

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2008/09

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SUMMARY:	This report provides Members with an opinion on the effectiveness of the system of Internal Audit in 2008/09 which is a requirement of the Accounts and Audit Regulations (Amended) 2006. The report concludes that the system of internal audit has operated satisfactorily in 2008/09 and there has been no fundamental breakdown of controls resulting in material error or discrepancies. Whilst there was no fundamental breakdown of control, evidenced through the audit of core systems, audit of less business critical areas had to be abandoned/rescheduled as low priority arising from the management circumstances applying in 2008/09.
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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 2008/09. 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 2008/09. 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 at the next meeting of the Committee (3rd June).
- 1.2 This review is required to comply with legislation. The Accounts and Audit (Amendment) (England) Regulations 2006, came into force on 1 April 2006. Regulation 6 requires 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) issued guidance on these Regulations, 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)
 - The external auditor's Use of Resources assessment
- 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 Corporate Team at a special meeting, on 11 May 2009, 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 2008/09 (which is elsewhere on the agenda)
 - Draft Annual Governance Statement 2008/09 (the final report is to be considered by the Audit Committee at its meeting on 3rd June).
- 2.2 There are linkages between all four documents in reaching an opinion on the effectiveness of the system of internal audit. Corporate Team also considered the main findings of the External Auditor in 2008/09 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 due to report in 2008/09, but as a result of the circumstances of the Authority, the review was delayed and the review is currently in progress. The report will be presented to the Audit Committee when it is available.

- 2.4 The Use of Resources Report, published March 2009 by the Audit Commission, reported a deterioration in the system of internal control during 2007/08 reflected by the inability of the Authority to produce a set of auditable accounts for 2007/08 by the statutory deadline of 30th June 2008. In addition, the re-presentation of the accounts exposed a failure to account fully for all material assets in 2007/08 and 2006/07. The Annual Governance Reports which accompanied the External Auditor's unqualified opinion on the 2006/07 and 2007/08 Accounts contained Action Plans which seek to improve these aspects of financial reporting and financial management for the Authority. The Action Plan is being implemented and this will continue in 2009/10.

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

- 2.5 Corporate Team, in reaching an opinion on the effectiveness of the system of internal audit during 2008/09 considered Appendices A and B. The evidence to support compliance with the 11 areas of the Code of Practice for Internal Audit was considered.
- 2.6 The effectiveness of the system of internal audit in 2008/09 had been impacted upon as a result of the difficulties experienced by the Authority in relation to staff turnover and key vacancies in Accountancy and Finance, which had both implications for the Use of Resources Assessment 2007/08 (i.e. the failure to produce a set of auditable accounts for 2007/08 by the statutory deadline) and the consequent impact upon the delivery of the audit plan 2008/09 as a result of the acting up of the Audit and Fraud Prevention Manager to the role of s.151 Officer. The Use of Resources Report 2008 made reference to the potential risks to the independence of the Head of Internal Audit as a result of acting as s.151 Officer for an interim period during 2008/09.
- 2.7 The issue of the independence of the Head of Internal Audit was discussed by the Audit Committee, at its special meeting in March and the April meeting, and Corporate Team was informed that the Head of Finance and MIS had set out these arrangements by letter after the April meeting, in response to correspondence from the Audit Commission. Details of the arrangements are shown at Appendix C. Corporate Team concluded that whilst the Audit and Fraud Prevention Manager had acted as s.151 Officer for three months in 2008/09, arrangements had been put in place to ensure that she did not subsequently audit, or review, any transactions for which she was responsible during that period. These arrangements have included a peer review of the Budget Process / Budget Monitoring audit, undertaken by Allerdale Borough Council's Audit Manager.

