

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2009/10

LEAD OFFICER: Keith Parker, Acting Corporate Director (Quality of Life)

AUTHOR: Keith Parker, Acting Corporate Director (Quality of Life)
on behalf of Corporate Team

SUMMARY: This report provides Members with an opinion on the effectiveness of the system of Internal Audit in 2009/10 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 2009/10 and there has been no fundamental breakdown of controls resulting in material error or discrepancies.

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 2009/10.

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.

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 2009/10. The findings of this review need to be considered as part of the Audit Committee's consideration of the Annual Governance Statement, which is presented as a separate item on this agenda.
- 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 10 May 2010, 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 2009/10 (which is reported separately on this agenda)
 - Draft Annual Governance Statement 2009/10 (which is reported separately on this agenda).
- 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 2009/10 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. 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.

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

- 2.4 Corporate Team, in reaching an opinion on the effectiveness of the system of internal audit during 2009/10 considered Appendices A and B. 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 improvement on the previous year was that a quarterly report on the work of the Audit Committee had been presented to full Council throughout 2009/10.
- 2.5 The evidence to support compliance with the 11 areas of the Code of Practice for Internal Audit was considered (Appendix B), together with progress against the action plan agreed the previous year (Appendix C). It was noted that all actions for further improvement identified for 2008/09 had been implemented in 2009/10, with the exception of regular meetings being held between the external and the internal auditor managers.

Review of the Audit Services Annual Report on Internal Control 2009/10

- 2.6 The opinion of the Audit and Fraud Prevention 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.
- 2.7 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 2009/10, 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 Corporate Team's consideration concluded that the system of internal audit operated satisfactorily in 2009/10 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. Significant progress has been made on the audit recommendations relating to financial systems, made in the previous year, and any remaining actions are being monitored.

- 3.2 The remaining area for improvement relates to signing off the updated internal / external audit protocol and the establishment of regular meetings between the Internal Audit Manager and External Audit Manager. This was not possible in 2009/10 due to the change of Audit Commission staff.
- 3.3 This statement on the effectiveness of internal audit during 2009/10 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 2009/10

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

Appendix C – Progress against the 2008/09 Action Plan

List of Background Documents: None

Officers Consulted: Corporate Team

APPENDIX A

SELF ASSESSMENT BY THE AUDIT & FRAUD PREVENTION MANAGER 2009/10

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. The Internal Audit service at Copeland B.C. fully complied with 91% (64% in 2008/09) of the Standards in 2009/10 and mostly complied with a further 9% (36% in 2008/09).

Areas of non-compliance related to:-

- Formal protocol for joint working with other internal auditors
[Rare occurrence – no joint working in 2009/10]

- 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. Formal Legal Agreement to be drawn up for Shared Service for Internal Audit in 2010/11.

Regular meetings to be arranged for 2010/11 and protocol to be finalized.

Audit Plan agreed with Management. Target deadlines included in Planning Memos for each audit.

Implementation of Shared Service in 2010/11 will include governance arrangements and performance targets.

6

<p>Key Performance Indicators</p> <p>83% of the Audit Plan was achieved, compared to a target of 90%. This included the review of all the main financial systems audits and 50% of the non-fundamental systems audited against the plan. A further five 2009/10 audits were completed in April 2010.</p> <p>No non-audit work undertaken.</p> <p>Some planned audits were not needed because implementation of the new systems had been delayed.</p> <p>64% 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>3% of time was spent on client support and advice</p> <p>2% of audit days were spent on work that was specifically requested by managers.</p>	<p>Minimal impact re slippage, as reported to Audit Committee 21/4/10.</p> <p>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 2009/10 was shown at Appendix C of the Audit Services Monitoring report for the Fourth Quarter, reported to Audit Committee 21/04/10.</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 2009/10. 16% of questionnaires were returned. [This represented 40% of those whose areas had been audited in 2009/10].

From October 2009, we also issued a questionnaire following completion of each audit. These generated a 25% response. 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
(%) |
|--|
| • 7 felt they were sufficiently consulted on the Audit Plan [1 no response] ↑ (88%) |
| • 3 would like extra audit services [5 would not] ↓ (38%) |
| • 3 rated audit services as providing excellent value for money ↑ (38%) |
| • 5 rated audit services as providing good value for money ↑ (62%) |
| • 8 did not prefer audit services to be provided differently ↑ (100%) |
| • 11 rated the general helpfulness of audit staff as excellent, 6 good ↑ [Combined questionnaire results] (100%) |
| • 9 rated the responsiveness of audit to managers' needs as excellent, 7 good ↑ [Combined questionnaire results] (94%) |

This largely shows an improvement in Customer Satisfaction, compared to the previous year. Dissatisfaction is related to wanting more audit coverage – 3 respondents would like extra audit services. Given the limited audit resources of 3 FTE staff, plus the manager who was 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.

