



# INTERNAL AUDIT

## CHARTER

and

## TERMS of REFERENCE

### 2012/13

(June 2012)

**“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 Chartered Institute of Internal Auditors – UK and Ireland**

# Introduction

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 regular review by Uttlesford District Council Members and the Council's Corporate Management Team.

## 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.
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2. Internal Audit is statutory service that forms part of the Council's Corporate Governance Framework.
3. The Internal Audit Service is responsible for conducting an objective and independent appraisal of all Uttlesford District Council's activities, financial and otherwise.
4. 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 Directors on all control arrangements, including risk management and corporate governance.
5. 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.
6. Internal Audit is neither an extension of nor 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.

7. 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.

## Scope

8. 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.
9. 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) Promotion of anti-fraud & corruption awareness.
10. 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 controls 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.

11. Internal Audit work covers all activities in all departments and locations, both currently in place and those under development. Work will 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.
12. The majority of Internal Audit days are allocated to planned work; additional non-specific audit days are allocated for contingencies that allow Internal Audit to respond to unplanned activity.
13. Internal Audit may conduct ad hoc reviews as requested by Directors and Members provided such reviews do not compromise its objectivity or independence. Any such review request will be risk assessed along with the impact on the Audit Programme which, if deemed necessary, may be reprioritised by the Audit Manager. Any significant changes to the Audit Programme must be reported back to the Assistant Chief Executive - Legal and Performance & Audit Committee in the next reporting cycle.
14. Internal Audit will provide a consultancy service as requested by Officers and Members. This may either be on an ad hoc basis or in the form of detailed consultancy work, advice, assistance or involvement in specific projects and will be provided where due consideration is given to ensuring there is no compromise to its objectivity or independence.
15. Internal Audit 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 points 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

16. 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.
17. 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, controls and related matters, subject to resource constraints
18. 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 the 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 – Legal, the Corporate Management Team (CMT) and the Performance & Audit Committee should subsequently approve this.
20. Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Programme 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 must be supported by the organisation and its independence seen as key to providing Uttlesford District Council with an effective service.
22. The Audit Manager reports directly to the Assistant Chief Executive – Legal 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, Directors, Assistant Chief Executives, Assistant Directors and Service Heads and to the Leader of the Council and the Chair of the Performance & Audit Committee.
24. Internal Audit reports on its work to the Performance & Audit Committee providing 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 opinions 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 presented. Reports will go out in the auditors' own name. Internal Audit reports to the Performance & Audit Committee will be without influence from others and be in the name of the Audit Manager.

## Access & Authority

26. Internal Audit will have free and unfettered access to all records, management information and property needed to carry out its work as specified in Financial Regulations.
27. Internal Audit will 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 - Legal on significant matters relating to the Audit Programme.

29. The Audit Manager will report at least annually to Directors and Performance & Audit Committee on:
  - The Audit Strategy;
  - The Audit Charter and Terms of Reference;
  - Audit Programme and resources;
  - Compliance with the CIPFA Code of Practice;
  - Audit performance and Audit opinion.
30. The Audit Manager will present a report to each meeting of the Performance & Audit Committee on progress of the Audit Programme and any significant changes in priority.
31. The Internal Audit Progress Report will include details of work undertaken by Internal Audit since the previous report to the Committee and provide an update on new, implemented and outstanding internal audit recommendations.
32. The Audit Manager will have regular informal meetings with the Chair of the Performance & Audit Committee and report immediately on any matters of material concern.
33. The Audit Manager will attend every ordinary meeting of the Performance & Audit 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 programme.
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 - Legal 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 Chartered 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 in 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.

## 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 audit programmes in consultation with the Assistant Chief Executive – Legal, the Corporate Management Team (CMT) and Members.
- Carrying out regular reviews and updating of the Audit Programme at strategic points throughout the year.
- Agreeing any significant changes to the Audit Programme with the Assistant Chief Executive - Legal, CMT and Members.