Review of the Audit Services Annual Report on Internal Control 2008/09

- 2.8 The slippage against the approved audit plan 2008/09 was discussed in relation to the report elsewhere on today's agenda, 'The Audit Services Annual Report on Internal Control 2008/09'. The opinion of the Head of Internal Audit, based on the work undertaken during the year (and into April/May on key financial systems) was that the key systems were operating satisfactorily and there was no fundamental breakdown of controls resulting in material error or discrepancy.
- 2.9 Slippage against the plan risks control weaknesses being undetected. However, audit work had been reprioritised to ensure that the main financial systems were covered prior to drafting the Statement of Accounts 2008/09 and to mitigate the potential for the slippage to compromise the internal control environment. The Audit Committee had been informed during the year that the audit plan would not be delivered as originally agreed as a result of the management circumstances of the Authority in 2008/09.
- 2.10 Corporate Team asked for assurance of the potential impact of the audit work which either had been delayed and completed in April and May or which had been deferred. Appendix D summarises an analysis of the impact of the slippage. The conclusion Corporate Team reached was that the impact of the slippage was minimal.
- 2.11 The slippage against the original plan, however, indicates that as with all small teams, the vulnerability which exists if key staff are unavailable. I explained that this is one of the key drivers behind Copeland, Allerdale, Carlisle and the County Council's exploration of a shared service proposal for internal audit services i.e. to improve robustness of the service. The first exploratory meeting was held in April, involving the Heads of Internal Audit and the Heads of Finance, and this will be reported to Executive for in principle support, when it meets on 26th May. If agreed, the Audit Committee will be briefed and engaged as the proposal develops. It is my opinion, as s.151 Officer that a shared service approach to internal audit offers many benefits, in relation to audit independence, development of a pool of audit expertise and specialisms and improved resilience of the audit service.
- 2.12 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. An annual report of the work of the Audit Committee would further evidence its effectiveness and this is included as an Action for improvement for 2009/10.

3.0 FINDINGS OF THE REVIEW

- 3.1 Corporate Team's consideration concluded that while there were no fundamental breakdowns of control, evidenced through the audit of core systems, audit of less business critical areas had to be abandoned or

rescheduled as low priority arising from the management circumstances applying in 2008/09.

- 3.2 When all the evidence is considered as a piece, it is my opinion that the system of internal audit operated satisfactorily in 2008/09 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, with the exception of the failure to meet the statutory deadline for production of an auditable Statement of Accounts for 2007/08. Since that failure, much work has been undertaken by the Authority in the latter half of 2008/09 to redress the weaknesses which contributed to the underperformance. Action Plans are in place and are being implemented.
- 3.3 There are however, areas for development in relation to the system of internal audit and the Actions required are identified in bold in the Action column of Appendix A. They include:-
- More explicit reporting of performance against the original audit plan including reviewing and revising the plan during the year, particularly if resourcing the plan becomes difficult and risks to the independence of internal audit arise. The impact of any deferred work to be documented and considered by the Audit Committee.
 - Continue to ensure that the independence of internal audit is maintained.
 - Establishment of regular meetings between the Internal Audit Manager and External Audit Manager.
 - Report of the review of internal audit work by the External Auditor to be received by the Audit Committee and recommendations for improvement to be actioned.
 - An annual report of the work of the Audit Committee to be prepared for 2009/10. This will provide better evidence of the effectiveness of the Audit Committee.
- 3.4 This statement of the effectiveness of internal control during 2008/09 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 2008/09

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

Appendix C – Arrangements to ensure independence of the Audit Manager

Appendix D – Detailed evaluation of slippage on the Audit Plan

List of Background Documents: None

Officers Consulted: Corporate Team

SELF ASSESSMENT BY THE AUDIT & FRAUD PREVENTION MANAGER 2008/09

Compliance with the CIPFA Code of Practice for Internal Audit

A self-assessment, copied to the external auditor for information, 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. The Internal Audit service at Copeland B.C. fully complied with 64% (64% in 2007/08) of the Standards in 2008/09 and mostly complied with a further 36% (36% in 2007/08).

Areas of non-compliance related to:-

- Maintaining audit independence (the Audit & Fraud Prevention Manager acting as S.151 Officer for 3 months in 2008/09). Ensuring internal auditors are free from conflicts of interest.

- Formal protocol for joint working with other internal auditors
[Rare occurrence – no joint working in 2008/09]

- Reliance of external audit on internal audit work [quality check & opinion outstanding as at 19/5/08]

- Regular meetings set up between Internal Audit Manager & the External Audit Manager.

- Dialogue established with other Regulators & Inspectors. [No involvement required in 2008/09. This co-ordinator role is undertaken by the Performance Improvement Service]

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

Action:

Compromising independence - arrangements have been put in place to mitigate this, as detailed in the letter to Audit Committee Members & in Appendix C. Shared services offers opportunities to strengthen the independence of internal audit

Protocol will be drawn up, if needed.

Quality check commenced 8/5/09. In progress.

Regular meetings to be arranged for 2009/10 and protocol between two organisations developed

Involvement as required.

Audit Plan agreed with Management. Target deadlines included in Planning Memos for each audit. Minimal impact re slippage [Appendix D].