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

8

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	<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 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.</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>Assurance Statements were requested from the auditors of North Country Leisure (NCL) and from Capita (re Valuation Services). Both Assurance Statements have been received.</p>
Assurances re Health & Safety	<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 2009/10 to manage Health & Safety issues.</p>
Outsourced Internal Audit Work	<p>There was no outsourced internal audit work undertaken in 2009/10.</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 2009/10 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>Terms of Reference</u>	Have the Committee's terms of reference been approved by full Council?		<u>Comment</u>
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	
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	
- Anti-Fraud arrangements	YES	Reviewed 2009/10	
- Whistleblowing strategies	YES	2009/10 within Anti-Fraud Strategy	
[Confidential Reporting Code – Full Council]			

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 Quarterly report to Full Council

Meetings

Does the Committee meet regularly?

YES Committee Calendar – at least 7 times a year.

Are separate private meetings held with the external auditor & the internal auditor? YES Standing item on agenda.

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

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.

Training
Is induction training provided to members?

Is more advanced training available as required?

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

Are the key officers available to support the committee?

YES Standard induction.

YES Specific to Audit Committee

YES S.151 Officer was the Lead Officer in 2009/10.

YES Democratic Services.

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 28/04/10

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?	✓				Audit Charter revised & approved by Audit Committee 23/9/09. This includes sections on:-
	(b) establish the organisational independence of Internal Audit?	✓				- Function - Independence - Role & Scope - Resource Requirements - Reporting - Responsibility
	(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	✓				

Ref	Adherence to the Standard	Y	P	N	Evidence
1.1.1 cont'd	<p>assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	✓			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. Also drafted the Audit Strategy, approved as part of the Audit Plan report 21/4/10.
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			Last revision approved by Audit Committee 23/9/09. Audit Strategy approved by Audit Committee 21/4/10.
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.
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.

14

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?	Y	Y		<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 2009/10.</p> <p>Leisure Trust – agreed they will use their own internal audit but there will also be an “open book” arrangement. North Country Leisure have already provided an assurance statement for 2009/10.</p> <p>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.</p>

15

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 & Fraud Prevention Manager is a CIPFA qualified accountant and has attended fraud investigation courses (last update September 2006). 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. In 2008/09 and 2009/10, 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 in 2009/10), 3 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 & Fraud Prevention 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?	✓	✓		Under normal circumstances internal audit is independent of the activities it audits and is free from any non-audit duties. See job profiles.	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. Quarterly Monitoring reports to the Audit Committee confirmed that no non-audit work was undertaken in 2009/10.
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?	✓	<p>Internal Audit reports directly to the Head of Finance & MIS (temporarily to the Acting Corporate Director, Quality of Life from 1/4/10) 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.</p> <p>The Audit Charter also gives direct access to the Chief Executive and to the Chairman of the Audit Committee.</p>	
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	✓ ✓	See 2.2.1 above	
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	✓	See 2.2.1 above	
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate?	✓	<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>No savings were required to be made in 2009/10 or for the 2010/11 budget.</p>	
	(b) Does any budget delegated to service areas ensure that: (i) Internal Audit adherence to the Code is not compromised? (ii) the scope of Internal Audit is not affected? (iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	✓ ✓ ✓	<p>Budget is not delegated to service areas.</p> <p>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>	18

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. [Temporarily the Acting Corporate Director, Quality of Life from 1/4/10, pending organisational restructure]	
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?	<p>Not applicable. Internal Audit is provided in-house.</p> <p><u>Note:</u> Shared Service for Internal Audit to be implemented in 2010/11. Partnership with Cumbria County Council and Carlisle City Council. Audit work will still be based on the Audit Plan agreed by Copeland's Audit Committee. At this stage, there is no intention for the Shared Service for Internal Audit to provide anything other than internal audit services, certainly in 2010/11. Future years may see the development of VFM consultancy work.</p>	19

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. [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?	✓			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?	✓			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. 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 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 and risk assessment, 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.	✓

Q1

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. 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. Held 1 session in private. Audit Committee supports the work of Internal Audit e.g. Supported the proposals in 2009/10 for a Shared Service for Internal Audit.	
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓	Approved the 2009/10 Audit Plan. This included a review of the risk assessment and resources available – in house & bought in. Approved updated Audit Charter. Receive quarterly monitoring reports throughout the year.	

