

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2010/11

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on behalf of the Corporate Leadership Team

SUMMARY:	This report provides Members with an opinion on the effectiveness of the system of Internal Audit in 2010/11 which is a requirement of the Accounts and Audit Regulations (England) 2011(SI 2011 No 817). The report concludes that the system of internal audit has operated satisfactorily in 2010/11 and there has been no fundamental breakdown of controls resulting in material error or discrepancies.
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Recommendation:	Members are recommended to review this report and determine whether they are satisfied with the effectiveness of the system of internal audit for the financial year 2010/11. Members are asked to note the areas for improvement set out in Appendix A and confirm their appropriateness in the light of the Committee's consideration.
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1 INTRODUCTION

- 1.1 The purpose of this paper is to provide the Committee with a review of the effectiveness of **the system** of internal audit which operated during 2010/11. The findings of this review need to be considered as part of the Audit Committee's consideration of the Annual Governance Statement, which will be presented separately to this Committee.
- 1.2 This review is required to comply with the Accounts and Audit Regulations (England) 2011 (SI 2011No 187). These Regulations require bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control.
- 1.3 The Department for Communities and Local Government (DCLG) has previously issued guidance, suggesting that an Audit Committee would be the

appropriate body to consider the findings of the review, as an Audit Committee already has a role in monitoring internal audit but is independent from it. However, the DCLG guidance offers little practical guidance on how relevant bodies should go about carrying out the annual review of the effectiveness of the system of internal audit.

1.4 In response to the above, the Chartered Institute of Public Finance and Accountancy (CIPFA) published guidance in January 2007, where it 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. Meeting the requirements of the CIPFA Code of Practice for Internal Audit demonstrates that the systems and processes in place are adequate and effective. Internal audit includes:-

- the main internal audit service provider
- any outsourced internal audit work
- the internal audit of outsourced services
- the effectiveness of the Audit Committee itself

1.5 It is the responsibility of the local authority to conduct the annual review; it is not a review that will be carried out by the external auditor as part of the annual audit.

1.6 The CIPFA guidance recommends that the following evidence is considered in reaching a view on the effectiveness of the system of internal audit:-

- Compliance with the CIPFA Code of Practice for Internal Audit in Local Government – this covers 11 areas for consideration. These areas are as follows and are reviewed in Appendix B:-
 1. Scope of Internal Audit
 2. Independence
 3. Ethics for Internal Auditors
 4. Audit Committee
 5. Relationships
 6. Staffing, Training and Continuing Professional Development
 7. Audit Strategy and Planning
 8. Undertaking Audit Work
 9. Due Professional Care
 10. Reporting
 11. Performance, Quality and Effectiveness
- Key performance indicators. For example:-
 - % of approved audit plan completed
 - % of time delivered for non-assurance work (non-audit work)
 - % of time that is chargeable (direct audit time)
 - % of time spent on client support and advice
 - % of work that is specifically requested
- Response to Management Satisfaction Questionnaires
- Extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls
- Assurances given by the auditors of outsourced functions (e.g. Leisure)

- 1.7 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 Committee, often after consideration by a senior officer team.
- 1.8 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 the independence of the consideration before submission to the Audit Committee.
- 1.9 The review group could be a task group of the Audit Committee or it could be entirely officer-based. Whilst the Head of Internal Audit could carry out a self assessment, this would then have to be reviewed by the review team before being submitted to the Audit Committee.
- 1.10 The CIPFA guidance advises that the results of the review need to be considered by the Audit 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 CONSIDERATION OF EFFECTIVENESS

- 2.1 The Corporate Leadership Team at their meeting, on 16th March 2011, discussed a draft of this report and reviewed the following evidence:-
- Self-assessment from the Audit and Fraud Prevention Manager, shown at Appendix A.
 - Checklist for compliance with the CIPFA Code of Practice for Internal Audit, shown at Appendix B.
 - Audit Services Annual Report on Internal Control 2010/11 (which is reported separately to this Committee)
- 2.2 There are linkages between all three documents in reaching an opinion on the effectiveness of the system of internal audit. The Corporate Leadership Team also considered any findings of the External Auditor in 2010/11 in relation to internal audit.

External Auditor Findings

- 2.3 The Authority's Appointed Auditor, as part of the Audit Commission's assurance programme, conducts a full review of the adequacy and effectiveness of the Authority's internal audit arrangements every three years, with annual reviews of elements of those arrangements. The role of the external auditor is to review internal audit and to report where they do not meet the expected requirements in a significant way. The triennial review was reported to the Audit Committee in September 2009. This latest review concluded that internal audit had complied with the CIPFA standards for

internal audit. There were no adverse comments in relation to internal audit in the Audit Commission's Annual Audit Letter, published in December 2010.

