

## GWYNEDD COUNCIL

COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>27 SEPTEMBER 2012</b>
TITLE	<b>INTERNAL AUDIT TERMS OF REFERENCE</b>
PURPOSE	<b>TO PRESENT AMENDED TERMS OF REFERENCE FOR THE INTERNAL AUDIT SERVICE TO THE COMMITTEE</b>
AUTHOR	<b>DEWI MORGAN, SENIOR MANAGER AUDIT AND RISK</b>
ACTION	<b>TO APPROVE THE TERMS OF REFERENCE</b>

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### **I. INTRODUCTION**

- I.1 CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom 2006* requires the adoption of Internal Audit Terms of Reference.
- I.2 The Code of Practice states the following about the contents of the Terms of Reference:
- The purpose, authority and responsibility of Internal Audit must be formally defined by the organisation in terms of reference consistent with this Code. They should:**
- (a) establish the responsibilities and objectives of Internal Audit**
  - (b) establish the organisational independence of Internal Audit**
  - (c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:**
    - (i) those charged with governance**
    - (ii) those to whom the Head of Internal Audit may report**
  - (d) recognise that Internal Audit's remit extends to the entire control environment of the organisation**
  - (e) identify Internal Audit's contribution to the review of the effectiveness of the control environment**
  - (f) require and enable the Head of Internal Audit to deliver an annual audit opinion**
  - (g) define the role of Internal Audit in any fraud-related or consultancy work**
  - (h) explain how Internal Audit's resource requirements will be assessed**
  - (i) 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.**
- I.3 The Code of Practice also states that the Internal Audit Terms of Reference should be reviewed regularly. No amendments have been made to the terms of reference of Gwynedd Council's Audit Committee since 2009, although they have been kept under review since then.
- I.4 Although a vast majority of the 2009 Terms of Reference remains relevant, it is timely to make of minor amendments to correct misspellings, to clarify the meaning of some sentences and to include a reference to the *Joint Protocol between External Audit and Internal Audit*.
- I.5 Revised Terms of Reference for the Internal Audit service are found in the Appendix.

## **2. RECOMMENDATION**

- 2.1 The Audit Committee is asked to receive and approve the contents of the Internal Audit Terms of Reference, and support Internal Audit in its undertakings.

# GWYNEDD COUNCIL

## FINANCE

### AUDIT AND RISK MANAGEMENT SERVICES

#### INTERNAL AUDIT TERMS OF REFERENCE

#### 1. THE ROLE OF INTERNAL AUDIT IN LOCAL GOVERNMENT

1.1 There is a statutory requirement for an Internal Audit service in Local Authorities. This is implied in Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

1.2 The Account and Audit Regulations (Wales) 2005 state:

#### **Internal audit**

**6.** A local government body shall 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, and 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.

1.3 “Proper internal audit practices” is the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Code of Practice defines Internal Audit as:

**“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment<sup>1</sup>, by evaluating its effectiveness in achieving the organisation’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.”**

1.4 Each internal auditor has received a copy of the Code of Practice and it forms the basis of the Section’s work (and the Wales Audit Office’s assessment of the service).

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<sup>1</sup> The control environment comprises the systems of governance, risk management and internal control.

## **2. RESPONSIBILITIES AND OBJECTIVES**

- 2.1 In Gwynedd Council, the Head of Finance is the officer who has the responsibility for "the proper administration of the Council's financial affairs" in accordance with section 151 of the Local Government Act 1972. Consequently, Internal Audit is located within Finance.
- 2.2 Whilst Internal Audit is primarily concerned with financial propriety, the remit of Internal Audit's work extends to the entire control environment of the Council, and is not confined to purely financial risk.
- 2.3 In order to ensure that the Council provides services of the highest possible quality within the resources available and in accordance with the needs of the people of Gwynedd, the appropriate use of the available resources is essential in order to ensure that the quality of service is of a high standard. The aims of Internal Audit is to provide assurance to the Head of Finance, and consequently to the residents of Gwynedd, that those resources which are available are managed and used appropriately, with transparency.
- 2.4 It shall do this by providing an independent and objective opinion to the Council on the control environment by auditing all financial systems and internal control procedures within the Authority, performing a combination of risk-based, system-based, regularity, computer and contract audits on a wide range of the Council's sections, in accordance with a strategy and audit plan based on an assessment of the Council's audit needs.
- 2.5 The Senior Manager, Audit & Risk shall ensure that internal audit is provided in accordance with the Code of Practice for Internal Audit in Local Government as far as practicable. To this end, the Senior Manager, Audit & Risk prepares an audit strategy based on an assessment of the Council's audit needs (constructed through an objective review of the risks that may affect the provision of the Council's services). The annual audit plan is derived from the strategy and in consultation with Senior Officers, and is agreed with the Head of Finance before it is presented to the Audit Committee to be adopted.
- 2.6 In addition to Gwynedd Council, Internal Audit has other, external, clients. Any increase in the commitment for this work will be agreed with the Head of Finance beforehand, and the Audit Committee will be informed.
- 2.7 The responsibilities of the Wales Audit Office, as Gwynedd Council's external auditors, is to give an independent opinion on the Council's financial statements and a conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources. Internal Audit shall co-operate with the Wales Audit Office in accordance with the *Joint Protocol between External Audit and Internal Audit*.

