



Internal Audit

1 Terms of Reference

1.1 Introduction

- 1.1.1 These terms of reference provide Derby City Council with a formally defined purpose, authority and responsibility of its Internal Audit service.

They have been developed in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and demonstrate that Internal Audit is consistent with this Code.

Each year, the Head of Audit and Risk Management will, in consultation with the Strategic Director – Resources (the Section 151 Officer), submit these terms, and any recommended amendments, to the Audit and Accounts Committee for review and approval.

Annually the Head of Audit and Risk Management will assess Internal Audit's compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 by completing the Compliance Checklist supplied with the Code. The results of this self assessment will be reported to the Audit and Accounts Committee.

1.2 Content

- 1.2.1 This document will:

- Define the responsibilities and objectives of Internal Audit.
- Define the organisational independence of Internal Audit.
- Detail the reporting lines and relationships between Internal Audit and other internal and external parties.
- Define Internal Audit's remit in respect of the Council's control environment.
- Identify Internal Audit's contribution to the review of the effectiveness of the control environment.
- Describe how the Head of Audit and Risk Management will deliver an annual audit opinion.
- Define the role of Internal Audit in relation to any fraud-related or consultancy work.
- Explain how Internal Audit's resource requirements will be assessed.
- Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.



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1.3 Responsibilities

1.3.1 The Strategic Director – Resources has a statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective Internal Audit of the financial and other records, systems and procedures for control of the Council's resources.

1.3.2 Internal Audit is responsible for:

- Checking that management's arrangements for the control of finance, stocks and assets are adequate.
- Highlighting weaknesses in controls.
- Checking that financial and other systems and procedures are sound.
- Appraising the adequacy of procedures to secure economy, efficiency and effectiveness in the use of resources.
- Offering advice and suggesting improvements which ensure the Council obtains value for money.
- Approving any new systems for maintaining financial records or records of assets or changes to such systems.
- Investigating promptly any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources identified by or notified to the Strategic Director – Resources and reporting to the Chief Executive and the Director of Legal and Democratic Services (the Monitoring Officer) who will consider any legal proceedings and disciplinary action in consultation with the appropriate Strategic Director.
- Ensuring that issues raised by External Audit are brought to the attention of the Audit and Accounts Committee, and if appropriate to the Chief Executive and to the Council Cabinet.
- Providing consultancy services, such as training, facilitation where considered beneficial to the Council's control environment.
- Providing internal audit services to other external organisations on a contractual basis, with the agreement of the Strategic Director – Resources and where resources permit.

1.3.3 The Audit and Accounts Committee has the responsibility for overseeing all of these responsibilities in accordance with its own terms of reference.

1.4 Objectives

1.4.1 Internal Audit's objectives are as follows:



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- Provide an assurance on the Council's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
- Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
- Deliver risk based assurance on those controls that manage significant risks.
- Fully comply with best practice as defined by CIPFA in the Code of Practice 2006.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the risk management processes of the Council.
- Maintain ongoing effective relationships with the new External Auditor and deliver complimentary plans of work so as to deliver an efficient audit service collectively, for the Council.
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
- Improve the efficiency and effectiveness of operations of the service.
- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout the Council's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the Council.

1.5 Independence

- 1.5.1 Standard 2 of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that *"Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities"*.
- 1.5.2 To facilitate the impartial and effective professional judgments and recommendations, Internal Auditor staff have no operational responsibilities and report directly to management in the name of the Head of Audit and Risk Management.



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- 1.5.3 The Head of Audit and Risk Management is free to report directly to the Audit and Accounts Committee on all Internal Audit matters.
- 1.5.4 The Head of Audit and Risk Management is managed directly by the Strategic Director – Resources who is a member of the Chief Officer Group. The level of status within the organisational structure needs to ensure that the Head of Audit and Risk Management is sufficiently influential in the maintenance and development of the Council's control environment.
- 1.5.5 Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of Audit and Risk Management maintains a register of annual declarations of interest.

1.6 Reporting Lines & Relationships

- 1.6.1 As Section 151 Officer, the Strategic Director – Resources has the statutory responsibility for Internal Audit, and accordingly has line management responsibilities for the Head of Audit and Risk Management.

The Strategic Director – Resources holds monthly one to one meetings with the Head of Audit and Risk Management at which Audit Plan progress and performance is reviewed.

- 1.6.2 The Head of Audit and Risk Management reports to the Audit and Accounts Committee on the following:

- The planned programme of internal audit work for the year.
- Progress in implementing the planned audit programme, including a report following the year end.
- The findings of each audit to a degree of detail to be determined by the Committee.
- Progress made in implementing agreed actions arising from internal audits.

- 1.6.3 Internal Audit endeavours to work with the External Auditor (Grant Thornton) and share plans so as to avoid potential duplication of work and to deliver an effective corporate assurance service to the Council. Internal Audit regularly liaises with the External Auditor.

External Audit's joint approach with Internal Audit is based upon the Audit Commission's "managed audit" concept. A managed audit involves co-ordination of the work of External and Internal Audit to ensure that audit resources are deployed with the greatest efficiency. Wherever possible and if appropriate, this entails External Audit placing reliance on the work of



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Internal Audit. Their audit fee is set on the assumption that they can rely upon Internal Audit work in a number of key areas.

