



Audit & Risk Management Division (Resources)

Internal Audit Service - Terms of Reference

Introduction

- 1 There is a statutory duty on the Council to maintain an adequate and effective system of internal audit, in accordance with proper practices. Currently, proper practice is represented by the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The Code).
- 2 The Code defines internal audit as:

“an assurance function that provides an independent and objective opinion to the organisation on the control environment¹, 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 These terms of reference define how the Internal Audit Service at City of York Council will be provided further to the requirements of The Code. The terms of reference will be reviewed on an annual basis by the Chief Internal Auditor. Any recommendations for change will be made to the Audit and Governance Committee, who are responsible for considering reports dealing with the management of Internal Audit.
- 4 These terms of reference should be read in the context of the wider legal and policy framework setting out the requirements for the Council to maintain an effective system of internal audit, including The Accounts and Audit Regulations 2003 (as amended), The Code, and the Council’s Constitution and Financial Regulations.

¹ The control environment comprises the systems of governance, risk management, and internal control.

Responsibilities and Objectives

- 5 The overall objective of the Internal Audit Service is to provide an independent and objective opinion on the control environment operating at the Council. In doing this, its responsibilities include (though are not limited to):
- (i) providing assurance to Members, Chief Officers and the general public on the effective operation of governance arrangements and the internal control environment operating at the Council
 - (ii) objectively examining, evaluating and reporting on the probity, legality and Value for Money of Council arrangements for managing all items of income, expenditure, and safe-guarding assets
 - (iii) reviewing the arrangements for ensuring proper accounting controls, systems and administration are maintained and making recommendations for action and improvement
 - (iv) helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrong doing
 - (v) acting as a means of deterring all fraudulent activity, corruption and other wrong doing including money laundering, conducting investigations into any matter referred to it for investigation by management or officers and members of the public and reporting its findings to directors and Members as appropriate for action
 - (vi) reporting all known breaches of Council Financial Regulations and Council Standing Orders and any other action leading to expenditure incurred ultra vires, identifying any areas of poor financial probity and stewardship problems for action by Chief Officers and Members as appropriate.
- 6 The service will be provided in accordance with proper practice, and to appropriate standards, as defined by The Code, Council policy, and any other relevant legal or professional standards or guidance.

Organisational Independence

- 7 It is the responsibility of directors and service managers to maintain effective systems of internal control and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.

- 8 Audit advice and recommendations will be given without prejudice to the rights of the service to review and make further recommendations on relevant policies, procedures, and controls and operations at a later date.

Accountability, Reporting Lines, and Relationships

- 9 Internal Audit is part of the Resources Directorate. The Head of Audit and Risk Management is designated as the Chief Internal Auditor (CIA) in accordance with the proper officer designations set out in Article 13 of the Council's Constitution. The CIA reports to the Director of Resources who is designated as the Council's Chief Finance Officer (CFO)², and who forms part of the Council's Corporate Management Team. In relation to audit matters the Chief Internal Auditor reports directly to the appropriate director or assistant director. The CIA may also report directly and independently to Members, the CFO, the Monitoring Officer, and/or the head of Paid Service on any matter that in his/her professional judgement must be reported outside normal line management and decision making arrangements. The powers of the CIA are specified in Article 13 of the Constitution.
- 10 The Chief Internal Auditor will report independently to the Audit and Governance Committee³ on proposed allocations of audit resources, any significant risks and control issues identified through audit work, and will provide their opinion on the Council's control environment to the committee on an annual basis. In discharging their responsibilities, the Chief Internal Auditor and the Audit and Governance Committee may meet privately, as necessary, in accordance with the terms of the Privacy and Confidentiality Policy.
- 11 The Audit and Governance Committee will oversee (but not direct) the work of Internal Audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of Internal Audit to enable it to conduct its work and report on its findings without fear or favour⁴.

² Further to Article 13 of the Constitution, the Chief Finance Officer is responsible for the proper administration of the financial affairs of the Council in accordance with section 151 of the Local Government Act 1972. The CFO has a statutory responsibility for ensuring that the Council has in place an effective system of internal audit. In recognition of this, a formal protocol has been drawn up setting out the relationship between Internal Audit and the CFO as s151 officer. A copy of the protocol is attached to these terms of reference at Appendix 1.

³ The committee is charged with overall responsibility for governance for the Council.

⁴ The relationship between Internal Audit and the Audit and Governance Committee is set out in more detail in Appendix 2.

Scope

- 12 The scope of internal audit work will encompass the Council's entire control environment, comprising its systems of governance, risk management, and control.
- 13 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Chief Internal Auditor, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the Council's Internal Audit Service, and what reliance may be placed on the work of other auditors, to inform his/her overall opinion on the Council's control environment.

Annual Report

- 14 On an annual basis the Chief Internal Auditor will provide a written report to the Audit and Governance Committee. The report will contribute to the Council's overall review of the effectiveness of its systems of internal control and the preparation of the Statement on Internal Control produced as a result of this process. The annual report will set out the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the Council's control environment, along with:
 - (i) any qualifications to their opinion, together with the reasons for those qualifications
 - (ii) a summary of audit work from which their opinion is derived, including any reliance placed on work by other assurance bodies
 - (iii) any particular judged to be relevant to the preparation of the Statement on Internal Control
 - (iv) an overall summary of Internal Audit performance
 - (v) a comment on compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.

Fraud and Consultancy Services

- 15 The primary role of Internal Audit is to independently report on the Council's control environment. However, the service is also required to undertake fraud investigation and other consultancy work as a contribution to the opinion that Internal Audit provides on the control environment, and to best utilise the professional skills of auditors who are able to carry out such reviews in a systematic and disciplined way.

