



# **INTERNAL AUDIT TERMS OF REFERENCE**

The Council is required, in accordance with the Accounts and Audit (Wales) Regulations 2005 to secure the provision of an effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. The Terms of Reference sets out the role, authority and principal responsibilities of Internal Audit.

## **THE ROLE OF INTERNAL AUDIT**

Internal Audit was established by the Council to undertake a wide range of independent reviews of its systems and operations. The aim of these reviews is to help to ensure that the Council achieves its objectives and to provide assurance that it manages its risks efficiently and effectively.

Internal Audit critically evaluates the Council's internal control framework to add value by improving opportunities to achieve organisation objectives and, where necessary, makes recommendations for advancement and the introduction of best practice throughout the Council.

In undertaking this role, Internal Audit will comply with the CIPFA Code of Practice for Internal Audit in Local Government and other relevant best practice guidance.

## **INTERNAL AUDIT RESPONSIBILITIES AND OBJECTIVES**

Internal Audit is an independent appraisal function established within the Council to examine and evaluate activities with a view to achieving the following main objectives:

- Assist officers and Members of the Council in the effective discharge of their responsibilities.
- Examine, evaluate and report on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources.
- Ensure that the Council's assets and interests are accounted for and safeguarded from losses; and
- Maintain a level of independence and integrity to permit the proper performance of Internal Audit.

Using a risk based internal audit methodology; Internal Audit will examine, assess and report on:

- The adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed.
- The extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies.
- The extent of which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from

losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause.

- The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information.
- The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic goals.
- The follow-up action taken to remedy weaknesses identified by Internal Audit, ensuring that good practice is identified and communicated widely; and
- The operation of the Council's corporate governance and risk management arrangements.

## **SCOPE**

The scope of Internal Audit is "the control environment comprising risk management, control and governance". This means that the scope of Internal Audit includes all of the Council's operations, resources, services and responsibilities.

In order to determine priorities, the Chief Internal Auditor will prepare a risk-based audit plan designed to implement an audit strategy, taking account of the Council's risk management process which allows all high risk subjects to be identified. In addition to financial systems, non financial systems and functions may also be identified as important areas for review.

In meeting its responsibilities, Internal Audit's activities will be linked to the Council's strategic objectives.

## **AUTHORITY & STATUS**

The Chief Internal Auditor reports to the Head of Property & Finance. Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. These include the Constitution, established policies, procedures and codes of practice.

The Chief Internal Auditor will have sufficient status to facilitate the effective discussion of audit strategies, plans and results with senior management in the Council.

## **STATUTORY ROLE**

Internal Audit is a statutory service in the context of the Accounts and Audit (Wales) Regulations 2005. Bridgend CBC must maintain an adequate and effective system of internal audit of its accounting records and of its own system of internal control. Such activity will be carried out in accordance with

the “Code of Practice for Internal Audit in Local Government” issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## **RELATIONSHIPS**

Internal Audit relationships include, Elected Members, Senior Management and all other Council staff, External Audit, review agencies, the Police, members of the public and external clients. In all these relationships, Internal Audit staff will treat the person (s) concerned with respect, courtesy and professionalism. Internal Audit is positioned within the Directorate of the Chief Executive. The Chief Internal Auditor reports directly and meets periodically with the Head of Property & Finance (Section 151 Officer), and has unrestricted access to the Chief Executive, Senior Management and the Chair of the Audit Committee.

A close working relationship is maintained between Internal Audit and External Audit with a view of maximising the effectiveness of the overall audit resources and to avoid duplication of effort. Regular (at least quarterly) meetings will be held between the Chief Internal Auditor and the External Auditors to ensure effective liaison.

The Chief Internal Auditor will endeavour at all times to promote the integrity, independence and capability of Internal Audit to engender confidence in the Audit function.

## **ETHICS AND DUE CARE**

Auditors will perform duties with diligence and competence, using audit skills, knowledge and judgement based on appropriate experience, training, ability, integrity and objectivity to operate at a high level of professionalism.

Due professional care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed. Internal Audit will provide reasonable assurance regarding the outcome of its work, but not an absolute assurance.

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Individual auditors should follow the ethical statements issued by the professional bodies of which they are members. However, Internal Audit subscribes in particular to the ethical and professional standards provided by CIPFA and auditors will be judged on the basis of those standards. Where there is a conflict of standards the CIPFA standard has been accepted to prevail.

Internal Auditors must treat as confidential the information they receive in carrying out their duties. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so.

Confidential information gained in the course of the audit will not be used to effect personal gain.

Each of the Internal Auditors will provide an annual declaration of any actual or potential conflicts of interest that might compromise their objectivity in the conduct of particular audits. There is also a requirement to make a declaration if such a conflict of interest is identified in the course of any piece of audit work.

