



Haringey Council

Agenda item:

[No.]

Audit Committee **On 14 September 2010**

Report Title: Internal Audit Terms of Reference	
Report authorised by: Director of Corporate Resources <i>J. Parker 6/9/10</i>	
Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management Tel: 020 8489 5973 Email: anne.woods@haringey.gov.uk	
Wards(s) affected: All	Report for: Non-key decision
<p>1. Purpose of the report</p> <p>1.1 To present the revised Internal Audit Terms of Reference to the Audit Committee for review and approval.</p>	
<p>2. State link(s) with Council Plan Priorities and actions and/or other Strategies:</p> <p>2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by reviewing key services and making recommendations for improvement where appropriate. The work is undertaken in accordance with relevant statutory requirements and the CIPFA Code of Practice.</p>	
<p>3. Recommendations</p> <p>3.1 That the Audit Committee approves the revised Terms of Reference for the Internal Audit Service.</p>	
<p>4. Reason for recommendation(s)</p> <p>4.1 The Audit Committee is responsible for considering the Council's compliance with its own and other published standards and controls as part of its Terms of Reference. In order to facilitate this, the Audit Committee reviews and approves various policies and strategies.</p>	

4.2 This report provides an updated Terms of Reference for the Internal Audit Service in accordance with the CIPFA Code of Practice for Internal Audit.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The 2006 CIPFA Code of Practice for Internal Audit requires the service to operate within agreed Terms of Reference which are in accordance with the standards established by the Code of Practice. The Code of Practice also recommends that the Terms of Reference for Internal Audit are regularly reviewed to ensure they are kept up to date with current best practice and other regulations.

7. Head of Legal Services Comments

7.1 The Head of Legal Services has been consulted in the preparation of this report, and in noting that the proposed Terms of Reference are drafted in line with, and meet, current industry best practice and legislation, advises that there are no direct legal implications arising out of its contents."

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer confirms that there are no direct financial implications associated with this report. Furthermore, the regular review of the Terms of Reference is a recommendation of the CIPFA Code of Practice. Haringey's Internal Audit is operating within the current best practice and regulations and complies with the Code of Practice.

8.2 The main revisions have been summarised within the report.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how the internal audit service is delivered, which includes ensuring compliance with statutory regulations and relevant Codes of Practice. This has an impact on various parts of the community and maintaining an effective internal audit service which provides assurance on risks and controls across the Council will therefore improve services the Council provides to all sections of the community.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The costs of ensuring the Council complies with the relevant Codes of Practice and statutory requirements are contained and managed within the Audit and Risk Management revenue budget.

13. Use of appendices

13.1 Appendix A – Internal Audit Terms of Reference

14. Local Government (Access to Information) Act 1985

14.1 List of background documents. The following background documents were used in production of this report:

- Accounts and Audit (amendment) (England) Regulations 2006;
- CIPFA Code of Practice for Internal Audit 2006.

15. Background

- 15.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published their revised Code of Practice for Internal Audit in Local Government (the Code) in December 2006. The revised Code reflected changes arising from the amendments to the Accounts and Audit Regulations in 2006 and practice relating to corporate governance that emphasise the importance of internal audit to the proper management of organisations. This is the most current guidance and legislation relating to the operation of an internal audit function.
- 15.2 The 2006 Code aligns practice with current approaches for auditors, particularly in respect of developments in risk management and planning audit activity. All local authorities must make provision for internal audit in accordance with the Code. The Code applies equally to internal audit services which are provided by in-house audit teams and by external contractors who provide either partial services in support of an in-house team or the whole audit service.
- 15.3 The Code sets out the definitions and principles (the standards) which establish how a professional internal audit service should operate in the local government context. It provides a framework for measurement, management and monitoring of the function.
- 15.4 Local government organisations should comply with the requirements set out in the Code. Haringey verifies internal audit's compliance with the Code as part of the annual independent review of the effectiveness of internal audit, conducted as a reciprocal peer review process. The results and outcome of the peer review are reported to the Audit Committee. The most recent review was presented to the Audit Committee on 24 June 2010, which confirmed that Haringey's internal audit service fully complied with the requirements of the Code of Practice.
- 15.5 One of the requirements of the Code is for Internal Audit to have in place formally defined Terms of Reference (TOR) for its services which are consistent with the Code.

