

TERMS OF REFERENCE AND AUDIT STRATEGY

1. INTRODUCTION AND RESPONSIBILITY FOR INTERNAL AUDIT

- 1.1 The Internal Audit Service for Stevenage Borough Council (the Council) is delivered by the Council's Internal Audit Assurance & Consultancy Service (Internal Audit). This is to fulfil the Combined Code of Corporate Governance.

2. INTERNAL AUDIT: RESPONSIBILITIES AND SERVICE OBJECTIVES

- 2.1 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the adequacy and effectiveness of the control environment.

- 2.2 Internal Audit's remit extends to the entire control environment of the Council and takes into consideration its assurance and monitoring mechanisms, including its risk management arrangements. Internal Audit may place reliance on the work of third party auditors, where this is deemed appropriate.

- 2.3 The key service objectives for Internal Audit are:

- To contribute to fulfilling the requirements of the Combined Code of Corporate Governance
- To enable the External Auditor to place reliance on the work of Internal Audit
- To make a major contribution to the independent review of the Council's governance, risk and assurance arrangements
- To undertake independent corporate and service risk based reviews to provide assurance on the efficiency and effectiveness of management and service delivery arrangements
- To work closely with the External Auditor to ensure the effective coordination of audit resources and avoid duplication
- To undertake special investigations including those relating to potential fraud and corruption and misuse of the Council's resources;
- To conduct special reviews, on a consultancy basis, as requested by Management.

- 2.4 Through the achievement of the above objectives, Internal Audit directly contributes to the achievement of the key aims set out in the Council's delivery plan.

Best Practice

- 2.5 Internal Audit works to best practice as set out in The Chartered Institute of Public Finance & Accountancy's (CIPFA) "*Code of Practice for Internal Audit in Local Government in the UK 2006*". This document formally sets out the key elements relating to the provision of an effective internal audit service within Local Government and is considered as best practice for Council accounts.

Fraud & Corruption

- 2.6 Managing the risk of fraud and corruption is the responsibility of Management. Internal Audit is not responsible for the prevention or detection of fraud and corruption. However, through its work it is alert to:
- a. The risks and exposures that could allow fraud or corruption to be carried out; and
 - b. Any indicators that suggest that fraud or corruption may have been occurring.
- 2.7 Internal Audit will provide Ethics and Probity training to all new starters to ensure that they are aware of the requirements of relevant organisational policies and in particular their respective roles and responsibilities.
- 2.8 Internal Audit must be notified of all suspected/detected fraud or corruption before any investigative work is undertaken by the Council. This is to ensure that a consistent approach is taken in all investigations and that individual's with the appropriate skills and background are assigned to the task.

Corporate Consultancy/Project Monitoring

- 2.8 Internal Audit provides advice and support on projects and developments are requested. This type of audit work is classed as consultancy. As a result of placing audit resources within this area, Internal Audit is able to provide proactive and preventative contributions during development and implementation rather than solely auditing after the event.

3. AUTHORITY AND INDEPENDENCE OF INTERNAL AUDIT

- 3.1 Internal Audit has no operational responsibilities and is thus independent of the activities that it audits. This allows auditors to make impartial and effective professional judgements and recommendations.
- 3.2 Advice and recommendations, including where Internal Audit has been consulted about significant changes to the internal control environment, are given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.
- 3.3 Internal Audit has the right of access to all records, assets, personnel and premises and has the authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities.

4. REPORTING ARRANGEMENTS

Audit Reports

- 4.1 The aim of an internal audit report is to:
- Provide an opinion on the risk and controls of the area under review;
 - Provide a formal record of the points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales; and
 - Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance of the service.
- 4.2 Management has the responsibility for ensuring that actions are implemented. Internal Audit will obtain assurances that actions have been appropriately implemented as part of its follow-up procedures.

- 4.3 As appropriate, finalised internal audit reports are issued to the relevant director and if requested are presented in their entirety to the Council's Audit Committee.

Escalation Procedures

- 4.4 Internal Audit adopts a defined and structured escalation procedure for instances when Management do not agree to a 'high risk' recommendation and fail to present a robust alternative course of action. Escalation is first made to the relevant Director. Any significant issues not appropriately resolved at this stage would be escalated to the Strategic Director (Resources). In the unlikely event that all officer escalations fail, the matter would be formally reported to the Audit Committee.

