

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Executive Director (Support Services)

SUBJECT: Internal Audit Terms of Reference

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the Internal Audit Terms of Reference.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee approve the Internal Audit Terms of Reference.

3 BACKGROUND

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires that the purpose, authority and responsibilities of Internal Audit are formally defined.
- 3.2 Internal Audit's existing Terms of Reference were approved by the Policy and Resources Committee in May 2001. The Terms of Reference have now been updated to reflect the requirements of the CIPFA Code of Practice and the recent changes to the Council's organisational structure.
- 3.3 The attached Terms of Reference set out the approach adopted by Internal Audit in undertaking its responsibilities and providing an annual assurance opinion to the Council.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
6.2 Personnel - None
6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 None

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EAST LOTHIAN COUNCIL

Internal Audit Terms of Reference

Introduction

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code of Practice) requires that the purpose, authority and responsibilities of Internal Audit are formally defined.

This document outlines the Terms of Reference and sets out the approach adopted by Internal Audit in undertaking its responsibilities and providing an annual assurance opinion to the Council.

Purpose

Internal Audit is an independent appraisal function established by the Council. The primary objective of Internal Audit is to review, appraise and report on the adequacy of the Council's control environment as a contribution to the proper, economic, efficient and effective use of resources.

On an annual basis the Internal Audit Manager prepares a Controls Assurance Statement, which is a formal confirmation of Internal Audit's opinion on the Council's control environment. This is reported to the Audit and Governance Committee and informs the Council's Annual Governance Statement.

Independence

The Code of Practice states that the status of Internal Audit should enable it to function effectively and recognises that the independence of Internal Audit is fundamental to its effectiveness.

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and ensures that recommendations made are free from bias or conflicts of interest.

Authority

Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. The Internal Audit Manager reports directly to the Executive Director (Support Services) and has unrestricted access to the Council's Chief Executive and Executive Directors. The Internal Audit Manager has access to the Chair of the Audit and Governance Committee and to elected members.

The normal line of reporting for planned audit reports is that final reports are issued to the relevant Executive Director, with copies provided to the Chief Executive, Executive Director (Support Services) and to the Council's external auditors. The outcome of all audit work is reported to the Council's Audit and Governance Committee in the form of an Executive Summary and Action Plan.

In order to deliver effective audit services, Internal Audit has unrestricted access to all Council records (whether manual or computerised), assets, personnel and premises at all times and has the authority to obtain such information and explanations that are considered necessary to fulfil its responsibilities.

This authority is deemed to extend to all joint working arrangements, private funds, records etc. that relate to the Council or are held on any of the Council's premises and upon which employees of the Council work as part of their duties.

To fulfil Internal Audit's responsibilities, resource requirements are considered annually in the preparation of the annual Audit Plan, which includes the planned audit days and the mix of skills, experience and training required. If resources are considered insufficient to meet the requirement to form an annual audit opinion, this will be reported to the Executive Director (Support Services) and to the Audit and Governance Committee.

Responsibilities

Internal Audit is responsible for conducting an independent appraisal of all the Council's activities. The remit of Internal Audit extends to the entire control environment of the Council and is not limited to financial systems or records.

Internal Audit provide an audit opinion on the Council's internal control environment and plan and carry out audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will monitor factors that impact on the ability to deliver this opinion and will report to Management and to the Audit and Governance Committee on issues that materially affect delivery of Internal Audit services.

Internal Audit will monitor its performance, maintain systems of quality review compliant with the Code of Practice and report to Management on the outcome of these systems as required.

Internal auditors will comply with the ethical standards outlined in the Code of Practice and with ethical codes issued by their relevant professional bodies.

Internal Audit may be requested by Management to undertake work that is beyond that required to provide assurance. This may include fraud or corruption investigations or advice to Management. This work should not compromise the ability of Internal Audit to subsequently form an independent opinion on the systems in place.

Managing the risk of fraud and corruption is the responsibility of Management, who are also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity.

Internal Audit will assist Management by reviewing the internal control environment, however audit procedures alone cannot guarantee that fraud and corruption will be detected. While Internal Audit does not have responsibility for the prevention and detection of fraud and corruption, internal auditors will however be alert in all their work to risks and exposures that could lead to the occurrence of fraud or corruption. Internal Audit may be asked by Management to assist with fraud related work and the Internal Audit Unit has auditors with appropriate fraud investigatory skills.

Internal Audit may be asked by Management to undertake consultancy work. Acceptance of consultancy work will be dependent on available resources, the nature of the work and any possible impact on assurance. The role of Internal Audit in undertaking consultancy work is to provide advice and support to Management, however it is Management who has the ultimate responsibility for decisions taken within the area under review.