Self Assessment by the Audit Manager - Compliance with the CIPFA Code of Practice for Internal Audit and the Effectiveness of the Audit Committee

- 2.4 The Corporate Leadership Team, in reaching an opinion on the effectiveness of the system of internal audit during 2010/11, considered Appendices A, B and C. Appendix A includes the checklist recommended in relation to the Effectiveness of the Audit Committee and the conclusion from the checklist is that the Audit Committee has demonstrated compliance with the criteria of an effective audit committee, as defined by CIPFA, and demonstrates that the Committee has been effective in discharging the role and responsibilities described by its terms of reference as the Authority's Audit Committee. The Chair of the Audit Committee continued to report on the work of the Audit Committee to full Council throughout 2010/11.
- 2.5 The evidence to support compliance with the 11 areas of the Code of Practice for Internal Audit was considered (Appendix B). The areas of non-compliance related to updating the External/Internal Audit Protocol (pending implementation of the Audit Shared Service) and regular meetings being held between the external and the internal auditor managers (ad hoc meetings and email correspondence were in place). This will be addressed in implementing the Audit Shared Service.
- 2.6 Appendix C details the slippage on the 2010/11 Audit Plan and demonstrates that the impact was minimal.

Review of the Audit Services Annual Report on Internal Control 2010/11

- 2.7 The opinion of the Audit Manager, based on the work undertaken during the year, was that the key systems were operating satisfactorily and there was no fundamental breakdown of controls resulting in material error or discrepancy.
- 2.8 Minor slippage against the plan meant that audit work had been reprioritised to ensure that the main financial systems were completed by the end of the financial year, prior to drafting the Statement of Accounts 2010/11, to ensure that the internal control environment was not compromised. The slippage was reported to the Audit Committee, with the view that the impact was minimal.

3.0 FINDINGS OF THE REVIEW

- 3.1 The Corporate Leadership Team's consideration concluded that the system of internal audit operated satisfactorily in 2010/11 and there has been no fundamental breakdown of controls resulting in material error or discrepancies. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Council's financial affairs. Good progress has

been made on the audit recommendations relating to financial systems and any remaining actions are being closely monitored.

- 3.2 The remaining area for improvement relates to agreeing an updated Internal / External Audit Protocol and the establishment of regular meetings between the Internal Audit Manager and External Audit Manager. This was delayed in 2010/11, pending implementation of the Audit Shared Service.
- 3.3 This statement on the effectiveness of internal audit during 2010/11 is intended to provide reasonable assurance. It should be read in conjunction with the Annual Governance Statement, which reviews the wider system of internal control and assurance.

List of Appendices:

Appendix A – Self assessment of the Effectiveness of Internal Audit 2010/11

Appendix B - Self assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government.

Appendix C – Impact of Slippage on the 2010/11 Audit Plan

List of Background Documents: None

Consultees: Corporate Leadership Team

SELF ASSESSMENT BY THE AUDIT MANAGER 2010/11

Compliance with the CIPFA Code of Practice for Internal Audit

A self-assessment reviewed our compliance with the Code of Practice issued in December 2006.

Full details are shown at Appendix B to this report. The Code of Practice consists of 11 Standards, broken down into 191 elements [1 is not applicable]. The Internal Audit service at Copeland B.C. fully complied with 98% of the elements in 2010/11 and partially complied with a further 2%.

Areas of non-compliance related to:-

- Formal protocol for joint working with other internal auditors
[Rare occurrence – no joint working in 2010/11]

- Formal protocol to be agreed and regular meetings set up between Internal Audit Manager & the External Audit Manager.

- Performance targets to be included in service level agreements, where appropriate.

Action needed (in bold type):

Protocol to be drawn up when needed.

Regular meetings to be arranged for 2011/12 and protocol to be finalized.

Audit Plan agreed with Management. PI's agreed, as part of the Audit Service Plan for 2010/11. Target deadlines included in Planning Memos for each audit.

Key Performance Indicators

87% of the Audit Plan was achieved, compared to a target of 90%.

This included the review of all the main financial systems audits and 54% of the non-fundamental systems audited against the plan.

No non-audit work was undertaken, ensuring the independence of the audit function.

Some planned audits were not needed because implementation of the new systems had been delayed.

71% was direct audit time [i.e. time spent on audit work rather than management, meetings, training, focus groups etc] compared to a target of 70%

2% of time was spent on client support and advice

4% of audit days were spent on work that was specifically requested by managers.

A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee. A detailed explanation of the performance indicators for 2010/11 was shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter, reported to Audit Committee 19/4/11.

Minimal impact re slippage, as reported to Audit Committee 19/4/11.

Response to Management Satisfaction Questionnaire

We issued an annual Customer Satisfaction Questionnaire to Management Group and to team leaders whose areas had been audited in 2010/11. 26% of questionnaires [11] were returned . [This represented 30% of those whose areas had been audited in 2010/11].

We also issued a questionnaire following completion of each audit. These generated a 58% response [18 returned]. We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. Feedback has been combined where survey questions were the same.

