



# AUDIT SERVICES

## Role and Terms of Reference

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## **AUDIT SERVICES**

### **ROLE AND TERMS OF REFERENCE**

#### **1. Introduction**

- 1.1 This document establishes the role and terms of reference of Audit Services within Darlington Borough Council.
- 1.2 It has been framed to provide an effective internal audit service to meet the needs of the Council and to accord with the requirements and guidelines of Section 151 of the Local Government Act 1972, the Accounts and Audit (Amendment) Regulations 2006, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and the Standards of the Institute of Internal Auditors.
- 1.3 Although internal audit has a statutory basis and, therefore, has a major corporate inspection and monitoring role, it is also operated as a service to management and provides assurance and consultancy on all aspects of management and administration. Audit Services has limited resources and consequently its workforce is deployed in accordance with an audit strategy having regard to relative risks and levels of assurance required, translated into an agreed annual audit plan and delivered through individual audit commissions.

#### **2. Purpose, Scope and Authority**

##### ***Purpose***

- 2.1 Audit Services' is an assurance function that provides an independent and objective opinion to the organisation on the control environment comprising the systems of governance, risk management and internal control, 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 (CIPFA Code of Practice 2006).
- 2.2 The Audit Services function established within the Council is required to :-
  - ❑ examine and evaluate systems and activities;
  - ❑ provide management and members with information, analysis, appraisal, recommendations, advice and assurance in order to assist them in the effective discharge of their responsibilities;
  - ❑ verify the existence and the means of safeguarding all assets; and
  - ❑ plan audit work having regard to the Council's corporate aims and objectives.

##### ***Scope***

- 2.3 The scope of the internal audit function includes the Council's entire control environment and extends to services provided through partnership arrangements.

Areas subject to review encompass:

- ❑ adequacy and effectiveness of systems and controls;
- ❑ reliability and integrity of financial and other operating information and the means used to identify, measure, classify and report such information;
- ❑ compliance with policies, plans, procedures, laws and regulations;
- ❑ adequacy and effectiveness of systems design and implementation;
- ❑ safeguarding assets;
- ❑ economical and efficient use of resources; and
- ❑ effectiveness of functions against stated objectives and strategies.

These activities include:

- ❑ Individual audit assignment reviews;
- ❑ Advice/support on the internal control aspects of systems development
- ❑ fraud investigation and prevention;
- ❑ financial appraisal of potential contractors; and
- ❑ advice on best practice.

### **Authority.**

- 2.4 The authority of Audit Services is derived from legislation and the Borough Council.
- 2.5 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs and shall ensure that one of their Officers has responsibility for the administration of those affairs”. The Accounts and Audit (Amendment) Regulations 2006 (SI 2006/564), regulation 6, specifically require that 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 proper practices in relation to internal control”. The Director of Corporate Services has been delegated with this requirement by the Council.
- 2.6 To carry out their duties effectively, Audit Services’ staff shall have access at all reasonable times to :-
- ❑ all assets, documents, accounts, property, vouchers, records, correspondence and other information and data of the Council and partner organisations which are necessary for the proper performance of their duties;
  - ❑ any Council, agency, or partner organisation employee, to obtain information, explanations and assurance deemed necessary to form an opinion on the adequacy of systems and/or controls.
- 2.7 All Officers and Members of the Council will render every assistance to internal auditors in the conduct of their business.

### **3. Fraud Investigation**

- 3.1 It is a management responsibility to maintain the internal control system adequately and effectively, to ensure secure and reliable operation of systems and to ensure that the organisation’s resources are properly applied in accordance with the Council’s policies and in the manner and on the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

- 3.2 Internal auditors will be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring. However, audit procedures alone cannot guarantee that fraud or corruption will be detected.
- 3.3 At the request of management, Audit Services may go beyond the work needed to meet its assurance responsibilities and assist with the investigation of suspected fraud or corruption.
- 3.4 The Council's Anti Fraud and Corruption arrangements provide for the Chief Internal Auditor to be notified of all suspected or detected fraud, corruption or impropriety to inform their opinion on the internal control environment and Audit Services' work programme.

