

## EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2012/13

**LEAD OFFICER:** Darienne Law,  
Head of Corporate Resources

**AUTHOR:** Peter Usher, Audit Manager

<b>SUMMARY:</b>	This report provides Members with an opinion on the effectiveness of the system of internal audit in 2012/13 which is a requirement of the Accounts and Audit Regulations. The report concludes that the system of internal audit has operated satisfactorily during 2012/13.
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<b>Recommendation:</b>	Members are recommended to review this report and confirm they are satisfied with the effectiveness of the system of internal audit for the financial year 2012/13.
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### 1.0 INTRODUCTION

- 1.1 This report provides an assessment of the effectiveness of internal audit in 2012/13. The Accounts and Audit Regulations (England) 2011 (SI 2011No 187) make it a requirement on local authorities to carry out an annual review of the effectiveness of the system of internal audit.
- 1.2 CIPFA has defined the system of internal audit as the entirety of the arrangements for audit put in place by the authority, including the activities of any oversight committee, in this case, the Audit and Governance Committee. Meeting the requirements of the CIPFA Code of Practice for Internal Audit and the checklist on the effectiveness of the Audit Committee demonstrates that the systems and processes in place are adequate and effective. **The annual assessment against the CIPFA Code is at Appendix 1. The annual assessment on the effectiveness of the Audit and Governance Committee is at Appendix 2.**
- 1.3 Members should note that with effect from 1 April 2013 the effectiveness of internal audit will be judged against compliance with the new Public Sector Internal Audit Standards (PSIAS) so 2012/13 is the last year that compliance with the CIPFA Code is required.
- 1.4 2012/13 has been the second full year that internal audit has been delivered by Cumbria County Council's Shared Internal Audit Service and the audit plan has been substantially delivered in 2012/13. Internal Audit's annual report for 2012/13 shows good progress in delivering the audit plan and encouraging satisfaction levels from

audit clients. There is currently no backlog of audit work with most departments providing prompt responses to audit reports although timely implementation of agreed recommendations could be improved in some areas.

- 1.5 Regular dialogue is maintained between Internal Audit and the Council via monthly meetings between Internal Audit and the Head of Corporate Resources (S.151 Officer).
- 1.6 As with the Annual Governance Statement, the completion of the review of the system of internal audit will usually be carried out by a group of officers and/or members. The results of the review are then reported to the Audit and Governance Committee, often after consideration by a senior officer team.
- 1.7 The CIPFA guidance advises that although the self assessment from the Head of Internal Audit is a key piece of evidence to support the evaluation, the review team's scrutiny is essential to ensuring an independent assessment before submission to the Audit and Governance Committee.
- 1.8 The CIPFA guidance advises that the results of the review need to be considered by the Audit and Governance Committee and included in the Annual Governance Statement. Any areas for development or change should be identified in the report. The Annual Governance Statement action plan should contain only significant weaknesses.

## **2.0 CONSIDERATION OF EFFECTIVENESS**

- 2.1 The Corporate Leadership Team, in reaching an opinion on the effectiveness of the system of internal audit during 2012/13, considered:-
  - Self-assessment from the Audit Manager, based on the CIPFA Code of Practice for Internal Audit, **see Appendix 1**;
  - Internal Audit Annual Report on Internal Control 2012/13 (which is reported separately to this Committee);
  - Assessment by Audit Manager of Effectiveness of the Audit Committee, **see Appendix 2**;
  - Findings of the External Auditor in 2012/13 in relation to internal audit (see 2.2 below)
- 2.2 There was ongoing liaison between internal and external audit during 2012/13. External audit changed in November 2012 from the Audit Commission to Grant Thornton but ongoing dialogue has continued and all internal audit reports are copied to the external auditor as well as the audit plan. There were no adverse comments in relation to internal audit from the Audit Commission or Grant Thornton in 2012/13. As part of the PSIAS requirements Internal Audit will be externally reviewed on a periodic basis to confirm compliance.

### **3.0 FINDINGS OF THE REVIEW**

- 3.1 The Corporate Leadership Team's consideration concluded that the system of internal audit operated satisfactorily in 2012/13 and there has been no fundamental breakdown of controls. Progress on implementing agreed audit recommendations is regularly monitored by both CLT and the Audit and Governance Committee.
- 3.2 Improvement action arising from the annual review of effectiveness in 2011/12 have been implemented as follows:
- Internal Audit now attends a briefing meeting with the Chair, Chief Executive, S151 Officer and Monitoring Officer prior to each Audit & Governance Committee meeting;
  - A protocol for issue and response to internal audit reports has been agreed.

