



INTERNAL AUDIT CHARTER and TERMS of REFERENCE 2009-10

“Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Institute of Internal Auditors – UK and Ireland

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This Audit Charter and Terms of Reference describe the purpose, authority and principal responsibilities of Uttlesford District Council's Internal Audit Service.

The Audit Charter and Terms of Reference are drawn up in accordance with the CIPFA Code of Practice for Internal Audit in the UK and are subject to annual review and approval by Uttlesford District Council Members and Strategic Management.

Definition

1. Regulation 6 of the Accounts and Audit Regulations 2003, (updated 2006), requires the provision of internal audit and that it must accord with “proper internal audit practices”. Uttlesford District Council has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK (updated 2006) and its definition of Internal Audit:

Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, 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.

2. The Internal Audit Service is responsible for conducting an objective and independent appraisal of all Uttlesford District Council's activities, financial and otherwise.

3. Internal Audit is required to be a continuous service available to all levels of management but its primary responsibility is to give assurance to Members and Strategic Directors on all control arrangements, including risk management and corporate governance.

4. Internal Audit will consider the adequacy of the control environment necessary to secure:

- Propriety;
- Strategic management;
- Integrity and accuracy of information and financial reports;
- Compliance with laws, regulations and rules;
- Effectiveness of operations in all areas.

5. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

6. It is for management to determine whether or not to accept the Internal Audit recommendations and to recognise and accept the implications of not taking action. Management must formally respond giving reasons for their decisions.

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Scope

7. Internal Audit will carry out a continuous audit of the Council's services by objectively examining, evaluating and reporting upon the adequacy of risk management and internal control. In doing so ensuring there is proper, economic, efficient and effective use of council resources.
8. The scope of work is primarily:
 - a) Internal audit reviews;
 - b) Provision of advice & consultancy;
 - c) Investigation of irregularity and fraud;
 - d) Contribution to corporate management;
 - e) Facilitating the embedding of Risk Management throughout the Council.
9. Internal Audit has unrestricted access to all activities undertaken within the Council, in order to review, appraise and report on:
 - a) The adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the risks to be addressed;
 - b) The extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from loss arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause and that adequate business continuity plans exist;
 - c) The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
 - d) The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss;
 - e) The follow up action taken to remedy weaknesses identified by Internal Audit;
 - f) The operation of the Council's Corporate Governance arrangements.
10. Internal Audit work potentially covers all activities in all departments and locations, both currently existing and under development. Work will ideally be prioritised according to risk, the judgement of the Audit Manager and the needs of each auditee. Not all systems will be subject to review each year, but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the annual Audit Strategy.

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11. The majority of Internal Audit days are allocated to planned work. However, a small number are allocated to contingencies that allow Internal Audit to respond to unplanned activity.
12. The Internal Audit Service may also conduct special reviews (i.e. unplanned work) requested by Members and Strategic Directors, provided such reviews do not compromise its objectivity or independence. The impact on the audit plan must be assessed and, if necessary, the Plan reprioritised by the Audit Manager. Any significant changes must be reported back to the Assistant Chief Executive and Performance Select Committee in the next reporting cycle.
13. Internal Audit will also provide a consultancy service as requested by Members and Officers. This may either be on an ad hoc basis or in the form of detailed consultancy work, advice, assistance or involvement in specific projects. It will be provided where due consideration is given to ensuring no compromise to its objectivity or independence.
14. Internal Audit Services will undertake investigations of fraud and will have direct and full access to all records. Internal Audit Section is one of the four advertised first point of contact for reporting suspected fraud, corruption or theft. All allegations of suspected fraud, corruption or impropriety are to be reported to the Audit Manager.

Independence

15. Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.
16. Internal Audit is organisationally independent i.e. the Internal Audit Service has no operational responsibilities, nor does it have responsibility for the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints
17. Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditor's professional judgement, responsibility for implementing audit recommendations rests with management without reliance on Internal Audit.
19. The Audit Manager has the responsibility for determining the priorities of the Internal Audit service. The Assistant Chief Executive, Strategic Management Board and the Performance Select committee should subsequently approve this.
20. Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
21. Internal Audit is supported by the organisation and its independence is seen as key to providing Uttlesford District Council with an effective service.

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22. The Audit Manager reports directly to the Assistant Chief Executive who must provide support to the Audit Manager in the event that he or she is unable to directly resolve matters with more senior management.

23. The Audit Manager has direct access and freedom to report to all senior management, including the Chief Executive, all Strategic Directors, Heads of Division, the Leader of the Council and the Chair of the Performance Select Committee.

24. Internal Audit reports its work to the Performance Select committee. This provides assessments of the adequacy and effectiveness of the systems of risk management and internal control and the potential for improvement.