<ul style="list-style-type: none"> Aims and objectives not fully met. [Due to vacancy not backfilled for 3 months whilst Acting S.151 Officer arrangement was in place for 3 months in 2008/09 and to level of substantive testing required during restatement of the 2007/08 Accounts.] 	<p>Backlog carried forward to 2009/10. Level of non-audit work to be minimized, monitored and reported.</p>
<p>Key Performance Indicators</p> <p>66% of the Audit Plan was achieved, compared to a target of 90%.</p> <p>35% time was non-audit work [3 months Acting S.151 Officer, substantive testing re restatement of Accounts, assistance with Admin re compilation of budget salary figures]</p> <p>Some planned audits were not needed because implementation of the new systems had been delayed.</p> <p>57% was direct audit time [i.e. time spent on audit work rather than management, meetings, training, focus groups etc] compared to a target of 68%</p> <p>4% of time was spent on client support and advice</p> <p>0.5% of audit days were spent on work that was specifically requested by managers.</p> <p>A detailed review of audit activities has been given in the quarterly monitoring reports submitted to the Audit Committee. The Audit section consists of 3 dedicated audit staff and a manager who is also responsible for the Fraud section. The level of non-audit work undertaken in 2008/09, therefore, resulted in significant slippage against the audit plan. However, testing on all the main financial systems audits was completed by the end of April 2009 and 57% of the non-fundamental systems were audited against the plan. A review of 2008/09 Corporate Governance arrangements was also undertaken in April.</p> <p>A detailed explanation of the performance indicators for 2008/09 was shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter, reported to Audit Committee 22 04 09.</p>	<p>Minimal impact re slippage [Appendix D].</p> <p>Action: Level of non-audit work to be minimized, monitored and reported to the Audit Committee on a quarterly basis. Audit Plan to be revised, if circumstances change to such an extent that the plan is not achievable. Planned audits to be prioritized and the impact of any deferred audits to be considered. Revised Audit Plan to be approved by the Audit Committee.</p>

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 2008/09. 25% of questionnaires were returned. We assume that if managers had concerns about the internal audit service, they would have taken this opportunity to record this. A summary is given below:-

	Trend
11 felt they were sufficiently consulted on the Audit Plan [3 no response]	↑
• 2 would like extra audit services [10 would not, 1 no response]	=
• 2 rated audit services as providing excellent value for money	↓
• 5 rated audit services as providing good value for money [5 adequate, 2 no response]	↑
• 11 did not prefer audit services to be provided differently [3 no response]	↑
• 10 rated the general helpfulness of audit staff as excellent [2 good, 2 no response]	↑
• 7 rated the responsiveness of audit to managers' needs as excellent [4 good, 1 Adequate, 2 no response]	↑

This largely shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is mainly related to wanting more audit coverage – 2 respondents would like extra audit services. Given the limited audit resources of 3 FTE staff, plus the manager who is also responsible for the Fraud section, 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. 1 complaint related to timing – unavoidable, given the delay in the audit work for 2008/09, caused by audit work supporting the closure of the Accounts.

Action:
Where possible, management requests will be built into the audit plan. Contingency days are also allowed for ad hoc requests.

Extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls / Use of Resources Assessment

The Use of Resources 2007/08 report, issued in March 2009, stated that the appointment of the Head of Internal Audit as the Acting S.151 Officer had compromised the independence of Internal Audit. The report stated that the Council should ensure that it has an internal audit function that operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and is, therefore, independent of managerial and operational responsibility.

Action Arrangements put in place, as Appendix D.

This has included a peer review of the Budget Process Audit, by Allerdale B.C.'s Audit Manager, to ensure that any retrospective transactions arising from the 3 months acting up period were audited and reviewed by other auditors.

The level of non-audit work will be minimized, monitored and reported to the Audit Committee.

<p>Historically, the external auditor has placed reliance upon the work of internal audit. Internal audit has provided system files for all the main financial systems for the external auditor's preparatory work on the 2008/09 Statement of Accounts. However, the quality assessment of internal audit did not take place, as planned, in June 2008, therefore an opinion on internal audit has not been expressed in the Annual Audit & Inspection Letter issued in March 2009. The Audit Commission have rearranged the quality assessment and this commenced on 8 May 2009.</p>	<p>Any points arising from the assessment will be actioned in 2009/10.</p>
<p>Assurances given by the auditors of outsourced functions [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). The assurance statement from NCL has been received. Capita Symonds have confirmed they will provide a statement for 2008/09.</p> <p>.</p>	<p><u>Action</u> Ensure the Capita Symonds assurance statement is in place as part of the Final Accounts working papers.</p>
<p>Assurances re Health & Safety The Council had in place arrangements for a Health & Safety Officer and Health & Safety Representatives. Training was carried out and meetings were convened throughout 2008/09 to manage Health & Safety issues.</p>	
<p>Outsourced Internal Audit Work There was no outsourced internal audit work undertaken in 2008/09.</p> <p>We did "buy in" 2 specialised computer audits. The scope of the audits and the test schedules were specified by the in-house Audit and Fraud Prevention Manager, who reviewed the findings with the computer auditor.</p>	

