

# CHESHIRE EAST COUNCIL

## REPORT TO: Audit and Governance Committee

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**Date of meeting:** 28 November 2013  
**Report of:** Audit Managers  
**Title:** Internal Audit Charter  
**Portfolio Holder:** Councillor Peter Raynes

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### **1.0 Report Summary**

1.1 This report proposes the adoption of an Internal Audit Charter in accordance with Public Sector Internal Audit Standards (PSIAS) and the relevant Local Government Application Note (LGAN).

### **2.0 Recommendation**

2.1 That the Committee approves, with appropriate comment, the Internal Audit Charter (Appendix A).

### **3.0 Reasons for Recommendation**

3.1 The new PSIAS came into effect from 1 April 2013. The Authority needs to comply with the Standards, and the LGAN, in order to satisfy proper internal audit practices.

3.2 The PSIAS require an Internal Audit Charter (similar to the previous Internal Audit Strategy and Terms of Reference) which must formally define the purpose, authority and responsibility of the internal audit activity.

3.3 A draft Internal Audit Charter, based on the Chartered Institute of Internal Auditors Model Internal Audit Activity Charter, was presented to this Committee in September 2013 for comment. The draft Internal Audit Charter has subsequently been finalised (Appendix A) and is presented to the Audit and Governance Committee for approval.

### **4.0 Wards Affected**

4.1 All wards.

### **5.0 Local Wards Affected**

5.1 Not applicable.

### **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications**

7.1 There are no direct financial implications arising from this report.

## **8.0 Legal Implications**

8.1 The Accounts and Audit Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'. The PSIAS and the LGAN constitute proper practices as set out in the Regulations.

## **9.0 Risk Management**

9.1 The Audit and Governance Committee is responsible for overseeing the Council's role and responsibilities in respect of Corporate Governance and Audit. The Internal Audit Charter provides evidence of governance arrangements in respect of the provision of the internal audit activity and contributes significantly to effectively managing the risk of non-compliance with the Accounts and Audit Regulations 2011.

## **10.0 Background and Options**

10.1 The Public Sector Internal Audit Standards state that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter. These issues have previously been dealt with through the Internal Audit Strategy and Terms of Reference which set out the type of content required by the PSIAS, with financial regulations covering some other high-level aspects of the required content. The adoption of the PSIAS will result in the Charter replacing the Strategy and Terms of Reference and is likely to require amendments to the Council's Constitution.

10.2 The Charter establishes Internal Audit's position within the organisation, including the nature of functional and administrative reporting, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

10.3 A draft Internal Audit Charter was presented to senior management and Members of this Committee in September 2013 in order to reach agreement with regard to the significant aspects of the PSIAS that affect the Audit Charter. The draft Internal Audit Charter has subsequently been amended to reflect relevant discussions (Appendix A) and is presented to the Audit and Governance Committee for approval.

## Relevant Issues

- 10.4 Within the PSIAS, the terms 'Board', 'Senior Management' and 'Chief Audit Executive' must be interpreted in the context of governance arrangements within Cheshire East Council. Therefore, for the purposes of the Internal Audit Charter the term:
- 'board' is defined as the Audit and Governance Committee,
  - 'senior management' is defined as the Corporate Leadership Board and
  - 'Chief Audit Executive' is defined as the Internal Audit Manager (as represented currently by the two Audit Managers).
- 10.5 In accordance with current arrangements the Internal Audit Manager will report directly, for administrative purposes, to the Head of Corporate Resources and Stewardship with reporting lines to the Chief Operating Officer (who assumes the role and responsibilities of the Chief Financial Officer, a specific job title more traditionally associated with the public sector). The *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* states that the Chief Financial Officer (CFO) must:
- ensure an effective audit function is resourced and maintained,
  - that the authority has put in place effective arrangements for internal audit of the control environment,
  - support the authority's internal audit arrangement and
  - ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
- 10.6 In accordance with the PSIAS, organisational independence will effectively be achieved by the Internal Audit Manager reporting functionally to the Audit and Governance Committee. The Charter includes examples of functional reporting included in the PSIAS whilst reflecting, as necessary, Cheshire East Council arrangements as suggested by the LGAN. As part of these arrangements, the Internal Audit Manager will confirm to the Audit and Governance Committee:
- the organisational independence of the internal audit activity (at least annually)
  - the consequences if the level of agreed resources impact adversely on the provision of the annual internal audit opinion
  - the results of the quality and assurance programme and progress against any improvement plans (in the annual report)
- 10.7 The Internal Audit Charter will be reviewed periodically (as a minimum annually) by the Internal Audit Manager and presented to the Corporate Leadership Board and the Audit and Governance Committee for approval.

## **11.0 Access to information**

The background papers relating to this report can be inspected by contacting the report writer:

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