The assessment of the effectiveness of the Audit & Governance Committee has not identified any particular issues based on the current CIPFA checklist but during 2013/14 a further review will be undertaken based on more recent guidance from CIPFA's Better Governance Forum (BGF).

- 3.3 The system of internal audit is part of the Council's wider governance arrangements and should be read in conjunction with the Annual Governance Statement.

#### **List of Appendices:**

Appendix 1 – Self assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government

Appendix 2 - Assessment of effectiveness of the Audit and Governance Committee

**List of Background Documents:** None

**Consultees:** Corporate Leadership Team

## CHECKLIST – COMPLIANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT

Completed by Peter Usher, Audit Manager 16/5/13

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Note: Ref numbers relate to the Standards in the Code of Practice and are not always in chronological order.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
1	Scope of Internal Audit					
1.1	Terms of Reference					
1.1.1	Do terms of reference: (a) establish the responsibilities and objectives of Internal Audit? (b) establish the organisational independence of Internal Audit? (c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and: (i) those charged with governance? (ii) those parties to whom the Head of Internal Audit may report? (d) recognise that Internal Audit's remit extends to the entire control environment of the organisation? (e) identify Internal Audit's contribution to the review of the effectiveness of the control	√ √ √ √ √			See Internal Audit Shared Service contract  Financial Regulations existing and revised on 15/12/10 (at Appendix C – Risk Management & Control of Resources Paragraphs 3.24 to 3.35) set out the responsibilities and access rights of internal audit.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place /
1.1.1 cont'd	<p>environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	√				
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	√			Terms of reference for IA service are in shared service contract. Audit Strategy is agreed by the Audit and Governance Committee annually.	
1.1.3	Have the terms of reference been formally approved by the organisation?	√			Shared service contract agreed by Council. Audit Strategy approved by Audit and Governance Committee 22 April 2013.	
1.1.3	Are terms of reference regularly reviewed?	√			Terms of reference for IA service are in shared service contract. Audit Strategy is agreed by the Audit and Governance Committee annually.	

1.2	Scope of Work				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	√		Annual risk assessment of auditable areas. This also includes a review of the corporate Strategic Risk Register and the Council's corporate objectives as set out in the Council Plan – Implementation document.	
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	√ √		Previously identified to s.151 officer and Head of Legal Services that an assurance statement must be sought from partners where there is no internal audit access. These are requested by the Accountancy Services Manager / Technical Accountant . Tender documentation for Valuation Services included a requirement for the assurance statement. Leisure Trust – agreed they will use their own internal audit but there will also be an “open book” arrangement.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>1.3</b>	<b>Other Work</b>					
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	√ √			Shared Internal Audit Service can access necessary skills and resources as required. Specialist counter fraud support is provided by NHS Cumbria.  There is also a dedicated Fraud Team in Revenues & Benefits. They largely deal with Benefits fraud but also investigate other potential fraud, as part of the National Fraud Initiative exercise.	
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	√ √			In Shared service contract	
<b>1.4</b>	<b>Fraud and Corruption</b>					
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	√			Instructions to managers /employees are set out in the Anti-Fraud and Corruption Strategy (revised and relaunched in 2009/10) and the Confidential Reporting Policy. Audit Manager is one of the named contacts.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2	Independence					
2.1	Principles of Independence					
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	√ √			Internal audit is independent of the activities it audits and is free from any non-audit duties.	
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	√			If Audit have been consulted during system / policy / procedure development, it would be a different auditor who would carry out any routine or future audits.	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2.2	<b>Organisational Independence</b>					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			<p>Internal Audit reports directly to the s.151 Officer - the Head of Corporate Resources.</p> <p>Independence is gained via IA being provided externally via a shared service arrangement hosted by Cumbria County Council.</p> <p>The Financial Procedure Rules also give the Head of Audit direct access to the Chief Executive and to the Chair of the Audit and Governance Committee.</p>	
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	√ √			See 2.2.1 above	
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	√			Yes	

