



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Newcastle under Lyme Borough Council
Internal Audit Service

Terms of Reference

1. INTRODUCTION

The Internal Audit Service is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It should provide a service to the whole of the Council and at all levels of management.

The Internal Audit Service is responsible for giving assurance to the Council through the s151 Officer (Executive Director – Resources and Support Services) and the Audit and Risk Committee on all control arrangements. It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible. 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 risk of not taking action.

2. SCOPE

All the Council's activities, funded from whatever source, fall within the remit of the Internal Audit Service. The Internal Audit Service will consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management have taken all the necessary steps to achieve these objectives. The scope of internal audit work should cover all operational and management controls and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will be subject to review, but that all will be included in the audit needs assessment and hence considered for review following the assessment of risk.

It is not in the remit of the Internal Audit Service to question the appropriateness of policy decisions. However the Internal Audit Service is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.

The Internal Audit Service may also conduct any special reviews, providing independent and objective services, including consultancy and fraud related work, requested by Council, the s151 Officer, the Monitoring Officer, the Chief Executive or other Executive Directors. There will always be due consideration in planning this work to ensure that the Service maintains its objectivity and independence. The prioritisation of special work will also take account the requirements of the s151 Officer and the approved audit plan.

3. RESPONSIBILITY

- 3.1 The Audit Manager is required to give an annual opinion on the effectiveness of the whole of its internal control system and the extent to which the Council can rely on it. The Audit Manager should also comment on other activities for which the Council is responsible and to which the Internal Audit Service has access. The Audit Manager should give an opinion on whether control arrangements, including those for economy, efficiency and effectiveness are adequate and properly applied.
- 3.2 In order to provide the required assurance, the Internal Audit Service will undertake a programme of work over a cycle authorised by the s151 Officer on the advice of the Audit Manager to achieve the following objectives:
- (a) To appraise the soundness, adequacy and application of the whole internal control system;
 - (b) To ascertain the extent to which the systems of internal control ensure compliance with established policies and procedures;
 - (c) To ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
 - (d) To ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;
 - (e) To ascertain the integrity and reliability of financial and other information provided to management, including that used in decision making;
 - (f) To ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources.

The Audit Manager will agree with the External Auditor those systems and key controls which will be reviewed annually.

4. STATUTORY REQUIREMENT AND STANDARDS OF APPROACH

- 4.1 The Accounts and Audit Regulations 2011 require the Council to '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 internal audit practices'.
- 4.2 The Internal Audit Services' work will be performed with due professional care in accordance with the Chartered Institute of Public Finance and Accountancy, C.I.P.F.A. Code of Practice for Internal Audit on Local Government in the UK, Public Sector Internal Audit Standards, the Accounts and Audit Regulations 2011, the Auditing Practices Board's guideline 'Guidance for Internal Auditor's', the Public Sector Internal Audit Standards and with any other statutory obligations and regulations.
- 4.3 The Audit Manager should implement measures to monitor the effectiveness of the services and compliance with standards. In addition, the s151 Officer should approve the performance measures used by the Internal Audit Service, and should also ask the external auditor to provide an independent assessment of internal audit's effectiveness.
- 4.4 In achieving its objectives, the Internal Audit Service should:
- (a) Identify all elements of control systems on which it is proposed to place reliance and establish a review cycle;

- (b) Evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;
- (c) Provide advice on the management of risk, predominantly but not exclusively, on issues surrounding the design, implementation and operation of systems of internal control;
- (d) Provide clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
- (e) Ascertain that those systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources;
- (f) Draw attention to any apparently uneconomical or otherwise unsatisfactory result flowing from decisions, practices or policies;
- (g) Contribute to the general management and conduct of business through provision of expertise on appropriate working groups and participation in ad-hoc exercises, including value for money and best value studies, subject to adequate resources being available within the Audit Plan;
- (h) Investigate and report upon all (non benefit related) frauds and irregularities in accordance with documented procedures. (The Revenues Manager is responsible for investigating benefit related fraud in relation to benefit claimants); and
- (i) Liaise with external auditors.

5. INDEPENDENCE

- 5.1 The Internal Audit Service has no executive role, nor does it have responsibility for the development, implementation or operation of systems. It must be asked to provide advice, however, on control and related matters arising from planned or proposed changes to, or the development of, systems or services, subject to resource constraints and the need to maintain objectivity.
- 5.2 The Audit Manager shall have right of access to the s151 Officer (Executive Director – Resources and Support Services) but has the right to report directly to the Chief Executive, Monitoring Officer, Leader of the Council or the External Auditor where necessary.
- 5.3 The Audit Manager shall be entitled to control the content of all written reports.
- 5.4 Within the Council responsibility for internal control rests fully with management who should ensure appropriate and adequate arrangements exist without reliance on the Council's Internal Audit Service. In order to preserve the objectivity and impartiality of the internal auditor's professional judgement, responsibility for implementing audit recommendations in accordance with the timetable they have agreed rests with management.

