To ensure that these are appropriate to changing circumstances the Strategy and Terms of Reference will be reviewed annually.

The Audit & Performance Manager (APM) manages Internal Audit. The APM is responsible for the preparation of a risk-based annual Audit Plan in conjunction with the Chief Executive, HoF and Heads of Service. The Audit Committee considers and approves the Audit Plan prior to its implementation. The APM is responsible for the effective management of the Audit Plan.

The HoF is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives with an appropriate mix of qualifications, experience and audit skills and identification and implementation of ongoing training requirements. In view of the staffing levels within Internal Audit this could, if considered appropriate, include using specialist external audit providers, subject to prior approval.

Role & Responsibilities

Within the terms of the Financial Regulations of the Council, Internal Audit has been given, as representatives of the Chief Finance Officer for the purpose of audit work, unrestricted access at any time to all records, *documents and correspondence relating to any transactions of the Council, and can require any employees of the Council to produce cash, stores or any other Council property under their control.* Internal Audit can also request explanations as considered necessary to confirm correctness of any matter under examination.

Where agreements exist, Internal Audit may also request access to relevant records of Partners/Contractors. Internal Audit is responsible for ensuring the confidentiality and safekeeping of all records accessed and information obtained in the course of its work.

Internal Audit is required, under the Accounts & Audit Regulations, to carry out an annual self-assessment review of the effectiveness of the systems for internal audit. This self-assessment will be reported to the Audit Committee. A range of performance measures are in place to assist the monitoring of effectiveness.

The key roles of Internal Audit are to identify and understand the key risks of the Council as a whole, to examine and evaluate the adequacy and effectiveness of systems and controls employed and to report and make necessary recommendations for improvements on:

- The adequacy and reliability of control systems (including the relevant technology) and procedures;
- Compliance with management, operational and financial controls including financial regulations and contract standing orders;
- Compliance with corporate objectives, strategies and policies including the Council's Constitution;
- Compliance with laws and regulations;
- The reliability and integrity of management information;
- Arrangements for the acquisition, custody and disposal of assets, and for verifying their existence; and
- Assessing value for money in respect of the economy, efficiency and effectiveness with which resources are employed.

In addition Members, the Chief Executive, HoF or Heads of Service may request Internal Audit to:

- Provide advice and support to ensure an effective control environment is maintained;
- Provide advice and guidance to ensure Managers have developed effective arrangements to prevent and detect fraud and corruption;
- Undertake special investigations in relation to potential fraud and corruption and misuse of Council resources; and
- Conduct service or procedural reviews, on a consultancy basis, to evaluate the effectiveness of controls or to assess value for money.

Independence

In order to preserve its objectivity and independence, Internal Audit will not assume operational responsibilities for, and will remain independent of the activities it audits or reviews.

Individual auditors will maintain an impartial, unbiased and objective approach to audit work in line with Standard 3 of The Code; Ethics for Internal Auditors.

Individual auditors will not be permitted to carry out testing in areas where they have had previous operational responsibility within the same Financial Year, or until a suitable period has elapsed as determined by the APM.

Subject to *available operational resources*, audit assignments will be rotated from time to time within the Internal Audit Team to prevent over-familiarity and complacency with audit areas that could influence objectivity.

Line Management is responsible for establishing and maintaining a proper and effective control environment and for managing risk within their area of operations. Management also bears primary responsibility for the prevention and detection of fraud and corruption.

However, if the APM and/or the Audit Committee request or if requested by management, Internal Audit may review systems under development and advise on appropriate controls without prejudicing its right to subsequently review and make further recommendations on the relevant procedures, controls and operations at a later date.

Audit Methodology

Internal Audit will review the procedures in place for determining the areas of risk for each Head of Service to ensure that all areas of high risk from Strategic, Corporate, Service and Operational areas are identified and incorporated in the Annual Audit Plan, including those identified by the External Auditors as part of their mandatory Systems Audit work. The Chief Executive, HoF and Heads of Service will contribute to the Audit Plan prior to it being presented to the Audit Committee for consideration and approval to ensure effective audit coverage of the key issues affecting their service areas.

