



INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

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INTERNAL AUDIT CHARTER

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1.0 Why do we have Internal Audit?

1.1 The requirement for a local authority to have an internal audit function is implied by s151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'. Regulation 6 of The Accounts and Audit Regulations 2011 makes provision for relevant bodies to maintain an adequate and effective internal audit of their accounting records and system of internal control.

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2.0 Definition

2.1 The London Borough of Havering has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit:

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2.2 *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.*

3.0 Internal Audit Service's Role

3.1 The Internal Audit Service is responsible for conducting an objective and independent appraisal of all the London Borough of Havering's activities, financial and otherwise.

3.2 Internal Audit is required to be a continuous service available to all levels of management but its primary responsibility is to give assurance to Members, the Chief Executive, Chief Finance Officer, Assistant Chief Executive and Group Directors on all control arrangements, including risk management and corporate governance.

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3.3 Internal Audit will consider the adequacy of the control environment necessary to secure: propriety, strategic management, data quality, compliance with laws and regulations and effectiveness of operations in all areas.

3.4 The role and responsibilities of Internal Audit are specified in more detail in the enclosed Terms of Reference below.

4.0 Management's Role

4.1 Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

4.2 It is for management to determine whether or not to accept the audit recommendations and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions.

5.0 Key Performance Indicators (KPIs)

5.1 KPIs have been devised to measure the performance of the Internal Audit Service.

5.2 KPI 01 – The percentage of the approved audit plan completed, for the period, against target.

5.3 KPI 02 - The total number of audit briefs issued, for the period, against target.

5.4 KPI 03 - The number of audit reviews completed to draft stage, for the period, against target.

5.5 KPI 04 - The number of audit reviews completed to final stage, for the period, against target.

5.6 KPI 05 - Management Satisfaction Survey results above average (%).

6.0 Skills and Expertise

6.1 The Excellent Internal Auditor (2011 edition) document produced by CIPFA is used in conjunction with the Councils performance appraisal process to review the skills and expertise of the team.

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<#>KPI 04 - Performance against target time: 50 days max to complete an audit from start to release of a consultation draft (%). ¶

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<#>KPI 05 - System Audits Survey Forms Assessed (%). ¶

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<#>KPI 06 - Fraud Audits Survey Forms Assessed (%).¶

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The Terms of Reference below provides more detail regarding how the effectiveness of the Audit Service is monitored.

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TERMS OF REFERENCE

6.0 RESPONSIBILITIES of INTERNAL AUDIT

- 6.1 To provide assurance to elected members and to management that there are arrangements in place for the proper administration of the financial affairs and that generally the system of internal control is adequate and effective in the management of all risks, financial or otherwise, to the organisation.
- 6.2 To alert the Group Director Finance and Commerce (GDF&C) to any significant areas of internal control weaknesses relevant to his s151 role.
- 6.3 To report to Audit Committee regarding results of audit work.
- 6.4 To produce an Annual Report and Head of Internal Audit Opinion.
- 6.5 To deliver a risk based audit plan that ensures the resources available are used to the maximum benefit of the authority.
- 6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.

7.0 SCOPE

- 7.1 All London Borough of Havering's activities fall within the remit of the Internal Audit Service.
- 7.2 Internal Audit will not restrict itself to the audit of financial systems and controls but will cover all operational and management controls.
- 7.3 Not all systems will be subject to review each year but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the Annual Audit Strategy and Strategic Plan.
- 7.4 As Audit can give an opinion on the whole of the system of control it may include areas as diverse as equality and diversity, sustainability, staff turnover or performance management etc. The role of internal audit is to confirm the effectiveness of systems and controls in meeting objectives. It will not make academic or other judgements.
- 7.5 It is not within Internal Audit's remit to question the appropriateness of policy decisions. However, Internal Audit is required to examine the arrangements by which such decisions are made, monitored and reviewed.
- 7.6 The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executive and Group Directors and in particular the Group Director for Finance and Commerce (GDF&C); provided such reviews do not compromise its objectivity or independence. The impact on

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<#>To work in accordance with
the Internal Audit Protocol ¶

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the audit plan must be assessed by the Internal Audit & Corporate Risk Manager (IA&CRM) and, if necessary, the plan must be reprioritised. Any significant changes must be reported back to the GDF&C and Members in the next Audit Committee reporting cycle.

8.0 ACCESS

8.1 Internal Audit has a right of access to all premises, personnel, documents and information they consider necessary for the purpose of their audits as specified in Financial Procedure Rules Section 1 and to obtain such information and explanations from any employee or member as necessary concerning any matter under review/investigation.