2.2.3	<p>(a) Is there an assessment that the budget for Internal Audit is adequate?</p> <p>(b) Does any budget delegated to service areas ensure that:</p> <p>(i) Internal Audit adherence to the Code is not compromised?</p> <p>(ii) the scope of Internal Audit is not affected?</p> <p>(iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?</p>	√			<p>(a) Reviewed annually, but subject to arrangements in shared service contract. This includes an efficiency factor which CBC can take as reduced cost or additional audit days.</p> <p>(b) Not applicable – budget for IA held corporately.</p>	
<b>2.3</b>	<b>Status of the Head of Internal Audit</b>					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	√			Reporting line is to the Head of Corporate Resources – a member of the Corporate Leadership Team.	
<b>2.5</b>	<b>Independence of Internal Audit Contractors</b>					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?				Not applicable – no non-audit services provided.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>2.6</b>	<b>Declaration of Interest</b>					
2.6.1	Do audit staff make formal declarations of interest?	√			Annual declarations made by all members of Audit Shared Service and independently reviewed by line manager noting any actions required, such as restrictions on where work can be done to avoid any potential conflict of interest.	
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	√			Yes – see 2.6.1 above.	
<b>3</b>	<b>Ethics for Internal Auditors</b>					
<b>3.1</b>	<b>Purpose</b>					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	√			Audit Standards covered at induction and when codes updated. Most staff are also members of professional bodies with their own ethics code.	

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<b>3.2</b>	<b>Integrity</b>					
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			Questionnaires issued to auditees, following each audit. Helpfulness of audit team is rated highly.	
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	√			As 3.1.1 - each audit report is independently reviewed. Satisfaction questionnaires show audit findings are deemed to be fairly stated.	
<b>3.3</b>	<b>Objectivity</b>					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	√			As 2.1.1, 2.1.2 & 3.2.1 Auditors adhere to relevant professional guidelines on ethical compliance.	
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	√			Typically staff who have had a previous operational role would not be involved in audits of the relevant area for a minimum period of 2 years.	
3.3.4	Are staff rotated on regular/annually audited areas?	√			Where possible, as part of employee development, but subject to the need to develop subject expertise in technical areas.	

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<b>3.4</b>	<b>Competence</b>					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	√ √ √ √			Competencies are set out in individual job descriptions for each grade of staff. The County Council's appraisal process incorporates a review of training needs and all staff are encouraged to become professionally qualified and continually update their skills by attending specific training or undertaking new areas of work.	
<b>3.5</b>	<b>Confidentiality</b>					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			Internal audit staff understand their obligations in respect of confidentiality.	
<b>4</b>	<b>Audit Committees</b>					
<b>4.1</b>	<b>Purpose of the Audit Committee</b>					
4.1.1	Does the organisation have an independent audit	√			Yes	

	committee?					
<b>4.2</b>	<b>Internal Audit's Relationship with the Audit Committee</b>					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	√			Yes and wef 2012/13 the Audit Manager has attended Audit and Governance Committee briefings which include independent Chair, Chief Executive, Head of Corporate Resources and the Monitoring Officer.	
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			Yes – Audit and Governance Committee approves annual plan and strategy and receives quarterly monitoring reports throughout the year.	
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			As 4.2.2	

4.2.4	<p>Does the Head of Internal Audit:</p> <p>(a) attend the committee and contribute to its agenda?</p> <p>(b) participate in the committee’s review of its own remit and effectiveness?</p> <p>(c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?</p> <p>(d) report on the outcomes of internal audit work to the committee?</p> <p>(e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?</p> <p>(f) present the annual internal audit report to the committee?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>The Audit Manager attends Committee meetings, reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual report, including an opinion on the internal control and risk management framework</p>	
4.2.5	<p>Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?</p>	<p>√</p>			<p>Yes</p>	
<b>5</b>	<b>Relationships</b>					
<b>5.1</b>	<b>Principles of Good Relationships</b>					
5.1.2	<p>Is there a protocol that defines the working relationship for Internal Audit with:</p> <p>(a) management?</p> <p>(b) other internal auditors?</p>	<p>√</p> <p>√</p>	<p>√</p>		<p>(a) Yes – protocol in place</p> <p>(b) Audit procedures / CIPFA standards define roles &amp; responsibilities for internal auditors. Work with other</p>	

