

APPENDIX B

LONDON BOROUGH OF SUTTON

INTERNAL AUDIT: TERMS OF REFERENCE

**1. INTRODUCTION**

- 1.1 Internal Audit's purpose is to provide assurance and advice on corporate governance, internal control and management of risk. The team provides:
- An assurance and independent appraisal service for the review of activities and controls throughout the Council and, where applicable, partner organisations
 - An advice and consultancy service to assist all levels of management in maintaining financial and operational control
 - Support for the refinement of risk management, business continuity and data quality processes.
- 1.2 The Council is responsible, under the Accounts and Audit Regulations, for maintaining an adequate and effective Internal Audit service. The Council has delegated this responsibility to the Strategic Director of Resources. The Internal Audit team, headed by the Chief Internal Auditor, provides the service to standards derived from the CIPFA Code of Practice for Internal Audit in Local Government. The Chief Internal Auditor reports to the Executive Head of Finance who in turn reports to the Strategic Director of Resources.
- 1.3 Internal Audit supports the achievement of priorities in the Corporate Plan through the provision of audit, consultancy, advice and support to service groups and business units. Where appropriate, audit activity may be area based and extend to reviewing aspects of the Council's activities with partner organisations.

2. THE SYSTEM OF INTERNAL AUDIT

- 2.1 The Council has a system of Internal Audit that comprises:
- An independent Audit Committee with terms of reference that fully reflect CIPFA guidelines
 - An adequately resourced Internal Audit function that has powers defined in the Constitution that highlights independence and freedom of access
 - Strategic and annual audit plans that are substantially delivered and take into account delivering relevant unplanned work
 - Reporting of the results of audit assignments (including audit opinions on the effectiveness of internal control and prioritised action plans) to Strategic Directors, Executive Heads and to the Audit Committee in summary
 - Monitoring and supporting arrangements for developing corporate governance, risk management and assurance reporting, including partnership working
 - Monitoring of the Internal Audit function by the Audit Committee
 - Reporting and referring of audit related issues to The Executive and Scrutiny committees

- Regular reviews of the Internal Audit function by the external auditor.

2.2 Internal Audit derives its authority from the Council's Constitution (part 4, Financial Regulations). The scope of Internal Audit, delegated by the Strategic Director of Resources as Section 151 officer, allows for unrestricted coverage of the authority's activities and unrestricted access at any reasonable time to all records and assets deemed necessary by auditors in the course of an audit or investigation, and to receive explanation or information without delay.

3. AUDIT STRATEGY AND BUSINESS PLANNING

- 3.1 Internal Audit also includes the risk management and corporate governance monitoring functions. Essential elements of the team's purpose and strategy are included within the Resources Group Budget and Delivery Plan which is published annually.
- 3.2 There is a rolling Internal Audit strategic plan that identifies where audit resources are planned to be deployed over a three-year period. It is risk based and takes into account risk registers, fraud and control risk, previous audit assurance opinions, local knowledge, materiality, the impact of partnership working and available resources. The annual plan details the audits planned within that year and is informed by the strategic plan, and also includes emerging issues and management requests.

4. OBJECTIVES AND SCOPE OF INTERNAL AUDIT

- 4.1 Internal Audit's objectives are achieved by:
- The Audit Committee approving the annual Audit Plan, it having been compiled after consultation with Groups, the Strategic Director of Resources, the Executive Head of Finance and external audit
 - Delivering the risk based Audit Plan through:
 - completing planned corporate and service audits
 - obtaining appropriate management responses to action plans resulting from the recommendations made
 - responding appropriately to requests from directors, Groups, schools, governing bodies, residents, external audit and public bodies for advice, reviews and investigations
 - providing a managed audit service to the Council's external auditor.
 - Developing and monitoring corporate anti-fraud arrangements
 - Providing independent financial consultancy and advice
 - Providing detailed assurance on grant claims and performance indicators
 - Reporting audit activity to the Audit Committee, including an annual audit opinion
 - Monitoring and reviewing the Council's corporate governance, risk management, performance management and data quality arrangements, including the Annual Governance Statement and related assurance statements
 - Providing evidence and assurance to the Audit Commission and inspectorates

- Continuously improving the section's efficiency and effectiveness.

4.2 Internal Audit does not include within its scope the requirement to:

- Establish and maintain systems of internal control
- Determine operational policies or procedures
- Ensure the detection and prevention of all fraud, loss or irregularity
- Actively manage or own operational or strategic risks.

5. RESPONSIBILITIES OF THE CHIEF INTERNAL AUDITOR

5.1 In order to achieve the team's purpose, the Chief Internal Auditor:

- Carries out an on-going strategic and operational audit needs assessment of the Council's systems and services
- Delivers an annual audit plan of audit coverage using a risk basis that is approved by Audit Committee
- Produces half-yearly reports on performance against plan
- Provides an annual assurance opinion statement based on activities reviewed that explains how the opinion is arrived at
- Monitors, reports on and coordinates evidence on corporate governance and internal control arrangements, including the Annual Governance Statement and providing evidence for external inspections.

6. QUALITY AND PERFORMANCE

6.1 Internal Audit will endeavour to build positive and constructive working relationships with clients and stakeholders. A number of methods are deployed to liaise and engage with client departments/stakeholders regarding audit work, including:

- Annual discussions with senior staff to discuss the annual plan
- Advance circulation of audit brief documentation to relevant officers
- Input into corporate initiatives/projects including attendance at steering groups/working parties
- Training initiatives to departments on issues such as fraud awareness, new legislation, financial regulations, internal control etc
- Responding promptly to ad-hoc requests for advice/consultancy support or any investigatory work
- Fostering constructive working relationships with management, partner organisations, external auditors and other review agencies.