25. Internal Audit reports will be the auditors' own opinion based on the relevant facts and evidence. Reports will only be amended and Audit opinion reconsidered if there are factual inaccuracies or new facts or evidence is presented. Reports will go out in the auditors' own name. Internal Audit reports to Committee will be without influence from others and be in the name of the Audit Manager.

Access & Authority

26. Internal Audit shall have free and unfettered access to all records, management information and property needed to carry out its work as specified in Financial Regulations (CC9 - CC12).

27. Internal Audit shall also have full right of access to all employees, contractors, suppliers, customers, external auditors and the authority to liaise with Internal Audit Services of relevant external organisations and Authorities in partnership with the Council.

Reporting

28. The Audit Manager will report monthly, or as required, to the Assistant Chief Executive on significant matters relating to the Audit Plan.

29. The Audit Manager will report at least annually to Strategic Directors and Performance Select Committee on:

- The Audit Strategy;
- The Audit Charter and Terms of Reference;
- Audit Plan and resources;
- Compliance with the CIPFA Code of Practice;
- Audit performance and Audit opinion.

30. The Audit Manager will report at least twice yearly to the Performance Select Committee on progress to the Audit Plan and any significant changes in priority.

31. At meetings of the Performance Select Committee, the Audit Manager will present selected Internal Audit Reports for review and will updated Members on the implementation of recommendations agreed with Management.

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32. The Audit Manager will have regular informal meetings with the Chair of the Performance Select Audit Committee and report immediately on any matters of material concern.

33. The Audit Manager will attend every ordinary meeting of the Performance Select Committee and assist with the setting of the Agenda.

Objectivity and Confidentiality

34. The Audit Manager must hold a relevant professional qualification.

35. The Audit Manager must take all reasonable measures to ensure that all Internal Auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.

36. The Audit Manager must establish appropriate standards for the rest of the audit team. This is to include maintaining sufficient knowledge, skills and experience to carry out the audit plan.

37. All Internal Audit Staff will be required make an Annual Declaration of Interests and Acknowledgment of their Ethical responsibilities.

38. All auditors must inform the Audit Manager or Assistant Chief Executive of any relationships or financial interests in any Council activity subject to audit.

39. Individual auditors are expected to adhere to the ethical statements issued by the professional bodies of which they are members. If compliance is compromised the material facts should be highlighted to the relevant professional body.

40. Internal Auditors will safeguard the information they receive when carrying out their duties, all matters that are raised with Internal Audit either in the course of an audit or otherwise will be treated as confidential. There will not be any authorised disclosure of information unless there is a legal or professional requirement to do so.

41. Internal Audit will comply with the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the UK and with the Code of Ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors – UK and Ireland.

42. Internal Audit should not have any operational responsibilities.

43. An auditor should not audit an activity that they have previously had responsibility for until at least 12 months have elapsed.

44. Where practical an auditor should not audit an activity to which that they have previously been involved in detailed consultancy work until at least 24 months have elapsed.

45. Where practical an individual auditor should not be responsible for an audit area for more than 2 consecutive audits.

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Responsibilities of the Audit Manager

46. Audit Planning

- Identifying the overall remit of audit activity
- Carrying out an audit needs risk assessment and prioritising into strategic and annual plans in consultation with the Assistant Chief Executive, Strategic Directors, Heads of Divisions and Members
- Agreeing any significant changes to the Annual Audit Plan with the Assistant Chief Executive, Strategic Directors and Members

47. Corporate Management Reporting

- Producing for Assistant Chief Executive and Strategic Directors monthly information on progress to annual audit plan and quarterly reports on key performance indicators.
- Detailing the Audit Strategy in consultation with the Assistant Chief Executive, Strategic Directors and Performance Select Committee
- Alerting the Section 151 Officer of any significant areas of financial weaknesses
- Compiling an annual assurance report on the control framework to the Assistant Chief Executive, Strategic Directors and Performance Select Committee
- Reporting any material control weaknesses to the Assistant Chief Executive, Strategic Directors and Performance Select Committee
- Assist the Performance Select Committee with their Agenda and attend each meeting

48. Maintaining an adequate and effective Internal Audit Service

- Continuously reviewing the quality and provision of the Audit Service
- Continuously reviewing the effectiveness of the Audit Service
- Periodically reviewing the Audit Charter and Terms of Reference and Audit Strategy for adequacy and effectiveness
- Maintaining a professional audit team with sufficient knowledge skills and experience to carry out the audit plan
- Establishing and monitoring standards and code of conduct for audit staff
- Ensuring compliance with the CIPFA Code
- Fostering and encouraging constructive working relationships between auditors, auditees, managers and external auditors and to ensure that Auditors do nothing to damage these relationships
- Maximising the use of technology for effective service delivery
- Ensuring follow up Audits are undertaken on implementation of agreed recommendations
- Delivering the agreed Audit Plan

