

INTERNAL AUDIT – TERMS OF REFERENCE

1. Introduction

- 1.1 These terms of reference set out the purpose, authority and responsibility of the Council's Internal Audit Service. The terms of reference comply with the requirements of the 'Code of Practice for Internal Audit in Local Government in the UK 2006' as published by CIPFA and The Accounts and Audit (Amendment) (England) Regulations 2006.

2. Statutory Role

- 2.1 Internal Audit is a statutory service in the context of the **Accounts and Audit (Amendment) (England) Regulations 2006**, which state that:
- 'A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'.*
- 2.2 Also, **Section 151 of the Local Government Act 1972** requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Swindon Borough Council, the Director of Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

3. Objectives of Internal Audit

- 3.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to management and Members on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisations objectives.
- 3.2 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.

4. Responsibilities of Internal Audit

- 4.1 Service managers and Directors are responsible for determining the extent of internal control within their systems and are responsible for providing an environment that ensures that resources are properly applied, value for money is secured, fraud and other losses prevented, and the Council's Financial Regulations and other policies are complied with.

4.2 Internal Audit's responsibilities include but are not limited to:

- Supporting the Audit Committee in discharging its responsibilities for:
 - (a) advising on the adequacy and effectiveness of the Council's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2006.
 - (b) supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit.
 - (c) monitoring the adequacy and effectiveness of Directors' and service managers' responsibility for ensuring an adequate control environment.
- Supporting the Leader and Chief Executive in their annual certification of the Corporate Governance Assurance Statement.
- Supporting the Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- Support the Director of Partnership, Performance and Policy in his capacity of Chairman of the Council's Corporate Risk Management Group.
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud arising from audits.
- Adopting a proactive approach to fraud identification, investigation and raising fraud awareness throughout the Council
- Investigating any referrals from the Monitoring Officer receive via the Council's Whistleblowing Policy.
- Supporting the VFM Strategy

4.3 In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the Council's Code of Conduct and the Code of Practice for Internal Audit in Local Government 2006, as published by CIPFA.

5. Independence and relationships

5.1 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. To ensure this, Internal Audit operates within a framework that allows unrestricted access to senior management and Members, particularly the Leader of the Council, the Chair of the Audit Committee, the Chief Executive, the Group Director: Resources and both the Section 151 and Monitoring Officers. Additionally the Head of Internal Audit reports in his own name.

- 5.2 The relationship between Internal Audit and the Council's External Auditor should take account their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Swindon Borough Council financial statements, whilst Internal Audit is responsible for assessing the adequacy and effectiveness of the internal controls and advising management accordingly. The Head of Internal Audit should ensure that the work of Internal Audit and the External Auditor are properly co-ordinated.
- 5.3 The Head of Internal Audit will also ensure that, if a member of staff moves in to the section from within the Council, they will not audit the area that they moved from for at least a period of one year. Auditors will also be required to state any possible conflicts of interest at the start of an audit assignment to their manager to ensure complete independent and unbiased audit is carried out.

6. Accountability and reporting lines

- 6.1 Internal Audit is located within the Chief Executive's Unit. The Head of Internal Audit's line manager is the Chief Executive.
- 6.2 The Council has an Audit Committee whose terms of reference include responsibility for monitoring the performance Internal Audit and approving its annual audit plan. The Head of Internal Audit reports regularly to this Committee on audit activity and is required on an annual basis to include an opinion on the standard of internal control within the council.
- 6.3 A written report will be prepared for each audit assignment and issued to the appropriate manager(s) accountable for the areas under review. The report will include an opinion on the adequacy of controls within the area and an assessment of the risk to the Council. The manager will be required to respond to a draft report within 15 working days, although this period can be extended by agreement. The written response must show whether the recommendations have been agreed and what action will be taken to implement each recommendation. The Head of Internal Audit is responsible for assessing whether the manager's response is adequate.
- 6.4 Internal Audit reports are subject to follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

7. Scope and access

- 7.1 The scope of Internal Audit allows for unrestricted coverage of the Council's activities, their partners or agents contracted to provide goods or services on its behalf.
- 7.2 The Accounts and Audit Regulations 2006 provide that:

‘Any officer or member of that body shall, if the body requires:

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and*
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.*

- 7.3 Internal Audit therefore has unrestricted access to all Council records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations, and have authority to obtain such information and explanations as considered necessary to fulfil Internal Audit responsibilities.
- 7.4 All departments of Swindon Borough Council, or agents contracted to provide services on its behalf, are required to give complete cooperation to Internal Audit personnel, or their agents, for the expedient fulfilment of the audit process.
- 7.5 Internal Audit, where resources allow and skills exist, can provide additional services such as consultancy work. These services would be agreed with and provided to assist, management in meeting the objectives of the organisation. Consultancy may include: advice; facilitation; training; advisory services; fraud and irregularity related work.

8. Allocation of Audit Resources

- 8.1 Resources must be appropriately targeted by assessing the Council’s total audit needs and preparing a plan that ensures systems are reviewed on a cyclical basis according to the impact they have on service delivery. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and dependency which they carry.
- 8.2 The annual plan is based; to a significant extent on the Corporate, Group Directorate and Business Unit risk registers.
- 8.3 Whilst some reviews will be carried out on a cyclical basis (e.g. schools), audit resources will, increasingly, be allocated on the principle of continuous planning which takes in to account key risks as they emerge.
- 8.4 By its very nature fraud-related work is unpredictable in terms of its timing and extent. All reported irregularities would be investigated in line with established strategies and protocols. Audit resources will be allocated within the audit plan for this demand-led and variable activity based on best estimates available from previous year’s work. An appropriate level of resources will also be allocated to the Audit Commission’s National Fraud Initiative (NFI).
- 8.5 The staffing structure of the section will reflect the demand upon the section.

- 8.6 Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.
- 8.7 The Head of Internal Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange training including both internal and external courses.

9. Review of terms of reference

- 9.1 The Head of Internal Audit will be responsible for reviewing these terms of reference on at least an annual basis. The Head of Internal Audit will be responsible for notifying the Council of any requirements to update them to reflect new legislation, best practice/guidance and External Audit recommendations.
- 9.2 The Council's Audit Committee will be responsible for approving the terms of reference for Internal Audit.