	(c) external auditors? (d) other regulators and inspectors? (e) elected members?	√ √ √			internal auditors via the Cumbria Audit Group. All work to, and are bound by, the CIPFA Code of Practice for Internal Audit in Local Government. (c) Audit protocol agreed with external auditors (Audit Commission now replaced by Grant Thornton). (d) Not applicable (e) Head of Audit has access to Chair of Audit and Governance Committee if required.	
<b>5.2</b>	<b>Relationships with Management</b>					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	√			Consultation with managers in drawing up Audit Plan and prior to each individual audit, scopes are agreed. Managers also have opportunity to provide feedback via surveys after each audit.	
5.2.2	Is the timing of audit work planned in conjunction with management?	√			General timing of planned audits discussed at liaison meetings with Head of Corporate Resources. Planning Memos sent to managers for individual audits include proposed timing.	
<b>5.3</b>	<b>Relationships with Other Internal Auditors</b>					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working		√		Not applicable as no joint working but Shared Internal Audit Service is a	



	papers, respective roles and confidentiality?				member of the Cumbria Audit Group which includes the District Councils and the NHS.	
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5.4	<b>Relationships with External Auditors</b>					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	√			<p>Yes – ongoing dialogue on this following change of external auditors.</p> <p>Internal Audit relies on the external auditor's work on grant claims over £125k, final accounts, value for money and inspections.</p>	
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	√			Regular dialogue is maintained	
5.4.3	Are the internal and external audit plans co-ordinated?	√			<p>Yes – fundamental systems work is carried out towards end of year so that external auditor can place reliance on IA work. System flowcharts and key controls documentation is also shared so a common understanding of main systems and key controls is developed. External Audit is consulted on the Internal Audit plan each year.</p>	

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5.5	<b>Relationships with Other Regulators and Inspectors</b>					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	v			Would do so if and /when necessary.	
5.6	<b>Relationships with Elected Members</b>					
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	v			Financial Regulations give access to Chair of Audit and Governance Committee.	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	v			Only contact is via the Audit and Governance Committee and contribution to portfolio holder's report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6	<b>Staffing, Training and Continuing Professional Development</b>					
6.1	<b>Staffing Internal Audit</b>					
6.1.1 (a)	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			Head of Audit maintains an appropriate staffing structure for Internal Audit Shared Service.	
6.1.1 (b)	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	√			Where skills are not available in-house these are purchased from elsewhere eg counter fraud/investigatory skills.	
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			Head of Internal Audit is CIPFA qualified with significant IA experience. Audit Manager is ACA qualified with internal & external audit experience.	
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			Both Head of Internal Audit and Audit Manager have wide	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					experience of internal audit management.	
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	√ √			All staff have up-to-date job descriptions and person specifications	
<b>6.2</b>	<b>Training and Continuing Professional Development</b>					
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	√  √ √			Training needs are assessed on an annual basis via appraisals and following this an annual training & development plan is produced, which links training to the objectives of the Unit. Completed training is documented in the training & development plan.	
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	√			Completed training is documented in the training & development plan.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>7</b>	<b>Audit Strategy and Planning</b>					
<b>7.1</b>	<b>Audit Strategy</b>					
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	√ √			Audit Strategy is reviewed annually and approved by the Audit and Assurance Committee.	
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	√ √ √ √ √			Yes	
7.1.3	Has the strategy been approved by the audit committee?	√			See 7.1.1	
<b>7.2</b>	<b>Audit Planning</b>					

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	v			Annual plan is based on risk assessment which includes due consideration of Copeland's objectives in Council Plan – Implementation and Strategic Risk Register.	
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	v			Risk assessment for setting annual plan takes into account Audit Manager's risk assessment which includes materiality, previous audit assessments and consultation with managers.	
7.2.1	Are stakeholders consulted on the audit plan?	v			CLT, Heads of Service and all departmental managers have an opportunity to contribute to audit plan. Audit and Governance Committee is consulted on the draft audit plan. Also copied to the external auditor for comments.	
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	v			Yes – CLT and Audit and Governance Committee confirm this.	
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year?				An annual plan is produced.	