## **3. INDEPENDENCE AND RIGHTS OF ACCESS**

- 3.1 The Code of Practice for Internal Audit in Local Government emphasises the independence of Internal Audit in terms of reporting processes and freedom. The "Head of Internal Audit" (Senior Manager, Audit & Risk) is accountable to the Head of Finance, but has the freedom to report directly to the Chief Executive, the relevant Corporate Director, the Monitoring Officer or the Audit Committee if he is of the opinion that this is necessary, and in practical terms it is the Senior Manager, Audit & Risk who releases all reports to Internal Audit's customers.

- 3.2 Internal Audit is one of three sections of Audit and Risk Management Services within the Finance Department. The other two sections are the Benefit Investigation Section and the Insurance and Risk Section. Internal Auditors will not partake in any other executive operations within the Council, unless the need for the work is of such urgency that alternative staff resources are not available to conduct the work, and that this work is to be conducted for the shortest time possible.
- 3.3 Every internal auditor shall be required to sign an Declaration of Auditor Independence annually.
- 3.4 The Council's Financial Procedure Rules include provision for an Internal Audit service within the authority:

## **12. INTERNAL AUDIT**

### ***Purpose***

***The requirement for an internal audit function for local authorities is implied by section 151 of the Local Government Act 1972. Accordingly, internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control.***

- 12.1 A continuous internal audit, under the independent control and direction of the Head of Finance, shall be arranged to carry out an examination of accounting, financial and other operations of the Council, in accordance with the Accounts and Audit Regulations.
- 12.2 The Internal Audit function shall be conducted, as far as is practicable, in accordance with CIPFA's *Code of Practice for Internal Audit in Local Authorities in the United Kingdom*. The Senior Manager, Audit & Risk is the designated "Head of Internal Audit" pursuant to the Code of Practice.
- 12.3 The Senior Manager, Audit & Risk will normally report directly to the Head of Finance. However, the Senior Manager, Audit & Risk may also report to, and have access to, the Chief Executive, the relevant Corporate Director, Monitoring Officer and Chair of the Audit Committee if he deems this necessary in exceptional circumstances.
- 12.4 The Head of Finance and Senior Manager, Audit & Risk, or their authorised representative shall have authority to:-
- a) enter at all reasonable times on any Council premises, land or contract sites;
  - b) have access to all records, documents and correspondence relating to any financial and other transactions of the Council;
  - c) require and receive such explanations as are in his opinion necessary concerning any matter under examination;
  - d) require any employee of the Council to produce cash, stores or any other Council property under his control.
- 12.5 The Head of Finance shall agree the medium-term and annual audit plans prepared by the Senior Manager, Audit & Risk which take account of the characteristics and relative risks of the activities involved. The plans shall be approved by the Audit Committee.

- 12.6 All relevant managers shall consider and respond promptly to recommendations in audit reports. Chief Officers shall ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion in accordance with the agreed action plan.
- 12.7 The Senior Manager, Audit & Risk shall report to each meeting of the Audit Committee the findings of Internal Audit work in the preceding period, and inform the Audit Committee of any significant control weaknesses discovered and/or investigated.
- 12.8 The Senior Manager, Audit & Risk shall report to the Audit Committee any audit recommendations which have not been implemented within an agreed timescale, where failure to implement these recommendations would prolong a significant control weakness.
- 12.9 Whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or any arrangement to claim an inappropriate payment from the Council (including timesheets or travelling claims), or other property of the Council, the Chief Officer or other officer making the discovery shall comply with the Council's Anti-fraud Strategy and forthwith notify the Head of Finance and/or Senior Manager, Audit & Risk, who shall take such steps as he considers necessary by way of investigation and report.
- 12.10 Provided that where, on consideration of such a report, the Monitoring Officer is of the opinion that there is a *prima facie* breach of the criminal law, at the discretion of the Head of Finance, the matter shall be reported to the Police for further investigation. If an employee of the Council is involved, disciplinary action shall be taken as a matter of urgency in accordance with the Council's Disciplinary Procedures whether or not the matter is referred to the Police.
- 12.11 Whenever there is a loss of property (including loss by fire) or cash the Chief Officer or other officer making the discovery shall forthwith notify the Council's Insurance Officer, who shall be responsible for making such claims as are appropriate on the Council's insurers.