- 16 The prevention and detection of fraud and corruption is the responsibility of directors and service managers. However, all instances of suspected fraud and corruption must be notified to the Chief Internal Auditor, who will decide on the course of action to be taken in conjunction with the relevant service managers and Chief Finance Officer. Where appropriate, cases of suspected fraud or corruption will be investigated by Internal Audit.
- 17 Where appropriate, Internal Audit may carry out other consultancy related work for example specific studies to assess the economy, efficiency, and effectiveness of elements of service provision. The scope of such work will be determined in conjunction with service managers. Such work will only be carried out where there are sufficient resources and skills within Internal Audit and where the work to be done does not compromise the assurance role or the independence of the service.

Resourcing

- 18 As part of the annual planning process, the Chief Internal Auditor will review the resources available to Internal Audit, to ensure that they are sufficient to meet the requirements on the service to provide an opinion on the Council's control environment. Where resources are judged to be insufficient, recommendations to address the shortfall will be made to the Chief Finance Officer and to the Audit and Governance Committee.

Rights of Access

- 19 Where it is judged to be necessary to fulfil its responsibilities (at the discretion of the Chief Internal Auditor), Internal Audit shall:
- (i) have access to all Council premises and property, at any time
 - (ii) have access to all data, records, documents, correspondence, or other information - in whatever form - relating to activities of the Council
 - (iii) have access to any assets of the Council
 - (iv) be able to require from any employee or Member of the Council any necessary information or explanation.
- 20 Directors and service managers are responsible for ensuring that the rights of Internal Audit to access premises, records, and personnel are preserved, where services are provided through partnership arrangements.

Appendix 1 - City of York Council - Protocol for the Relationship Between the Chief Finance Officer (the s151 Officer) and Internal Audit

- 1 In recognition of the statutory duties of the Council's Chief Finance Officer (CFO) and guidance from CIPFA, the following protocol has been adopted at York to form the basis for a sound and effective working relationship between the CFO and Internal Audit.
 - (i) The Chief Internal Auditor (CIA) will seek to maintain a positive and effective working relationship with the Council's designated CFO.
 - (ii) Internal Audit will review the effectiveness of the Council's systems of control, governance, and risk management and report to the CFO on whether they operate effectively in practice.
 - (iii) The CFO will be asked to comment on those elements of Internal Audit's programme of work that relate to the discharge of his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the CIA will give full regard to the comments of the CFO.
 - (iv) The CIA will regularly monitor the performance of Internal Audit against the audit plan and will notify the CFO if there are any major deviations.
 - (v) The CIA will notify the CFO of any matter that in the CIA's professional judgement may have implications for the CFO in discharging their section 151 responsibilities.
 - (vi) The CFO will notify the CIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and which require Internal Audit investigation or review.
 - (vii) The CIA will be responsible for ensuring that Internal Audit is provided in accordance with the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
 - (viii) If the CIA identifies any shortfall in resources which will jeopardise their ability to provide an opinion on the Council's control environment, recommendations to address the shortfall will be made to the Chief Finance Officer.
 - (ix) The CFO will protect and promote the independence and rights of Internal Audit to enable it to conduct its work and report on its findings without fear or favour.

Appendix 2 - City of York Council - Protocol for the Relationship Between the Audit and Governance Committee and Internal Audit

- 1 Because of the shared interests of the Audit and Governance Committee and Internal Audit it is essential that there be an effective working relationship between them. In view of this, this protocol sets out the responsibilities of the Committee in relation to Internal Audit, and the responsibilities of the Internal Audit Service.
- 2 In accordance with Article 9 of the Council's Constitution, the Audit and Governance Committee seek to:
 - (i) help raise awareness of key aspects of good governance across the organisation, including the role of audit, risk management and effective procurement
 - (ii) ensure the Council has sufficiently invested in the internal audit function in accordance with legislative requirements on the Council to do so
 - (iii) protect and promote the independence and rights of the internal audit function to conduct their work and report on its findings without fear or favour.
- 3 Specific responsibilities in respect of Internal Audit include the following.
 - (i) Consideration of the annual report and opinion of the Chief Internal Auditor (CIA) on the control environment.
 - (ii) Consideration of any issues referred to it by the CIA further to Article 13 of the Constitution.
 - (iii) Consideration of summaries of specific internal audit reports scheduled for the Committee to review or otherwise requested by Members.
 - (iv) Consideration of reports dealing with the management and performance of Internal Audit.
 - (v) Consideration of reports from Internal Audit on agreed recommendations not implemented within agreed timescales, and escalated in accordance with the approved Escalation Policy.
 - (vi) Approval (but not direction) of the annual Internal Audit Plan.
- 4 In relation to the Audit and Governance Committee, the CIA will:
 - (i) attend its meetings and contribute to the agenda

- (ii) ensure that overall Internal Audit objectives, workplans, and performance are communicated to, and understood by, the Committee
 - (iii) provide an annual summary of Internal Audit work, and an opinion on the control environment, including details of unmitigated risks or other issues that need to be considered by the Committee
 - (iv) establish whether anything arising from the work of the Committee requires consideration for changing the audit plan or vice versa
 - (v) highlight any shortfall in the resources available to Internal Audit and make recommendations to address these to the Committee
 - (vi) report any significant risks or control issues identified through audit work which the CIA feels necessary to report, in accordance with Article 13 of the Constitution.
- 5 The Chief Internal Auditor will have direct access to the chair of the Audit and Governance Committee and may meet privately with the chair or the Committee as necessary, in accordance with the terms of the Privacy and Confidentiality Policy.