#### **4. Organisational Relationships and Audit Independence**

- 4.1 Audit Services is an advisory function having independent status within the Council.
- 4.2 The status of Audit Services will enable it to function effectively. The support of management is essential. Audit Services will be involved in the determination of its own priorities, in consultation with management and the Audit Committee. Accordingly the Chief Internal Auditor will have direct access to, and freedom to report to, all senior management including the Chief Executive and elected members.
- 4.3 Audit Services staff will have adequate independence in terms of organisational status and personal objectivity which permits the proper performance of duties.
- 4.4 Individual auditors are obliged to declare personal interests which could conflict with their role in accordance with the Employees Code of Conduct. The Chief Internal Auditor will plan the allocation of work to avoid the risk of any conflict of interest.
- 4.5 The Chief Internal Auditor reports direct to the Director of Corporate Services.
- 4.6 Audit Services staff:
- ❑ are independent of any other section or officer or member of the Council;
  - ❑ as a general rule, have no executive or managerial powers, authorities, functions or duties except those relating to the performing of the internal audit function;
  - ❑ are not normally to be involved in the day to day operation of the Council's activities;
  - ❑ are consulted about significant proposed changes in the internal control system and the implementation of new systems and make recommendations on the standards of control applied. This need not prejudice the auditor's objectivity in reviewing those systems subsequently.

It is recognised that Audit Services will be involved on a consultancy basis in, for example, the development and implementation of business systems within the Authority as is provided for within the 2006 Code of Practice. These services will contribute to the opinion that Audit Services provides on the control environment.

To preserve any risk to the independence of the auditor being compromised, controls are maintained to mitigate the risk by means of staff rotation and detailed reviews undertaken by the Chief Internal Auditor.

### ***Relationships***

- 4.7 All those that have contact with Audit Services must have complete confidence in its integrity and competence. This will help to ensure that Audit Services will address the right issues, work effectively and have its recommendations implemented. The Chief Internal Auditor will develop and sustain a wide range of good working relationships with management and staff, external auditors, inspectorates, review agencies and other external bodies or partners.

### ***Relationship with the Audit Committee***

- 4.8 The shared interests of the Audit Committee and Audit Services means that there needs to be an effective working relationship between them. That relationship involves the Audit Committee approving (but not directing) and monitoring progress against the Annual Internal Audit Plan and the Chief Internal Auditor presenting an annual report, including an overall opinion on the control environment, the extent to which performance targets have been achieved and a summary of any unresolved issues.
- 4.9 Essentially, the results of Audit Services' work will be used to satisfy some of the Audit committee's objectives and vice versa and the operations of the Committee and Audit Services will be aligned to make best use of resources.

### ***Relationship with Director of Corporate Services***

- 4.10 The Director of Corporate Services has overall delegated responsibility from the Council for the internal audit function. Progress reports on the work of Audit Services are provided to him by the Chief Internal Auditor at their regular 1-1 meetings

### ***Relationship with Management***

- 4.11 Co-operative relationships with management enhance Audit Services' ability to achieve its objectives but must not detract from Audit Services' responsibility for reporting control issues to the Audit Committee.

### ***Relationship with Other Internal Auditors***

- 4.12 Where Audit Services need to work with the internal auditors of another organisation, the roles and responsibilities of each party will be agreed. Wherever possible, agreement to joint working or to placing professional reliance on the work carried out by one party will be sought.

### ***Relationship with External Audit***

- 4.13 The Chief Internal Auditor will liaise with the external auditors of the Council to :-
- ❑ foster a co-operative and professional working relationship;
  - ❑ reduce the incidence of duplication of effort;

- ❑ ensure appropriate sharing of information; and
- ❑ co-ordinate the overall audit effort.

4.14 In particular the Chief Internal Auditor will:

- ❑ discuss the annual internal audit plan with the external auditor to facilitate external audit planning;
- ❑ receive copies of all external audit reports;
- ❑ gain a knowledge of the external audit programme and methodology; and
- ❑ provide liaison, where appropriate, between external audit and management for the purpose of resolution of differences.

