

**Cheshire East Terms of Reference - Internal Audit June 2009**

**1.0 Introduction**

- 1.1 The Terms of Reference set out the framework within which Internal Audit discharges its responsibilities to Cheshire East Council to those charged with governance and the Section 151 Officer (Borough Treasurer and Head of Assets).

**2.0 Audit Strategy**

- 2.1 There is a separate document which sets out Cheshire East's Internal Audit Strategy. This is aligned with the authority's overall business planning process and the service delivery plans across the Council.

**3.0 Responsibilities and Objectives of Internal Audit**

- 3.1 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. Internal Audit staff objectively examine, evaluate and report upon the adequacy of the control environment, making a vital contribution to the proper, economic, efficient and effective use of resources.

- 3.2 The specific objectives of the Internal Function of Cheshire East are to:

- Assist the Council to achieve its Corporate priorities
- Provide assurance to those responsible for governance
- Promote business transformation and efficiency improvements
- Help prevent losses as a result of fraud and corruption

- 3.3 The Financial Procedure Rules set out the requirement for an Internal Audit Function and prescribe that:

- Internal audit fulfils the role of the Internal Audit function in the Council and provides assurance to the Section 151 officer, with regard to the effectiveness of the Council's internal control environment
- To contribute to the production of the Annual Governance Statement, the Internal Audit Manager is responsible for planning and delivering a programme or independent review of the Council's activities, the scope of the programme being based on the Council's objectives and an assessment of the risk which may affect the achievement of these objectives
- The Internal Audit Manager is also responsible to those charged with governance and currently satisfies that requirement by presenting an annual report to the Governance and Constitution Committee. The annual report is timed to coincide with the approval of the Annual Governance Statement. The internal audit plan, a commentary on audit activity and update reports setting out

progress against the plan are taken to the Governance and Constitution Committee at the appropriate times.

### 4.0 Reporting Lines and Relationships

- 4.1 Internal Audit is accountable to the Head of Policy and Performance. The Internal Audit Manager is a third tier post which is part of the Corporate Management Team. The Internal Audit Manager has an additional reporting line to the Borough Treasurer and Head of Assets, the Council's Section 151 officer.
- 4.2 There is a clear and overt understanding that the Internal Audit Manager has direct access to the Chief Executive, Leader of the Council and the Cabinet portfolio holder with responsibility for Internal Audit, as necessary and reports in his/her own name to the Governance and Constitution Committee. The Internal Audit Manager has a responsibility to all those charged with governance to give an annual opinion on the system of internal control.
- 4.3 In order to fulfil the internal audit function effectively, the Internal Audit Manager and other audit staff will develop positive relationships with the Internal Audit team in Cheshire West, in particular in regard to those services that are delivered on a shared services basis with this authority. The team will also develop positive working relationships with similar Internal Audit teams within local government and the wider public sector to ensure experience is shared and that continuous learning is achieved.

### 5.0 Organisational Independence

- 5.1 Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities.
- 5.2 To exercise this independence, Internal Audit has:
- The freedom to determine its own priorities
  - The freedom to report in its own name to all officers and members particularly those charged with governance
  - Unrestricted access to all levels of management, personnel, elected members, premises, records and assets, including those of partner organisations.
  - A right to be notified of any suspected fraud or irregularity. It is a requirement that all suspicions of fraud and irregularity are reported to internal audit as set out in the Anti Fraud and Corruption Strategy.
- 5.3 Internal Audit staff are required to sign annual confidentiality statements and to formally raise and register any declarations of interest or conflict of independence.

- 5.4 The Internal Audit Manager is responsible for a small “Compliance Team” who provide the authorities corporate advice on risk management, business continuity, freedom of information, data protection and other compliance related matters. This is a separate team and internal audit staff do not have responsibility for this work. The work of the team, where it is felt necessary having carried out a risk assessment to formulate the audit plan, will be audited as part of the usual audit procedures.
- 6.0 Resources
  - 6.1 On an annual basis, the extent of audit coverage will be discussed and agreed with the Senior Management Team. The resources required to deliver the annual plan are agreed with the Head of Policy and Performance and the Borough Treasurer and Head of Assets.
  - 6.2 Internal Audit must be staffed appropriately in terms of numbers, grades, qualification levels and experience. Internal auditors must be properly trained to deliver their service and should maintain an on going professional competence throughout a continuous development programme. This will be included as part of staff review processes as a means of formally assessing learning and development needs.
  - 6.3 The level of audit coverage to be provided and the resources required will be presented (in summary form) to the Governance and Constitution Committee for approval.
- 7.0 Reporting by the Internal Audit Manager
  - 7.1 The activities and progress of Internal Audit will be reported on at least a half yearly basis to the Governance and Constitution Committee. Regular progress reports will also be presented to the Head of Policy and Performance and Senior Management Team and discussed with the Portfolio holder with responsibility for Internal Audit.
  - 7.2 An annual report and opinion will be prepared for the Governance and Constitution Committee, timed to support the production of the Annual Governance Statement. Arrangements are also in place for interim reports to be presented regarding issues that may impact on the Internal Audit Manager’s Annual Report and Opinion.
- 8.0 Responsibility in relation to Fraud related or other work outside the assurance role
  - 8.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit must be notified of all suspected instances of fraud, corruption or impropriety. In addition internal audit will, where agreed with management and the necessary resources and expertise exists, go beyond the assurance responsibility and assist in the investigation or suspected fraud or corruption. This will be dependant on the nature of the investigation and an assessment of management’s

ability to complete the investigation effectively and in the best interests of the organisation.

- 8.2 The Audit section are committed to being proactive and making a difference to the authority. Wherever possible audit work will provide any relevant advice relating to value for money, efficiency or lean thinking which may go beyond the assurance role. In addition, the internal audit plan will contain an allocation of resource for “strategic review” which will provide a small number of reviews of Council services beyond the assurance role.
- 9.0 Relationship with the External Auditor
  - 9.1 The Council’s external auditors, the Audit Commission, carry out regular reviews of the Internal Audit provision, and give an opinion of their work within the annual management and inspection letter. They use the work of internal audit to inform their own work, judging the extent to which they can place reliance on that produced by internal audit.
  - 9.2 Regular meetings are held between the Internal audit service and the external auditors to establish the scope for joint working, and the co ordination of audit plans.
  - 9.3 External Audit carries out a triennial review of Internal Audit, the results of which are presented to the Head of Policy and Performance, Section 151 officer and subsequently the Audit Committee and cabinet.