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	(b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	√ √ √ √ √			Yes Yes Yes Yes Yes – contingency included	
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	√			Yes	
7.2.5	Has the plan been approved by the audit committee?	√			Annual plan is approved by Audit and Governance Committee. 2012/13 plan was approved in April 2012. 2013/14 plan was approved in April 2013.	
7.2.6	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	√			Yes	



<b>8</b>	<b>Undertaking Audit Work</b>					
<b>8.1</b>	<b>Planning</b>					
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	√ √			Planning Memorandum and Test Schedule prepared for each audit. Forwarded to relevant manager for agreement / opportunity to request additional work if there are areas of concern.	
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	√ √ √ √ √			Copy of Planning Memorandum on each audit file.	
<b>8.2</b>	<b>Approach</b>					
8.2.1	Is a risk-based audit approach used?	√			Annual risk assessment exercise assesses risks associated with each system. Also use CIPFA Matrices guide to risks for individual system audits. Potential risks are identified in the Planning Memorandum for each audit.	

8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	√		The Planning Memorandum includes reference to the fact that management / relevant employees will be informed of interim findings where serious issues / or corrections to systems arise.	
8.2.4	Does the audit approach include a quality review process for each audit?	√		All audit reviews are independently reviewed to ensure that testing has covered agreed scope and conclusions and recommendations are based on adequate evidence.	

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<b>8.3</b>	<b>Recording Audit Assignments</b>					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	√			Standard documentation and working papers used.	
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	√			Yes	
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	√ √ √			All tests have a test summary sheet, describing the test carried out, how the sample was obtained and detailing the results. This is cross-referenced to the supporting working papers. Findings cross referenced on the Test Schedule.	
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	√			Corporate retention guidelines.	
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	√			Corporate retention guidelines are based on national standards.	

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8.3.3	Is there an access policy for audit files and records?	√			Freedom of Information policy. Key findings from audits and outstanding key recommendations are published in the quarterly monitoring reports for the Audit and Governance Committee and these are public documents.	