Responsibilities of Auditors

49. Planning

- Give adequate notice of the start of a planned audit
- Base opinions on facts and evidence
- Provide practical and timely recommendations in a formal report
- Agree a plan of action to remedy control weaknesses

50. Compliance with Auditing Standards

- Comply with the Audit Manual/Audit Standards

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- Maintain professional independence, objectivity, integrity and confidentiality
- All auditors must inform the Audit Manager of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- Maintain proper documented files supporting conclusions
- Hold in safe custody any documents or property or other material obtained for audit use or investigation
- Act with due care to provide “reasonable” assurance on the adequacy of control
- Foster good working relationships with auditees, external auditors and managers

Responsibilities of the Assistant Chief Executive

51. The Assistant Chief Executive must ensure that:
- The Audit Service is complying with their responsibilities as detailed within this charter
 - Any suspected irregularities identified by Internal Audit are properly and appropriately investigated and action taken
 - He or she is satisfied that the control assurance statement either on its own or as part of a combined statement of assurance, reflects accurately the position of the control framework

Responsibilities of Members

52. The Members, as the corporate body, have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Performance Select Committee and include ensuring that:
- The function complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
 - Internal Audit's status is sufficient within the organisation, is independent organisationally and in its reporting and free to set its priorities
 - There are strategic and annual plans focused on the risk and control framework
 - Internal Audit is properly and sufficiently resourced to give effective coverage
 - Significant weaknesses identified by Internal Audit are addressed
 - Agreed recommendations are implemented

Responsibilities of Auditees

53. In accordance with Financial Regulations (CC11-CC12) Managers must ensure that:
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
 - To ensure that auditors are provided with any information and explanations that they seek in the course of their work.
 - To consider and respond promptly to recommendations in audit reports.
 - To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

Relationship with External Audit

54. Internal Audit recognises that whilst the appointed External Auditors have different statutory obligations, there are clear benefits to the Council in ensuring that a good working relationship is maintained between Internal and External Audit.

55. The Audit Protocol signed by the Section 151 Officer, Audit Manager, and District Auditor defines their respective responsibilities, co-operation arrangements and the performance areas of Internal Audit that will be reviewed and evaluated by the District Auditors. The Audit Protocol will be annually reviewed and agreed.

56. Internal Audit is expected to co-operate and regularly liaise with District Auditors to ensure an efficient and effective use of resources is achieved and unnecessary duplication or over-lapping of work is avoided.

57. Regular meetings, at least quarterly, will be held between the Audit Manager and the External Audit manager. Audit plans and reports will also be exchanged.

58. District Audit have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Effectiveness of Internal Audit – Key Measures

59. The Internal Audit Section has one set Performance Indicator SI 32 (CG6) - % of Planned audits completed, the 2009/10 target is 90% completed to draft report stage.

60. Additionally the effectiveness of the Uttlesford Internal Audit Service will be benchmarked with comparable District Councils throughout England against the following indicators:

- % of audits completed within the allocated time
- % of planned audits completed (includes from issue of draft audit report)
- Productive (chargeable) time as a % of total time available
- % of agreed recommendations that are categorised as high priority that are implemented
- % of draft audit reports issued within 10 working days of the completion of fieldwork
- External Audit Opinion

61. The annual Internal Audit Plan is approved by the Performance Select Committee, to whom progress is reported back.

62. Selected Internal Audit reports are reviewed by the Performance Select Committee, the Chief Auditee for a selected audit will be notified in advance of the meeting and be expected to attend to discuss the progress on the implementation of the recommendations made in the report.

63. Internal Audit values the views of others throughout the Authority on all aspects of its performance. This is achieved by actively seeking feedback through satisfaction

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surveys issued to officers on the completion of each audit and also where consultancy or other specified work has been undertaken.

64. The Audit Manager periodically undertakes internal quality reviews to ensure compliance with the CIPFA Code of Practice and Audit Manual aims and will periodically seek an independent review of the service. An annual self-assessment is carried out in the compilation of the Internal Audit Annual Report and Opinion

65. The Audit Manager undertakes a review of the Internal Audit function against its strategy and the achievement of its aims in the compilation of the Internal Audit Annual Report and Opinion.

66. The Internal Audit Service is subject to periodic review by the Audit Commission to measure its compliance with the CIPFA Code of Practice.