- 1.6.4 To maintain a co-operative relationship with management, Internal Audit consults with management on audit work both at the annual planning stage and prior to commencing each audit assignment. This ensures that the timing of the audit is convenient and the scope of the work is appropriate.
- 1.6.5 The Head of Audit and Risk Management has unrestricted access to the Chair and other members of the Audit and Accounts Committee and where necessary, all other Councillors including the Leader of the Council.

1.7 Internal Audit Remit

- 1.7.1 Internal Audit's remit encompasses the entire control environment of the Council. This extends to all of the controls and procedures (financial or otherwise) in operation in all services provided by Council Directorates, all of the City's schools, the Council's significant partners and any external contracts. Currently, the section provides Internal Audit services to Derby Homes, Derbyshire Fire & Rescue Service, Amber Valley Borough Council and South Derbyshire District Council.

1.8 Review of Control Environment

- 1.8.1 Annually, the Head of Audit and Risk Management produces an Audit Strategy which defines, for the current year and the following two years, the approach that will be used to manage the following:
 - How the service is delivered.
 - The provision to the Council, through the Audit and Accounts Committee of an overall opinion each year on the Council's risk management, control and governance, to support the Annual Governance Statement.
 - Audit of the Council's risk management, control and governance systems through audit plans in a way which affords suitable priority to the Council's objectives and risks.
 - The identification of audit resources required to deliver an audit service which meets required professional standards.
 - The relative allocation of resources between assurance, fraud related and consultancy services provided by Internal Audit.
- 1.8.2 The Head of Audit and Risk Management also produces a risk based Audit Plan to deliver the Audit Strategy. The Annual Audit Plan is developed with due regard to the information produced by the Council's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the Council. It is primarily based on



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Internal Audit's own risk assessment of the Council's whole control environment. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

1.9 Resources

- 1.9.1 Standard 6 of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that *"Internal Audit should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards"*.

The Head of Audit & Risk Management is CIPFA qualified and has 24 years Local Government Internal Audit experience. The Head of Audit & Risk Management is responsible for recruiting appropriate staff and ensuring that job descriptions and person specifications reflect the needs of the service.

Each year Internal Audit staff are measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals.

- 1.9.2 Nonetheless, Internal Audit has finite resources which can be deployed to meet the Annual Audit Plan. Where the Head of Audit and Risk Management considers available resources do not balance with the Council's Internal Audit requirements, he will take a report to Audit and Accounts Committee suggesting proposed solutions.

When the in-house resources or skills cannot meet the Council's or our external clients demand for control assurance or advice, Internal Audit is currently in the process of entering into a long-term arrangement with an external provider whereby additional resources can be readily available through the call off contract.

1.10 Audit Opinion

- 1.10.1 Under the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, the Head of Internal Audit should provide a written report to those charged with governance. The Head of Audit and Risk



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Management gives an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. The overall audit opinion is based on the work undertaken by internal audit

The reporting of the incidence of significant control failings or weaknesses is also covered in the progress reports to the Audit and Accounts Committee on Internal Audit's progress against the Annual Audit Plan.

In preparing the overall opinion, the Head of Audit and Risk Management reviews all audit activity carried out during the previous Audit Plan year. Each individual audit undertaken contains a control rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. 5 levels of "control rating" are given for each audit review, ranging from "Good" through to "Unsound". Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit through follow up audit work.

The Head of Audit and Risk Management uses the individual control ratings from the audits conducted in the Audit Plan year and the progress with agreed actions to form the overall opinion.

When presenting the opinion, the Head of Audit and Risk Management also identifies where reliance has been placed on work by other assurance bodies.

1.11 Fraud-related / Consultancy Work

- 1.11.1 As stated in Standard 1 of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 *"Managing the risk of fraud and corruption is the responsibility of management."*

In accordance with the Council's Financial Procedure Rule E6.5 all suspected financial irregularities must be reported the Head of Audit and Risk Management. The Council's Fraud Response Plan states that "Before any investigation begins the Head of Audit and Risk Management should be consulted. He will advise you on the best course of action to take and whether Audit and Risk Management needs to be involved in the investigation."

The Head of Audit & Risk Management is also specifically mentioned in the Council's Anti-Fraud and Corruption Strategy, Fraud Response Plan and



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Confidential Reporting Code (Whistleblowing Policy) as a point of contact for anyone who suspects a fraud has been committed.

Although Internal Audit does not have responsibility for the prevention or detection of fraud and corruption, it has taken steps to develop proactive anti-fraud and corruption initiatives. An internal data matching and continuous auditing project is being developed to enhance and build upon the National Fraud Initiative exercise.

1.11.2 Internal Audit may be asked by clients to conduct consultancy work.

Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impacts on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

1.12 Rights of Access

1.12.1 As representatives of the Strategic Director – Resources, all Internal Audit staff have authority to:

- Enter at all reasonable times any Council premises or land.
- Have access to all records, documents and correspondence relating to any financial and other transactions of the Council, and the management of its risks.
- Require and receive explanations as necessary about any matter under examination.
- Require any employees of the Council to produce cash, stores or any other Council property under their control.

For the avoidance of doubt, the authority detailed above includes both Foundation and Voluntary Aided Schools and any other establishment operated within the Council's financial accounts.

In relation to rights of access, Internal Audit staff are expected to have a personal responsibility to observe the highest standards of confidentiality and personal integrity.