

Penrice Community Council

Managing Internal Audit at 19-10-2016

1.0 Legal Requirements

- 1.1 Council must maintain adequate and effective accounting records and internal controls and must use internal audit to test this.
- 1.2 Internal audit is part of the system of internal control and Council must review the effectiveness of its internal audit when it carries out its annual review of the effectiveness of its internal controls. (see 4.0 Review of Internal Audit)

2.0 Principles

- 2.1 Internal audit tests operational effectiveness. It is not part of day-to-day management and it should not be a detailed inspection of individual transactions. It is not the purpose of internal audit to find fraud or error but to test whether the systems in place would detect this.
- 2.2 Internal audit is an ongoing function and it is Council's responsibility to engage with and benefit from it.
- 2.3 An internal audit should be proportionate to the needs of the Council which includes the requirement to satisfy the External Audit.
- 2.4 The scope of an audit will be determined by the terms given by the Council and an assessment of risk made by the Internal Auditor who may take into account the Council's own risk assessment and previous audits.

3.0 Requirements

- 3.1 The Council should have an Internal Audit Plan for the year.
- 3.2 Council must appoint as Internal Auditor someone who will be competent and independent as detailed in the Practitioner's Guide paras 160 to 165.
- 3.3 Council should use an engagement letter which sets out the terms of the appointment and may include:

- roles and responsibilities;
- audit planning;
- reporting requirements;
- assurances around independence and competence;
- access to information, members and officers;
- period of engagement;
- remuneration;
- other matters for the management of the engagement.

- 3.4 In line with Audit guidelines each year the Council should identify a specific objective that will help improve its systems. [In 2015/16 this was to review the procedures for accounting records and internal controls.]
- 3.5 Council must ensure there is at least one internal audit report a year.
- 3.6 An internal audit report should support the Council's assertion on the External Audit Annual Return that adequate and effective controls are in place as required.
- 3.7 An internal audit report should be open to the public.

4.0 Review of Internal Audit

- 4.1 It is a requirement that Council carry out a review of the effectiveness of the internal audit and this should not be delegated to the Clerk/RFO.
- 4.2 Although an independent review, it appropriate to discuss the matter with the internal auditor.
- 4.3 Evidence of the internal audit should be collected throughout the year.
- 4.4 The scope of the review is given in para 176 of the Practitioners' Guide.
- 4.4 The report on the review must include an opinion as to whether or not the internal audit system is effective.
- 4.5 The report should feed into an Internal Audit Action Plan.
- 4.6 The report of the review of effectiveness of the internal audit should be open to the public.

5.0 Minutes

- 5.1 The following actions must be minuted:

the appointment of an internal auditor;
the terms of appointment and audit;
the receipt of an internal audit report;
key points of an internal audit report;
the review of effectiveness of an internal audit;
an Internal Audit Action Plan.

6.0 Additional Guidance from Practitioners' Guide

- 6.1 Appendix 3 Detailed Guidance on Internal Audit
Appendix 4 Testing by Internal Auditors