

# **Review of the Internal Audit Strategy and Terms of Reference**

## **AUDIT COMMITTEE**

Date: 27<sup>th</sup> January 2009

**Author: Head of Internal Audit**

**Wards Affected: None**

### **Purpose**

To present the Strategy for the provision of Internal Audit, the Terms of Reference for Internal Audit and Internal Audit's Performance Management and Quality Assurance Framework for approval by the Audit Committee.

### **Recommendations**

- That the Audit Committee approves:
  - the strategy for the provision of Internal Audit within the Council.
  - the terms of reference for Internal Audit.
  - the Performance Management and Quality Assurance Framework

## **1 Reasons**

- 1.1 To ensure that the Council complies with the requirements of the Code of Practice for Internal Audit in Local Government in the UK: 2006, as published by CIPFA. This will ensure that there is a clear, agreed strategy for the provision of internal audit within the Council and that the Internal Audit section itself has clearly defined terms of reference that reflect guidance and best practice.

## **2 Background**

- 2.1 The Code of Practice for Internal Audit in Local Government issued by CIPFA in 2006 lays down the professional standards to which Swindon Borough Council's Internal Audit section work, in providing the audit service to the Council.
- 2.2 Internal Audit endeavour to ensure that all aspects of the Code of are complied with, including the requirement to establish and maintain up to date terms of reference for internal audit work, a strategy for the provision of the audit service within the Council and to have a Performance Management and Quality Assurance Framework.

## **3 Strategy for the provision of Internal Audit**

- 3.1 The Code of Practice defines the audit strategy as the 'high-level statement of how the internal audit service will be delivered and developed. The strategy will communicate the contribution that Internal Audit makes to the organisation and should include:
  - Internal Audit objectives and outcomes

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- How the Head of Internal Audit will form and evidence his or her opinion on the control environment to support the Annual Governance Statement
- How Internal Audit's work will identify and address significant issues and risks
- How the service will be provided, i.e. internally, externally, or a mix of the two
- The resources and skills required to deliver the strategy

3.2 An updated strategy for the provision of Internal Audit within the Council is provided as Appendix 1.

### **4 Internal Audit Terms of Reference**

4.1 The first standard of the Code of Practice requires the purpose, authority and responsibility of Internal Audit to be formally set out in terms of reference that:

- Establish the responsibilities and objectives of Internal Audit
- Establish the organisational independence of Internal Audit
- Establish the accountability, reporting lines and relationships between the Head of Internal Audit and:
  - (a) those charged with governance
  - (b) those to whom the Head of Internal Audit may report
- recognise that Internal Audit's remit extends to the entire control environment of the organisation
- identify Internal Audit's contribution to the review of the effectiveness of the control environment
- require and enable the Head of Internal Audit to deliver an annual audit opinion
- define the role of Internal Audit in any fraud-related or consultancy work
- explain how Internal Audit's resource requirements will be assessed
- establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

4.2 A revised set of terms of reference that comply with the above requirements is attached as Appendix 2.

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#### **5 Performance Management and Quality Assurance Framework**

- 5.1 The Code of Practice for Internal Audit in Local Government issued by CIPFA in 2006 requires Internal Audit to have a documented process for ensuring adequate performance management and quality assurance. Although this framework has existed it has been set out in part in a number of different documents i.e. the annual Internal Audit Plan; the section's business plan, reports to Audit Committee etc. it was a recommendation by External Audit that this be pulled together in one document.
- 5.2 The purpose of this document is to set out how the Head of Internal Audit will ensure the effective performance of the Internal Audit section. The document sets out what arrangements are in place to assess the performance, quality and effectiveness for individual audits and for the service as a whole.
- 5.3 Effective audit management involves:
- the setting and communication of clear objectives for internal audit;
  - adequate planning so that it is known what has to be done to achieve those objectives;
  - allocating and maximising the efficient and effective use of resources in delivering the audit service;
  - the setting of standards for audit work;
  - monitoring the implementation of audit recommendations;
  - having a robust system in place to review the performance, quality and effectiveness of:
    - individual audit assignments; and
    - for the internal audit service as a whole.
- 5.4 Our framework for ensuring that arrangements are in place to ensure effective management is set out in Appendix 3.

#### **Alternative Options**

Not Applicable

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#### **Risk Management**

##### *Financial and Procurement Implications*

- There is no financial implication to this report.

##### *Legal/Human Rights Implications*

- Internal Audit is a statutory requirement of the Accounts and Audit (Amendment) (England) Regulations 2006. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972. Failure to establish and maintain an up to date and approved Audit Strategy and an Audit Charter / Terms of Reference is contrary to the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the UK: 2006 and could result in adverse commentary by the External Auditor or in CPA inspections.

##### *Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)*

- Internal Control, Audit Committee and the Annual Governance Statement all feature significantly in the CPA Use of Resources Assessment. Effective systems of internal control within the Council will help to ensure that the objectives set out in the Corporate Plan and Swindon 2010 are achieved.

#### **Consultees:**

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

External Audit

#### **Appendices / Background papers**

- Appendix 1 – Strategy for the provision of Internal Audit
- Appendix 2 – Terms of Reference for Internal Audit
- Appendix 3 – Performance Management and Quality Assurance Framework

Background papers: CIPFA Code of Practice for Internal Audit in Local Government in the UK: 2006: The Accounts and Audit (Amendment) (England) Regulations 2006.

#### **Key Decision/Decision in Forward Plan**

- Not Applicable