

**Internal Audit Terms of Reference**

**1. Background and Authority**

- 1.1. The requirement for an Internal Audit function derives from local government legislation – section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003. The regulations require the Council 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 Internal Audit practices’.
- 1.2. The Office of the Deputy Prime Minister has defined the CIPFA Code of Practice for Internal Audit in Local Government 2003 as ‘proper Internal Audit practices’ and the Terms of Reference have been prepared in accordance with the Code.

**2. Objectives and Responsibilities of Internal Audit**

**2.1. Objectives**

- 2.1.1. Internal Audit provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the Council’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.

**2.2. Scope**

- 2.2.1. The scope of Internal Audit work includes reviewing and commenting on the corporate governance arrangements of the Council as well as specific areas of risk management and internal control. It includes all the council’s operations, resources, services and responsibilities in relation to other bodies. This coverage will enable Internal Audit to report an opinion on the internal control environment to the Council. To achieve this with finite resources a risk-based Internal Audit approach is adopted.

**2.3. Responsibilities**

- 2.3.1. Internal Audit will ensure that its Internal Audit work meets the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government (2003). These standards cover the following areas:
  - Ethics for Internal Auditors
  - Organisational Standards
  - Operational Standards
- 2.3.2 Internal Audit will ensure that all reviews give assurance to management on internal controls or identify risks to the control environment. Through audit, help

and advice, Internal Audit will seek to improve the internal control systems of the Council.

### **3. Reporting Lines and Relationships**

- 3.1. Internal Audit is required to report to 'those charged with governance'. The Council has established the Audit Committee to undertake these responsibilities on its behalf and to advise the Council. The Committee's Terms of Reference set out its responsibilities for Internal Audit. The Chief Auditor will report to the Audit Committee the audit opinion on the control environment of the Council. The Audit Committee will approve the Internal Audit plan and review the performance of Internal Audit.
- 3.2. Administratively Internal Audit form part of the Financial Services unit of the Council with the Chief Auditor reporting to the Head of Financial Services, as the Council's Responsible Financial Officer.
- 3.3. Results of audit work are addressed to Service Unit Heads and Policy Directors as appropriate. Executive summaries are also provided to the Chief Executive and Audit Committee Members.

### **4. Independence and Accountability**

- 4.1. Internal Audit has the right to report in its own name and to have freedom of access to all senior officers and Members. In particular the right of access to the Chair of the Audit Committee, Chief Executive, Monitoring Officer and Responsible Financial Officer are key to ensuring the independence of audit.
- 4.2. Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.
- 4.3. Internal Audit is accountable through the reporting lines identified in section 3 above. In addition Internal Audit's activities will be linked to the Council's strategic objectives and conducted in accordance with the Council's policies and procedures.
- 4.4. Accountability for the response to the risks identified by Internal Audit lies with management, who either identify and implement the appropriate actions or accept the risk.

### **5. Audit Responsibilities in relation to Anti-fraud work**

- 5.1. Managing the risk of fraud and corruption is the responsibility of management. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption but should be alert to the risks. Managers should inform the Chief Auditor of all suspected or detected fraud, corruption or impropriety so that she can consider the adequacy of the relevant controls and evaluate the implications for the audit opinion on the internal control environment.
- 5.2. Internal Audit will provide advice on the risks of fraud to management and help to raise awareness of fraud issues. This is in accordance with the Council's Anti-fraud Strategy. In circumstances of suspected fraud it may be appropriate

for Internal Audit to advise or assist with an investigation, including liaison with the police. Internal Audit's role in investigation is set out in the fraud response plan.

## **6. Internal Audit's Rights of Access**

6.1. In accordance with the Accounts and Audit Regulations 2003 the Council's Financial Regulations provide Internal Audit with authority to:

- Access council premises at reasonable times.
- Access all assets, records, documents, correspondence and control systems.
- Receive any information and explanation considered necessary concerning any matter under consideration.
- Require any employee of the authority to account for cash, stores or any other authority asset under his/her control.
- Access records belonging to third parties, such as contractors when required.

## **7. Internal Audit Resources**

7.1 The Chief Auditor is responsible for proposing an Audit Plan to the Audit Committee for approval each year. This will be risk-based to reflect the finite resources available. If in the opinion of the Chief Auditor or of the Audit Committee the level of resources in any way limit the scope of Internal Audit or prejudice the ability of Internal Audit to meet its objectives, they should advise the Council accordingly.