Reporting to Members

- 4.5 The Council's Audit Committee meets on a quarterly cycle. Internal Audit will present the following information as appropriate throughout the year:
- a. Finalised internal audit reports
 - b. Ad hoc internal audit reports
 - c. Progress against the Annual Audit Plan
 - d. Proposed Annual Plan
 - e. Performance against the Section's Performance Indicators
 - f. Internal Audit Terms of Reference and Strategy
 - g. Performance against the CIPFA Code of Practice
 - g. Annual Internal Audit Control Report

5. SKILLS REQUIRED TO DELIVER THE INTERNAL AUDIT SERVICE

- 5.1 In order to provide the scope of coverage defined in this document and the supporting Annual Audit Plan, Internal Audit staff have a mix of generic and specialist auditing skills including: Contract Audit, Fraud Investigations and Corporate Governance.
- 5.2 The Service encourages staff to obtain a range of appropriate professional qualifications and relevant experience through a combination of training methodologies.

6. APPROACH TO AUDIT PLANNING

- 6.1 Thinking and best practice in relation to internal audit planning has changed significantly over the past few years. Internal Audit has adopted and recognised best practice by seeking to ensure that internal audit resources are increasingly allocated on a 'risk based' basis. This approach aims to both reflect the vision and objectives of the Council, whilst retaining the flexibility to respond to the changing environment facing a progressive and proactive organisation.
- 6.2 Internal Audit's key focus is to review the controls in place for managing the Council's key risks in order to provide the Council with assurance that those controls are working as intended.
- 6.3 Internal Audit identifies significant local and national issues and risks by undertaking an environmental scan of the Council. The sources that may be utilised to inform the plan include:
- The Delivery Plan and key priorities for the Council;

- Council's Risk Register;
- CPA Assessment and Action Plans;
- The Interim & Annual Audit and Inspection Letters and Outline Audit Plan from the External Auditor;
- Agenda's and Minutes of committee meetings;
- Consultation with managers; and
- Audit knowledge of the organisation.

7. ANNUAL ASSURANCE

Adequacy & Effectiveness of the Authorities Control Environment

- 7.1 The Audit Manager is required to provide an assurance assessment on the overall internal control arrangements of the Council, at the end of each financial year.
- 7.2 When taken in conjunction with Internal Audit's work on corporate governance and risk management, this assessment provides management, Members and those charged with governance with an independent indication of the robustness of the internal control framework.
- 7.3 The annual assurance provided to the Council by Internal Audit is gathered by undertaking the work contained in the annual audit plan. This strategy details the methodology for defining the work to be included within the annual plan and the arrangements for its approval.
- 7.4 Internal Audit prepares a risk-based annual audit plan designed to implement the audit strategy. This helps establish how internal audit will contribute to the review of the Council's corporate governance arrangements, risk management processes and key internal control systems.

❖ Reviews of Corporate Governance Arrangements

The Council is responsible for ensuring that robust and transparent corporate governance, including risk management, is evident throughout its activities. Internal Audit is available to provide support, guidance and training in relation to helping reinforce the Council's governance arrangements in line with identified need.

❖ Anti Fraud and Corruption

Internal Audit makes a significant contribution to the biannual compulsory National Fraud Initiative (NFI) for Stevenage Borough Council, in which the Council participates. This is a major national data matching exercise and encompasses the housing benefits, housing rents, creditors and payroll databases of the Council and Council. This Strategy ensures that sufficient audit resources are directed at this priority work in the year required.

❖ Review of Risk Management Processes

Internal Audit refer to the Council's risk register to help inform both the global allocation of audit resources and wherever possible the detailed scoping of individual risk based audit reviews.

Internal Audit will review the robustness of the risk register and the processes underpinning its management as part of its programme of work.

8. BASIC STRUCTURE OF THE ANNUAL AUDIT PLAN & RESOURCE ALLOCATION

8.1 In order to give assurance on the Council's systems of internal control the audit plan is structured to include assignments in the following areas:

Core financial systems work

8.2 As part of the managed audit status of Stevenage Borough Council, the Council's External Auditors seek to place significant reliance on the work undertaken by Internal Audit in relation to the annual review of the key controls for the fundamental financial systems that inform the accounts. Relevant to the Council under this arrangement, are Internal Audit's review the following key financial systems:

- a. NNDR and Council Tax
- b. Main Accounting System
- c. Creditor Payments & Expenses
- d. Payroll
- e. Debtors
- f. Cash and Payments
- g. Asset Management
- h. Treasury Management
- i. Housing Rents (on behalf of SHL)

8.3 Audit resources required are determined by a combination of the External Auditor's minimum requirements, together with any additional assurance required on high risks within these areas. Where major system changes have been implemented, additional audit resources will be provided to evaluate the impact on the control environment and the Council's exposure to risk.

Audit reviews

8.4 Internal Audit's resources are allocated using a risk based approach and wherever possible, Internal Audit refers to the Council's Risk Register to identify key risks and controls for review. This involves highlighting the risks that may be barriers to the Council achieving its stated aims and objectives in both service and financial terms.

8.5 Internal Audit aims to provide assurance to management that their controls are adequate and operating effectively and thus effectively manage risk.