### 47. **Corporate Management Reporting**

- Producing for Assistant Chief Executive - Legal monthly information on progress on the Audit Programme.
- Detailing the Audit Strategy in consultation with the Assistant Chief Executive - Legal, Directors and Performance & Audit 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 - Legal, Directors and Performance & Audit Committee.
- Reporting any material control weaknesses to the Assistant Chief Executive - Legal, Directors and Performance & Audit Committee.
- Assist the Performance & Audit 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 & 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 Programme.
- 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 regular follow up work is carried out on implementation of agreed recommendations.
- Delivering the agreed Audit Programme.

## 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 and Audit Standards.
- 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 - Legal

### 51. The Assistant Chief Executive - Legal 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 & Audit 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 programmes focused on the risk and control framework.
  - Internal Audit is properly and sufficiently resourced to give effective coverage.
  - Regular meetings, at least quarterly are held between the Internal Audit Manager and the Chair of the Performance & Audit Committee.
  - Significant weaknesses identified by Internal Audit are addressed.
  - Agreed recommendations are implemented.

## Responsibilities of Auditees

53. Managers are required 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.
  - ensure that auditors are provided with any information and explanations that they seek in the course of their work.
  - consider and respond promptly to recommendations in audit reports.
  - 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 Auditor has 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 agreed by the Audit Manager and External Audit Manager defines their respective responsibilities, co-operation arrangements and the performance areas of Internal Audit that will be reviewed and evaluated by the External Auditor. The Audit Protocol will be annually reviewed and agreed.

56. Internal Audit is expected to co-operate and regularly liaise with External Auditor 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 Internal Audit Manager and the External Audit manager. Audit programmes, plans and reports will also be exchanged.
58. External 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 no set Performance indicators from 01 April 2011.
60. The effectiveness of the Uttlesford Internal Audit Service will be measure by the following service indicators:
  - % of audits completed within the allocated time
  - % of planned audits completed (includes from issue of draft audit report)
  - % of Productive (chargeable) time of total time available
  - % of implemented level 3 & level 4 recommendations
  - External Audit Opinion

Arrangements will be made to benchmark the service with comparable District Councils in England

61. The annual Internal Audit Programme is presented to the Performance and Audit Committee and progress against the programme is reported to Members at each meeting.
62. Internal Audit values the views of others throughout the Authority on all aspects of its performance. This is achieved by actively seeking feedback through Post Audit Questionnaires issued to officers on the completion of an audit or where consultancy or other specified work has been undertaken if appropriate.
63. The Audit Manager periodically undertakes internal quality reviews on the Annual Effectiveness of Internal Audit and to ensure compliance with the CIPFA Code of Practice 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.
64. 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.

65. The Internal Audit Service is subject to periodic external review to measure its compliance with the CIPFA Code of Practice

## Internal Audit Reporting Protocols

### **Chief & Main Auditees**

66. For 2012/13 Corporate Audits, the Chief Auditee will be the member of the Corporate Management Team with main responsibility for the area being audited.
67. For 2012/13 Operational Audits, the Chief Auditee will be the member of the Corporate Management Team to whom the Head of the Service area being audited reports.
68. The Main Auditees will be the service manager with direct operational responsibility for the area being audited.

### **Audit Progression**

69. Internal Audit will carry out reviews and evaluations as an audit progresses. At any time during an audit, testing may identify that it would be more effective and efficient to:
- stop audit field work at a given point;
  - consider issuing an interim report with recommendations and agreed realistic implementation time (to a max of 6 months) and
  - return once the interim recommendations have been implemented to complete the audit.

### **Findings & Recommendations**

70. Internal Audit will hold informal discussions with Chief and Main auditees of our findings & evaluation and proposed recommendations & management actions. All non-confidential or sensitive working papers will be made available on request to auditees. Management will be advised of examples of good practice; exceptional working etc. where identified during the audit and confirmation of these will be given by e-mail to managers and staff on request

### **71. Draft Report and Management Action Plan**

Within 5 days of completion of our audit fieldwork, a draft report with agreed recommendations and management actions will be circulated to auditees for final agreement and agreed management action implementation dates.

72. Draft Report and completed Management Action Plan is to be returned to Internal Audit within 10 working days of issue.