Effectiveness of the Audit Committee

The effectiveness of the Audit Committee in 2008/09 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]:-

		<u>Comment</u>	A separate report should be prepared in future years to summarise the work of the Audit Committee in the Year as further evidence of its effectiveness
<u>Terms of Reference</u>			
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.	
<u>Internal Audit Process</u>			
Does the Committee approve the strategic audit approach and the annual programme?	YES	Annually in May	
Is the work of internal audit reviewed regularly?	YES	Quarterly reports.	
Are summaries of quality questionnaires from managers reviewed?	YES	Annual report in May	
Is the annual report, from the head of audit, presented to the Committee?	YES	In May	
<u>External Audit Process</u>			
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	YES	Also OSC Mgt	
- Annual Governance Statement	YES	Annually in June	
- Anti-Fraud arrangements	YES	Reviewed 31/10/07	
- Whistleblowing strategies [Confidential Reporting Code – Full Council]	YES	31/10/07 within Anti-Fraud & Corruption.	

Effectiveness of the Audit Committee (continued)

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 Jan 09
Are Members sufficiently independent of the other key committees of the Council?	YES	No Executive, Scrutiny or Resource Planning Working Group members.
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	

Meetings

Does the Committee meet regularly?	YES	Committee Calendar – at least 8 times a year.
Are separate private meetings held with the external auditor & the internal auditor?	NO	but can on request.
Are meetings free and open without political influences being displayed?	YES	
Are decisions reached promptly?	YES	

Effectiveness of the Audit Committee (continued)		
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	YES – One exception in 2008/09	
	This related to the presentation of Final Accounts at meeting of 26/6/08 where amendments were tabled on the day. The resulting set of accounts were unauditable and the statutory deadline was not achieved.	
Does the committee have the benefit of attendance of appropriate officers at its meetings?	YES. S151 Officer and Audit & Fraud Prevention Manager as a minimum. Chief Exec or other Director, where possible, and other officers as appropriate to agenda items.	
<u>Training</u>		
Is induction training provided to members?	YES Standard induction.	
Is more advanced training available as required?	YES Specific to Audit Committee	
<u>Administration</u>		
Does the authority's S.151 Officer or deputy attend all meetings?	YES S.151 Officer is the Lead Officer.	
Are the key officers available to support the committee?	YES Democratic Services.	

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

ITEM 9 APPENDIX B

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

Completed by Marilyn Robinson, Audit & Fraud Prevention Manager 12/05/09

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.

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 consultancy work (see also 1.3.2)? (h) explain how Internal Audit's resource requirements will be assessed?	√ √ √ √ √ √ √ √			Audit Charter revised & approved by Audit Committee 26/9/07. This includes sections on:- - Function - Independence - Role & Scope - Resource Requirements - Reporting - Responsibility	

Ref	Adherence to the Standard	Y	P	N	Evidence	
1.1.1 cont'd	(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?	√			Audit Charter – 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 & Fraud Prevention Manager.	
1.1.3	Have the terms of reference been formally approved by the organisation?	√			Last revision approved by Audit Committee 26/9/07.	
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.	
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. In 2008/09, this also included a review of the organisation's service plans and operational risk registers.	

