

Lancashire County Council

Internal Audit Service terms of reference and strategy

June 2011

The Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 ('the Code of Practice') states that an effective internal audit service should aspire to:

- understand the whole organisation, its needs and objectives;
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
- be seen as a catalyst for change at the heart of the organisation;
- add value and assist the organisation in achieving its objectives;
- be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
- be innovative and challenging;
- help to shape the ethics and standards of the organisation;
- ensure the right audit resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly;
- share best practice with other auditors; and
- seek opportunities for joint working with other organisation's auditors.

These terms of reference and strategy establish the framework in which Lancashire County Council's internal audit service achieves these aspirations, updating the previous version dated December 2006.

1 Responsibilities and objectives

1.1 The Code of Practice defines internal audit as

'an assurance function that provides an independent and objective opinion to the organisation on the control environment (comprising governance, risk management and internal control) 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.'

1.2 Lancashire County Council's Internal Audit Service is therefore required to provide an independent and objective opinion on the council's control environment. This is widely drawn to include risk management, control and governance, and the scope of internal audit work therefore potentially encompasses all of the council's activities including those operated through partnerships with other organisations.

Lancashire County Council
Internal Audit Service terms of reference and strategy

- 1.3 Internal audit work is chiefly directed to the provision of an independent and objective opinion on the adequacy and effectiveness of the controls designed to achieve the council's objectives or to manage the risks to their achievement. The aim of every internal audit report should be to give an opinion, on the basis of sufficient, evidenced work, on the risks and controls of the area under review.
- 1.4 On the basis of work undertaken during the year, the head of internal audit will provide an opinion annually to the council on the overall adequacy and effectiveness of its control environment. This opinion will be an important element of the council's review of the effectiveness of its control environment.
- 1.5 The existence of the Internal Audit Service does not diminish the responsibility of management to establish a control environment and systems of internal control, risk management and governance to ensure that the councils' objectives are met and its activities conducted in a secure and well-ordered manner.
- 1.6 The Code of Practice recognises that, at the request of management, and subject to the adequacy of resources, the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud or corruption, or provide a consultancy service to management. These services apply the professional skills of internal audit and may contribute to the opinion which the head of internal audit provides on the control environment.

2 The statutory regime and related guidance for internal audit

- 2.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state in respect of internal audit that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'
- 2.2 'Proper practices' are established in the Code of Practice.

'Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the plan the Head of Internal Audit should take account of the organisation's risk management, performance management and other assurance processes.

'The Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan, should be identified, addressed, and reported to the Audit Committee.'

Lancashire County Council
Internal Audit Service terms of reference and strategy

- 2.3 The Internal Audit Service complies with the standards set by the Code of Practice, and also has regard to the standards and practice statements issued by The Institute of Internal Auditors.
- 2.4 In addition, the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Audit and Accounting Regulations.
- 2.5 The council's Financial Regulations provide for the Internal Audit Service, representing the county treasurer, to have access to all cash, property, documents, books of accounts and vouchers appertaining in any way to the finances of the county council, and to require explanations as necessary.

3 Reporting lines and relationships

- 3.1 The county treasurer has a responsibility under the Local Government Act 1972 to ensure that there is an effective system of internal control and to ensure that there is an effective internal audit function. The head of internal audit therefore reports to and is managed by the county treasurer.
- 3.2 The county council has an audit committee, which meets at least four times each year, and the head of internal audit reports to each meeting of that committee under its terms of reference. The Audit Committee is responsible for approving (but not directing) the annual audit plan and the head of internal audit has regular access to the chair of the Audit Committee.
- 3.3 The Internal Audit Service and the Audit Commission, as the Authority's external auditor, operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to a joint improvement in performance and avoidance of duplication of work.

4 Independence and accountability

- 4.1 The Internal Audit Service remains independent of the council's other services, with the exception of its responsibilities for risk management, counter fraud and investigatory work, and no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.
- 4.2 The Internal Audit Service's priorities are determined in consultation with the Management Team and the senior leadership team, but remain a decision for the head of internal audit.
- 4.3 The Internal Audit Service has direct access to the council's records, assets, premises and officers and is able to report independently and impartially as required. Accordingly the head of internal audit has direct access to and freedom to report in her own name and without fear or

favour to, all officers and members and particularly the Audit Committee.