A summary is given below:-

	Trend (%)
• 11 felt they were sufficiently consulted on the Audit Plan	↑ (100%)
• Only 2 would like extra audit services to meet their needs [7 would not] [2 no response]	↑ (18%)
• 5 rated audit services as providing excellent value for money	↑ (46%)
• 4 rated audit services as providing good value for money	↓ (36%)
• 8 did not prefer audit services to be provided differently [3 no response – previous year all responded]	↓ (73%)
• 18 rated the overall usefulness of the audits as excellent, 10 good [1 no response] [Combined questionnaire results]	↑ 97%
• 22 rated the general helpfulness of audit staff as excellent, 7 good [Combined questionnaire results]	= (100%)
• 10 rated the responsiveness of audit to managers’ needs as excellent, 1 good	↑ (100%)

This largely shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 2 respondents would like extra audit services. Given the limited audit resources of 3 FTE staff, including the manager in 2010/11, and the requirements that have to be met for the external auditor and the CIPFA Code of Practice for Internal Audit, there is little we can do to develop more operationally-focused audits. The main emphasis is on financial and corporate governance controls.

Where possible, management requests will be built into the audit plan.

<p>Extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls</p> <p>The Authority's Appointed Auditor, as part of the Audit Commission's assurance programme, conducts a full review of the adequacy and effectiveness of the Authority's internal audit arrangements every three years, with annual reviews of elements of those arrangements. The role of the external auditor is to review internal audit and to report where they do not meet the expected requirements in a significant way. The last triennial review was reported to the Audit Committee in September 2009. An assessment of internal audit was also included in their Use of Resources report in December 2009. Both reports concluded that internal audit had complied with the CIPFA standards for internal audit. There were no adverse comments relating to internal audit in the Audit Commission's Annual Audit Letter, published in December 2010.</p>	
<p>Assurances given by the auditors of outsourced functions</p> <p>[A function is considered to be outsourced where an outside provider takes the responsibility for delivering the service to the public.]</p> <p>Assurance Statements have been requested from the auditors of North Country Leisure (NCL) and from Capita (re Valuation Services). These Assurance Statements will be filed with the Statement of Accounts working papers when they are received. As at 15 March 2011, the Assurance Statement had been received from Capita and NCL had confirmed they would forward the Statement at the year end.</p>	
<p>Assurances re Health & Safety</p> <p>The Council had in place arrangements for a Health & Safety Officer and Health & Safety Representatives. Appropriate training was carried out and meetings were convened throughout 2010/11 to manage Health & Safety issues.</p>	

Outsourced Internal Audit Work

There was no outsourced internal audit work undertaken in 2010/11.

If additional resources are “bought in”, the scope of the audits and the test schedules are specified by the in-house Audit Manager, who reviews the findings and the report before it is issued. There was 1 audit performed by a contracted auditor.

Effectiveness of the Audit Committee

The effectiveness of the Audit Committee in 2010/11 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]:-

CommentTerms of Reference

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	Annual report on Effectiveness of Internal Audit
Is the annual report, from the head of audit, presented to the Committee?	YES	

Effectiveness of the Audit Committee (continued)

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.
Opportunity for input.

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 Strategy Reviewed
& monitoring reports
YES 2009/10 within Anti-Fraud Strategy

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
Appointed from Jan 09

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)		
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 & Facility to refer Issues to other Committees
<u>Meetings</u>		
Does the Committee meet regularly?	YES	Committee Calendar – 7 times in 2010/11
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.

Effectiveness of the Audit Committee (continued)

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 2010/11.

Are the key officers available to support the committee?

YES Democratic Services.

CHECKLIST – COMPLIANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT (DEC. 2006)

Completed by Marilyn Robinson, Audit Manager 15/03/11

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 environment? (f) require and enable the Head of Internal Audit to deliver an annual audit opinion? (g) define the role of Internal Audit in any fraud-related or	√ √ √ √ √ √ √			Audit Charter revised & approved by Audit Committee 23/9/09. This includes sections on:- - Function - Independence - Role & Scope - Resource Requirements - Reporting - Responsibility The report to the Audit Committee 21/4/10 on the Internal Audit Plan 2010/11, also included Appendix A on the Audit Strategy – Key Objectives. Financial Regulations existing and revised on 15/12/10 (at Appendix C Paras. 3.24 to 3.35) set out the responsibilities and access rights of	

Ref	Adherence to the Standard	Y	P	N	Evidence	
1.1.1 cont'd	consultancy work (see also 1.3.2)? (h) explain how Internal Audit's resource requirements will be assessed? (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?	√ √			internal audit. Audit Charter – as above. Financial Regulations – as above.	
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?	√			Audit Charter and subsequent revisions were drafted by the Audit Manager. Also drafted the Audit Strategy, approved as part of the Audit Plan report 21/4/10. Also reviewed and commented on draft Financial Regulations, prior to approval by Full Council.	
1.1.3	Have the terms of reference been formally approved by the organisation?	√			Last revision of Audit Charter approved by Audit Committee 23/9/09. Audit Strategy approved by Audit Committee 21/4/10.	See 1.1 above
1.1.3	Are terms of reference regularly reviewed?	√			Original Audit Charter approved by the Audit Committee 8 June 2000; Revision 1 approved by Audit Sub Group 7 June 2004; Revision 2 approved by Full Council December 2005; Revision 3 by Audit Committee 26/9/07; Revision 4 by Audit Committee 23/9/09.	See 1.1 above
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. Since 2008/09, this also includes a review of the corporate Strategic Risk Register, the organisation's service plans and operational risk registers.	