Ref	Adherence to the Standard	Y	P	N	Evidence	
1.2.3	<p>Where services are provided in partnership has the Head of Internal Audit identified:</p> <p>(a) how assurance will be sought?</p> <p>(b) agreed access rights where appropriate?</p>	<p>√</p> <p>√</p>			<p>Previously identified to s.151 officer (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.</p> <p>Tender documentation for Valuation Services included a requirement for the assurance statement. Assurance Statement requested for 2008/09.</p> <p>Leisure Trust – agreed they will use their own internal audit but there will also be an “open book” arrangement. North Country Leisure will provide an assurance statement for 2008/09.</p> <p>Assurance has been sought from Lancashire County Council’s auditors (via Cumbria Audit Group) re billing of Nowcards (Concessionary Bus Passes).</p>	
1.3	Other Work					
1.3.1	<p>Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the:</p> <p>(a) skills, and</p> <p>(b) resources to do this?</p>	<p>√</p> <p>√</p>			<p>Audit & Fraud Prevention Manager is a CIPFA qualified accountant and has attended fraud investigation courses (last update September 2006).</p> <p>“Consultancy” on corporate task groups is kept to a minimum due to limited staff resources. Role is agreed at outset. In 2008/09, Audit & Fraud Prevention Manager was on the Marketplace (Purchasing System) Implementation Project Team to advise on controls.</p> <p>There is also a dedicated Fraud Team (4 staff), 3 of whom are Professionals In Security (PINS) trained. They largely deal with Benefits fraud.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	√ √			Role is to assist managers in ensuring the absence of fraud and other irregularities or to assist in detecting it where it exists. 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.	
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 2007/08) and the Confidential Reporting Policy. Audit & Fraud Prevention Manager is one of the named contacts. Financial Regulation D6 also requires suspected irregularities to be reported to the S.151 Officer. She would then inform Audit.	

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	<p>Is Internal Audit:</p> <p>(a) independent of the activities it audits?</p> <p>(b) free from any non-audit (operational) duties?</p>		<p>√</p> <p>√</p>		<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.</p>	<p>In 2008/09, the Audit & Fraud Prevention Manager acted up as Head of Finance & MIS (s..151 Officer) for 3 months, pending the permanent appointment of the Head of Finance & MIS. Arrangements have been put in place to document her involvement in any operational decisions and to ensure that other auditors audit and carry out the review of any operational areas that the Audit & Fraud Prevention Manager was involved in during that 3 month period. E.g. Audit of the budget process.</p> <p>Other Auditors undertook extended substantive testing, during the same 3 month period, to support the late closure of the 2007/08 Accounts. This was supervised by the Deloitte Accountant and covered transactions in systems which had already been covered in the 2007/08 systems audit work. The above has been reported to the Audit Committee and to the Audit Commission.</p> <p>Need to ensure that the level of non-audit work is minimised in 2009/10. Will be monitored and reported to the Audit Committee.</p>

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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. See 2.1.1	
2.2	Organisational Independence					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			Internal Audit reports directly to the Head of Finance & MIS but all audit reports are issued by the Audit & Fraud Prevention 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 also gives 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	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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>Reviewed annually, with opportunity to submit a growth bid.</p> <p>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> <p>Budget is not delegated to service areas. The recharge is automatically apportioned, based on the audit plan.</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 Head of Finance & MIS – a member of the corporate management 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 is provided in-house.	