The Audit Committee last reviewed and approved the TOR for Internal Audit services at Haringey in June 2008, and it is good practice to review them on a regular basis to ensure that they remain consistent with the Code and current operational practices.

16. CIPFA Code of Practice

- 16.1 The Code states that the purpose, authority and responsibility of Internal Audit must be formally defined by the organisation in terms of reference consistent with it.
- 16.2 The Code states that the Terms of Reference should:
- a) Establish the responsibilities and objectives of Internal Audit;
 - b) Establish the organisational independence of Internal Audit;
 - c) Establish the accountability, reporting lines and relationships between the Head of Audit and those charged with governance, together with those to whom the Head of Audit may report;
 - d) Recognise that Internal Audit's remit extends to the entire control environment of the organisation;
 - e) Identify Internal Audit's contribution to the review of the effectiveness of the control environment;
 - f) Require and enable to Head of Audit to deliver an annual audit opinion;
 - g) Define the role of Internal Audit in any fraud-related or consultancy work;
 - h) Explain how Internal Audit's resource requirements will be assessed; and
 - i) Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations.

17. Terms of Reference.

- 17.1 The updated Terms of Reference for Haringey's Internal Audit service are attached at Appendix A. The Terms of Reference have been written with due regard to the Code of Practice and cover all the required elements listed at paragraph 16.2 of this report. The main updates to the Terms of Reference for 2010 reflect the changes to the external assessment process and the cessation of the Comprehensive Area Assessment and Use of Resources. The Terms of Reference have also been revised to reflect changes to the Council's Constitution and the references to Internal Audit.
- 17.2 The revised Terms of Reference will be communicated across the Council by including them as part of the Audit and Risk Management pages on the Council's intranet site (Harinet).
- 17.3 The Terms of Reference will be reviewed on a regular basis, or in response to any changes to the Code or other statutory or local requirements, and presented to the Audit Committee for formal approval.

18. Financial Procedure Rules

- 18.1 The Council's Constitution contains the relevant statutory requirements for Internal Audit, and identifies the s151 Officer as the responsible officer. Responsibilities of managers in relation to the management of risk and fraud are also included within the Constitution. Internal Audit's right of access is also listed.
- 18.2 The Council's Constitution is consistent with relevant statutory requirements and the CIPFA Code of Practice.

INTERNAL AUDIT

TERMS OF REFERENCE

Author:	Anne Woods
Owner:	Anne Woods
Version:	3.0
Classification:	UNCLASSIFIED
Issue Status:	FINAL
Date of First Issue:	2007
Date of Latest Re-issue	29/07/10

1. Introduction

- 1.1 The Terms of Reference for Internal Audit describe the purpose, authority and principal responsibilities of the Council's Internal Audit function.
- 1.2 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It is not an extension of, nor a substitute for, good management. Internal Audit is responsible for giving assurance to the Council and the s151 Officer on all internal control arrangements. It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.
- 1.3 It remains the duty of management, not Internal Audit, to operate an adequate system of internal control. It is for management to determine whether or not to accept audit recommendations and to recognise and accept the risks of not taking action.