4.15 The aim is to achieve mutual recognition and respect between internal and external audit and to ensure that external and internal auditors rely on each other's work, subject to limits determined by their different responsibilities, respective strengths and special abilities. Consultations will be held and consideration given as to whether any work of either auditor is adequate for the purpose of the other.

#### ***Relationship with Other Regulators and Inspectors***

4.16 The Chief Internal Auditor will seek to establish a dialogue with agencies that interact with the Council with a view to exchanging relevant information.

#### ***Relationship with Elected Members***

4.17 The Chief Internal Auditor will establish and maintain good working relationships and channels of communication with Members.

### **5. Competence and Standards**

#### ***Competence***

5.1 The Chief Internal Auditor is responsible for maintaining a team of staff that collectively possess the necessary knowledge, skills and disciplines for the achievement of Audit Services' objectives. Staff will be properly trained to fulfil all their responsibilities.

5.2 In particular, the Chief Internal Auditor will :-

- ❑ ensure staff possess appropriate qualifications and experience; and
- ❑ encourage and facilitate the continuing professional development of staff.

#### ***Standards***

5.3 Audit Services will operate in accordance with the standards and practice statements issued by CIPFA (Code of Practice for Internal Audit in the United Kingdom 2006) and the Audit Commission and will also have regard to the standards and practice statements issued by the Institute of Internal Auditors.

- 5.4 Audit Services staff will adhere to the Council's Employees Code of Conduct and will observe the Code of Ethics of CIPFA and the Institute of Internal Auditors, which call for a high standard of integrity, objectivity, diligence, confidentiality and loyalty.

### ***Due Care***

- 5.5 Audit Services will perform their duties with diligence, competence, care and skill to demonstrate due care. Due care, however, should not be taken to mean infallibility. Audit Services will normally provide reasonable assurance regarding the outcome of their reviews, but not an absolute assurance.
- 5.6 The maintenance and monitoring of overall quality and professional performance standards is the responsibility of the Chief Internal Auditor and is a continuous process through the audit cycle.
- 5.7 Audit Services are accredited under the ISO 9001 –2000 Quality Standard and maintain quality and procedures manuals. These manuals are essential to the successful maintenance of proper professional standards and to the demonstration of those standards. They are kept current through regular review as to their appropriateness and relevance to the work of Audit Services. The service is subject to periodic external review by the ISO Assessors as part of the accreditation process to ensure that standards continue to be maintained .

## **6. Audit Process**

### ***Planning***

- 6.1 Audit Services' work will be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and to ensure the effective and efficient use of audit resources.
- 6.2 Audit planning is risk based. It is undertaken with reference to corporate and departmental risk registers and to the identification and prioritisation of auditable areas, based on an assessment of this exposure to risk pertaining to the achievement of objectives. In assessing the exposure to risk relating to individual auditable areas, the following factors are considered:
- ❑ materiality;
  - ❑ the managerial and control environment;
  - ❑ degree of devolution and delegation; and
  - ❑ importance in terms of sensitivity and public accountability.
- 6.3 An annual audit plan including resource requirements will be prepared each year by the Chief Internal Auditor.
- 6.4 The annual audit plan is subject to consultation with the Director of Corporate Services, Chief Executive, other Directors and ultimately approval by the Audit Committee.



### ***Evidence***

- 6.5 Evidence is at the core of Audit Services' professional performance and its integrity is paramount to the overall quality of the audit product and conclusions drawn from audit work.
- 6.6 Whatever the source or nature of the evidence, Audit Services will be completely satisfied as to its nature, reliability, fullness and relevance before drawing conclusions from it that will significantly affect the outcome of the audit.

### ***Documentation***

- 6.7 Audit working papers contain the principal evidence to support reports by Audit Services and they also provide the basis for review of Audit Services' work. Audit Services will employ an audit methodology that requires the production of working papers which document:
- ❑ planning; identification of material risks
  - ❑ examination and evaluation of the adequacy and effectiveness of the internal control environment;
  - ❑ the audit procedures employed, the information obtained and the conclusions reached;
  - ❑ review;
  - ❑ reporting; and
  - ❑ follow-up.

