



Committee and Date

Audit Committee

7 December 2012

10.00 am

Item

13

Public

ANNUAL REVIEW OF INTERNAL AUDIT TERMS OF REFERENCE

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1. Summary

The Internal Audit Terms of Reference have been reviewed and there are no changes proposed at the present time. The review does not yet take account of any refinements proposed in the UK Public Sector Internal Audit Standards which are still under development.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the contents of this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Internal Audit Terms of Reference have been reviewed to ensure that they continue to remain up to date and that significant areas of work or responsibility are identified and applied, thereby strengthening the Council's internal control arrangements.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

There are no financial implications.

5. Background

- 5.1 Best practice dictates that there should be clear Terms of Reference established for Internal Audit and approved by the Section 151 Officer. The current Terms of Reference for Internal Audit were last reviewed and updated in November 2011. Under the core functions of the Audit Committee there is a requirement for this Committee to consider and comment annually on any proposals for the revisions to the Terms of Reference for Internal Audit to ensure they are current and up to date.
- 5.2 Terms of Reference for Internal Audit have been in place for some time and have been periodically updated to reflect the latest best practice guidance and to reflect any changes required by legislation.
- 5.3 The current Terms of Reference for Internal Audit cover:
- The legislative framework;
 - Role and objectives;
 - Scope;
 - Competence and standards;
 - Internal audit planning;
 - Internal audit reporting;
 - Relationships;
 - Independence;
 - Quality assurance;
 - Rights of access.
- 5.4 The Terms of Reference continue to reflect the Code of Practice for Internal Audit in the United Kingdom issued in November 2006 and the Accounts and Audit Regulations 2011.
- 5.5 Having reviewed the Terms of Reference there are no changes proposed. The new Public Sector Internal Audit Standards (PSIAS) will replace CIPFA's Code of Practice for Internal Auditors in Local Government 2006. The Joint standard, drafted by CIPFA and the Institute of Internal Auditors, is due to be published in late December and become effective on 1st April 2013 for the 2013/14 financial year. A separate report will be presented to Members in the new year including an assessment of how we will comply with the new standard and what we need to do to achieve full compliance.
- 5.6 Members are asked to reconfirm the Internal Audit Terms of Reference, a copy of which is attached as **Appendix A**.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006 (CIPFA)
Accounts and Audit Regulations 2011

Cabinet Member (Portfolio Holder)

Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member

All

Appendices

A - Internal Audit Terms of Reference (Revised November 2012)

**TERMS OF REFERENCE
FOR INTERNAL AUDIT IN SHROPSHIRE COUNCIL**

INTRODUCTION

1. This document sets out the role and terms of reference of the Internal Audit Service within Shropshire Council. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council Constitution. These terms of reference should be read in conjunction with the relevant sections of these Financial Rules.
2. The authority of the internal audit function is derived from legislation. The requirement for an internal audit function is made necessary by Section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Accounts and Audit Regulations 2011, require that, a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Any officer or member of a relevant body shall if the body requires:-

- a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
- b) supply the body with such information and explanation as that body considers necessary for that purpose. The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal control.

The findings of the review referred to above shall be considered as part of the consideration of the system of internal control.

3. The Financial Rules (Part 4, Appendix C2) state the Section 151 Officer has a 'statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective internal audit'.

ROLE

4. Internal audit is 'an assurance function that provides an independent and objective opinion to the organisation on the control environment 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' (CIPFA Code of Practice for Internal Audit in Local Government 2006).

5. It contributes to the authority's governance arrangements by bringing a systematic and disciplined approach to the evaluation of risk management, control and governance processes.

OBJECTIVE

6. Internal audit's objective is to give assurance to the Section 151 Officer and the Council, on the adequacy of the Council's control environment and the extent that it can be relied upon.

SCOPE

7. Internal audit is responsible for providing assurance across all the Council's activities including schools and services provided in partnership or under contract with external organisations.
8. The scope of internal audit includes:
 - reviewing, appraising and reporting on the following:
 - the soundness, adequacy and application of internal controls;
 - the extent to which the Council's assets are accounted for and safeguarded from losses of all kinds arising from fraud and other offences, waste, extravagance and inefficient administration, poor value for money or other causes;
 - the suitability and reliability of financial and other management data developed within the organisation;
 - to carry out selected Value for Money reviews of the efficiency and economy of the planning and operation of the Council's functions;
 - to provide an internal advice and consultancy service for committees and services;
 - to undertake any non-recurring studies as directed by the Section 151 Officer;
 - to advise on or undertake fraud investigation work in accordance with the Authority's Fraud Investigation procedure, prosecutions policy and the disciplinary guide (C2.8);
 - periodically undertake an audit needs assessment taking into consideration the authorities risk management process (C2.6).
9. Internal audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan.