2. Scope and Objectives

- 2.1 Internal Audit is an independent assurance function that primarily provides an independent and objective opinion to the organisation on its internal control system including risk management, control and governance. All the council's activities, funded from whatever source, fall within the remit of the internal audit service.
- 2.2 The scope of Internal Audit allows for unrestricted access to all officers, records and premises deemed necessary in the course of the audit. This right of access is included in the Council's Constitution (Part Four, Section I, paragraph 5.56). In addition and where necessary, the Head of Audit and Risk Management has the authority to report to any body of the Council matters which are considered to adversely affect the efficient/proper use of the Council's resources. There are no limitations on internal audit's scope of activities.
- 2.3 It is not within the remit of Internal Audit 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.
- 2.4 Internal Audit may also conduct any special reviews requested by the Council, Audit Committee or the s151 Officer, provided such reviews do not compromise its objectivity, independence or achievement of the approved audit plan.
- 2.5 In practical terms, internal audit's activity is determined by using a risk based approach, which allows all high risk areas of the Council's business to be identified. This approach is based on reviewing the effectiveness of the systems of internal audit and previous audit and investigation work, the adequacy and effectiveness of risk management and the supporting risk registers, and liaison with the Council's external auditors.

3. Responsibilities

3.1 Internal Audit is responsible for:

- agreeing an audit strategy with the Audit Committee;
- agreeing an annual audit plan with the Audit Committee and carrying out the agreed work in line with appropriate professional standards;
- providing assurances, advice, opinions and making recommendations to improve processes and systems where appropriate;
- following up recommendations made to evaluate action taken;
- assisting line management to investigate all frauds and financial irregularities, whilst acknowledging that managing the risk of fraud and corruption is the primary responsibility of management;
- reporting to the Audit Committee and the s151 Officer any significant business risks, serious control weaknesses, significant fraud or other major control breakdown;
- complying with requests for information from the s151 Officer, Audit Committee, or the council's External Auditors;
- liaising with External Audit and other external bodies as appropriate;
- maintaining effective communication with the council's managers;
- offering advisory services without assuming management responsibility or jeopardising achievement of the audit plan;
- providing performance measures to demonstrate effectiveness of the Internal Audit service;
- producing an annual report for the Audit Committee, giving an opinion of the Council's control environment;
- contributing to the production of the council's Annual Governance Statement; and
- helping to keep the Audit Committee informed of perceived best practice.

4. Standards

4.1 Internal Audit adopts standards established by The Chartered Institute of Public Finance and Accountancy (CIPFA) in undertaking its work. In particular, CIPFA has issued the Code of Practice for Internal Audit in Local Government 2006 which sets out the duties and responsibilities of internal auditors in local authorities. Internal Audit will follow the guidance in this document as 'proper practice' in the provision of the Internal Audit Service to the Council.

4.2 Internal Audit's work will be performed with due professional care, in accordance with appropriate professional auditing practice and the standards laid down in the Code of Practice. The Head of Audit and Risk Management will ensure that appropriate review and benchmarking activities take place to provide assurance on compliance with appropriate standards and best practice.

4.3 In achieving its objectives the internal audit service will develop and implement an audit strategy that assesses the institution's arrangements for risk management, control and governance and for achieving value for money.

4.4 The Head of Audit and Risk Management is responsible for implementing measures to monitor the effectiveness of the service and compliance with

standards. In addition, the Audit Committee should consider and approve the performance measures used by internal audit, and should also review the independent assessment of internal audit's effectiveness.

5. Approach

5.1 Internal Audit employs a risk-based, systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes by assessing the:

- identification and management of business risks;
- soundness, adequacy and application of the internal control systems;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets from fraud, irregularity or corruption; and
- compliance with laws, regulations, contracts and established policies, procedures and good practice.

5.2 The Head of Audit and Risk Management will manage the provision of the Internal Audit service to the Council by:

- Preparing a rolling strategic audit plan for the Council's key financial systems and a risk-based annual audit plan for agreement by the Audit Committee;
- Ensuring audit work is supervised, recorded and reported;
- Preparing an annual report on the work of internal audit for submission to the Audit Committee, giving an overall opinion on the reliability of the system of internal control.

6. Independence and Accountability

6.1 Internal Audit has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide advice on risk management, control and governance, value for money and related matters, subject to resource constraints and the need to maintain objectivity. Where internal audit is asked to provide any services in a consultancy role, this should be made clear in the project brief.

