

**TERMS OF REFERENCE**  
**For the**  
**INTERNAL AUDIT SERVICE**  
**Of**  
**WARWICKSHIRE COUNTY COUNCIL**  
(Updated May 2007)

**1 INTRODUCTION**

- 1.1 The requirement for an internal audit function is contained in The Accounts and Audit Regulations 2003 (as amended) which require the Authority to:  
“maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Proper internal audit practices are those contained in various Cipfa publications but primarily the Cipfa Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

- 1.2 The internal audit service also assists the Strategic Director of Resources in discharging his delegated responsibilities under Section 151 of the Local Government Act 1972 which requires that authorities:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

- 1.3 These Regulations and Code require a much wider role for internal audit compared with the historical focus on financial systems. Recognising this wider role the Authority has formally delegated its responsibility for internal audit to the Strategic Director of Performance and Development, who is the designated monitoring officer.
- 1.4 The purpose of this document is to set out the nature, role, responsibilities and authority of the internal audit service within Warwickshire County Council.

**2 ROLE**

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, 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.

### **3 OBJECTIVES**

- 3.1 Internal audit's objective is to give assurance to the County Council, through the Audit and Standards Committee, on the adequacy and reliability of the Authority's control environment.
- 3.2 This assurance will be provided by an annual report that will give an opinion of the control environment. This opinion will feed into the Authority's Statement on Internal Control.

### **4 RESPONSIBILITIES OF INTERNAL AUDIT**

- 4.1 Internal audit is responsible for providing assurance across all the Authority's activities, including:
- schools
  - services provided on behalf of other organisations by the Authority, and
  - services provided by other organisations on behalf of the Authority.
- 4.2 Internal audit provides assurance on the organisation's entire control environment. The key elements of the control environment include:
- "establishing and monitoring the achievement of the organisation's objectives
  - the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
  - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
  - the financial management of the organisation and the reporting of financial management
  - the performance management of the organisation and the reporting of performance management."

Audits are undertaken using the risk based approach as outlined in the Cipfa Code.

Internal audit is responsible for reviewing the Authority's response to fraudulent activity in order to ensure that appropriate action has been taken. Once an investigation is concluded, internal audit will undertake a review to determine whether controls should be strengthened.

- 4.3 Whilst internal audit primarily provides an independent and objective opinion on the control environment, the Code states that internal audit may also undertake non-assurance work (consultancy) at the request of the

organisation, subject to there being no impact on the core assurance work and the availability of skills and resources. This can include advice, training, facilitation and fraud / irregularity related work:

#### **4.3.1 Policy and Systems Development**

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. As such, managers are required to consult internal audit at the start of such processes. Internal audit must be informed and consulted about plans for major or complex changes to systems. Internal audit will advise/comment on proposed changes and the controls to be incorporated in new and revised systems but the final decision on whether to accept the audit advice rests with the relevant manager.

The provision of such advice does not prejudice internal audit's right to evaluate the established systems and controls at a later date.

#### **4.3.2 Fraud**

All managers are responsible for the prevention and detection of fraud, corruption and other irregularities. However, internal audit assists with these responsibilities. Internal auditors when conducting audit assignments are alert to opportunities, such as control weaknesses that could allow fraud. If internal audit discovers evidence of a fraud or other irregularity the relevant line manager will be informed.

Subject to the availability of resources, internal audit will also investigate suspected fraud and other irregularities. It is the responsibility of the relevant line manager to determine what action to take as a result of the investigation.

Managers should immediately inform the Head of Audit and Risk if a fraud or other irregularity is suspected who will then inform the strategic directors of Performance and Development and Resources. Managers should also ensure that:

- any supporting documentation or other evidence is secured; and
- confidentiality is maintained so as not to prejudice any subsequent investigation.

The Audit and Risk Manager is responsible for reporting frauds and subsequent liaison with the Police and other investigative agencies.

#### **4.3.3 Best value and value for money**

Internal audit will assist managers by examining and evaluating the extent that value for money is achieved as part of routine internal audit reviews.

At the request of the Chief Executive, a Strategic Director or other senior manager, and subject to the availability of resources, internal audit will also:

- undertake or participate in specific value for money / service reviews;
- facilitate the introduction of best practices across the Authority.

The scope of a value for money / service review will not normally overlap with the scope of an audit. However, internal audit will take account of the timing and scope of such reviews when planning its work.

