

POLICY AND PROCEDURE: Terms of Reference for Internal Audit

PURPOSE: The primary objective of Internal Audit (IA) is to review, appraise and report upon the adequacy of internal control systems operating throughout the Council and to ensure that they are in accordance with proper practices as set out in the Accounts and Audit Regulations.

PROCEDURE: The IA will adopt a predominantly systems-based approach, covering the whole network of systems established within the Council to provide reasonable assurance that the Council's objectives will be achieved, with particular reference to:

- The effectiveness of operations
- The economic and efficient use of resources
- Compliance with applicable policies, procedures, laws and regulations
- The safeguarding of assets and interests from losses of kinds, including those arising from fraud, irregularity and corruption
- The integrity and reliability of information, accounts and data

Scope of Internal Audit Activity

There are no limitations on IA's scope of activities. It allows for unrestricted coverage of the Council's activities, including both financial and non- financial systems of internal control.

Melbourn Parish Council expects the following aspects to be part of the audit:

- Carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete Section 4 (Annual internal audit report) of the Annual Return
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have significant impact on operations, and determine whether the Council is compliant
- Review operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Independence

The main determinant of the effectiveness of IA is that it is seen to be independent in its planning and operation. To ensure this, IA will operate within a framework that allows:

- Unrestricted access to officers of the Council
- Reporting in its own name
- Segregation from the day-to-day operations of the Council

Every effort will be made to preserve objectivity by ensuring that the Internal Auditor is free from conflicts of interest and do not undertake any non-audit duties on behalf of the Council.

Rights of Access

There are no limitations on IA's access to records. The IA has the authority to:

- Access Council premises at reasonable times agreed in advance
- Access all assets, records, documents, correspondence and control systems
- Receive any information and explanation considered necessary concerning any matter under consideration
- Require any employee of the Council to account for cash, stores or any other Council asset under their control
- Access records belonging to third parties such as contractors when required

Reporting

The Internal Auditor will formally report the results of audits and the recommendations made to Council and will follow up at subsequent IAs to make sure that corrective actions are taken.

Council's Responsibilities

The existence of IA does not diminish the responsibility of the Council to establish systems of internal control to ensure that activities are conducted in a secure and well-ordered manner.

Audit Responsibilities in Relation to Fraud

Melbourn Parish Council recognises that it is not the specific responsibility of the IA to detect fraud. However, tests and reviews carried out during the IA are expected to be designed to identify failures, weaknesses or breaches in internal controls which could expose the Council to risk of fraud.

In the event that fraud is suspected by the Internal Auditor, this should be reported to the RFO, Clerk, Chair, or the Council as deemed most pertinent to the situation. It may also be appropriate for the Internal Auditor to advise or assist with an investigation including liaison with the police if necessary.

Choosing an Internal Auditor

Melbourn Parish Council appoints an Internal Auditor annually. The effectiveness of the audit is assessed each year as set out in the policy and procedure 'To evaluate the effectiveness of the system of internal audit'.

In principle, Melbourn Parish Council endorses the need to change Internal Auditors regularly. In practice, a decision will be taken in the light of availability of suitable auditors.

The following criteria will be used to assess an auditor's suitability (taken from CAPALC guidance):

- Has the applicant had some formal audit training?
- Does the applicant understand how to structure an internal audit report?
- Has the applicant any formal training in parish council law and powers?
- Has the applicant any formal training in parish council procedures?
- Has the applicant had any formal training in accounting practice?
- Has the applicant had any formal training on matters relating to local councils and VAT?
- Has the applicant had any formal training in Pay as you earn and National Insurance
- Does the applicant have the necessary skills to identify issues relating to the above areas in this size of council?



Document Approval:

(Chair to Melbourn Parish Council)

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