### ***Consultation***

- 6.8 Prior to the commencement of routine audits, Audit Services will usually agree with the Manager responsible for the service area under review the objectives, material risks, scope and expected timing of the work. However, for some types of audit, such as special investigations, advance warning of the audit visit may not be appropriate and this is at the discretion of the Chief Internal Auditor.
- 6.9 During the conduct of reviews, Audit Services staff will consult, orally and/or in writing, with relevant Officers to:
- ensure information gathered is accurate and properly interpreted;
  - allow Management to put their case to ensure that a balanced assessment is made;
  - keep Management informed of significant issues as the audit progresses;
  - ensure recommendations are cost effective and practicable; and
  - ensure that recommendations made are followed up to ensure that action is implemented in accordance with agreed timescales.

## **Reporting**

6.10 The primary purpose of an internal audit report is to provide management with an opinion on the adequacy and effectiveness of the internal control system and to inform management of significant audit findings, conclusions and recommendations. The aim of every internal audit report will be :-

- (a) to prompt management action to implement recommendations for change leading to improvement in performance and control; and
- (b) to provide a formal record of points arising from the audit and where appropriate, of agreements reached with management.

The audit report will provide management with one of four levels of assurance based upon the adequacy and effectiveness of the internal control system. **(see Appendix A)** and recommendations made will be categorised as one of three priority rankings **(see Appendix B)**.

6.11 A written report will be prepared and issued by Audit Services at the conclusion of each audit.

6.12 Audit reports will be clear, objective, balanced and timely. They are to include :-

- ❑ audit objectives including risks and expected controls;
- ❑ scope of the audit;
- ❑ details of audit findings;
- ❑ conclusions on all key issues identified;
- ❑ an audit opinion;
- ❑ comments of Management;
- ❑ recommendations; and
- ❑ action agreed (and not agreed) plus a timetable for implementation

6.13 It is management's responsibility to ensure that proper consideration is given to internal audit reports and they are required to respond at the latest within 20 working days of receiving them. The Chief Internal Auditor will ensure that appropriate arrangements are made to determine whether action has been taken by management on internal audit recommendations or (if no action is taken) that management has understood and accepted the risk of not taking action.

6.14 The Chief Internal Auditor will report periodically to the Audit Committee upon significant outstanding audit recommendations.

6.15 The Chief Internal Auditor will provide the Audit Committee with periodic reports during the year upon progress against the annual audit plan, significant matters arising and other matters of concern.

6.16 The Chief Internal Auditor will provide the Audit Committee with an annual report to support the Statement of Internal Control that includes an overall opinion on the overall adequacy and effectiveness of the Council's control environment and outlines the audit work from which the opinion is derived.

7. **Amendments to the Terms of Reference**

7.1 These Terms of Reference will be reviewed annually by the Chief Internal Auditor to ensure their relevance is maintained. Amendments will be subject to the approval of the Audit Committee.

## APPENDIX A

### LEVELS OF ASSURANCE OPINION

<b>Level of Assurance</b>	<b>Definition</b>
<b>Full Assurance</b>	All controls in place and operating effectively - the system will achieve it's objectives
<b>Substantial Assurance</b>	The majority of controls in place and operating effectively although some control improvements required – the system should achieve it's objectives
<b>Limited Assurance</b>	Certain important controls inadequate or in place but operating ineffectively – there is a risk that the system may not achieve it's objectives
<b>Minimal Assurance</b>	The majority of controls weak, not present or failing – it is likely that the system will not achieve it's objectives

## APPENDIX B

### Priority Ranking of Audit Recommendations

Ranking	Definition
<b>HIGH</b>	A fundamental control issue that should be addressed as a matter of urgency.
<b>MEDIUM</b>	A significant control issue that should be addressed promptly.
<b>LOW</b>	An issue which, although not fundamental or significant, would improve overall control if addressed.