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8.2 Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred.

9.0 OBJECTIVES of the AUDIT SERVICE

9.1 To understand the whole organisation, its needs and objectives.

9.2 To add value and assist the organisation in achieving its objectives.

9.3 To be forward looking, innovative and challenging.

9.4 To help to shape the ethics and standards of the organisation.

9.5 To support management in maximising Value for Money in the use of public funds.

9.6 To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.

9.7 To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council's External Auditor.

9.8 To maintain strong and effective relationships with management.

9.9 To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

10.0 INDEPENDENCE

10.1 Internal Audit is organisationally independent that is; the Internal Audit Service has no operational responsibilities (with the exception of the annual returns to the Inland Revenue), nor does it have responsibility for

the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints.

- 10.2 Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditor's professional judgement, responsibility for implementing audit recommendations rests with management.
- 10.3 Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan (although they must have due regard for the Authority's strategic objectives and corporate and service risk registers and consult with Members and Officers charged with governance) and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
- 10.4 Internal Audit is supported by the organisation and its independence is seen as key to providing the London Borough of Havering with an effective service.
- 10.5 Internal Audit has direct access to the Chief Executive, the Assistant Chief Executive, all Group Directors, Heads of Services, the Leader of the Council and the Chair of the Audit Committee and report in their own name.
- 10.6 The IA&CRM should have sufficient status within the authority to facilitate the effective discussion of audit strategies, plan, results and improvement plans with senior management.
- 10.7 In order to maintain organisational independence, Internal Audit has its own budget and is responsible for providing the Internal Audit service within budget.

11.0 REPORTING LINES

11.1 The IA&CRM reports to the Head of Finance & Procurement and GDF&C on the progress with the audit plan and the performance against KPIs. The IA&CRM has direct access to the Audit Committee to ensure the role of Internal Audit is not unduly influenced by the management structure.

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11.2 The IA&CRM reports quarterly to the Corporate Management Team, in the month prior to each Audit Committee.

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<#>Other service performance data i.e. achievement of service plan objectives is reported quarterly via the Head of Service Packs.¶

11.3 A progress report is submitted to each of the five Audit Committee meetings held annually. Reports will also be submitted annually for approval regarding the Audit Strategy and Plan, Charter and Terms of Reference, Risk Management and Fraud Strategies. On an annual basis the IA&CRM will present their Annual Report and Head of Internal Audit Opinion to the Audit Committee.

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INTERNAL AUDIT'S ROLE IN FRAUD AND CONSULTANCY WORK

12.0 Fraud

12.1 As stated in the CIPFA Code, managing the risk of fraud and corruption is the responsibility of management (for example through maintaining internal controls to prevent and detect fraud). Internal audit does not have responsibility for the prevention or detection of fraud. However, fraud issues are an area where Internal Audit is well placed to offer a lead as a service to the organisation. To enable this an anti-fraud and corruption team exists, which has responsibility for:

- Raising fraud awareness across the Council;
- Carrying out a programme of proactive fraud identification work;
- Dealing with the National Fraud Initiative and other external anti-fraud contacts;
- Acting as a source of expert advice to other internal auditors and officers generally; and
- Leading on any fraud investigations where Internal Audit are conducting the work.

12.2 Financial Procedure Rules require that all detected instances of fraud and corruption be reported to the GDF&C and Internal Audit so that lessons arising from the irregularity can be identified.

12.3 Responsibility for the investigation of fraud rests with management, but internal audit has expertise in such investigations and can assist management with this. In addition, suspicions of fraud or corruption may be reported directly to Internal Audit under the Council's Confidential Reporting (Whistle blowing) policy. In these cases investigations by internal audit will usually be in conjunction with line management but exactly who is informed will depend on the nature of the allegations.

12.4 The pro active audits target specific areas of concern to management, where a short focused review, of controls, is sufficient to provide assurance to management. Where issues are highlighted this may result in a full systems review being undertaken or lessons learned being circulated to management.

13.0 Consultancy

13.1 Internal Audit can also provide, to the extent that resources permit, an independent and objective consultancy service designed to help line management improve the Council's internal control environment. This can include reviews of specific problem areas, advice and support on new developments and assistance in the preparation of financial training and documentation and strategic policy documents.

14.0 Review

This Terms of Reference will be reviewed annually and presented for approval by the Audit Committee.

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The next review will be completed in February 2013.

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15.0 Key Contacts

Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733

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Head of Finance & Procurement – Mike Stringer ext 2101

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Group Director Finance & Commerce – s151 Officer – Andrew Blake
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