

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

24 October 2006

Report of the Director of Finance

Part 1- Public

Delegated

1 INTERNAL AUDIT TERMS OF REFERENCE - INTERNAL AUDIT CHARTER

Summary

This report introduces a revised Internal Audit Charter that sets out the Internal Audit Section Terms of Reference. Members of this Committee are asked to review the Charter and endorse it.

1.1 Introduction

1.1.1 As part of the Council's overall Internal Control Procedure the Internal Audit Charter sets out the roles and responsibilities of Internal Audit.

1.1.2 The Charter was introduced in 2005 and was a requirement of the Internal Controls section of the Key Lines of Enquiry. The Charter was endorsed by the General Purposes Committee.

1.1.3 The responsibility for endorsing the Internal Audit Charter now falls within the remit of the Audit Committee.

1.2 Factors Affecting the Role of Internal Audit

1.2.1 There are several factors affecting the role of Internal Audit and these are likely to be included in future inspections using the Key Lines of Enquiry.

1.2.2 The evolution of risk management processes is constantly under review and this Committee has responsibility for overseeing this process. Internal Audit must use risk management in the preparation of the Audit Plan. In the Charter the Internal Audit Section is required to "promote the development of an embedded Risk management system throughout the Council".

1.2.3 The Audit Committee is required to oversee the provision of Internal Audit within the Council and this Committee has a duty to consider the terms of reference of Internal Audit to ensure that they are sufficiently robust to enable a satisfactory service to be provided.

- 1.2.4 The Accounts and Audit (Amendment) (England) Regulations 2006 S.I. 564 has also further defined the role of Members, Officers and Auditors with regard to proper accounting procedures.
- 1.2.5 The Council is required to conduct a review of the effectiveness of its system of internal control. The work of internal audit forms part of this review. The Audit Committee are required to approve the annual statement of internal control.
- 1.2.6 The Audit Committee are also required under these regulations to conduct a review of the effectiveness of its system of internal audit. It is likely that this will require an external assessment of Internal Audit at some stage.
- 1.2.7 One of the key issues raised in the revised Regulations is that the CIPFA Code of Practice for Internal Auditors in the United Kingdom 2003 is recognised within the guidelines as providing proper procedures for the provision of Internal Audit.
- 1.2.8 The Charter sets out the terms of reference for Internal Audit within the Council and is prepared to ensure compliance with the CIPFA Code of Practice for Internal Auditors in the United Kingdom 2003. This Code of Practice is used by the Audit Commission as a yardstick for ensuring compliance with the Accounts and Audit Regulations.
- 1.2.9 The Code of Practice is due for revision in January 2007 and the Charter will need a further review when that document is issued.

1.3 Legal Implications

- 1.3.1 The Council are required to ensure that a satisfactory procedure of internal control exists. Failure to meet this requirement could lead to an adverse report by external inspectors. The Audit Terms of Reference are designed to ensure that Internal Audit is able to comply with the requirements of legislation.

1.4 Financial and Value for Money Considerations

- 1.4.1 Without an adequate internal control the Council would be exposed to fraud and error that could have an adverse effect on the accounts.

1.5 Risk Assessment

- 1.5.1 Without adequate terms of reference the Internal Audit service could be compromised e.g. lack of independence. The Code of Practice for Internal Auditors in the United Kingdom 2003 is identified as the yardstick for audit provision and the Charter is designed to meet the requirements of the Code.

1.6 Recommendations

- 1.6.1 Members are asked to review the Internal Audit Charter and **RECOMMEND** its endorsement.

Background papers:

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The Code of Practice for Internal Auditors in the United Kingdom 2003

The Accounts and Audit (Amendment) (England) Regulations 2006 S.I. 564

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