8.6 Internal Audit aims to focus on both key cross cutting issues, which will cover a large proportion of the high risks identified and service areas.

Follow Up of Key Audit Recommendations

8.7 Internal Audit aims to routinely follow-up management progress against agreed recommendations. This is a key element of Internal Audit work which gives assurance that Management is addressing key weaknesses identified.

Computer Audit

8.8 Resources within this area are allocated following an annual IT baseline assessment.

Contract Audit

8.9 Resources are made available to support procurement processes and procedures across the Council.

Contingency

8.10 Although the audit plan is kept under review to identify any amendments needed to reflect changing priorities and emerging risks, the plan must be sufficiently flexible to accommodate assignments which could not have been reasonably foreseen and to provide ad hoc advice and guidance to Managers.

Special Investigations

8.11 An allocation of time is made on an annual basis for Internal Audit to undertake investigations into allegations of fraud and corruption.

ANNUAL AUDIT PLAN 2008/09 AND INDICATIVE YEARS 2009/10 AND 2010/11

Audit Title	Risk	Budget (days)	Percentage attributable to SBC	Suggested frequency of coverage	Last audited (if known)	2008-09	2009-10	2010-11
Carry Forward Managed Audits 2007/08								
Asset Management	Key	c/f	100	annual		10		
Business Rates	Key	c/f	100	annual		8		
Council Tax	Key	c/f	100	annual		8		
Creditors	Key	c/f	65	annual		13		
Housing Benefits	Key	c/f	100	annual		20		
Main Accounting	Key	c/f	70	annual		14		
SUB TOTAL - MANAGED AUDIT 2007/08						73	0	0
Other carry forward audits 2007/08								
Insurance	low	15	100	3	2005/06	15		
SUB TOTAL - OTHER CARRY FORWARD AUDITS FROM 07/08 PLAN						15	0	0
Managed Audits 2008/09								
Asset management	Key	10	100	annual	2005/06	7	10	10
Cash and Payments	Key	15	100	annual		15	15	15
Council Tax	Key	15	100	annual		11	15	15
Creditors	Key	20	65	annual		9	13	13
Housing Benefits	Key	20	100	annual		15	20	20
Main Accounting	Key	20	70	annual		10	14	14
NNDR	Key	10	100	annual		10	10	10
Payroll	Key	20	70	annual		14	14	14
Sundry Debtors	Key	20	95	annual		12	20	12
Treasury Management	Key	7	100	annual		7	7	7
SUB TOTAL - MANAGED AUDIT 2008/09						110	138	130
Cross-cutting audits								

Absence Management	medium	10	100	3		10		
Business Continuity	medium	10	100	2	2007/08		10	
CCTV	medium	10	100	3		10		
Emergency Planning	medium	10	100	2			10	
Equalities and Diversity	medium	10	100	2		10		10
Health and Safety	high	15	100	2			15	
Learning and Development	medium	10	100	3			10	
Partnership working	medium	10	100	2		10		10
Performance Management	high	15	100	annual	2007-08	15	15	15
Recruitment and retention (to include CRB checks)	medium	10	100	3	2007-08			10
Use of consultants	high	15	100	3				15
SUB TOTAL - CROSS CUTTING AUDITS						55	60	60
Corporate Governance								
Anti-fraud and Corruption - Policy revision	n/a	5	100	1	n/a	5	5	5
Compliance with Audit Code of Practice	n/a	8	100	1	n/a	8	8	8
Corporate Governance Framework	high	10	100	1		10	10	10
Ethics and Probity Course	n/a	2	100	on-going	n/a	2	2	2
NFI	n/a	10	100	2	2007-08		10	
RIPA	medium	8	100	2			8	
Risk management	high	10	100	2	2007-08			10
SUB TOTAL - CORPORATE GOVERNANCE						25	43	35
Establishment Audits								
Museum	Low	10	100	4	2004/05			10
Play Centres	Low	10	100	4			10	
SUB TOTAL - ESTABLISHMENT						0	10	10
Income Audits								
Burials	medium	10	100	2	2005/06	10		10
Car parking	medium	15	100	2	2006-07	15		15
Commercial properties - leasing and rent collection	medium	15	100	2			15	
Dial-a-ride	low	5	100	4	2004/0			5