The Plan will set out the number of person-days, including a contingency, required for Internal Audit to adequately review the areas specified to ensure resourcing for high-risk audit projects and to enable an effective opinion on the control environment to be made.

The process of reviewing risk to the Authority will be ongoing and regular meetings will be held with the External Auditors to ensure effective coverage of Internal Audit's work. Meetings will be held with Senior Management and other Regulators and Inspectors, as required, ensuring Internal Audit work keeps pace with changing circumstances and requirements.

An Audit Brief will be issued to Heads of Service and key line management prior to the commencement of an audit project, giving details of the proposed areas to be reviewed and the subsequent reporting process. Recipients of the Audit Brief will be given the opportunity to request that areas, not included in the Brief, be included in the audit project to seek independent assurance of controls employed.

In carrying out its duties Internal Audit will work constructively with management and staff. During the course of an audit project, management and staff are required to co-operate fully with the auditors' requirements. All auditors will conduct themselves in compliance with standard 9 of The Code; Due Professional Care.

If significant control failings are identified this fact will be presented to management during the course of the audit project for immediate action.

Reporting Arrangements

All outcomes will be fully discussed with management at the conclusion of an audit project. Where weaknesses in controls or procedures are identified appropriate recommendations for improvements will be issued, confirmed by line management with realistic dates for implementation agreed. Internal Audit will monitor these for compliance.

Should Internal Audit and management fail to reach agreement on issues / recommendations, considered to be of material importance by Internal Audit, the final audit report will reflect the position of both and attention will be drawn specifically to these issues / recommendations in order that The Chief Executive, HoF and the Audit Committee, may take appropriate action.

If evidence or suspicion of fraud or corruption is identified during the course of an audit project the matter will be reported promptly to the APM, without reference to line management, for consideration and progression in line with the Council's Anti-fraud & Corruption Policy.

An Audit Report will be produced which can be used by Heads of Service and line management as evidence of the level of control assurance within the Annual Governance Statement.

The APM will report completed Audit Projects directly to The Chief Executive and HoF. A report will be provided to the Audit Committee *as soon as practicable after completion of each audit* to provide an Audit Opinion on the area reviewed. If considered appropriate, Heads of Service or relevant Line Managers may be required to attend the Audit Committee on the date that the report is presented.

An Annual Schedule of Business giving the nature and outline timetable of reports to be received by the Audit Committee will be produced as part of the annual planning process.

At the end of the Financial-year an Internal Audit Annual Report and Opinion will be produced by the APM, based on the outcome of the year's audit work undertaken. The review of the effectiveness of the systems for internal audit will form part of this year-end reporting.

These reports, together with other information provided by Heads of Service and key line managers will be used as evidence in compiling the Annual Governance Statement.

Line management is responsible for the implementation of recommendations within the agreed timescale. Members of the Audit Committee monitor the implementation of these recommendations and where the target date is significantly exceeded Members may request that the Head of Service or relevant Line Managers attend the Audit Committee to provide an explanation. All outstanding recommendations will be reported at subsequent Audit Committee meetings until confirmed as implemented.

On a half-year basis the APM will report progress of the Annual Audit Plan to the Audit Committee. If a need for a material change to the Plan is identified (i.e. affecting over 20% of the planned audit assignments) as a result of unforeseen Audit work or resourcing issues, a revision to the Annual Audit Plan will be placed before the Audit Committee, at the earliest opportunity, for approval.

Internal Audit also assumes responsibility for monitoring implementation of recommendations from The Audit Commission, External Auditors and other Regulatory or Inspection Agencies and reporting progress on these to the Audit Committee.

The APM, in consultation with the Monitoring Officer, may report independently to the Audit Committee or Council if the APM considers this necessary.

Signed

to Be
Paul Warren
Chief Executive
Tbc April 2011