

# INTERNAL AUDIT STRATEGY

## Cheshire East Council

“Providing a high quality, cost effective service, which adapts and responds to the authority’s needs and is delivered with professionalism, expertise and a sense of ambition “

September 2009

## **1.0 Internal Audit Strategy - Introduction**

### **1.1 The overall strategy of Internal Audit is:**

“to deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place on the internal control environment, and to make recommendation to improve it.”

### **1.2 The Terms of Reference of Internal Audit were approved by the Governance and Constitution Committee in June 2009. These are expanded upon and the measures in place to deliver these set out below.**

### **1.3 The CIPFA Code of Practice for Internal Audit requires that the authority sets out its strategy to obtain high level commitment to:**

- The way the statutory internal audit function is positioned within the authority
- The way strategic audit planning is carried out to provide the level of assurance required for the mandatory annual governance statement
- The contribution of internal audit in respect of corporate governance, risk management and internal control
- The risk-based approach to internal audit that underpins the strategic audit planning process

## **2.0 Definition, Objectives, Authority and Scope**

### **2.1 This is made clear in the Terms of Reference but for clarity the key components are that:**

- Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the organisation’s objectives.
- The scope of internal audit’s remit includes the authority’s entire control environment.
- The requirement for an internal audit function is laid out in various statutes and in particular the Accounts and Audit Regulations 2003 (amended) which states that a local authority must “maintain an adequate and effective system of internal audit ....”

## **3.0 Status and Position within the Organisation**

### **3.1 Internal Audit is responsible to the Head of Policy and Performance for line management purposes. However, Internal Audit is independent in its planning and operation. The Head of Internal Audit is a third tier post.**

3.2 The Head of Internal Audit has direct access to the Chief Executive, all levels of management and elected members. Internal Auditors shall have the authority to:

- Enter at all reasonable times any Council establishment
- Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary
- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control
- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

### 4.0 Delivery of the Internal Audit Service

4.1 The Head of Internal Audit is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:

- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of risk)
- Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills and support facilities, equipment and management and administration processes

4.2 The establishment of an effective in-house team with the use of external contractors some specialist areas (e.g. contract audit) is the overall model of delivery. A degree of reliance will be placed on the work of Cheshire West Auditors in relation to testing on some core systems as a result of the shared services arrangements. This relationship will be developed and appropriate quality assurance mechanism put in place to ensure Cheshire East receives an adequate level and quality of coverage.

4.3 The internal audit service is committed to a risk-based approach to internal audit in line with CIPFA's code of practice. The risk-based approach will extend to the fundamental financial systems of the authority and reflect the "managed audit" relationship between internal and external audit. Work will be carried out annually, using a testing methodology consistent with external audit requirements to satisfy this aspect of internal audit's role.

4.4 Internal audit will comply with the Accounting Practices Board "Guide for Internal Auditors, as interpreted by CIPFA's Code of Practice for Internal Auditors in the UK. The Head of Internal Audit will ensure that there is an Audit Manual in place setting out expected standards for the service, and will

monitor compliance with these standards. Relevant training will be provided to ensure that auditors have the level of skills necessary to undertake their roles.

- 4.5 Internal audit's approach to audit is to undertake a continuous planning approach, assessing risk in-year and determining from this the audit requirements. The Head of Audit will produce an annual plan and will keep progress against the plan under review in conjunction with the Head of Policy and Performance and the Borough Treasurer and Head of Assets. This will also be part of the authority's performance management framework.
- 4.6 The plan sets out areas to be covered during the year and is split into five main themes; Corporate Governance, Core Systems, Key departmental systems, Anti-fraud and corruption activity and strategic reviews.
- 4.7 The plan is developed in conjunction with Directors, Heads of Service, risk management staff and emanates from the service and business plans of the Council.

### 5.0 Contribution to Corporate Governance, Risk Management and Internal Control

- 5.1 The Terms of Reference for Internal Audit specify that internal audit is an independent review function. The contribution that it makes to Corporate Governance, Risk Management and Internal Control arrangements reflect that role.
- 5.2 A key outcome of the annual programme of key systems work is to provide support for the Annual Governance Statement, reviewed by the Governance and Constitution Committee and signed by the Chief Executive and Leader of the Council.
- 5.3 The risk management arrangements of the authority are subject to audit on an on-going basis. The risk-based approach adopted by Internal Audit means that the risk management and audit approach are directly related and the evaluation of risk an integral part of each audit.
- 5.4 It is the professional judgement of the Head of Internal Audit that risk-based auditing is the most effective general approach. It is accepted, however, that this is not always the most effective approach e.g. where routine establishment based visits are required for consistency.
- 5.5 In order to demonstrate that assurance can be provided for the Annual Governance Statement (AGS), the internal audit annual report will;
  - Include an opinion on the overall adequacy and effectiveness of the council's governance and internal control environment
  - Disclose any qualifications to that opinion and the reasons for the qualification

- Present a summary of the audit work undertaken to formulate the opinion, including reliance place on the work by other assurance bodies

### 6.0 Relationships and Linkages

- 6.1 The significant reliance on shared services to provide core systems to the authority requires a close working relationship with Cheshire West and Chester Internal Audit section that goes beyond a usual networking relationship. This will be achieved through regular dialogue, a named auditor for all shared services liaison and a quality assurance process where reliance is placed on audits by non Cheshire East audit staff
- 6.2 In a high performing Council the link between Internal Audit and scrutiny is important. They are two distinct but complimentary functions of the authority in their contribution to the overall governance of the authority. The Framework for Good Governance highlights that the authority must “ develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority’s performance overall and that of any organisation for which it is responsible.” To prevent duplication and ensure issues relevant to the overall corporate governance of the authority are highlighted appropriately Internal Audit and the scrutiny function will maintain a regular and on-going dialogue. This will be achieved through the Head of Audit keeping abreast of key issues and outcomes raised by the scrutiny function and a sharing of any relevant internal audit findings with the scrutiny team.
- 6.3 An effective relationship with the Council’s external auditors is crucial to the success of both functions. This will be achieved through regular liaison meetings the Head of Audit and the Audit Manager (Audit Commission) and the maximisation of the scope for joint working.
- 6.4 Reliance on the outcomes of partner organisations to achieve the area’s objectives is becoming increasingly significant. The internal audit function will work with the partnership team to develop good governance arrangements and also build effective relationships with partner organisations particularly those strategic partners where joint outcomes are required.

### 7.0 Culture and Working Practices

- 7.1 Internal audit has the right of report to any level within the organisation including the Leader. However, most audit reports will be discussed at the Head of Service level with issues escalating to Corporate Management Team (CMT) based on a judgement of significance. This will also depend on the nature of the audit, particular if it is of a cross cutting nature where consideration by CMT may be essential.

- 7.2 Internal audit will actively promote strong ethical standards, behaviour and ways of working within the authority. The Head of Audit will be a member of the officer Corporate Governance Group and will encourage the development of Corporate learning and development focusing on ethics, values and an open and transparent approach to the authority's activities. Learning points from internal irregularities will be widely disseminated and action taken against those found to be perpetrating fraud or irregularity will be robust and incisive in accordance with the Anti Fraud and Corruption Policy.
- 7.3 Internal Audit will fulfil its statutory requirements and be integral to the overall culture of continuous improvement. Audit findings of an assurance nature will be complimented by other suggestions for improvement wherever these are identified and the audit mindset will always be one of adding value and integrating evaluation of risk and effective control with the overall vision of the Council to "Work together to improve community life."