Where a review team is actively looking at options that have a material impact on risks and controls the Audit and Risk Manager must be informed at an early stage.

Where requested, and subject to the agreement of the relevant manager, internal audit will assist reviewers by supplying information and knowledge gained during audits where this is relevant to the scope of the review.

#### **4.3.4 Other investigations**

The Audit and Risk Manager may, at the request of senior managers or the County Council or any of its committees, carry out investigations into issues where the Authority's strategic, corporate or financial interests are at stake.

## **5 INDEPENDENCE**

- 5.1 The internal audit of Warwickshire County Council is provided by the Internal Audit and Risk Management Service of the Performance and Development Directorate. The service is managed by the Head of Audit and Risk Manager who is professionally qualified. Although the Audit and Risk Manager's direct reporting line on audit matters is to the Head of Law and Governance he also reports to the County Council through its Audit and Standards Committee which has responsibility for overseeing audit arrangements. The Audit and Risk Manager also has a professional responsibility to the Strategic Director of Resources in his capacity as chief financial officer.
- 5.2 Internal audit has responsibility for co-ordinating work on risk management and business continuity but individual service heads are responsible for managing risk and preparing business continuity plans for their areas of responsibility. A clear separation of work is maintained within internal audit to ensure that no conflict of interest arises and to maintain objectivity. Apart from these areas of work internal audit does not have any executive responsibilities and is independent of the activities that it audits. This enables it to provide impartial and unbiased professional opinions and recommendations. Internal audit is free to plan, undertake and report on its work, as the Audit and Risk Manager deems appropriate, in consultation with relevant managers and the Audit and Standards Committee.

- 5.3 Line managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity.
- 5.4 Internal audit provides advice and assistance to managers and provides assurance that their control responsibilities are being properly fulfilled. Line managers are accountable for accepting internal audit advice and implementing their recommendations.

## **6 AUDIT AND STANDARDS COMMITTEE**

- 6.1 The Audit and Standards Committee's responsibilities are detailed in the Constitution but in summary include the overview of internal audit matters and arrangements for the maintenance of probity.
- 6.2 The role of the Committee complies with relevant Cipfa guidance on audit committees and includes:
- formally approving (but not directing) the overall internal audit strategy to ensure that it meets the council's overall strategic direction;
  - approving the annual programme of audits (paying particular attention to whether there is sufficient and appropriate coverage);
  - monitoring progress against the plan and assesses whether adequate skills and resources are available to provide an effective audit function;
  - considering summaries of work done, key findings, issues of concern and action in hand as a result of audit work; and
  - receiving and reviewing the annual report from the Head of Audit and Risk in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage.
- 6.3 The Audit and Risk Manager provides independent assurance to the committee, and by doing so, helps support the chief financial officer's Section 151 responsibilities.
- 6.4 As required by the Cipfa guidance the Audit and Risk Manager has the right to meet privately with the Committee.

## **7 OVERVIEW AND SCRUTINY**

- 7.1 The responsibilities of overview and scrutiny committees are detailed in the Constitution but include, in summary, the review and scrutiny of decisions made or actions taken in connection with the discharge of the Council's functions.
- 7.2 Internal audit will assist in this role by undertaking or participating in any specific reviews as requested by an overview and scrutiny committee or the Scrutiny Services Manager.

## **8 RIGHT OF ACCESS**

- 8.1 To undertake their work internal auditors have unrestricted access to all the Authority's personnel, premises, documents, records, information and assets including those of partner organisations. Internal auditors have authority to access all computer data as part of their work, including that registered under the Data Protection Act.
- 8.2 Internal auditors are authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Authority to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.
- 8.3 Internal auditors have rights of access to any data required for their work that is owned by the Authority, but is processed or held elsewhere by third parties.
- 8.4 The Audit and Risk Manager has the right of direct access to the strategic directors of Performance & Development and Resources, Chief Executive and the Chair of the Audit and Standards Committee.
- 8.5 Any unresolved dispute over access to information will be referred to the Monitoring Officer.

