

Report to: **Audit and Best Value Scrutiny Committee**

Date: **21 November 2007**

By: **Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Internal Audit Charter and Terms of Reference**

Purpose of report: **To review and approve the Internal Audit Charter and Terms of Reference for the County Council's Internal Audit Service.**

RECOMMENDATION:

Members are recommended to review and approve the Internal Audit Charter and Terms of Reference for the County Council's Internal Audit Service.

1. Financial Appraisal

1.1 There are no direct financial implications arising from this report.

2. Background

2.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2003 (as amended in 2006). The latter states that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices".

2.2 These proper practices are defined within the 'CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code) and have been fully adopted by East Sussex County Council's Internal Audit Service. A specific requirement of the Code is for Internal Audit to have a formally defined 'Terms of Reference', setting out the purpose, authority and responsibility of the service. The attached 'Charter and Terms of Reference' clearly sets out East Sussex County Council's arrangements in this regard. These are the arrangements as they currently operate and are as set out within the Internal Audit Strategy approved by the Audit and Best Value Scrutiny Committee on 12 June 2007.

2.3 The Code also requires the Terms of Reference to be formally approved and regularly reviewed by the organisation. The outcome of subsequent reviews will therefore be reported to Chief Officers and Members.

3. Recommendations

3.1 The Committee is recommended to review and approve the Internal Audit Charter and Terms of Reference for the County Council's Internal Audit Service as required under the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

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Deputy Chief Executive and Director of Corporate Resources

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Local Members: All

BACKGROUND DOCUMENTS

Internal Audit Charter and Terms of Reference

ESCC INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

1. RESPONSIBILITIES AND OBJECTIVES

1.1 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.2 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 organisations 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. STATUTORY ROLE

2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003 (as amended in 2006), which state in respect of Internal Audit that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- supply the body with such information and explanation as the body considers necessary for that purpose.”

2.2 The statutory role is recognised and endorsed within the Council’s Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

3. INDEPENDENCE AND ACCOUNTABILITY

3.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities.

3.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in his own name and without fear of favour to, all officers and Members and particularly those charged with governance.

3.3 Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

4. INTERNAL AUDIT SCOPE

4.1 The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and Management risk assessment (as set out within County Council risk registers). Extensive consultation also takes place with key stakeholders.

5. REPORTING LINES AND RELATIONSHIPS

5.1 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council's Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

5.2 The Chief Internal Auditor reports directly to the Deputy Chief Executive and Director of Corporate Resources. The County Council also has an Audit and Best Value Scrutiny Committee to whom internal audit report on a quarterly basis. These reports cover results of internal audit activity and details of internal audit performance, including progress on delivering the Audit Plan. In addition, internal audit provides an annual report and opinion to Chief Officers and Members on the adequacy of the Council's control environment.

6. INTERNAL AUDIT STANDARDS

6.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2003 (as amended in 2006) makes it clear that 'the Standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The CIPFA Standards have been adopted by East Sussex County Council Internal Audit.

7. INTERNAL AUDIT RESOURCES

7.1 It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

7.2 The Chief Internal Auditor is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Internal Audit Service maintains an annually updated Training and Development Plan, which sets out an ongoing development programme for Internal Audit staff.

7.3 The Chief Internal Auditor is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby they concluded that resources were insufficient, they must formally report this to the Deputy Chief Executive and Director of Corporate Resources and, if the position is not resolved, to the Audit and Best Value Scrutiny Committee.

8. FRAUD AND CORRUPTION

8.1 Managing the risk of fraud and corruption is the responsibility of Chief Officers not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

8.2 Internal Audit should also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the control environment.

Councillor David Tutt
Chairman of the Audit and Best Value Scrutiny Committee

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