



North Herts District Council  
Finance, Audit and Risk Committee

SIAS Terms of Reference Report

1 March 2012

Recommendation

Members are recommended to accept the SIAS Terms of Reference as part of compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006

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## **Contents**

1. Introduction and Background
  - 1.1 Purpose
  - 1.2 Background
2. SIAS Terms of Reference

## **APPENDIX A**

SIAS Terms of Reference 2012-13

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## **1. Introduction and Background**

### **Purpose of Report**

1.1 To provide Members with:

- a) The Shared Internal Audit Service (SIAS) Terms of Reference

### **Background**

1.2 The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires that a local authority should formally define the terms of reference for its internal audit function. This report presents the Terms of Reference for the SIAS in its provision of internal audit services to North Herts District Council.

## **2. SIAS Terms of Reference**

2.1 The Terms of Reference set out the framework within which Internal Audit discharges its responsibilities to those charged with governance in the SIAS partner authorities and should be read in conjunction with the SIAS Audit Strategy (appended to the Internal Audit Plan also on this agenda).

2.2 The Terms of Reference detail the permanent arrangements for the SIAS and its relationship with its partners that are seldom likely to materially change. By contrast, the SIAS Audit Strategy is updated annually to take account of developments and changes to the audit approach and the evolutionary nature of its relationship with its partners.

2.3 Together the Terms of Reference and the Audit Strategy have supported the development of the internal audit plans for the SIAS partner authorities for 2012-13.



**APPENDIX A**

**SHARED INTERNAL AUDIT SERVICE**

**TERMS OF REFERENCE 2012-13**

### 1. Introduction

- 1.1 These Terms of Reference set out the framework within which Internal Audit discharges its responsibilities. Internal Audit is delivered by the Shared Internal Audit Service (SIAS) and this document can be read in conjunction with the SIAS Audit Strategy.
- 1.2 The Terms of Reference set out the permanent arrangements for the SIAS and its relationship with its partners that are seldom likely to materially change, while the SIAS Audit Strategy is updated annually to take account of developments and changes to the audit approach and the evolutionary nature of its relationship with its partners.

### 2. Purpose, Aims and Ethos of SIAS

- 2.1 The purpose of SIAS is to provide independent evidence-based assurance on the whole range of controls over delivery of Council objectives, as a core element of the Council's governance framework.
- 2.2 SIAS aims to operate in accordance with the ethos for internal audit set out by CIPFA in its Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. This 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 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 organisations' auditors.
- 2.3 In addition, the ethos recognises that SIAS is a partnership formed of several organisations; ways of working which are based on appropriate partnership behaviours such as ensuring good dialogue, building trust and rapport, and thinking across boundaries are therefore important.

### 3. Legal Framework

- 3.1 The requirement for an internal function is either explicit or implied in the relevant local government legislation.
- 3.2 Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... 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".

3.3 Section 6 of the Accounts and Audit (England) Regulations 2011 requires that:

- 1) 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.

(‘Proper practices’ are defined in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 – See 5. Standards below.)

- 2) Any officer or member of a relevant body must, if the body requires –
  - a) Make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
  - b) Supply the body with such information as that body considers necessary for that purpose.
- 3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
- 4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph.”

#### **4. Financial Regulations - Authority of Internal Audit**

4.1 The authority for the internal audit function is reflected in each partner Council’s Constitution – usually within the Financial Regulations / Financial Procedure Rules. This authority should enable SIAS to meet all its statutory requirements.

#### **5. Standards**

5.1 SIAS adopts the standards established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

5.2 CIPFA has issued the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 that sets out the duties and responsibilities of internal auditors in local authorities.

5.3 SIAS also recognise the Chartered Institute of Internal Auditors (CIIA), which has issued the International Standards on internal auditing that are principles-focused, mandatory requirements consisting of:

- a) Statements of basic requirements for the professional practice of internal auditing, and for evaluating the effectiveness of performance, and
- b) Interpretations, which clarify terms or concepts within the Statements.

5.4 SIAS follows the guidance in all of the above documents as ‘proper practice’ in the provision of the service to the Council.

5.5 SIAS also has its own Audit Manual which serves as a guide for its auditors in day to

day audit practice. The Head of Assurance has a responsibility to set out quality assurance and performance management standards for SIAS.

### **6. Scope - Extension of SIAS remit to the entire control environment of the Council**

6.1 The primary role of SIAS is to provide assurance to the Council that its management frameworks and processes are adequate and effective, and directed at achieving the Council's objectives. Internal Audit ensures that the internal control environment, which comprises risk management, governance arrangements, and financial and non-financial systems, processes and controls, is robust and working as intended in practice.

