



Internal Audit Terms of Reference

Updated December 2009

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 internal audit at council will be provided further to the requirements of the Code. The terms of reference will be reviewed on an annual basis by the Head of Internal Audit. Any recommendations for change will be made to the Audit and Governance Committee for approval.
- 4 The 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 of Practice, 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 internal audit is to provide an independent and objective opinion on the control environment operating at the council. In doing this, its responsibilities include (but 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 the council's arrangements for service delivery
 - (iii) reviewing the council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for 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 matters 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) advising the council on relevant counter fraud and corruption policies and measures, for example the counter fraud and corruption policy.
- 6 The service will be provided in accordance with proper practice, and to appropriate standards, as defined by the Code of Practice, 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 Internal Audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

Accountability, Reporting Lines, and Relationships

- 9 Internal audit services are provided under contract to the council by Veritau Limited. The company is a separate legal entity. Staff undertaking internal audit work are employed by Veritau or are seconded to the company from the council. The Assistant Director of Resources (Customer Service and Governance) acts as client officer for the contract, and is responsible for overall monitoring of the service and liaison with the company on all audit related matters.

- 10 In its role in providing an independent assurance function, Veritau has direct access to Members and senior officers and can report uncensored to them as considered necessary. Such reports may be made to:

- the Council, Executive, or any Committee (including the Audit & Governance Committee)
- the Chief Executive
- the Director of Resources (s151 officer)
- the Monitoring Officer
- other Directors, Assistant Directors and senior managers.

- 11 The Director of Resources (as s151 officer) has a statutory responsibility for ensuring that the council has an effective system of internal audit in place. In recognition of this, a formal protocol has been drawn up setting out the relationship between internal audit and the Director of Resources. This is included at Appendix 1

- 10 The Head of Internal Audit will report independently to the Audit and Governance Committee² on proposed allocations of audit resources, any significant risks and control issues identified through audit work, and will provide his/her opinion on the council's control environment to the Committee on an annual basis. If necessary, the Head of Internal Audit and the Audit and Governance Committee may meet privately in accordance with the terms of the Privacy and Confidentiality policy.

² The committee is charged with overall responsibility for governance for the Council.

- 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 favour³.

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 Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by Veritau, 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 Head of Internal Audit 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 to the preparation of the Annual Governance Statement. The annual report will set out the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the council's control environment, along with:
- (i) any qualifications to his/her opinion, together with the reasons for those qualifications
 - (ii) a summary of audit work from which his/her opinion is derived, including any reliance placed on the work of other assurance bodies
 - (iii) any particular control weakness judged to be relevant to the preparation of the Annual Governance Statement
 - (iv) an overall summary of internal audit performance

³ The relationship between Internal Audit and the Audit and Governance Committee is set out in more detail in Appendix 2.

- (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 Head of Internal Audit, who will decide on the course of action to be taken in consultation with relevant service managers and/or other advisors (for example Human Resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 17 Where appropriate, Veritau 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 Veritau and where the work to be done does not compromise the assurance role or the independence of the service provided.

Resourcing

- 18 As part of the annual planning process, the Head of Internal Audit 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 Assistant Director of Resources (Customer Service and Governance) and to the Audit and Governance Committee.

Rights of Access

- 19 To enable it to fulfil its responsibilities, the council gives staff employed by Veritau the authority to:
 - (i) enter all council premises or land, at any reasonable time

- (ii) have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the council
 - (iii) have access to any assets of the council and to require any employee of the council to produce any assets under their control
 - (iv) be able to require from any employee or Member of the council any necessary information or explanation necessary for the puposes of audit.
- 20 Directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where services are provided through partnership arrangements, contracts or other means.

**Appendix 1 - City of York Council Internal Audit Terms of Reference
Protocol for the Relationship Between the Director of Resources (the s151
Officer) and Internal Audit**

- 1 In recognition of the statutory duties of the council's Director of Resources (DOR) as s151 officer 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 DOR and Internal Audit.
- (i) The Head of Internal Audit (HIA) will seek to maintain a positive and effective working relationship with the council's designated DOR.
 - (ii) Internal Audit will review the effectiveness of the council's systems of control, governance, and risk management and report its findings to the DOR.
 - (iii) The DOR 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 HIA will give full regard to the comments of the DOR.
 - (v) The HIA will notify the DOR of any matter that in the HIA's professional judgement may have implications for the DOR in discharging his/her s151 responsibilities.
 - (vi) The DOR will notify the HIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require Internal Audit to undertake further investigation or review.
 - (vii) The HIA 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 HIA identifies any shortfall in resources which may jeopardise his/her ability to provide an opinion on the council's control environment, then he/she will be entitled to make representations to the DOR.
 - (ix) The DOR will protect and promote the independence and rights of Internal Audit to enable it to conduct its work effectively and to report on its findings without fear or favour.

**Appendix 2 - City of York Council Internal Audit Terms of Reference–
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 is 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 Veritau Limited (the council's internal audit provider).
- 2 The Audit and Governance Committee will seek to:
 - (i) raise awareness of key aspects of good governance across the organisation, including the role of internal audit and risk management
 - (ii) ensure that adequate resources are provided by the council so as to ensure that Internal Audit can satisfactorily discharge its responsibilities
 - (iii) protect and promote the independence and rights of Internal Audit to conduct its work properly and to 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 Head of Internal Audit (HIA) on the council's control environment.
 - (ii) Consideration of other specific reports detailing the outcomes of internal audit work.
 - (iii) Consideration of reports dealing with the performance of Veritau as internal audit provider.
 - (iv) Consideration of reports on the implementation of agreed recommendations or those outstanding recommendations escalated to the Committee in accordance with the approved Escalation Policy.
 - (v) Approval (but not direction) of the annual Internal Audit Plan.
- 4 In relation to the Audit and Governance Committee, the HIA 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 council's 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 of the need to change the audit plan or vice versa
 - (v) highlight any shortfall in the resources available to Internal Audit and to make recommendations to address these to the committee
 - (vi) report any significant risks or control issues identified through audit work which the HIA feels necessary to specifically report to the Committee.
- 5 The Head of Internal Audit 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.