#### **4. RELATIONSHIP WITH THOSE CHARGED WITH GOVERNANCE**

- 4.1 The Council has resolved that "those charged with governance" within Gwynedd Council shall be the Audit Committee.
- 4.2 The Chair of the Audit Committee is usually the main points of contact between the Senior Manager, Audit & Risk and elected members. The Senior Manager, Audit & Risk shall ensure that good working relationships and channels of communication are maintained with the Chair of the Audit Committee.
- 4.3 The Senior Manager, Audit & Risk will prepare a report for every meeting of the Audit Committee outlining the work completed in the period leading up to that meeting.
- 4.4 The Senior Manager, Audit & Risk shall also provide the Audit Committee with regular reports on progress against the annual internal audit plan.

## **5. REPORTING**

- 5.1 The Senior Manager, Audit & Risk will ensure procedures for work supervision and file review by the relevant Team Leaders, and will collect data and prepare reports on the Section's performance for the Head of Finance pursuant to the Council's performance management framework.
- 5.2 A formal report will be written for most audit assignments, except for some small audits where significant weaknesses were not discovered and where a full audit report was not deemed necessary. In these cases, memoranda will be sent to the relevant officers.
- 5.3 Where appropriate, each report will be placed in one of 4 category opinions, dependent upon the audit opinion on the adequacy of internal controls, the effectiveness of the operation of the internal controls and the result of any failure to put effective controls in place. These categories are:

Opinion "A" Assurance of financial propriety can be expressed as the controls in place can be relied upon and have been adhered to.

Opinion "B" Controls are in place, and partial assurance of financial propriety can be expressed as there are aspects where some procedures can be strengthened.

Opinion "C" Assurance of financial propriety cannot be expressed as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered.

Opinion "CH" Assurance of financial propriety cannot be expressed as acceptable internal controls are not in place; losses / fraud resulting from these weaknesses were discovered.

The use of opinion categories is likely to be less appropriate for reports that have been prepared following a special investigation, or for work containing an aspect of "consultancy" work.

- 5.4 Following completion of audit work, a draft report is prepared for the relevant managers so that they may be given an opportunity to comment on the findings and correct any factual errors. A period of 2-3 weeks is given to managers to respond to the draft, but a longer period will be considered if a request for an extension is received. If a response is not received by the stipulated date, the report is assumed to be acceptable and a final report will be issued. If comments are received, these will be considered (and the draft report may or may not be modified) before the final report is issued.
- 5.5 Officers are expected to sign and return a copy of the action plan of every final report issued. This is a way of ensuring the agreement of officers that they accept and agree to implement the recommendations. After an appropriate period Internal Audit will perform follow-up tests to ensure that the recommendations have been implemented. The results of follow-up work will be reported to Chief Officers and the Audit Committee.

## **6. ANNUAL AUDIT OPINION**

- 6.1 The Senior Manager, Audit & Risk shall prepare an Annual Report to the first meeting of the Audit Committee after the end of the financial year, in accordance with the requirements as set out in the Code of Practice.

6.2 The findings of this Annual Report shall inform the Council's Annual Governance Statement.

## **7. NON-ASSURANCE WORK**

7.1 In addition to the assurance work described elsewhere in the Terms of Reference, Internal Audit shall also:

- Provide financial advice to Council services, in particular on Financial Procedure Rules, Contract Procedure Rules, Financial Codes of Practice and the Council's Anti-fraud and Anti-corruption Strategy.
- Assist service managers to prevent fraud and to investigate fraud on behalf of the Head of Finance, and offering advice and guidance on control improvements to avoid similar occurrences in future.

## **8. INTERNAL AUDIT RESOURCE REQUIREMENTS**

8.1 Internal Audit comprises of the Senior Manager, Audit & Risk and audit teams. If the Senior Manager, Audit & Risk is of the opinion that he does not have sufficient resources to allow him to give an opinion on the control environment in accordance with the requirements of the Code of Practice, he shall report this to the Head of Finance.

8.2 The team leaders are responsible for supervising and reviewing work and for allocating the audit plan as projects for individual auditors.

8.3 A Management Team (comprising the Senior Manager, Audit & Risk and the audit team leaders) will meet regularly to monitor performance, share information and agree on the Audit service's strategic direction.

8.4 From time to time, to reflect audit needs, and in the context of the resources available and the Council's Financial Procedure Rules, the Internal Audit service shall acquire external expertise to assist with audit work and in order to maintain the skill levels of permanent staff. This has been particularly true for the area of computer audit work, but other types of audit are not excluded from such arrangements.

## **9. RELEVANT DOCUMENTATION**

9.1 In addition to this report, the following documents are also of importance to the internal audit service:

- The Audit Committee's Terms of Reference
- Financial Procedure Rules
- Financial Codes of Practice
- Contract Procedure Rules
- The Council's Anti-Fraud and Anti-Corruption Strategy
- The Council's Whistleblowing Policy.

Internal Audit shall review and suggest changes to these documents as necessary.