## **9 INTERNAL AUDIT STANDARDS**

- 9.1 Internal audit operates in accordance with the best practice standards and guidance in the "Code of Practice for Internal Audit in Local Government in the United Kingdom" issued by Cipfa.
- 9.2 Individual auditors are required to comply with the Cipfa Code, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by the Authority.
- 9.3 The Audit and Risk Manager, in conjunction with the Strategic Director of Performance and Development, is responsible for ensuring that the internal audit service is appropriately staffed in terms of numbers, grades and experience. Internal auditors will be properly trained to fulfil their responsibilities.
- 9.4 Internal auditors are expected to:
- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
  - maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
  - participate in the Performance and Development Directorate's staff appraisal scheme;

- comply with the Authority's rules about declaring interests; and
- obtain and record sufficient audit evidence to support their findings and recommendations.

9.5 Internal audit will safeguard the information obtained in carrying out its duties. Information obtained will not be use for personal gain or disclosed unless there is a legal or professional requirement to do so (for example under the Freedom of Information Act).

## **10 INTERNAL AUDIT PLANNING**

10.1 Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

10.2 The Audit and Risk Manager produces annual plans. These plans are developed in consultation with senior managers and take account of the Authority's risk management process. The Audit and Standards Committee approves each year's plan. These plans include an element of contingency to allow internal audit to be responsive to changing conditions and requests for assistance from managers. It is the responsibility of the Strategic Director of Performance and Development to ensure that the budget and resources allocated to internal audit are sufficient to ensure that these plans can be delivered. This is assessed as part of the business planning process.

10.3 The Audit and Risk Manager is authorised to amend the plan during the year as necessary in conjunction with the strategic directors of Performance and Development and Resources to reflect changes to systems or processes or in the risks facing the Authority. All managers are expected to notify internal audit of such changes immediately they become aware of them.

10.4 Terms of reference are prepared for each routine internal audit assignment and usually discussed with relevant line managers before the work is started.

10.5 Internal audit will usually give reasonable notice to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the unit under review. However, internal audit reserves the right for unannounced visits where the Audit and Risk Manager considers it necessary.

## **11 INTERNAL AUDIT REPORTING**

11.1 Internal audit reports all findings to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the area reviewed, make recommendations for improvement and specify the officer responsible for implementation. Opinions on individual assignments feed into the overall opinion given in the annual report. Recommendations are prioritised.

- 11.2 The Audit and Risk Manager is responsible for monitoring and reporting on the extent of implementation of agreed internal audit recommendations. The Audit and Risk Manager reports to the strategic directors of Performance & Development and Resources, and the Audit and Standards Committee, as appropriate, where significant internal audit recommendations do not receive adequate attention.
- 11.3 The Audit and Risk Manager submits regular reports to the Audit and Standards Committee outlining the results of audits. An annual report will be provided giving an opinion on the Authority's control environment and which feeds into the Authority's Statement on Internal Control.

## **12 CO-OPERATION**

- 12.1 The Audit and Risk Manager co-ordinates internal audit plans and activities with external auditors to ensure the most efficient use of the total resources devoted to audit and review.
- 12.2 The Audit and Risk Manager is authorised to share information and papers with external auditors.
- 12.3 Internal audit will work in partnership with other services on such matters as corporate governance, data protection, contracting and risk management. Internal audit will work closely with the Strategic Director of Resources in his capacity as chief financial officer.
- 12.4 Line managers are expected to be open, frank and honest about any risks, concerns or problems that may exist.
- 12.5 Where services are provided by or to other organisations the Audit and Risk Manager is authorised to agree the responsibility for internal audit of those services with the internal auditors of those organisations.

## **13 QUALITY OF SERVICE**

- 13.1 The Audit and Risk Manager manages a quality assurance programme to ensure that internal audit work complies with professional standards and achieves its objectives.
- 13.2 Internal audit takes the following action to provide a quality service:
- adopts a flexible risk driven approach;
  - works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control;
  - continually seeks to improve the efficiency of its services in consultation with managers from across the Authority;
  - regularly reviews its procedures to ensure that they remain appropriate; and

- develops a set of performance indicators and targets to help the Strategic Director of Performance & Development monitor its success;

13.3 The internal audit quality assurance programme will include:

- suitable guidance, support and review of all internal audit work;
- seeking feedback from line managers on the quality of internal audit work; and
- periodic internal quality audits to monitor services provided by all internal auditors.

13.4 The quality and scope of internal audit work is also regularly reviewed by the Authority's external auditors.

13.5 The Audit and Risk Manager will investigate and respond promptly to all complaints about internal auditors or the service provided.