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 Development Interviews. [Hard copy notes on Staff Development file held by Audit & Fraud Prevention Manager]. Also completed a specific declaration of interest form re Benefits system. [Forms held by Head of Customer Services].	
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	√			Not applicable. No interests declared to date that would impact on the audit plan.	
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.	
3.2	Integrity					
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			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?	√			Each audit is reviewed by an auditor independent of those carrying out the audit. Management Satisfaction Questionnaire – 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	As 2.1.1 3 months acting up as s.151 officer. However, arrangements put in place to ensure objectivity in any subsequent review of these operational decisions. 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?	√ √ √ √			Consultation and discussion re the Corporate Plan, in developing the annual Audit & Fraud Prevention Service Plan. 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. 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. Data Protection issues covered. All staff attended training sessions.	
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. 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. Audit Committee support the work of Internal Audit e.g. Supported the bid for an extra half post in 2005/06.	
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			Approve the Strategic Audit Plan at the first meeting of the Committee cycle [end of May]. This includes a review of the risk assessment and resources available – in house & bought in. 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	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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?	√ √ √ √ √ √			See agendas. Audit & Fraud Prevention Manager consulted on the review reported to the Audit Committee . Audit Charter approved by Audit Committee September 2007. Also initial training prior to launch of the Audit Committee. Quarterly monitoring reports. Quarterly monitoring reports include reference to work deferred because of staff resource problems. Presented to the Audit Committee at the first meeting of the Committee cycle – end of May.	
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			Explained at initial training. Has not been requested to date.	
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?	√ √ √ √ √		√	Audit Charter and Anti Fraud & Corruption Strategy defines roles & responsibilities of internal audit and management. Audit procedures define roles & responsibilities for internal auditors. Audit protocol agreed with external auditors (Audit Commission). 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. Employee / Members protocol in place.	(d) Not applicable. No direct contact with other regulators / inspectors in the past year.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5.2	Relationships with Management					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	√			<p>Consultation with managers in drawing up Strategic Audit Plan and prior to each individual audit.</p> <p>Evidence on Audit Plan file and individual system audit files.</p> <p>Annual Management Satisfaction Questionnaire – follow up to identify reason for any “adequate” responses and to agree any action needed [usually nothing specific led to the response].</p>	
5.2.2	Is the timing of audit work planned in conjunction with management?	√			<p>Circulate draft Strategic 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 2008/09. Previously (2007/08) provided report & working papers to Cumbria County Council auditors re Copeland projects where CCC was the accountable body (LAA).</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>Annual Audit & Inspection Letter usually states whether external auditor can rely upon the work of internal audit. This has been the case to date.</p> <p>Internal Audit rely upon the external auditor's work on grant claims over £100k, final accounts, use of resources and inspections.</p>	<p>Opinion not given in the 2008 Annual Audit & Inspection Letter. Use of Resources 2007/08 report (March 2009) states that Acting as S.151 Officer for 3 months in 2008/09 has compromised the independence of internal audit. Measures have been put in place to mitigate this.</p> <p>The external auditor conducts a triennial review of internal audit against the CIPFA standards and this commenced on 8/5/09. Any points arising will be actioned in 2009/10.</p>
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?		√		E.mail contact.	<p>Ad hoc meetings, where needed, to discuss specific issues. Changeover in External Audit Managers in 2008/09 and late closure of Accounts.</p> <p>Regular meetings to be set up in 2009/10.</p>
5.4.3	Are the internal and external audit plans co-ordinated?	√			Aim to avoid duplication in the work of Internal Audit by reference to the external Auditor Audit & Inspection Plan . External audit plan is informed by a risk assessment of the control environment, to which the work of internal audit mayl contribute.	

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?		√		Limited involvement to date. In 2007/08 - supplied copies of internal audit reports where relevant e.g. for Housing Strategy Inspection.	Some involvement in previous years' inspections, e.g. by the Benefits Fraud Inspectorate, but have limited internal audit resources. This role is usually undertaken by the Performance Improvement 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.	

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 March 2009-</p> <p><u>Manager</u> – Qualified CIPFA accountant, 16 years internal audit experience, 3 years accountancy trainee experience (in Accountancy department).</p> <p><u>Audit Technical Officer</u> – AAT qualified, 3.5 years internal audit experience</p> <p><u>Audit Technical Officer</u> – AAT qualified , 3 years internal audit experience.</p> <p><u>Audit Technical Officer</u> – AAT trainee (completed foundation level), 1 year's internal audit experience.</p> <p>All have attended internal audit courses and have the personal attributes to comply with the CIPFA standards.</p>	The Manager has also attended an advanced computer audit course. However, a specialised computer auditor is “bought in” to undertake detailed technical testing. [Last audits June & October 2008]
6.1.1	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 “bought in” for specific audits.	See 6.1.1 above
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			<p>As 6.1.1 above.</p> <p>Undertakes Continuing Professional Development in line with the CIPFA scheme and maintains a file of evidence.</p>	
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			15 years' experience of internal audit management [1 year - Internal Audit was managed by a Business Unit Manager].	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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.	
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 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 & Fraud Prevention Manager]	
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.	