6.2 The scope of internal audit work therefore potentially encompasses all the Council's activities including those operated through partnerships with other organisations. SIAS generally adopts a risk-based approach to this work.

6.3 It is management's responsibility to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

### **7. Contribution of SIAS to the review of the effectiveness of the control environment and requirement of the Head of Internal Audit to deliver an annual audit opinion**

7.1 Through the delivery of the annual audit plan, SIAS covers the key priorities of the Council in a number of ways:

- a) Key financial system coverage,
- b) Review of strategic and service risks,
- c) Review of key business processes and procedures, and
- d) Computer audit.

7.2 The aim of every internal audit report will be to give an opinion, on the basis of sufficient, evidenced work, on the risks and controls of the area under review.

7.3 On the basis of the work undertaken during the year, the SIAS Head of Assurance will provide an opinion annually to the Council on the overall adequacy and effectiveness of the organisation's control environment. This opinion will be an important element of the Council's review of the effectiveness of its control environment.

### **8. Accountability and Reporting**

8.1 Where appropriate, all audit assignments at conclusion are the subject of formal audit reports. Draft reports are sent to the managers responsible for the area under review for agreement with the factual accuracy of the findings and recommendations included within the report.

8.2 Accountability for the response to SIAS advice and recommendations lies with the Council's management team, who either accept and implement the advice or accept the risks associated with not taking action.

## **APPENDIX A – SIAS TERMS OF REFERENCE 2012-13**

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- 8.3 Final audit reports, containing management responses, responsible officers and target dates are copied to the senior manager (for example a Director or the Chief Executive) for information.
- 8.4 The Audit Committee will receive updates at appropriate intervals containing a summary of audits completed and details of any new significant risks that have been identified through the audit review process.
- 8.5 SIAS has the right to review and make further recommendations of relevant policies, procedures, controls and operations at a later date, even where advice and recommendations have already been made. This includes instances where SIAS has been consulted about significant changes to the internal control systems.

### **9. Organisational independence of Internal Audit**

- 9.1 In order to achieve its objectives effectively, SIAS must be seen to be independent of Hertfordshire County Council and the five partner District and Borough Councils which make up the SIAS partnership. This is achieved in several ways:
- a) Organisational status and high level organisational oversight / accountability. SIAS has direct access to, and will report to, the Audit Committee and Senior Management Team, most usually represented by the S151 Officer, at the respective Districts and Boroughs and Hertfordshire County Council. For line management purposes, the Head of Assurance reports to the Director of Resources and Performance at Hertfordshire County Council, as the host authority for the shared service.
  - b) SIAS is independent of the activities that it audits, while working in partnership with management to improve the control environment and helping the Council to achieve its objectives.
  - c) The Head of Assurance at SIAS has the freedom to report in his or her own name to all senior managers and Members, and particularly those charged with governance. SIAS has direct access to the Council's records, assets, premises and officers and is able to report independently and impartially as required.
  - d) In accordance with the CIPFA Code of Practice, SIAS's audit coverage is determined in consultation with the respective partner Councils, but remains a decision for the Head of Assurance and SIAS management.
  - e) On request, the Head of Assurance at SIAS and respective SIAS Audit Managers can meet privately with the Chair and Deputy Chair of the Audit Committee, together with any other Committee member(s) as deemed appropriate.
  - f) SIAS may employ an audit firm to assist with the provision of internal audit services to the Council. SIAS will take account of potential conflicts of interest in the allocation of work to the audit firm concerned.
  - g) Individual auditors have no executive or operational responsibilities, and work with an impartial, unbiased attitude, which is characterised by integrity, professionalism and an objective approach.



### **10. Avoiding conflicts of interest**

- 10.1 In addition to the ethical requirements of the various professional bodies, each auditor is required to proactively declare any potential “conflict of interest” prior to the commencement of each audit assignment.
- 10.2 All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Individual auditors who undertake any consultancy work will be prohibited from auditing those areas. Assignment of ongoing audit responsibilities is rotated from time to time within the team to avoid over-familiarity and complacency.

### **11. Rights of Access**

- 11.1 SIAS has a right of access at all reasonable times to personnel, assets, records and premises, including those of partner organisations, and the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. These rights and authority are contained in the respective client contracts with SIAS and the Financial Procedure Rules at each client authority.

### **12. Review of effectiveness of Internal Audit**

- 12.1 In accordance with section 6 of the Accounts and Audit (England) Regulations 2011, the SIAS Board will make arrangements for the conduct of a review of the effectiveness of internal audit.
- 12.2 The review is to ensure that the opinion given in the Annual Report of the Head of Assurance may be relied upon as a key source of evidence in the Annual Governance Statement.
- 12.3 The work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members.