6.2 For day-to-day administrative and budgetary purposes, the Head of Audit and Risk Management reports to the s151 Officer. The Head of Audit and Risk Management reports to the Audit Committee, and has direct access to the Chief Executive and Chair of the Audit Committee.

6.3 Within the Council, responsibility for risk management, control and governance assignments, and value for money rests fully with management, who should ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the internal auditors' professional judgement, responsibility for implementing audit recommendations, or choosing another course of action on a risk assessed basis, rests with management.

7. Access

- 7.1 There are no limitations in Internal Audit's right of access to council officers, records, information, or premises which it considers necessary to fulfil its responsibilities. These rights of access are set out in the Council's Constitution (Part Four, Section I, paragraph 5.56).
- 7.2 The Head of Audit and Risk Management has a right of direct access to the Chief Executive and the Chair of the Audit Committee. In turn, Internal Audit agrees to comply with any requests from the external auditors and other relevant external bodies for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities.
- 7.3 Where key services are to be provided to the Council by other contractors or through a partnership, in order for internal audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in contracts or agreements concerned.

8. Reporting

- 8.1 All audits will be the subject of formal reports. Internal Audit has an agreed reporting protocol which defines the timescales and distribution processes for all reports including system reviews, establishment audits and investigations into financial irregularities. The reporting protocol is provided to senior managers as part of the annual internal audit planning process.
- 8.2 Managers are required to respond to each audit report, stating their proposed action with a timetable for implementing agreed recommendations, or alternative courses of action to manage the identified risk. A summary of all audit reports issued is provided on a monthly basis to all Members of the Audit Committee. A quarterly report of all internal audit work completed is made formally to the Council's Audit Committee. In addition the Audit Committee will monitor the implementation of audit recommendations.
- 8.3 The Head of Audit and Risk Management is required to give an annual opinion to the s151 Officer and the Audit Committee, on the adequacy and effectiveness of the whole internal control system within the Council, and the extent to which it can be relied on. The Head of Audit and Risk Management gives an opinion on whether the control arrangements, including those for economy, efficiency and effectiveness, are adequate and properly applied.
- 8.4 Any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work will be reported to the relevant Director or Assistant Chief Executive and, if necessary, to the Chair of the Audit Committee and the Council's external auditors.

9. Fraud and Corruption

- 9.1 Managing the risk of fraud and corruption is the responsibility of service management. Internal Audit is not responsible for the prevention or detection of fraud and corruption. Audit procedures, even when performed with due

professional care, cannot guarantee that fraud and corruption will be detected. However, internal auditors will be alert in all their work to risks that could allow fraud or corruption.

9.2 The Head of Audit and Risk Management should be informed of all suspected or detected fraud and corruption, in accordance with the Council's Constitution (Part Four, Section I, paragraph 5.52). Internal Audit may subsequently assist management with fraud investigations and will ensure that suitably skilled and experienced staff are available.

9.3 There are arrangements in place to regularly remind Council officers, Members, and third parties about the Council's expected standards in relation to fraud and corruption and how to report any instances of suspected fraud. The Head of Internal Audit will consider the impact of fraud and corruption for their opinion on the adequacy and effectiveness of the relevant controls and the overall internal control environment.

10. Resources

10.1 Haringey Council has taken the decision to provide the majority of its internal audit service via an external private sector company, alongside a small in-house service, in order to provide a cost-effective service.

10.2 The Council is committed to procuring and providing a service that meets recommended best practice standards and ensuring that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. The resources and staffing requirements of the Internal Audit Section will be kept under review by the Head of Audit and Risk Management, bearing in mind the resource requirements identified in the strategic and annual audit plans.

11. Liaison

11.1 Internal Audit will liaise with the Council's external auditors to minimise the risk of duplication of audit work and enhance the level of service it provides to the organisation.

11.2 Internal Audit will work in partnership with other bodies to secure robust internal control arrangements that protect the Council's interests.