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9	<b>Due Professional Care</b>					
9.2	<b>Responsibilities of the Individual Auditor</b>					
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p> <p>(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?</p> <p>(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?</p> <p>(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>(h) disclosing any non-compliance with these standards?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>All internal auditors are aware of their individual responsibilities for due professional care.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(i) not using information they gain in the course of their duties for personal use?	√				
<b>9.3</b>	<b>Responsibilities of the Head of Internal Audit</b>					
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	√			Review of all audit work undertaken / all reports issued to reinforce standards. Review checklist is filed on each system audit file. On-the-job supervision and training.	
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			Confidential Reporting Code and Anti Fraud & Corruption Strategy.	
<b>10</b>	<b>Reporting</b>					
<b>10.1</b>	<b>Principles of Reporting</b>					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	√			Contained in the management summary of the report. Opinion table shown in the conclusion.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.1.3 <i>(note – there is no 10.1.2)</i>	Has the Head of Internal Audit determined the way in which Internal Audit will report?	√			Standard format report issued following each audit to relevant Director, Head of Service, Departmental Manager and key auditees. All final reports copied to the external auditor. Summaries of each report and all P1 and P2 recommendations are reported to the Audit and Governance Committee, on a quarterly basis. Annual report on Internal Control to the Audit and Governance Committee.	
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	√			Standard format report.	
10.1.5	Are there laid-down timescales for reports to be issued?	√			Estimated timescales included in the Planning Memorandum for each audit.	
<b>10.2</b>	<b>Reporting on Audit Work</b>					
10.1.	Do the reporting standards include: (a) format of the reports?	√			Standard format for report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
4 10.1. 4 10.2. 2 10.2. 1 10.1. 4 10.2. 1	(b) quality assurance of reports? (c) the need to state the scope and purpose of the audit? (d) the requirement to give an opinion? (e) process for agreeing reports with the recipient? (f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	√ √ √ √ √			Quality assurance of report included in review checklist [filed on relevant audit file]. Process for agreeing reports included in audit procedures. An action plan is included with each report. Once agreed, these actions are then transferred to the corporate performance management system (Covalent) in order that responsible managers can record progress in implementation.	
10.2. 3	Does the audit reporting process include discussion and agreement of reports?	√			If this is a routine annual audit, often simply agreed by email. Otherwise a meeting is arranged with the relevant service manager.	
10.2. 4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	√			P1 – S.151 issue / Statutory P2 – Key control essential to achieving the system’s objectives P3 – desirable but not essential	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.2.5	Are areas of disagreement recorded appropriately?	v			Recorded in the "Action Agreed" column of the action plan. Also reported to the Audit Committee as part of the key findings appendix of the quarterly monitoring report and in "Issues Arising" from the audit work undertaken in the main body of the report.	
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management?	v			As 10.2.5 above. Senior management receive a copy of the report. Also copied in to Quarterly Monitoring Report to the Audit and Governance Committee. S.151 Officer attends the Audit and Governance Committee plus other members of CLT, as available and depending upon agenda items.	
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	v			Standard circulation is known at the start of the audit – as 10.1.3 above. Finalised when the audit is complete, as test results may result in an action for an employee that has not been foreseen at the start of the audit.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	√ √			Included in the covering email.  Key contacts included in the Planning Memorandum.	
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	√ √			Any “corporate” issues are circulated to Leadership and Management Group or all employees, as appropriate. Audit reports include a specific recommendation that departmental risk registers should be updated, where appropriate.	
<b>10.3</b>	<b>Follow-up Audits and Reporting</b>					
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	√			All audit recommendations are input on the corporate Covalent system. Quarterly follow up of all outstanding Priority 1 & 2 recommendations, informed by Managers. “Reality check” on implementation of recommendations relating to main financial systems as part of the	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					annual audits of those systems. Implementation of all priority 1 recommendations also checked by Audit.	
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	√			Managers review outstanding audit recommendations quarterly (report circulated by internal audit). Also reported to Corporate Leadership Team and to the Audit and Governance Committee.	
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	√			A revised opinion would be given following a follow up audit.	
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	√			Previous audit assessments form part of as part of the annual risk assessment exercise used to draw up the annual Audit Plan.	
<b>10.4</b>	<b>Annual Reporting and Presentation of Audit Opinion</b>					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control "SIC"? ["SIC" replaced by Annual Governance Statement	√			Annual report on Internal Control submitted to CLT and to the Audit and Governance Committee. Also a report on Corporate Governance.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(AGS) in 2008/09.]				These are both used to inform the AGS.	
10.4.2	<p>Does the Head of Internal Audit's annual report:</p> <p>(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?</p> <p>(b) disclose any qualifications to that opinion, together with the reasons for the qualification?</p> <p>(c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?</p> <p>(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement ?</p> <p>(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets?</p> <p>(f) comment on compliance with the standards of the Code?</p> <p>(g) communicate the results of the internal audit quality assurance programme?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>As 10.4.1 above</p> <p>Yes</p> <p>Summary is attached as appendix to annual report</p> <p>Significant issues are highlighted</p> <p>Yes</p> <p>Yes – this is what this document is</p> <p>Summary of client surveys included</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11	<b>Performance, Quality and Effectiveness</b>					
11.1	<b>Principles of Performance, Quality and Effectiveness</b>					
11.1.1	Is there an audit manual?	√			Policies and procedures are defined in the Internal Audit Manual which comprises the CIPFA manual and a set of local procedures.	
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	√ √			Yes	
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	√			Yes	
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	√ √			Quality review of each audit plus annual self-assessment against this Code of Practice. Management satisfaction surveys.	
11.2	<b>Quality Assurance of Audit Work</b>					

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	√			Audits are assigned according to the skills required.	
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?	√			All auditors work in the same office. Ongoing supervision and monitoring of progress and quality reviewed at the end of each audit, prior to issue of the draft audit report.	
11.2.2	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work? (c) coaching staff?	√ √ √			As 11.2.2 above	
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service</b>					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	√			Monthly performance monitoring within Shared Service. Quarterly performance monitoring to the s.151 Officer and to the Audit and Assurance Committee.	
11.3.	Does the performance management and quality					