6.2 The Chief Internal Auditor continuously reviews the effectiveness of the Internal Audit service and the quality of the products provided and will use a range of techniques to accomplish this, namely:

- Overseeing the annual appraisal cycle and ensuring that any developmental/training needs are identified and addressed
- Monitoring and reporting on the Internal Audit performance indicators
- Undertaking, reviewing and acting on client satisfaction surveys/client feedback
- Establishing and monitoring professional standards

- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the audit plan
- Constantly reviewing the audit methodology and benchmarking against best practice.

6.3 In line with the CIPFA Code of Practice, Internal Audit has a performance management and quality assurance framework in place. This framework is largely enshrined within operational procedures detailed in the Audit Manual and Audit Guide. From 2010/11 these procedures were supplemented by the following performance measures which will be reported annually to the Audit Committee at its June meeting.

Service Delivery	
1	Percentage of audit assignments (service audits and EMAS) completed within agreed 'chargeable' or budgeted days.
2	Percentage of audit days delivered compared to the annual plan.
Reporting	
3	Percentage of draft audit reports issued by the target date included in the assignment audit brief.
4	Percentage of final reports produced within 10 days of receipt of a complete management response.
Staffing	
5	Percentage of annual working days lost to sickness (compared to Council and Group average).
6	Percentage of staff receiving six monthly and annual appraisals.
Customer Satisfaction	
7	Customer satisfaction will be measured by a biennial survey which will be run in Q3/Q4 of the financial year to inform the year-end reporting of internal audit activity to the Audit Committee.
8	A separate biennial survey will be used to obtain satisfaction data in relation to our audit work on Schools.
Quality Control & Assurance	
9	Existing operational quality control/assurance practices will be supplemented by an annual risk based cold review programme of completed audit assignments.

6.4 Where appropriate suitable benchmark or target data will be used to establish an appropriate baseline for these performance measures; these will be subject to review and revision to ensure that Internal Audit is seeking continuous improvement. All performance measures will be reported to the Chief Internal Auditor, who will review the outturns and, if necessary, consult with the Executive Head/Strategic Director to determine if any remedial action is required.

7. INDEPENDENCE AND STATUS

7.1 Sutton's Internal Audit function is independent of the services and activities it audits. This provides assurance that assessments and advice

are impartial, unbiased and are not impeded. It has no operational responsibilities, although it maintains the scheme of delegated powers to officers. Independence and effectiveness are also achieved by the measures below.

- 7.2 Internal Audit reports are issued independently in the name of the Chief Internal Auditor, who has a specific right of access (if required) under the Constitution to the Chair of The Executive. The Chief Internal Auditor attends Audit Committee and reports the results of audits and investigations regularly to the Audit Committee, and to other committees and to The Executive as necessary.
- 7.3 Subject to any overriding statutory responsibilities of the Strategic Director of Resources, accountability for the response to the advice and recommendations of Internal Audit lies with management. Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.
- 7.4 Internal Audit has adequate budgetary resources to deliver the audit plan, and also to maintain organisational independence so that the Chief Internal Auditor can provide an adequate annual Audit Opinion and contribute effectively to the provision of assurance on the Annual Governance Statement. The Strategic Director of Resources periodically reviews the team's resources to ensure adequacy, informed by the Audit Strategic Plan and the Annual Governance Statement.
- 7.5 Operationally the Chief Internal Auditor reports to the Executive Head of Finance who in turn reports to the Strategic Director of Resources. The Chief Internal Auditor is a member of the Finance Unit Management Team and meets regularly with the Executive Head of Finance to discuss progress in meeting the Audit Plan as well as Audit Committee and other audit or corporate issues.
- 7.6 Audit staff are suitably experienced and managed and follow guidance in the Audit Manual and Audit Guide to demonstrate that they:
 - Have an impartial, unbiased attitude, characterised by integrity
 - Demonstrate an objective approach to work
 - Do not allow external factors to compromise their professional judgement
 - Avoid reviewing any activity in which they have previously had operational responsibility
 - Avoid any conflicts of interest.

8. CODE OF PRACTICE

- 8.1 Internal Audit work is carried out in accordance with an Audit Manual and Audit Guide that is regularly updated. The Audit Manual is based on the CIPFA Audit Manual and the CIPFA Code of Practice for Internal Audit. The Audit Guide is a detailed document that covers the whole process of carrying out and reporting audit assignments.

9. FRAUD AND CORRUPTION

- 9.1 Internal Audit's planned work includes evaluating controls for their effectiveness in preventing or detecting fraud. Internal Audit also has an investigation capability for non-benefit investigations that are referred by managers, Members, the public or other organisations. It also carries out pro-active investigations. When investigating internal matters, Internal Audit provides evidence to the investigating officer and does not normally act directly in a 'prosecuting' role. It carries out an annual fraud risk assessment and has a proactive strategy that supplements the Council's arrangements to prevent, deter and detect fraud and corruption. It also suggests improvements to existing arrangements and carries out proactive work to ensure arrangements are proportionate to the risks faced. Internal Audit regularly reviews the Council's anti fraud and corruption policies and maintains the web pages that articulate the policies.
- 9.2 Managing the risk of fraud and corruption is the responsibility of service management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors are trained to be alert in their work to risks and exposures that could potentially allow fraud or corruption to happen.

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