Ref	Adherence to the Standard	Y	P	N	Evidence	
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 (then Head of Finance & Management Information Systems) 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. Assurance received from Lancashire County Council that the billing of Nowcards (Concessionary Bus Passes) is subject to their internal audit. Audit report for 2009/10 received. Awaiting follow-up results. Assurance Statements in respect of all of the above have been requested.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
1.3	Other Work					
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?	√ √			<p>Audit Manager is a CIPFA qualified accountant and has attended fraud investigation courses (last update September 2006). Audit Technical Officer has also undertaken CIPFA certified fraud investigation training.</p> <p>“Consultancy” on corporate task groups is kept to a minimum due to limited staff resources. Role is agreed at outset if this is done. There was no “Consultancy” work undertaken in 2010/11.</p> <p>There is also a dedicated Fraud Team (3 staff in 2010/11), 2 of whom are Professionals In Security (PINS) trained. They largely deal with Benefits fraud but also investigate other potential fraud, as part of the National Fraud Initiative exercise.</p>	
1.3.2	Do the terms of reference define Internal Audit’s role in: (a) fraud and corruption? (b) consultancy work?	√ √			<p>Role is to assist managers in ensuring the absence of fraud and other irregularities or to assist in detecting it where it exists. (Audit Charter)</p> <p>Formal written brief is required for “Consultancy” work. See 1.3.1 above. Where this is a Value for Money Study, a planning memorandum will be agreed.</p>	
1.4	Fraud and Corruption					
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?	√ √			<p>Under normal circumstances internal audit is independent of the activities it audits and is free from any non-audit duties. See job profiles.</p> <p>The Audit Charter states that auditors do not routinely undertake non audit duties but, where they do so, exceptionally, it is understood that they are not then functioning as auditors. The Audit Charter, revised in September 2009, was expanded to include the arrangements that would be put in place to maintain independence, if operational work had to be undertaken.</p> <p>Quarterly Monitoring reports to the Audit Committee confirmed that no non-audit work was undertaken in 2010/11.</p>	
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?	√			<p>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. See 2.1.1</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2.2	Organisational Independence					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			Internal Audit reports directly to the s.151 Officer (formerly the Head of Finance & MIS, the Corporate Director Resources & Transformation with effect from 1/9/10). However, all audit reports are issued by the Audit Manager in her own name. Her job profile sets out that she can contact all levels within the organisation, officers and Members and anyone externally in connection with the Council's business. The Audit Charter and Financial Procedure Rules also give the Head of Audit direct access to the Chief Executive and to the Chairman of the Audit Committee.	
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?	√			See 2.2.1 above	