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 Strategic Audit Plan. Also a separate IT Audit Strategy.	
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 as 7.1.1 above. Covering report for Strategic Audit Plan identifies how the service will be provided under Audit Resources. IT 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, Strategic Audit Plan and IT Audit Strategy all approved by the Audit Committee.	
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 operational risk registers, service plans and quarterly performance reports to the Executive.	
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	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
7.2.1	Are stakeholders consulted on the audit plan?	√			Corporate Team, Management Group, & Audit Committee are consulted on the draft audit plan. Copied to the external auditor for information.	
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			Management Group 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?	√ √ √ √ √ √			Strategic Plan is broken down into a monthly, annual plan. This shows estimated days needed. The Strategic Plan shows the breakdown of systems and regularity work, etc. The accompanying risk assessment score sheet, shows the prioritisation. A number of contingency days are included in the annual plan.	
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. Quarterly monitoring reports.	
7.2.5	Has the plan been approved by the audit committee?	√			Approved at the 1 st meeting of the Committee cycle [May]	
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	Seek Audit Committee approval to revise the Audit Plan, in line with any significant reduction in resources.
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	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					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.	
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 & Fraud Prevention Manager].	
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.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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.	
9	Due Professional Care					
9.2	Responsibilities of the Individual Auditor					
9.2.1	Are there documents that set out the requirements on all audit staff in terms of: (a) being fair and not allowing prejudice or bias to override objectivity? (b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict? (c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?	√ √ √			CIPFA Audit Standards. Employee Code of Conduct.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? (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? (f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed? (g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice? (h) disclosing any non-compliance with these standards? (i) not using information they gain in the course of their duties for personal use?	√ √ √ √ √ √			Anti Fraud & Corruption Strategy covers items (e) to (h). Confidentiality Statement [signed by each employee and held on HR files]	
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?	√			Review of all audit work undertaken / all reports issued to reinforce standards. Review checklist is filed on each system audit file. Annual Employee Development Interviews to identify any training needs. 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?	√			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 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	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. As from March 2009, full copy of the report also issued to the Chairman of the Audit Committee. Key findings 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 and procedure set out in Quality Procedures.	
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.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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.	
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to 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 Corporate Management Team, as available.	
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.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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 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. e.g. LAA Grant Admin report in 2007/08.	
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 Team quarterly 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.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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 Strategic Audit Plan.	
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? [In 2008/09, SIC replaced by Annual Governance Statement.]	√			Annual report on Internal Control submitted to Corporate Team and to the Audit Committee (May). 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) Separate reports to the Audit Committee (Final Quarter Monitoring Report; Strategic Audit Plan includes days planned and actual days achieved) As 10.4.1 above – includes the results of the Annual Management Satisfaction Questionnaire.	
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. Also 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. Annual Management Satisfaction Questionnaire.	
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.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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 e.g. Developed auditors' guidance for checking compliance with Data Quality Management Guidance.	
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 Head of Finance & MIS and recorded on the corporate performance system (Covalent). Quarterly performance monitoring to the Head of Finance & MIS and to the Audit Committee. Quality assurance procedures in place but not formally accredited. 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? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress? (b) user feedback obtained for each individual audit and periodically for the whole service? (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? (d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual? (e) an action plan to implement improvements?	√ √ √ √ √ √	√ √		Local performance measures (PI's) are incorporated in the Service Plan, agreed by the Head of Finance & MIS, and as part of the quarterly monitoring report to the Audit Committee. Timescales included in Planning Memo. Monitored as at 11.3.1 above. Annual Management Satisfaction Questionnaire. Quarterly monitoring report to Audit Committee. Cumulative PI's show progress during the year and corrective action is taken. Previous quality review to demonstrate compliance with this code – April 2008. Annual review for compliance now required by Accounts & Audit Regulations. Actions are identified to implement improvements (in Appendix A of the Committee report on the Effectiveness of Internal Audit).	(a) (ii) Decision was taken corporately to discontinue Service Level Agreements. (b) Satisfaction questionnaire following each audit was discontinued due to poor response level, even when reminders were issued. However, a complaints procedure is in place and there is an annual satisfaction survey.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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? (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?		√		<p>Significant slippage on the audit plan. However, all testing on the main financial systems was completed by the end of April 2009. Impact quantified as minimal.</p> <p>Compliant with the Code except for issue of Acting S.151 compromising audit independence. Arrangements put in place to mitigate this.</p> <p>Review checklist on each system file.</p> <p>Actions identified last year, within the Manager's control, have been implemented. 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; assisting with substantive testing to give assurance with the restatement of the 2007/08 Accounts; and advice to the project team on implementation of the Marketplace system (new purchasing system).</p>	<p>Lost time equivalent to 1.4 full time posts in 2008/09 [3 months acting S.151 and detailed substantive testing to support delayed closure of Accounts]</p> <p>Level of non-audit work to be minimised, monitored and reported quarterly to the Audit Committee.</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 (May).</p> <p>Review of the Effectiveness of the Audit Committee reports the opinion of Corporate Team based on Audit Manager's self-assessment and supporting evidence.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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?	√			This checklist provides the evidence for consideration by Corporate Team and then the Audit Committee in May.	

**ENSURING INDEPENDENCE OF THE AUDIT MANAGER FOLLOWING HER
ROLE AS ACTING S.151 OFFICER**

Audit Manager was acting s.151 Officer for 3 months, between 4 July and 12 October 2008. A record has been kept of her involvement in decisions during this period. This includes:-

- Appointment of the ICT Manager (present s.151 Officer was on the interview panel)
- Appointment of the Accountancy Services Manager (present s.151 Officer was on the interview panel)

Any audits are objectively undertaken based on an evaluation of the system controls in place, not the people operating them.

