

**FINAL ACCOUNTS AND AUDIT COMMITTEE**

**23 March 2006**

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**INTERNAL AUDIT TERMS OF REFERENCE AND STRATEGY**

**Purpose of the Report**

1. To present for approval the Terms of Reference (ToR) for the Internal Audit function and the Strategy for delivery of the Internal Audit service.

**Background**

2. The CIPFA Code of Practice for Internal Audit in Local Government (the Code), sets out the professional standards required by an internal audit service to the County Council. This report describes two areas where developments are taking place to meet specific requirements within the Code .These are the ToR for Internal Audit and a Strategy for delivery of the Internal Audit service in accordance with the terms of reference.

**Main Considerations for the Council**

***Terms of Reference***

3. The Code requires the purpose, authority, and responsibility of Internal Audit to be defined in formal ToR which are approved by the County Council. The ToR need to establish reporting lines, relationships and the organisational independence of Internal Audit. The ToR reinforce Internal Audit's right of access to all records, personnel and premises. and enable the Chief Auditor to deliver an audit opinion on the County Council's internal control environment.
4. The proposed draft ToR in accordance with the Code are attached as Appendix 1 to this report.

## ***Internal Audit Strategy***

5. The Code defines an audit strategy as the high-level statement of how the Internal Audit service will be delivered and developed. It further states that:
  - *“The Head of Internal Audit should develop and maintain a strategy for delivering the Internal Audit Service as per the terms of reference. This will include how the service will be provided, i.e. internally, externally or a mixture of the two. It should be approved by the organisation.*
  - *The strategy should state how the assurance for the annual statement on internal control will be demonstrated. This will include how the Head of Internal Audit will contribute to the review of the organisation’s corporate governance arrangements, risk management processes and key internal control systems.*
  - *The strategy should establish the resources and skills required for its delivery.*
  - *The strategy should set out the relative allocation of audit resources between assurance work and any fraud-related or consultancy work. The exact allocation will be determined in the audit plan”.*
6. A draft Internal Audit Strategy document which meets all these requirements is attached as Appendix 2 to this report.
7. The process of preparing a risk-based audit plan to implement the Internal Audit Strategy is now underway and will be completed shortly, following final discussions with departments.

## **Environmental Impact of the Proposal**

8. No environmental impact arises from issues raised in this report.

## **Risk Assessment**

9. Approval of the ToR and the Strategy by the committee will improve compliance with the Code and meets an important Audit Commission recommendation in relation to Internal Audit. Thus it can be seen as delivering improved internal control arrangements.

## **Financial Implications**

10. The cost of the Internal Audit service is provided for in the County Councils revenue budget .There are no additional costs arising from the proposals in this report .

## **Reasons for the Proposal**

11. To ask the Committee to approve the Terms of Reference for Internal Audit, and the Strategy for delivery of the Internal Audit service, in accordance with the Code.

## **Proposal**

12. The Final Accounts and Audit Committee is asked to approve:
  - (i) The Terms of Reference for Internal Audit
  - (ii) The Strategy for delivery of the Internal Audit service.

**Mike Prince**  
**County Treasurer**

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Unpublished documents relied upon in the preparation of this Report:

Code of Practice for Internal Audit in Local Government in the UK, CIPFA, 2003  
67/2006/FAAC/sm