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>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>(a) Reviewed annually, with opportunity to submit a growth bid. Budget has been amended historically, in line with the risk assessment:</p> <ul style="list-style-type: none"> - approved an extra half a post in 2005/06 to ensure adequate coverage in the Strategic Audit Plan. - in 2008/09 budget, the merging of 2 part time posts to create 1 full time post was approved, with funding approved to resolve grading anomaly. <p>No savings were required to be made in the 2009/10 or the 2010/11 budgets.</p> <p>(b) Budget is not delegated to service areas. The recharge is automatically apportioned, based on the audit plan.</p> <p>Scope of audits is risk-based.</p> <p>Provide reports as evidence for the Annual Governance Statement, which superseded the Statement on Internal Control.</p>	
2.3	Status of the Head of Internal Audit					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	√			Line Manager is the Corporate Director Resources and Transformation – a member of the Corporate Leadership Team team.	
2.5	Independence of Internal Audit Contractors					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?				Not applicable. Internal Audit was provided in-house in 2010/11.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2.6	Declaration of Interest					
2.6.1	Do audit staff make formal declarations of interest?	√			Corporate Register. Reminder given at Employee Performance Appraisal Interviews i.e. annually. Reminder issued by Head of Legal & Democratic Services 7/1/11 [filed on Register of Interests file RE/1]. Also completed a specific declaration of interest form re Benefits system. [Forms held by Benefits section].	
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	√			No interests declared to date that would impact on the audit plan. As 2.1.1 re maintaining audit independence.	
3	Ethics for Internal Auditors					
3.1	Purpose					
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. All staff are also members of professional bodies with their own ethics code. All audit work is quality-checked to ensure objectivity and that report points are evidence-based.	
3.2	Integrity					
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			Questionnaires issued to auditees, following each audit, and Annual Management Satisfaction Questionnaire. Helpfulness of audit team is rated good to excellent.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	√			As 3.1.1 - each audit is reviewed by an auditor independent of those carrying out the audit. Satisfaction Questionnaires – audit findings are deemed to be fairly stated.	
3.3	Objectivity					
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 follow the CIPFA Standards & Guidelines and the AAT Ethics.	
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?	√			Would not audit the period where they had been responsible for transactions. See 2.1.1 and 3.3.2 above.	
3.3.4	Are staff rotated on regular/annually audited areas?	√			Where possible, as part of employee development. Relevant audit file records who undertook the audit.	Compensatory control: all audit files are reviewed independently of the auditor carrying out the audit. Quality check undertaken.
3.4	Competence					
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?	√ √ √ √			(a) Corporate Briefings regularly undertaken in 2010/11. (b) Discussion re the risk assessment, in developing the annual Audit Plan and audit Planning Memo for each assignment. (c) Use the CIPFA matrices / risk analysis where available for systems work. Scope of each audit is agreed with the auditor as part of the Planning Memorandum at the start of the audit. (d) Relevant legislation is researched & filed on the audit file, as part of the audit.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
3.5	Confidentiality					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			Confidentiality Statements signed by all staff. [Held on HR file]. Data Protection issues covered. All staff attended training sessions. Understand COCO requirements re transmission of sensitive data. Observe security of electronic and paper documents, including clear desk policy.	
4	Audit Committees					
4.1	Purpose of the Audit Committee					
4.1.1	Does the organisation have an independent audit committee?	√			Established in 2006/07. Independent Chair of the Audit Committee from March 2009. Audit Committee agendas and reports available on the Council's web site.	
4.2	Internal Audit's Relationship with the Audit Committee					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	√			Full discussion takes place at the meetings. Any additional information is supplied upon request. Standing item on the agenda, from Sept. 2009, re opportunity to meet the auditors in private. Audit Committee supports the work of Internal Audit e.g. Supported the proposals for a Shared Service for Internal Audit throughout 2010.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			Approved the 2010/11 Audit Plan. This included a review of the risk assessment and resources available and the Audit Strategy appended to the Audit Plan report (Approved 21/4/10). Receive 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	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? (f) present the annual internal audit report to the committee?	√ √ √ √ √ √			(a) See agendas. (b) Audit Manager consulted on the review reported to the Audit Committee . (c) Audit Charter approved by Audit Committee September 2009. Audit Strategy included with approval of Audit Plan 21/4/10. Also initial training prior to launch of the Audit Committee comprising of current Members. (d) Quarterly monitoring reports. (e) Quarterly monitoring reports include reference to work deferred because of staff resource problems or delays in implementation of new systems, for example. No changes arising from work of the Committee. (f) Presented to the Audit Committee following year end. (g)	
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			Explained at initial training. Standing item on the agenda from Sept. 2009. Members have chosen to hold a session in private on occasion.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5	Relationships					
5.1	Principles of Good Relationships					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: (a) management? (b) other internal auditors? (c) external auditors? (d) other regulators and inspectors? (e) elected members?	√ √ √ √	√		(a) Audit Charter and Anti Fraud & Corruption Strategy defines roles & responsibilities of internal audit and management. (b) Audit procedures / CIPFA standards define roles & responsibilities for internal auditors. Work with other 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). (d) Audit Commission set out framework for inspections. [e.g. Benefits Inspection] (e) Employees / Members protocol in place.	(c) Audit Protocol needs to be updated. In the meantime, we continue to work to the existing Protocol.
5.2	Relationships with Management					
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. Evidence on Audit Plan file and individual system audit files. Management Satisfaction Questionnaire sent to auditees, following each routine audit. Annual Management Satisfaction Questionnaire issued. Follow up to identify reason for any "adequate" responses and to agree any action needed [usually nothing specific led to the response].	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5.2.2	Is the timing of audit work planned in conjunction with management?	√			<p>Circulate draft Audit Plan, requesting comments re timings.</p> <p>Circulate annual plan, with proposed timings of the main audits.</p> <p>Planning Memorandums sent to managers for individual audits include proposed timing.</p> <p>Evidence on Audit Plan file and individual system audit files.</p>	
5.3	Relationships with Other Internal Auditors					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?		√		<p>Informal arrangements via Cumbria Audit Group. No joint work undertaken in 2010/11 but agreed to share test schedules and final audit reports re Shared Revenues & Benefits Service. Will need audit assurance from each partner on these systems.</p>	<p>See 5.1.2 (b)</p> <p>If joint working were to be undertaken, Terms of Reference would need to be agreed and Confidentiality Statements signed.</p>