## **INDEPENDENCE AND ACCOUNTABILITY**

To meet Internal Audit's responsibilities it is independent of the activities it audits. The Chief Internal Auditor has direct access and freedom to report on Internal Audit matters in his/her own name, without fear or favour, to all officers and Members.

Authority for the production and execution of the strategic audit plan and subsequent audit activities rests with the Chief Internal Auditor. The Chief Internal Auditor will consult with Directors and if appropriate Heads of Service and where necessary the Corporate Management Board before presenting the plan to the Audit Committee.

While Internal Audit primarily provides an independent and objective opinion on the control environment as a source of assurance to management, it may also undertake other, non-assurance work at the request of the Council subject to the availability of skills and resources. Internal Audit staff will neither "own" any systems under audit nor be given any responsibility for any aspect of work subject to audit.

Directors / Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services. Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it. Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

## **INTERNAL AUDIT REPORTING**

The annual audit plan will be submitted to the Audit Committee for the purpose of advising Members of the programme of audit work for the forthcoming year. The plan is compiled in consultation with the Directors and where appropriate Heads of Service and will be approved by the Section 151 Officer.

Quarterly Internal Audit reports detailing progress against the plan and an annual report detailing the Chief Internal Auditors' opinion on the overall adequacy and effectiveness of the Council's internal control environment will be presented to the Audit Committee. It is this opinion which is used to inform

the Annual Governance Statement, published within the annual statement of accounts.

As the need arises the Chief Internal Auditor will also report the following matters to the Audit Committee;

- Terms of Reference for Internal Audit,
- The Audit Strategy,
- Internal Audit Resources,
- The adequacy of management's response to advice and recommendations,
- Management responses to the Internal Audit Satisfaction questionnaire.

Work undertaken by internal audit will normally be concluded by the production of a formal written report to the respective Director / Head of Service / Head-teacher / Chair of Governors.

Recommendations made within systems and compliance audits will be ranked as Fundamental, Significant or Merits Attention depending upon the relative importance of the audit finding. The number and level of recommendations made within systems and compliance audits will influence the audit opinion and progress against the Audit Plan (including the extent to which recommendations have been implemented) will be reported to the Audit Committee.

## **RIGHT OF ACCESS AND AUTHORITY TO OBTAIN INFORMATION**

To discharge its responsibilities, Internal Audit has the authority to:

- Enter at all reasonable times any Council controlled premises or land;
- Access, examine and retain for such period as may be necessary all records, documents and correspondence relating to all financial and other transactions of the Council;
- Require and receive explanations as are necessary concerning any matter under examination.
- Require any employee or member of the Council to present cash, stores or any other Council property under their control; and
- Access all IT systems.

The above access should be granted on demand and not subject to prior notice, and it extends to partner bodies or external contractors working on behalf of the Council.

All Auditors are vetted (currently CRB checked).

## **STANDARDS**

It is a statutory requirement that Internal Audit works in accordance with the “proper audit practices”. These “proper audit practices” are in effect “the Standards” for local authority internal audit. The guidance accompanying the Accounts and Audit (Wales) Regulations 2005 makes it clear that “the Standards” are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Where practicable the CIPFA Standards have been adopted by Internal Audit at Bridgend CBC. Internal Audit also recognises the standards promoted by the Institute of Internal Auditors (IIA).

## **RESOURCES**

Internal Audit will be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors will be properly trained to fulfil their responsibilities and will maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor will be professionally qualified by examination through a recognised professional body and will have appropriate experience and expertise to undertake the role. The Chief Internal Auditor is responsible for appointing the staff of the Internal Audit Section and will ensure that appointments are made in order to achieve an appropriate mix of qualifications, experience and audit skills.

The Chief Internal Auditor is responsible for ensuring that the resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he/she concluded that resources were insufficient, he/she will formally report this to the Head of Property & Finance, and Audit Committee as appropriate.

## **FRAUD AND CORRUPTION**

Managing the risk of fraud and corruption is the responsibility of management, audit procedures and processes alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention and detection of fraud and corruption. Internal Auditors will, however be alert in all their work to the risks and exposures that could allow fraud or corruption. Internal Audit will make itself available to assist management with fraud related work dependent upon available resources.

The Chief Internal Auditor has made arrangement to be informed of all suspected or detected fraud, corruption or improprieties so that he/she can

consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his/her opinion on the internal control environment.

## **CONFIDENTIALITY**

Internal Auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so.

Confidential information gained in the course of audit duties should only be shared with bona fide recipients and must not be used to effect personal benefit.

## **QUALITY ASSURANCE**

The Chief Internal Auditor will maintain a quality assurance framework in order to demonstrate that the Internal Audit service is:-

- Meeting its aims and objectives,
- Compliant with the CIPFA Code of Practice for Internal Audit
- Effective, efficient and continuously improving,
- Adding value and assisting the Council in achieving its objectives.