### **73. Final Report**

The Final Report will only record

- The Internal Audit Opinion
- The overall comment on the effectiveness of the audited service
- The Management Action Plan detailing recommendations and their risk ratings, agreed management action and implementation dates

74. The Final Report will be sent to the Chief Auditee for overall agreement and signature.
75. Final Reports for Corporate Audits will be issued to the Chief Auditee and copied for information to all other members of the Corporate Management Team and the Main Auditee and other staff as appropriate.
76. Final Reports for Operational Audits will be issued to the Chief Auditee and copied for information to:
  - Chief Executive
  - Assistant Chief Executive - Legal
  - Assistant chief Executive - Finance
  - Main Auditee
  - Other staff as appropriate
77. All Final Reports are copied to Members of the Performance & Audit Committee and posted on the intranet.
78. The agreed implementation dates for management actions will be input into Covalent to ensure reminders are sent as implementation dates approach
79. A Satisfaction Survey will be sent to the Chief Auditee and other relevant officers for completion and return to the Audit Manager

## ESCALATION PROCEDURES

80. To ensure the timely issue of a Final Report for an audit, a reminder will be sent to the Chief Auditee on the 10<sup>th</sup> working day following the issue of a Draft Final Report & Management Action Plan if it has not already been returned to Internal Audit.
81. Where a Draft Final Report & Management Action Plan remains outstanding, further reminders will be sent every 5 working days via the Director for the service concerned.
82. Any Persistent outstanding Draft Final Report & Management Action Plan will be reported to the Assistant Chief Executive - Legal, CMT and Performance & Audit Committee in the next reporting cycle.
83. Internal Audit will follow up all the recommendations on the Management Action Plan to ascertain the extent to which agreed actions are actually implemented.
84. Recommendations will be followed up prior to meetings of the Performance & Audit Committee and are also subject to followed up as part of a rolling programme of review from the earlier of 6 months after the issued of the Final Report or 1 month after the latest implementation date of action.
85. Progress on implementation of recommendations is reported to Members at each meeting of the Performance & Audit Committee.

# KEY TARGET DATES

86. The key target dates associated with reporting are summarised below:

Target date	Key task
On completion of audit fieldwork	Findings & evaluation and proposed recommendations & management actions discussed with auditees
Within <b>5</b> working days of completing audit fieldwork	Draft report circulated to auditees for agreed management action implementation dates
Within <b>10</b> working days of issuing the Draft Final Report and Management Action Plan	Draft Report and Management Action Plan returned to Internal Audit
Within <b>5</b> working days of the return of agreed Draft Report and MAP	Draft Final Report to Chief Auditee for agreement and signature
Within <b>1</b> working day of the return to Internal Audit of signed Draft Final Report	Final Report issued to Chief Auditee and copied to other officers as appropriate
The earlier of: <b>6</b> months after the issued of the Final Report or <b>1</b> month after the latest implementation date of action	Follow-up action on Management Action Plan recommendations

## INTERNAL AUDIT ASSURANCE OPINION CRITEREA

Opinion	Definition	Maximum recommendations overall	Maximum number of level 4 PLUS level 3 recommendations	Maximum number of level 2 recommendations
<b>Substantial</b>	Good effective management of risk; no significant recommendations arising.	6	0	2
<b>Adequate</b>	Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed.	10	2	6
<b>Limited</b>	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.	15	4	10
<b>Little</b>	Major controls have failed and/or major errors have been detected	Over 15	Over 4	Over 10

## INTERNAL AUDIT RISK LEVEL DEFINITIONS

Risk Level	Impact	Action timescale	Description
<b>1</b>	Little or none	None defined	Matters that merit attention and would improve overall control
<b>2</b>	Some	Within <b>12 months</b>	Matters that are considered important that should be addressed within twelve months.
<b>3</b>	Significant	Within <b>6 months</b>	Matters that are considered significant that should be addressed within six months.
<b>4</b>	Catastrophic	<b>Immediate</b>	Matters that are considered fundamental that require immediate attention and priority action