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5.4	Relationships with External Auditors					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	√			<p>The Triennial Review of Internal Audit by the Audit Commission (Sept 2009) confirmed that Internal Audit complied with the CIPFA standards for internal audit.</p> <p>Internal Audit rely upon the external auditor's work on grant claims over £100k, 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?		√		E.mail contact and at Audit Committee meetings.	Ad hoc meetings, where needed, to discuss specific issues.
5.4.3	Are the internal and external audit plans co-ordinated?	√			<p>Aim to avoid duplication in the work of Internal Audit by reference to the external Auditor Audit Opinion Plan. Internal Audit circulate the Annual Audit Plan to the external auditor for comment. The External Audit Plan is informed by a risk assessment of the control environment, to which the work of internal audit may contribute.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5.5	Relationships with Other Regulators and Inspectors					
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?	√			There were no Inspections in 2010/11 but, in 2009/10, did have meetings with the Audit Commission Inspectors during the Benefits Inspection and supplied copies of relevant internal audit reports / information as requested.	The liaison role is usually undertaken by the Performance Team, with assistance from internal audit as requested.
5.6	Relationships with Elected Members					
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?	√			Audit Charter defines reporting requirements. General Members / Officers Protocol in place.	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			Main contacts are through the Audit Committee but also deal with ad hoc queries from other Members. Gave presentation on the Anti-Fraud Strategy to Members prior to full Council in March 2010.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6	Staffing, Training and Continuing Professional Development					
6.1	Staffing Internal Audit					
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			<p>As at 1/4/10 and in place for the financial year 2010/11: -</p> <p><u>Manager</u> – Qualified CIPFA accountant, 17 years internal audit experience, 3 years trainee accountant experience (in Accountancy department). Training has included investigative work. Participated in CIPFA CPD Scheme.</p> <p><u>Audit Technical Officer</u> – AAT qualified, 4 years internal audit experience. Training has included investigative work. Participated in AAT CPD Scheme.</p> <p><u>Audit Technical Officer</u> – AAT trainee (completed foundation level and undertaking intermediate level – completed in year), 2 years internal audit experience.</p> <p>All have attended internal audit courses and have the personal attributes to comply with the CIPFA standards. Computer audit update course undertaken by all auditors, July 2010, with other partners in the Shared Service.</p> <p>1 vacant Audit Technical Officer post, pending implementation of Shared Service.</p> <p>Standards fully complied with. All key service plan objectives for 2010/11 within the team's control achieved. 87% of planned work completed as at 31/03/11. All the main financial systems audits completed during the year.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6.1.1 Cont'd	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?	√			Specialised computer auditor has been "bought in" for specific audits e.g Information Security.	
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			As 6.1.1 above. Undertook Continuing Professional Development in line with the CIPFA scheme.	
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			17 years' experience of internal audit management, as at March 2011 [1 year - Internal Audit was managed by a Business Unit Manager].	
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?	√ √			Job profiles reviewed as part of the annual Employee Performance Management Interviews. Person specification / competencies are included in job profile.	
6.2	Training and Continuing Professional Development					
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.	√ √ √ √			As part of the annual Employee Development Interviews (EDI's). Follow corporate procedures, guided by CIPFA skills and competencies framework. All have a personal development plan. Progress is monitored and recorded. [Evidence on Staff Development file held by Audit Manager]	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	√			For Continuing Professional Development (CPD) schemes where appropriate. Otherwise, recorded as part of annual EDI and a list of training attended is kept on the Training Courses file.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
7	Audit Strategy and Planning					
7.1	Audit Strategy					
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 Charter defines role and scope of internal audit and accountabilities. The Service Plan details resources and key objectives for the year. Risk-based strategy. Reviewed annually in revising the Audit Plan. Audit Strategy document approved as part of the Audit Plan report to Audit Committee. Also included a separate Counter-Fraud Activity Plan from 2010/11.	
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?	√ √ √ √ √			Audit Charter and Audit Strategy as 7.1.1 above. Covering report for Strategic Audit Plan identifies how the service will be provided under Audit Resources. IT Audit Strategy details what will be covered internally and where bought-in specialised computer auditor is required.	
7.1.3	Has the strategy been approved by the audit committee?	√			Audit Charter, Audit Strategy(as part of the Annual Audit Plan report) and original IT Audit Strategy were all approved by the Audit Committee. IT Audit Strategy is an appendix to the Annual Audit Plan report for 2011/12.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
7.2	Audit Planning					
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	√			Annual risk assessment reported to Audit Committee. Includes review of strategic risk register, operational risk registers, service plans and performance reports to the Executive. Adopted a common risk assessment / planning approach with potential Shared Service Partners for 2010/11 onwards.	
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?	√			As 7.2.1 above	
7.2.1	Are stakeholders consulted on the audit plan?	√			Senior Leadership and Management Team & Audit Committee are consulted on the draft audit plan. Copied to the external auditor for information. Also circulated to the then acting Head of Internal Audit at Cumbria County Council for 2010/11, in preparation for potential Shared Service.	
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			Senior Leadership and Management Team is requested to confirm whether there are any areas that need to be added or omitted.	
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (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?	√ √ √ √ √ √			An annual plan is produced. For 2010/11, the Audit Plan gave a brief description of the scope of the audits. The Risk Assessment Summary shows the priority and estimated days needed. The agreed common approach was that no contingency days would be included. Instead, priorities would be revised, and Audit Committee advised of this, if needed. Details of the assignment are given in the Planning Memorandum for each audit.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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?	√			Advised where skills can be bought in. Advised when work will have to be deferred, due to vacancies / limit of audit days available, and the impact of this. Quarterly monitoring reports.	
7.2.5	Has the plan been approved by the audit committee?	√			2010/11 Plan was approved by the Audit Committee on 21/4/10.	
7.2.6	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	√			As 7.2.4 above Would seek Audit Committee approval to revise the Audit Plan, if needed, as part of the quarterly monitoring reports.	

