

**THREE RIVERS DISTRICT COUNCIL
WATFORD BOROUGH COUNCIL**

JOINT INTERNAL AUDIT SERVICE

TERMS OF REFERENCE

Introduction

These Terms of Reference describe the purpose, authority and principal responsibilities of the Internal Audit Service as they apply to both Watford Borough Council and Three Rivers District Council.

Definition of Internal Audit

The CIPFA *Code of Practice for Internal Audit, 2006*, defines Internal Audit as “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 adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.

Authority

The Accounts and Audit (Amendments) (England) Regulations 2006 state:
“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control, and any officer or member of that body shall, if the body requires-
(a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
(b) supply the body with such information and explanation as that body considers necessary for that purpose.”

The need to provide an adequate and effective system of internal audit is recognised in both Councils’ set of financial regulations which provide for Internal Audit to have access to all records, documents, assets, premises and control systems. Internal Audit also has the right to obtain such information as it considers necessary to fulfil its responsibilities.

Objectives

- 1 Understand Councils’ objectives and the key risks to their achievement.
- 2 Comment on the effectiveness of corporate governance arrangements which includes the risk management process (how the risks to achieving the Councils’ objectives are identified, assessed and managed).

- 3 Review, appraise and report upon:
 - the adequacy and effectiveness of the systems of financial, operational and management control and the risk any weaknesses pose to the control environment
 - the extent of compliance with, relevance of and financial effects of policies, standards, plans and procedures established by the authorities and the extent of compliance with legislation
 - the extent to which the assets and interests are acquired economically, used effectively, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficiency, poor value for money, error, fraud or other cause
 - the suitability, accuracy, reliability, integrity and security of financial and other management information, accounts and data and reporting and accountability processes.
- 4 Raise awareness in services of those risks which may affect the operational effectiveness of individual systems.
- 5 Report as necessary on the development and implementation of the Councils' policies in order to achieve key objectives.
- 6 Review arrangements for achieving value for money in the delivery of Council services.
- 7 Integrate the investigation of frauds and irregularities with the work of the Benefit Fraud Team and jointly promote fraud awareness across the Councils. Be alert in all work to the potential risk of fraud.
- 8 Provide advice on an ad-hoc or formal basis as required. Other consultancy type work will not be actively sought due to pressure on existing resources and will only be carried out with the approval of the two Audit Committees.
- 9 Provide an annual opinion on the adequacy and effectiveness of the control environment for both Councils, including where key systems are being operated or key services provided a) on behalf of other organisations by the Councils or b) by other organisations on behalf of the Councils.
- 10 In the case of 9 b) the Audit Manager will determine how assurance on the control environment will be obtained. This will be either by way of reliance on the work of other internal auditors or by the Internal Audit Service carrying out the work itself. If the latter, the Audit Manager will arrange for access rights to staff and records of the organisation.
- 11 Members of the Internal Audit Service will be expected to contribute to the general management and conduct of the Councils' business through membership of working groups etc where audit expertise can make a positive contribution.

Responsibilities of Other Services

The existence of the Internal Audit Service does not diminish the responsibility of service managers to maintain adequate systems of internal control that ensure that

services are provided in a secure, efficient and well ordered manner. This includes managing the risk of fraud and corruption by ensuring that controls are in place for prevention and detection. Audit procedures alone cannot guarantee that fraud will be detected.

Standards

The Accounts and Audit (Amendment) (England) Regulations 2006 refer to “proper practices in relation to internal control”. Guidance to the Regulations states that “proper practices” are set out in the Code of Practice for Internal Audit issued by CIPFA. The Internal Audit Service will perform to the standards laid down in the Code. It will also follow other guidance issued, for example, by CIPFA, the Audit Commission and the Institute of Internal Auditors.

Adherence to these standards will be monitored by the Audit Manager, by the external auditors and by best practice benchmarking with other internal audit teams.

Feedback on the Service’s performance will be sought from the appropriate line manager at the conclusion of every audit.

Every effort will be made to preserve objectivity by ensuring that all members of the audit team are free from any conflicts of interest and do not undertake any non-audit duties.

The Audit Committees will each receive an annual report on the effectiveness of the system of internal audit.

Independence

If Internal Audit is to function in an effective and objective manner it is vital that it is seen to be independent of those activities which it audits and has no executive responsibilities. To ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to the Chairs of each Audit Committee, other elected Members as necessary, the Mayor or Leader, the Heads of Paid Service and senior management
- the Audit Manager having the right to meet either Audit Committee in private should the need ever arise
- reporting in its own name
- separation from other service responsibilities.

Audit will, if deemed appropriate, review systems under development without prejudicing its ability to subsequently independently audit such systems.

The duties of individual auditors will be rotated to avoid potential conflicts of interest and/or possible complacency brought about by familiarity with the activity under audit. This will be subject to the practicalities of rotation within a small team and the need for auditors to acquire the expertise in a particular field that can only be achieved over time.

Whenever a contractor is appointed to provide internal audit services the Audit Manager will implement a vetting process to ensure that, if that contractor also provides non-audit services to the Councils, there are no potential conflicts of interest.

In the event of a member of staff from another council service being appointed as an internal auditor, the Audit Manager will ensure that person does not normally carry out audits in the area of previous operational responsibility within a period of two years.

The Fraud and Audit Managers will work together in promoting fraud awareness and Internal Audit staff will participate in the investigation of non-benefit fraud.

Planning

In order to effectively discharge the Service's responsibilities the Audit Manager will prepare an annual audit plan based on an assessment of risks faced by the Councils. Consultation will take place with the external auditors and corporate and service level management. The plan will be subject to formal approval by each Audit Committee.

Reporting

A formal report will be issued at the completion of every audit.

Every report will include an opinion on the control environment and degree of risk exposure.

Draft reports will be sent to the line managers responsible for the activity under review for agreement to the factual accuracy of the issues raised in the report. A plan of action for remedying any weaknesses highlighted in the draft report will be agreed.

Once agreement has been reached, the final report will be issued. Copies of the final report will be distributed in accordance with agreed arrangements at each authority.

Effective follow-up arrangements will be put in place to ensure that audit recommendations are implemented.

A quarterly progress report work will be presented to each Audit Committee.

The Audit Manager will issue an annual report to each Audit Committee giving an opinion on the effectiveness of the control environment.

The Audit Manager reports to the two Chief Finance Officers (Section 151 Officers).

Resources

The Audit Manager will be responsible for maintaining an audit team of sufficient size, knowledge, skills and experience to enable him to discharge his responsibilities and to implement the Audit Plan. Any shortfall in resources will be raised with the Chief Finance Officers with a view to seeking temporary or permanent additional staff. Should this resource not be available the consequences will be assessed and reported to the Audit Committees.

The Audit Manager will be professionally qualified and the other members of the team will be qualified or will be expected to study for membership of the Institute of Internal Auditors or other relevant qualification. All staff will be experienced in internal audit work, preferably in local government.

The development and training needs of all staff will be continuously reviewed in accordance with Service requirements and the principles set out in the Councils' performance appraisal procedures.

Upon request from the appropriate Chief Finance Officer appropriate specialists from other services will be made available to assist in any audit or study requiring specialist knowledge.

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