

## AUDIT STRATEGY AND TERMS OF REFERENCE FOR INTERNAL AUDIT

### 1 SUMMARY

- 1.1 The Audit Strategy And Terms Of Reference is a revised document based on the Audit Charter for Internal Audit that was approved by Members of this Committee on 12 July 2007.

### 2 INTRODUCTION

- 2.1 The Rochford Audit Charter was originally approved and adopted by the Finance & Procedures Overview & Scrutiny Committee in October 2003. The original version arose from the requirements of the 2000 CIPFA "Code of Practice For Internal Audit In Local Government In The United Kingdom". The Charter was designed to enable Internal Audit to demonstrate its aims and responsibilities, together with those of Heads of Service, to ensure compliance with sound systems of internal control.
- 2.2 As a result of the Internal Audit Self-assessment for 2006/07, reported to this Committee on 6 June 2007, it became apparent that a review of The Charter was required to reflect changes in working practices. The revised version was approved along with a requirement to review the Charter annually to ensure that the terms of reference were up to date and appropriate to circumstances.
- 2.3 Best Practice suggests that Internal Audit should have a strategy to accompany a Charter. Rather than produce separate documents that have very similar contents and objectives it was felt that to combine both into the proposed Audit Strategy and Terms of Reference would simplify the approach and produce one document covering all required elements. The draft document, for Member consideration and approval is attached as Appendix A.

### 3 RECOMMENDATION

- 3.1 It is proposed that the Committee **RESOLVES**
- (1) That the revised Audit Strategy and Terms Of Reference be approved.
  - (2) That the Audit Strategy and Terms Of Reference continue to be reviewed annually as part of the Annual Governance Statement Report.

Yvonne Woodward

Head of Finance, Audit & Performance Management

---

**Background Papers:-**

None.

For further information please contact Jim Kevany on:-

Tel:- 01702 546366 Extn 3213

E-Mail:- [james.kevany@rochford.gov.uk](mailto:james.kevany@rochford.gov.uk)

If you would like this report in large print, braille or another language please contact 01702 546366.

---

APPENDIX A

**DRAFT**  
**ROCHFORD DISTRICT COUNCIL**  
**STRATEGY AND TERMS OF REFERENCE FOR INTERNAL AUDIT**

**STRATEGY STATEMENT**

The overall strategy of Internal Audit is to deliver a risk-based Audit Plan in a professional, independent 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 Regulations 2003 (As Amended), make statutory provision for a local authority 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 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, Corporate Director (Internal Services) and Head of Finance, Audit & Performance Management (HFAPM), 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
- Consideration of matters arising from external audit as are referred to it by the External Auditor

### **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 circumstance 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, Corporate Directors, HFAPM and Heads of Service. The Audit Committee approves the Audit Plan prior to its implementation. The APM is responsible for the effective management of the Audit Plan.

The HFAPM 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 the records, personnel, property and operations of the Council and can 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.

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.
- Assessing the economy, efficiency and effectiveness with which resources are employed

In addition Members, the Chief Executive, Corporate Directors, HFAPM 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
- Conduct service or procedural reviews, on a consultancy basis.

---

**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

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, Corporate Directors, HFAPM and Heads Of Service will contribute to the Audit Plan prior to it being presented to the Audit Committee for approval to ensure audit coverage of the key issues affecting their service areas.

The Plan will set out the number of person-days 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.

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, 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 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 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, Corporate Directors, HFAPM 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 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, Corporate Directors and HFAPM. A report will be provided to the Audit Committee within a three-month period from completion of each audit to provide an Audit Opinion on the area reviewed.

An overall Audit Opinion by the APM, based on the outcome of the year's audit work undertaken, of the adequacy of systems of internal control will be included in the Annual Governance Statement

All outstanding recommendations will be reported at subsequent Audit Committee meetings until confirmed as implemented.

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 time scale is exceeded Members may request that the Head Of Service attend the Audit Committee to provide an explanation.

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

Paul Warren  
Chief Executive  
//2008