8	Undertaking Audit Work					
8.1	Planning					
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.	
8.2	Approach					
8.2.1	Is a risk-based audit approach used?	√			Annual risk assessment exercise assesses risk 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. Evidenced by File notes / e-mails on the individual audit file.	
8.2.4	Does the audit approach include a quality review process for each audit?	√			A review checklist on each file is completed by an auditor independent of the one who has carried out the audit. [Usually the Audit Manager].	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
8.3	Recording Audit Assignments					
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?	√			Review checklist includes a check that the standard file and report format has been used.	
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 x-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.	
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 Committee and these are public documents. "Need to know" basis for audit files and working papers.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
9	Due Professional Care					
9.2	Responsibilities of the Individual Auditor					
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>(i) not using information they gain in the course of their duties for personal use?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>CIPFA Audit Standards.</p> <p>Employee Code of Conduct.</p> <p>Anti Fraud & Corruption Strategy covers items (e) to (h).</p> <p>Confidentiality Statement [signed by each employee and held on HR files]</p>	
9.3	Responsibilities of the Head of Internal Audit					
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?	√			<p>Review of all audit work undertaken / all reports issued to reinforce standards.</p> <p>Review checklist is filed on each system audit file.</p> <p>On-the-job supervision and training.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					Annual Employee Development Interviews to identify any training needs. Annual Performance Appraisal formally recorded.	
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			Quality Procedure AS03. Instructed to notify the Audit Manager. Also have a Confidential Reporting Code and Anti Fraud & Corruption Strategy.	
10	Reporting					
10.1	Principles of Reporting					
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.	
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	√			Standard format report issued following each audit to the Chief Executive, relevant Director, Head of Service, Section Head, key auditees and the external auditor. The summary of each report and the key findings are reported to the Audit Committee, on a quarterly basis. Annual report on Internal Control to the Audit Committee. Reporting requirements to the Audit Committee are set out in the Audit Charter.	
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	√			Standard format report. Reporting procedure set out in Quality Procedures.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.1.5	Are there laid-down timescales for reports to be issued?	√			Estimated timescales included in the Planning Memorandum for each audit. Quality Procedures also specify process. However, timescales will depend upon testing and the availability of departmental employees to respond to audit queries / agree the draft report and action plan.	
10.2	Reporting on Audit Work					
10.1.4 10.1.4 10.2.2 10.2.1 10.1.4 10.2.1	Do the reporting standards include: (a) format of the reports? (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?	√ √ √ √ √ √			Standard format for report. 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. These actions are then transferred to the corporate performance management system, Covalent, for follow up.	
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 e.mail. 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	
10.2.5	Are areas of disagreement recorded appropriately?	√			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.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management?	√			As 10.2.5 above. Senior management receive a copy of the report. Also copied in to Quarterly Monitoring Report to the Audit Committee. S.151 Officer attends the Audit Committee plus other members of the Senior Leadership Team, as available and depending upon agenda items.	
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	√			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.
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 e.mail. Key contacts included in the Planning Memorandum and in the Audit Quality Procedures [AS01 & AS02].	As 10.2.6 above.
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. [Copy kept on the audit file]. The audit risk assessment is updated following the audit, as part of the annual risk assessment exercise. Audit reports include a specific recommendation that departmental risk registers should be updated, where appropriate.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.3	Follow-up Audits and Reporting					
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 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 Committee.	
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	√			Audit Committee are advised when a recommendation has already been implemented by the time of the quarterly report on audit findings. Implementation of any further outstanding recommendations would be taken into account in the following annual audit report and in the annual report on internal control.	
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	√			Used as part of the risk scoring for the annual risk assessment exercise, used to draw up the annual Audit Plan. Findings from previous audit are reviewed in preparation for the next audit of that area.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.4	Annual Reporting and Presentation of Audit Opinion					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control? [SIC replaced by Annual Governance Statement in 2008/09.]	√			Annual report on Internal Control submitted to Senior Leadership Team and to the Audit Committee. Also a report on Corporate Governance.	
10.4.2	Does the Head of Internal Audit's annual report: (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) disclose any qualifications to that opinion, together with the reasons for the qualification? (c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control [Annual Governance Statement] ? (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? (f) comment on compliance with the standards of the Code? (g) communicate the results of the internal audit quality assurance programme?	√ √ √ √ √ √ √			As 10.4.1 above (e) % of Audit Plan achieved is included. Detailed PI's are shown in a separate report to the Audit Committee (Final Quarter Monitoring Report) As 10.4.1 above – includes the results of all returned Management Satisfaction Questionnaires.	
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	√			Quarterly monitoring report to the Audit Committee.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11	Performance, Quality and Effectiveness					
11.1	Principles of Performance, Quality and Effectiveness					
11.1.1	Is there an audit manual?	√			CIPFA Audit Manual plus local audit procedures. Also CIPFA Systems Based Auditing Guides for specific systems. Subscribe to CIPFA Technical Information Service (on-line) and to Audit Viewpoint (CIPFA quarterly update newsletter).	
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	√ √			As 11.1.1 above	
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	√			Updated CIPFA guidance received automatically on subscription. Audit quality procedures updated in 2007 – still current.	
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 Questionnaires issued to auditees, following all routine audits. Annual Management Satisfaction Questionnaire.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11.2	Quality Assurance of Audit Work					
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?	√			Audit Manager personally allocates assignments based on knowledge of skills/ experience of the team. On the job supervision and quality review at the end of each audit.	
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. Progress formally checked in compiling monthly performance indicators 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 (c) Discuss audit approach / testing schedule for any new audits to be undertaken.	
11.3	Performance and Effectiveness of the Internal Audit Service					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	√			Monthly performance monitoring reported to the s.151 Officer and recorded on the corporate performance system (Covalent). Quarterly performance monitoring to the s.151 Officer and to the Audit Committee. Quality assurance procedures in place but not formally accredited due to cost. Work to the CIPFA standards / guidance.	
11.3.2	Does the performance management and quality assurance framework include as a minimum: (a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties?	√			Local performance measures (PI's) were incorporated in the 2010/11 Service Plan, agreed by the s.151 Officer, and forming part of the quarterly monitoring report to the Audit Committee.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	<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>(d) 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>Timescales included in Planning Memo.</p> <p>Monitored as at 11.3.1 above.</p> <p>Questionnaires following each routine audit. Annual Management Satisfaction Questionnaire.</p> <p>Quarterly monitoring report to Audit Committee. Cumulative PI's show progress during the year and corrective action is taken. Service reviewed as part of annual service plan process.</p> <p>Previous quality review to demonstrate compliance with this code – April 2010. Annual review for compliance now required by Accounts & Audit Regulations.</p> <p>Actions are identified to implement improvements where appropriate.</p>	<p>(a) (ii) Decision was taken corporately to discontinue Service Level Agreements.</p> <p>(b) Corporate complaints procedure is also in place. No complaints recorded against internal audit.</p>
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 response to the annual Management Satisfaction Questionnaire.	
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?	√			Key objectives met. 87% of planned audit work completed (as at 31/03/11), despite a vacancy for part of the year. All testing on the main financial systems was completed in the financial year. Impact of deferred work quantified as minimal.	
	(b) compliant with the Code?	√			Compliant with the Code for 2010/11.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	<p>(c) meeting internal quality standards?</p> <p>(d) effective, efficient, continuously improving?</p> <p>(e) adding value and assisting the organisation in achieving its objectives?</p>	√			<p>Review checklist on each system file.</p> <p>Customer Satisfaction response showed continued improvement overall.</p> <p>Assisted the organisation with ensuring key systems objectives are met; making recommendations for improvement in financial control; giving ad hoc advice e.g. on revisions to the Council's Constitution.</p>	
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?	√			<p>Annual report on Internal Control to the Audit Committee .</p> <p>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.</p>	
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?	√			<p>This checklist provides the evidence for consideration by Corporate Team and then the Audit Committee in May.</p>	