DRAFT

Effective: April 2009

APPENDIX A

INTERNAL AUDIT REPORTING PROTOCOLS

OPERATIONAL AUDITS

1. On completion of our audit fieldwork, a Draft Report with recommendations and Management Action Plan (MAP) will be initially discussed with the Chief Auditee and relevant officers to obtain practical agreement on issues raised.
2. Where a significant risk to the service achieving its objectives has been identified, a recommendation will be made to ensure that the Operational Risk Register for the service is reviewed and updated to reflect this.
3. The Draft Final Report and MAP will be informally discussed with the Chief Auditee for agreement on recommendations and proposed management action.
4. Following this, the Draft Final Report will be formally issued to the Chief Auditee for agreement, completion and return of the MAP with the agreed
 - management action
 - responsible officer and
 - implementation date
5. The completed Draft Final Report and Management Action Plan is to be returned to Internal Audit within 10 working days of issue.
6. If necessary, further revision of the Draft Final Report and MAP can be undertaken at this stage and a revised Draft Final Report and Management Action Plan issued for completion and return within 5 working days.
7. Once agreed, the Final Report and MAP will be issued and circulated as follows:

To:	Director / SMB member responsible for the service
For info:	Chief Executive Assistant Chief Executive Chief Finance Officer Chief Auditee Other staff as appropriate
8. Final Reports and MAPs are posted on the intranet and electronic copies are issued to all members of the Performance Select Committee.
9. The agreed implementation dates for management actions will be input into Covalent to ensure reminders are sent as implementation dates approach.
10. A Satisfaction Survey will be sent to the Chief Auditee and other relevant officers for completion and return to the Audit Manager.

CORPORATE AUDITS

11. On completion of our audit fieldwork, a Draft Final Report with recommendations and Management Action Plan (MAP) will be presented to the Strategic Management Board to obtain practical agreement on issues raised.
12. Where a significant risk to the Council achieving its objectives has been identified, a recommendation will be made to ensure that the Corporate Risk Register is reviewed and updated to reflect this.
13. The Draft Final Report will be formally issued to the Chief Auditee for agreement and completion on the MAP of the agreed
 - management action
 - responsible officer and
 - implementation date
14. The completed Draft Final Report and Management Action Plan is to be returned to Internal Audit within 10 working days of issue.
15. If necessary, further revision of the Draft Final Report and MAP can be undertaken at this stage and a revised Draft Final Report and Management Action Plan issued for completion and return within 5 working days.
16. Once agreed the Final Report and MAP will be issued to the Strategic Management Board
17. Final Reports and MAPs are posted on the intranet and electronic copies are issued to all members of the Performance Select Committee.
18. The agreed implementation dates for management actions will be input into Covalent to ensure reminders are sent as implementation dates approach
19. A Satisfaction Survey will be sent to the Chief Auditee and other relevant officers for completion and return to the Audit Manager

ESCALATION PROCEDURES

20. To ensure the timely issue of a Final Report for an audit, a reminder will be sent to the Chief Auditee on the 10th working day following the issue of a Draft Final Report and MAP if it has not already been returned to Internal Audit.
21. Where a Draft Final Report and completed MAP remains outstanding, further reminders will be sent every 5 working days via the Strategic Director for the service concerned.
22. Persistent outstanding Draft Final Report and completed MAPs will be reported to the Assistant Chief Executive, Strategic Management Board and Performance Select Committee in the next reporting cycle.
23. At each meeting of the Performance Select Committee the Audit Manager will present selected Internal Audit Reports for review. The Chief Auditee for a selected

audit will be notified in advance of the meeting and be expected to attend to discuss progress on the implementation of the recommendations made in the report.

24. Internal Audit will follow up all the action points on the Management Action Plan to ascertain the extent to which agreed actions are actually implemented. The timing of the follow up depends upon the implementation date of management action against the individual recommendations. At each meeting of the Performance Select Committee the Audit Manager will updated Members on the follow up work on the implementation of Report Recommendations.

The key target dates associated with reporting are summarised below:

Target date	Key task
On completion of audit fieldwork	Draft Report, Recommendations and Management Action discussed with Chief and Main Auditees and relevant officers
Within 5 working days of completing audit fieldwork	Draft Final Report and Management Action Plan (MAP) issued to Chief Auditee
Within 10 working days of issuing the Draft Final Report and MAP	Completed Draft Final Report and MAP returned to Internal Audit
Within 5 working days of the return to Internal Audit of the agreed and completed Draft Final Report and MAP	Final Report and MAP issued to Director / SMB member responsible for the service
The earlier of: 6 months after the issued of the Final Report or 1 month after the latest implementation date of action	Follow-up action on Management Action Plan recommendations

It may occasionally be considered necessary to review and revise the Draft Final Report and MAP e.g. if new facts or evidence is presented. If this does occur, the following key dates may then apply

<i>Within 5 working days of request for review of the Draft Final Report and MAP</i>	<i>Revised Draft Final Report and Management Action Plan is issued to Chief Auditee</i>
<i>Within 5 working days of issuing a revised Draft Final Report and MAP</i>	<i>Agreed revised Draft Final Report and Management Action Plan completed and returned to Internal Audit</i>