6. RIGHTS OF ACCESS

- 6.1 The Internal Audit Service has rights of access to all of the Council's records, information and assets that it considers necessary to fulfil its responsibilities. Rights of access to other bodies funded by the Council should be set out in conditions of funding. The Audit Manager has a right of direct access to the s151 Officer (Executive Director – Resources and Support Services), the Leader of the Council, the Monitoring Officer, the Chief Executive, the Audit and Risk Committee and the External Auditor. In turn, the Internal Audit Service will comply with any requests from the external auditors for access to any information, files or working papers obtained or prepared during the audit work that they need to discharge their responsibilities.

- 6.2 The Audit Manager shall be informed of all suspected or detected fraud, corruption or impropriety so that she can consider the adequacy of the relevant controls, and evaluates the implication of fraud and corruption for her opinion on the internal control environment.

7. AUDIT MANAGEMENT

- 7.1 The Council is required to provide sufficient resources to allow an adequate and effective Internal Audit Service to be provided. The Council shall appoint an Audit Manager who will be required to determine the priorities of, deliver, and manage the Internal Audit Service for the Council. In discharging these duties the Audit Manager will:
- (a) Prepare a long-term strategy document supported by an audit needs assessment, and an annual audit plan;
 - (b) Update the plan regularly to reflect changes in Council priorities and risks;
 - (c) Translate the annual plan into operational plans for the Auditors;
 - (d) Prepare an audit brief for each audit assignment undertaken, setting out the scope and objectives of the work, timescales and reporting arrangements;
 - (e) Ensure that all audit work is completed to high standards and in accordance with appropriate professional standards;
 - (f) Undertake an annual review of the development and training needs of auditors and arrange for this to be provided;
 - (g) Establish effective relationships with managers at all levels and the external auditor; and
 - (h) Monitor the effectiveness of the service delivered and compliance with standards.

8. AUDIT REPORTING

- 8.1 The Audit Manager should prepare and submit an annual audit plan to Audit and Risk Committee for approval following consultation with relevant managers and the s151 Officer (Executive Director – Resources and Support Services)
- 8.2 The Audit Manager should submit an annual statement to the s151 Officer for inclusion in the statement of accounts based on the Council's financial year. This should give an opinion on the whole framework of internal control at the Council, and the arrangements for securing economy, efficiency and effectiveness.
- 8.3 The Audit Manager is accountable to the s151 Officer and the Audit and Risk Committee for the performance of the service. The performance of Internal Audit will be reported to the s151 Officer and Audit and Risk Committee on a quarterly basis.
- 8.4 The Internal Audit Service will produce draft reports, usually within a month of completion of the audit testing, giving an opinion on the area reviewed and making recommendations to improve systems where appropriate. These will be discussed with the responsible line managers who will provide responses to the report, giving management comments agreeing an action plan with timescales for implementing recommendations. A final report will then be issued to line managers, usually within a month of issuing the draft report. Where there are significant issues raised in the reports a copy may be provided to all or some of the following people, the s151 Officer (Executive Director of Resources and Support Services), Chief Executive, Monitoring Officer, External Auditor, Leader of the Council, Standards Committee or Full Council and attention drawn to such findings and recommendations.

- 8.5 The Audit Manager shall regularly review the progress made and will report progress on all high and medium risk recommendations that have been agreed with managers. Reports on outstanding recommendations will be provided to all Executive Directors on a monthly basis, together with an Assurance Statement which is based on the number of recommendations that have been implemented and those that remain outstanding. High Risk audit recommendations that are not implemented and whose target date has been changed on more than two occasions will be reported to the Audit and Risk Committee on a quarterly basis. For those high risk recommendations that have had one target date change a report will be sent to the Chair and Vice Chair of the Audit and Risk Committee for their consideration.
- 8.6 The Audit Manager will draw the attention of the s151 Officer (Executive Director – Resources and Support Services), Executive Management Team and Audit and Risk Committee to any significant recommendations, which have not been accepted by management, and to the risks arising.
- 8.7 The Audit Manager will report to the s151 Officer any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. The Audit Manger will then report the matter to the Chief Executive, Monitoring Officer, External Auditor, Leader of the Council, Audit and Risk Committee or Full Council as appropriate.

9. LIAISON

- 9.1 The Internal Audit Service will liaise with External Auditors and other agencies as appropriate, including the Police, to enhance the level of service it provides to the Council.