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT APPENDIX C

IMPACT OF SLIPPAGE ON THE 2010/11 AUDIT PLAN

Slippage on Planned Audits	Impact
Grants Protocol / Procedures	Minimal - audited 2009/10 + brief follow up on standard of evidence on grant files in 2010/11.
Systems Development / Implementation Controls.	None. This related to the new Revenues & Benefits Document Image Processing system. Implementation has been delayed to June 2011. 2010/11 Plan also included audit of the new Fixed Asset module for the financial ledger. This has not been implemented.
Asset Management	Revised Asset Management Plan not completed and available for audit, as at 2 March 2011.
Landscape Management / Contracts	Minimal. Service review undertaken as part of 2011/12 budget process.
Risk Management Arrangements	Minimal – briefly covered as part of the annual audit on Corporate Governance. Regular reports on the Strategic Risk Register to the Audit Committee during 2010/11.
Health & Safety Arrangements	Minimal – Established that a Health & Safety Officer is in post and there are regular meetings with staff representatives to deal with health & safety issues. Awaiting the update of existing procedures before carrying out the review.
Partnership Arrangements	Minimal. Followed up progress throughout the year. Briefly covered in the Corporate Governance audit and noted revised arrangements. Awaiting completion of review of key partnerships – expected by June 2011.

Note: All the above areas have been included in the 2011/12 Audit Plan.