Environmental Health Income	medium	15	100	2			15	
Garages	medium	10	100	2		10		10
Ground rents	low	8	100	3				8
Holiday Play Schemes	low	10	100	4				10
Holidays for the elderly	low	8	100	4				8
Indoor Market	medium	8	100	2	2007-08		8	
Outdoor Market	medium	8	100	2	2005/06		8	
Release of covenants	low	8	100	3		8		
SUB TOTAL - INCOME						43	46	66
Regulatory Services								
Animal Control	low	8	100	3	2007/08			8
Building Control	medium	10	100	3	2003-04	10		
Contaminated land	low	8	100	4		8		
Development Control	medium	10	100	3	2007-08			10
Electoral services	medium	10	100	3			10	
Environmental Cleansing	medium	15	100	2		15		15
Gambling Act	medium	15	100	2			15	
Grants and loans (Environmental Health)	medium	10	100	3	2005/06		10	
Grounds Maintenance	medium	15	100	2		15		15
Homelessness	medium	10	100	2	2007-08		10	
Land charges	medium	15	100	3	2006-07			15
Licensing Act	medium	10	100	3	2006-07	10		
Noise nuisance	low	8	100	4		8		
Planning Policy	low	8	100	4			8	
Recycling	high	15	100	2	2005/06		15	
Refuse Collection (domestic, commercial, special)	high	20	100	2	2004/05		20	
Regeneration	low	8	100	4				8
Registration and Nominations	medium	10	100	2			10	
Taxi Licensing	medium	10	100	2		10		10
SUB TOTAL - REGULATORY / STATUTORY SERVICES						76	98	81

Systems Audits								
Building Cleaning	Medium	15	100	2			15	
Bus passes	low	5	100	4		5		
Energy Management	Medium	15	100	2	2006-07	15		15
Facilities management	Medium	15	100	2			15	
Fleet Management	Medium	15	100	2	2006/07	15		15
Grant funding - community focussed	Medium	15	100	2	2005-06	15		15
Health and Safety Compliance (buildings)	Medium	10	100	2			10	
Insurances	Medium	15	100	3	2007-08			15
Mayor's charity	low	8	100	4			8	
Members' allowances	low	8	100	3	2005/06			8
Mortgages	low	8	100	4		8		
Security (Revenues and Benefits)	low	8	100	4			8	
Transfer station	low	10	100	3				10
Vehicle Workshop	low	10	100	3			10	
SUB TOTAL - SYSTEMS AUDITS						58	66	78
Other								
Regeneration Grant Claims	n/a	4	100	on-going		4	4	4
SUB TOTAL - SYSTEMS AUDITS						4	4	4
Contracts								
Contract Management	n/a	20	100	on-going		20	20	20
Current Contracts	n/a	25	100	on-going		25	25	25
Financial Appraisals	n/a	17	100	on-going		17	17	17
Officers interests in contracts	tbc	5	100	tbc		5		
SUB TOTAL - CONTRACTS						67	62	62
IT								
IT baseline assessment	n/a		100	annual		3	3	3
To be allocated following IT baseline assessment	n/a		100	n/a		20	47	47
Post-implementation review - Antares	high		100	n/a		10		
Post-implementation review - E-democracy	medium		100	n/a		5		

Post-implementation review - Insurances system	medium		100	n/a		5		
Replacement of Pericles	high		100	n/a		5		
SUB TOTAL - IT						48	50	50
Consultancy								
Community Centres	n/a		100	n/a		*		
Investigations Protocol - HR and Internal Audit	n/a		100	n/a		*		
Job Evaluation	n/a		100	n/a		*		
Luncheon Club procedures	n/a		100	n/a		*		
Process for disposal of fleet vehicles	n/a		100	n/a		*		
Ad hoc consultancy / advice						30	30	30
SUB TOTAL - CONSULTANCY						30	30	30
Special Investigations								
To be allocated as required	n/a		100			50	50	50
SUB TOTAL - SPECIAL INVESTIGATIONS						50	50	50
Follow-up								
Development Control	n/a		100	n/a	2007/08			
Environmental Health	n/a		100	n/a	2007/08			
Homelessness (also report to SHL)	n/a		100	n/a	2007/08			
To be allocated throughout the year						15	15	15
SUB-TOTAL - FOLLOW-UP						15	15	15
TOTAL DAYS REQUIRED SBC						669	672	671
TOTAL DAYS REQUIRED SHL						205		
TOTAL AUDIT DAYS REQUIRED						874		

PERFORMANCE INDICATORS

	<u>Definition</u>	<u>Calculation</u>	<u>Target</u>
KPI 01	Total number of actual chargeable days to date as a percentage of total planned annual chargeable days	Actual chargeable days to date / Annual planned chargeable days	90% cumulative
KPI 02	The number of audit projects completed/ partially completed to date as a percentage of the total annual number of planned projects	Completed and partially completed projects / Annual planned projects	90% cumulative
KPI 03	Actual chargeable days to date as a percentage of planned available days to date	Chargeable days to date / Planned available days to date	80% cumulative
KPI 04	Percentage of audits completed within the allocated time	Number of audits completed within time budget / total number of completed audits	80%
KPI 05	Percentage of auditee surveys that express satisfaction	Number of satisfactions surveys received that express satisfaction / total number of satisfaction surveys received	90%
KPI 06	External audit opinion	Not applicable	Satisfactory