Generally, any audit of transactions, where the Audit Manager acting as s.151 Officer has been involved, will be undertaken by an auditor other than the Audit Manager and reviewed by another member of the Audit team. The Audit Team have been instructed that, if they come across any transactions with the Audit Manager's involvement, they must ensure that this is reviewed by an auditor other than the Audit Manager.

- Provided introductory papers for the 2009/10 budget process to the Resource Planning Working Group and initial guidance to Management Group.

These were papers simply outlining the then Medium Term Financial Strategy, the process, the agreed Council Priorities and initial potential savings put forward by managers. The detailed budget timetable was provided by the acting Accountancy Services Manager and the Head of Policy and Performance. The Medium Term Financial Strategy was revised by the present s/151 Officer, given the deterioration in the economic situation by that point.

- Revenue & Capital Monitoring Reports to the Executive, Quarter 1 and carry forward requests. Also s151 comments that resources are available.

The Budget Process/ Budget Monitoring audit will be undertaken by a different auditor, using the external audit standard testing schedule, reviewed and signed off by another member of the Audit Team, rather than the Manager. The audit will objectively measure compliance with the Constitutional process, as evidenced by Committee reports to the Executive, Scrutiny and Full Council (written by the present s.151 Officer) and take a view as to whether the basic assumptions were valid and whether the format of the budget meets CIPFA BVACOP requirements. The audit file has been subject to independent peer review by Allerdale B.C.'s Audit Manager, before the final report has been issued. This arrangement will be used as necessary.

- Used delegated powers, in consultation with the Head of Legal Services, to deal with land transactions where freehold or leasehold payment is £20k or less. e.g. sale of garages. Number and value of transactions was not material. Full record is held by the Contracts and Property Manager.

No audit of 2008/09 land transactions to date. If this is undertaken, the same approach as for the Budget Process audit will be adopted.

- Recommended honoraria for some Finance officers. These had to be approved by the HR Manager at the time. Notified present s.151 Officer, who will keep these under review in line with duties required.

Any audit sample of Payroll honoraria was chosen by an independent auditor from HR reports. Sample included 1 of those approved by Audit Manager. Test result subsequently reviewed by another member of the Audit Team.

- Initiated tender process for the Insurance Broker contract and the Banking Services contract. Lead on the work undertaken was taken by 2 Accountancy officers. Only involved until placement of the advert under EC procurement rules. Process supervised by the Contracts & Property Manager.

If the tender process is subsequently audited, general approach detailed above will apply.

M Robinson
Audit & Fraud Prevention Manager

12/5/09

**REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT ITEM 9
APPENDIX D**

Slippage on Planned Audits	Impact
Delayed but now completed:	
Sundry Debtors	None. Completed to support Accounts.
Creditors	As above
Main Accounting System	As above
Budget Process / Budget Monitoring	As above
Corporate Governance	As above
Deferred:	
Renovation Grants [2008/09 grants awarded]	Minimal. System audit on 2007/08 transactions and on 1 st quarter of 2008/09 transactions was undertaken in June 2008. Controls were satisfactory at that time. Previously confirmed that recommendations had been implemented as part of quarterly follow ups. This second audit was to cover more transactions in 2008/09.
Leased Transport	Minimal. This was to check compliance with Contract Standing Orders in formal tendering. Head of Service should have confirmed this in the Annual Assurance Questionnaire.
ICT Strategy	Compliance audit. Not carried out, as the revised ICT Strategy is still in draft.
Economic Development Projects Grants Claims Administration	Carried out audits on management of projects and grant claims in 2007/08 and confirmed that recommendations implemented. Payments would have been covered in Creditors system audit; grant income would have been covered in Cash Receipting system audit. Management of projects and grant claims will be included in 2009/10.
Evaluating Business Risk and whether service objectives were met	Corporate Team monitor this as part of the quarterly performance management procedures.
Business Continuity Arrangements	Corporate Team have been monitoring this as an outstanding recommendation. Specialist Computer auditor did carry out an audit of ICT business continuity arrangements in 2008/09.
Partnership Developments	Rolled forward to 2009/10. Corporate Team and Executive monitor these. Briefly reviewed as part of the Corporate Governance audit undertaken in April/May 2009.
Procurement Arrangements	Deferred as new Marketplace system not yet implemented. Did participate in the Project Team in an advisory capacity.