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2	<p>assurance framework include as a minimum:</p> <p>(a) a comprehensive set of targets to measure performance:</p> <p>(i) which are developed in consultation with appropriate parties?</p> <p>(ii) which are included in service level agreements, where appropriate?</p> <p>(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?</p> <p>(b) user feedback obtained for each individual audit and periodically for the whole service?</p> <p>(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>(c) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>(e) an action plan to implement improvements?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>Performance measures are included in the quarterly monitoring report to the Audit and Governance Committee. These are also discussed at the Internal Audit Shared Service Operational and Strategic Boards.</p> <p>Yes – questionnaires following each routine audit</p> <p>Quarterly monitoring report to Audit and Governance Committee. Cumulative PI's show progress during the year and corrective action is taken.</p> <p>Annual review of compliance with Code. Ongoing review to ensure compliance with Audit Manual.</p> <p>Actions are identified to implement</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					improvements where appropriate.	
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	√			Performance indicators and targets monitored with previous years, together with the responses to the client surveys.	
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives? (b) compliant with the Code? (c) meeting internal quality standards? (d) effective, efficient, continuously improving?  (e) adding value and assisting the organisation in achieving its objectives?	√ √ √ √  √			Yes Yes Yes  Yes – efficiencies gained from shared service shared with all participants. These include a 2% cost saving per audit day and access to a broader skill base/greater resilience etc.  Provide assurance over fundamental systems, which is essential for external audit; identify risks in key systems/processes and make recommendations to improve these; contribute to fraud	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					deterrence/identification and also value for money/efficiency agenda. Contribute to better governance in the Council, for example, on risk management.	
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	v			Annual report on Internal Control to the Audit and Governance Committee. Review of the Effectiveness of the Audit Committee reports the opinion of the Corporate Leadership Team, based on the Audit Manager's self-assessment and supporting evidence.	
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	v			This checklist provides the evidence for consideration by Corporate Team and then the Audit and Governance Committee.	

## APPENDIX 2

### Effectiveness of the Audit and Governance Committee

The effectiveness of the Audit and Governance Committee in 2012/13 has been reviewed in line with the self-assessment checklist – Measuring the Effectiveness of the Audit Committee - provided in the Audit Commission publication “Audit Committees: Practical Guidance for Local Authorities” [Nov. 2005]:-

#### Terms of Reference

#### Comment

Have the Committee’s terms of reference been approved by full Council?

YES - In the Constitution.

Do the terms of reference follow the CIPFA model?

YES - In the Constitution.

#### Internal Audit Process

Does the Committee approve the strategic audit approach and the annual programme?

YES – Annually.

Is the work of internal audit reviewed regularly?

YES - Quarterly reports.

Are summaries of quality questionnaires from managers reviewed?

YES - In Annual report.

Is the annual report, from the Head of Audit, presented to the Committee?

YES - June Committee.

#### External Audit Process

Are reports on the work of external audit and other inspection agencies presented to the Committee?

YES - As reports are issued.

Does the Committee input into the external audit programme?

YES - Plan discussed.

Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?

YES - Quarterly review.

Does the Committee take a role in overseeing:-

- Risk management strategies.
- Annual Governance Statement.
- Anti-Fraud arrangements.
- Whistleblowing strategies [Confidential Reporting Code approved by Full Council].

YES - Updates in year.

YES – Annually.

YES - Quarterly review.

YES.

#### Membership

Has the membership of the committee been formally agreed & a quorum set?

YES - In the Constitution.

Is the Chair free of executive or scrutiny functions?

YES - Independent Chair.

Are Members sufficiently independent of the other key committees of the Council?

YES - No Executive, Scrutiny or Resource Planning Working Group members.

## Effectiveness of the Audit Committee (continued)

### Membership (continued)

Have all members' skills and experiences been assessed & training given for identified gaps?

YES - Member Personal Development Programmes.

Can the Committee access other Committees as necessary?

YES - Quarterly report to Full Council & can refer issues to other Committees.

### Meetings

Does the Committee meet regularly?

YES - see Committee Calendar.

Are separate private meetings held with the external auditor & the internal auditor?

YES - Standing item on agenda.

Are meetings free and open without political influences being displayed?

YES.

Are decisions reached promptly?

YES.

Are agenda papers circulated in advance of meetings to allow adequate preparation by members?

YES.

Does the committee have the benefit of attendance of appropriate officers at its meetings?

YES - S151 Officer and Audit Manager as a minimum. Directors and/or Heads of Service as appropriate to agenda items.

### Training

Is induction training provided to members?

YES - Standard induction.

Is more advanced training available as required?

YES - Specific to Audit Committee.

### Administration

Does the authority's S.151 Officer or deputy attend all meetings?

YES - S.151 Officer was the Lead Officer in 2012/13.

Are the key officers available to support the committee?

YES.