- 4.4 The Audit Committee's working practices provide the opportunity for the head of internal audit to meet informally with all members of the Committee, without other officers present, at least once per year in a non-decision making session.
- 4.5 Accountability for the response to the Internal Audit Service's advice and recommendations lies with the council's Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action.
- 4.6 Audit advice and recommendations, including where the Internal Audit Service has been consulted about significant changes to the internal control systems, are given without prejudice to the right of the Internal Audit Service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

5 Internal audit resources

- 5.1 Lancashire County Council has taken the strategic decision to provide its internal audit service itself and is committed to providing a cost-effective service that meets or exceeds best practice standards.
- 5.2 The head of internal audit is responsible for ensuring that Internal Audit Service resources are sufficient to meet its responsibilities and achieve its objectives. If the head of internal audit or the Audit Committee considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they should advise the council accordingly.
- 5.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore to be deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the council.

6 Quality assurance

- 6.1 The head of internal audit operates a performance management and quality assurance framework that assesses on-going compliance with the Code of Practice, and whether the Internal Audit Service is consistently meeting its internal quality standards.

7 Fraud and corruption

- 7.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
- 7.2 Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have been occurring. Audit procedures

alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

- 7.3 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.
- 7.4 The Internal Audit Service operates the council's whistle-blowing helpline and provides an additional service to respond to and investigates instances of suspected or actual fraud, corruption or impropriety.

8 Risk management

- 8.1 The Internal Audit Service is not responsible for managing the council's risks, which is the responsibility of management.
- 8.2 However the Internal Audit Service supports management in making its assessment of risk. The Internal Audit Service will also share information gathered during the course of internal audit work with management to enhance management's understanding of the risks to the council and the financial and operational controls in place to manage them.

9 The Internal Audit Service strategy/ business plan

- 9.1 The Internal Audit Service business plan is formulated in accordance with corporate guidance and sets out, amongst other things, the following matters:
- The Internal Audit Service's aims and objectives;
 - Performance measures and service standards;
 - Action plans for the short and medium term; and
 - Resources (financial, staff, ICT assets and accommodation).
- 9.2 It is framed in terms of the Internal Audit Service's professional objectives, which require the Service to achieve:
- A best practice approach;
 - Effective use of technology;
 - Sound client management;
 - A strong audit team; and
 - Effective quality assurance.
- 9.3 These objectives underpin the Internal Audit Service's strategic development and operation in practice.

10 Performance measures and service standards

10.1 The Internal Audit Service assesses its performance as follows:

Measures focussed on client satisfaction:

- The degree to which client input is sought to the scope of audit work, and audit procedures agreed in advance;
- The clarity with which findings are communicated;
- The practicality of auditors' analysis and recommendations;
- The level of auditors' knowledge of clients' business;
- The effectiveness of liaison arrangements; and
- Auditors' responsiveness to requests for advice, and the extent to which staff demonstrate a professional and helpful attitude.

Each of these measures, and others, are assessed at least annually through the client satisfaction survey externally administered by CIPFA's Benchmarking Club.

Measures directed towards achieving professional standards:

- The timeliness of quality review processes at the scoping, fieldwork, and reporting stages;
- The timeliness of our audit reporting, within the targets agreed between the audit team and our clients;
- The degree of reliance placed on our work by the Audit Commission; and
- Achievement of a target level of chargeable time.

The audit team will agree target start and end dates with clients for each review as it is scoped, and include the actual dates achieved in the final report.

Auditors will issue a draft report within four weeks of the closure meeting with management of the area under review, and will issue a final report within two weeks of receipt of management's response.

The reliability of the work of the Internal Audit Service is periodically assessed by the Audit Commission, as required by external audit standards, and its findings are reported to the Audit Committee.

Organisational measures:

- The delivery of internal audit assurance within the Internal Audit Service's budget; and
- Achievement of corporate policy targets including for example compliance with health and safety procedures.