COMPETENCE AND STANDARDS

10. Internal audit complies with CIPFA's Code of Practice for Internal Audit 2006 and other relevant guidance.
11. Individual auditors are required to comply with relevant guidelines issued by their professional bodies.

12. The Audit Service Manager maintains a team of staff that collectively possess the necessary knowledge, skills and disciplines for the achievement of the internal audit objectives. Staff are properly trained to fulfil all their responsibilities.
13. Internal auditors are expected to:
 - exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity; and
 - obtain and record sufficient audit evidence to support their findings and recommendations.

INTERNAL AUDIT PLANNING

14. Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.
15. The Audit Service Manager produces strategic and annual plans in consultation with the Section 151 Officer. These plans are subject to annual revisions and approval. These plans include an element of contingency to allow internal audit to be responsive to changing conditions and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure that these plans can be delivered.

INTERNAL AUDIT REPORTING

16. Internal audit reports all findings to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). Significant issues are reported in writing. The Audit Service Manager sets standards for reporting and makes arrangements for their review and approval before issue. The reports:
 - prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken, or proposed by management; and
 - ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not taking action.
17. The Audit Service Manager reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Audit Service Manager produces an annual report to the Section

151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular the annual report:

- Includes an opinion on the overall adequacy and effectiveness of the organisation's control environment.
- Discloses any qualifications to that opinion, together with the reasons for the qualification.
- Presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies.
- Draws attention to any issues the Audit Service Manager judges particularly relevant to the preparation of the Annual Governance Statement.
- Compares the work actually undertaken with the work that was planned and summarises the performance of the Internal Audit function against its performance measures and criteria.
- Comments on compliance with these standards and communicates the results of the Internal Audit quality assurance programme.

RELATIONSHIPS

18. The Audit Service Manager fosters constructive working relationships and mutual understanding with management, with external auditors and with any other review agencies.
19. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, but the internal auditor does not allow his objectivity or impartiality to be impaired.

INDEPENDENCE

20. The Audit Service Manager's direct reporting line is to the Corporate Head of Business Improvement. She also has direct access to the Section 151 Officer, the External Auditor, the Council Management Team, the Leader and Members.
21. Internal Audit do not have any executive responsibilities and are independent of the activities that it audits to enable them to provide impartial and unbiased professional opinions and recommendations. Internal audit is free to plan, undertake and report on its work as the Audit Service Manager deems appropriate, in consultation with relevant managers.
22. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit work is planned to avoid potential conflicts. Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.
23. The Audit Service Manager cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility.

They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity.

24. The Audit Service Manager is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and she shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems at a later date.

QUALITY ASSURANCE

25. In order to ensure Internal Audit independence, the audit of areas managed by the Audit Service Manager will be carried out by an appropriate auditor and be reviewed by an audit senior. The Audit Service Manager will take no part in the audit or reviewing process other than in the role of auditee. The final report will be issued to the Corporate Head of Service for Business Improvement as the Audit Service Manager's line manager.
26. The Audit Service Manager will maintain a process of review of the Internal Audit section to provide reasonable assurance that its work conforms to the relevant standards particularly CIPFA's Code of Practice. The review process will be ongoing and will include adequate supervision of work performed, an internal review process, the retention of appropriate evidence, and where possible, an external review by the external auditor and other inspection agencies.
27. An internal audit manual will be maintained and adhered to setting out policies and procedures for the operations of the internal audit function in line with relevant standards.
28. The Audit Service Manager develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee.

RIGHTS OF ACCESS

29. Under the Authority's Financial Rules, internal auditors have the authority to:
 - Access at reasonable times, premises or land used by the Council.
 - Access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented.
 - Require and receive any information and explanation considered necessary concerning any matter under consideration.
 - Require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required.
 - Access records belonging to third parties, such as contractors, when required.

AMENDMENTS TO THE TERMS OF REFERENCE

- 30. In accordance with CIPFA good practice, the terms of reference will be reviewed and updated as necessary.

Approved by Section 151 Officer

Date

Reviewed and Updated 19 November 2012