22

			Audit Strategy approved as part of 2010/11 Audit Plan, in April 2010.
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: <ul style="list-style-type: none"> (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 or 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 2009. 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 following 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. Standing item on the agenda from Sept. 2009. 1 session held in private in 2009/10.
5	Relationships		
5.1	Principles of Good Relationships		
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: <ul style="list-style-type: none"> (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 / CIPFA standards define roles & responsibilities for internal auditors. Audit protocol agreed with external auditors (Audit Commission). Audit Commission set out framework for inspections. [e.g. Benefits Inspection] Work with other internal auditors via the Cumbria Audit Group. All work to, and are bound by, the CIPFA Code of Practice for Internal 23

		Internal Audit in Local Government. Employees / Members protocol in place.	Audit]
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 Audit Plan and prior to each individual audit.</p> <p>Evidence on Audit Plan file and individual system audit files.</p> <p>Management Satisfaction Questionnaire, following each audit, reintroduced from October 2009.</p> <p>Annual Management Satisfaction Questionnaire issued in March each year.</p> <p>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 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 2009/10.</p> <p>Note: Audit approach has been agreed for 2010/11 re Shared Revenues & Benefits Service. Will need audit assurance from each partner on these systems. [1 partner will not be part of the Shared Internal Audit Service].</p>

24

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?	✓			Both the Triennial Review of Internal Audit by the Audit Commission (Sept 2009) and the Use of Resources report (Dec 2009) confirmed that Internal Audit complied with the CIPFA standards for internal audit. Internal Audit rely upon the external auditor's work on grant claims over £100k, final accounts, use of resources and inspections.	
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. Changeover in External Audit Managers in 2009/10.
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. Internal Audit circulate the annual audit plan to the external auditor for comment. External audit plan is informed by a risk assessment of the control environment, to which the work of internal audit may 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?	✓			In 2009/10 had 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 2009.	

26

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				As at April 2009-	
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><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>	<p>The Manager has also attended an advanced computer audit course. However, a specialised computer auditor is "bought in" to undertake detailed technical testing.</p> <p>[Last audits: December 2009 and February 2010]</p> <p>Note: Planned computer audit update course for all auditors, booked for July 2010, with other partners in the Shared Service.</p>

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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?	✓			As 6.1.1 above. Undertakes Continuing Professional Development in line with the CIPFA scheme and maintains a file of evidence.	
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	✓			16 years' experience of internal audit management as at April 2010 [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.	Note: To be reviewed in 2010/11 as part of implementation of Shared Service structure.
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	<p>(a) Is there an internal audit strategy for delivering the service?</p> <p>(b) Is it kept up to date with the organisation and its changing priorities?</p>	✓			<p>Audit Charter defines role and scope of internal audit and accountabilities.</p> <p>The Service Plan details resources and key objectives for the year.</p> <p>Risk-based strategy. Reviewed annually in revising the Audit Plan. Also a separate IT Audit Strategy.</p>	<p>Note: Separate Counter-Fraud Activity Plan from 2010/11.</p> <p>Also an Audit Strategy document approved as part of the Audit Plan report.</p>
7.1.2	Does the strategy include:				<p>Audit Charter as 7.1.1 above.</p> <p>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.</p>	<p>Note: Separate Counter-Fraud Activity Plan from 2010/11.</p> <p>Also an Audit Strategy document approved as part of the Audit Plan report – Audit Committee 21/4/10.</p>
7.1.3	Has the strategy been approved by the audit committee?	✓			<p>Audit Charter, Strategic Audit Plan and IT Audit Strategy all approved by the Audit Committee.</p>	<p>Note: Separate Counter-Fraud Activity Plan from 2010/11.</p> <p>Also an Audit Strategy document approved as part of the Audit Plan report – Audit Committee 21/4/10.</p>
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,	Note: Adopted common risk assessment / planning approach with Shared Service Partners for

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					service plans and performance reports to the Executive.	2010/11.
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?	√			Corporate Team, Management Group, & Audit Committee are consulted on the draft audit plan. Copied to the external auditor for information.	Note: Also circulated to acting Head of Internal Audit at Cumbria County Council for 2010/11, in preparation for Shared Service.
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:				Annual Plan was broken down into a monthly, annual plan. This showed the estimated days needed. The Annual Plan for 2009/10 showed the breakdown of systems and regularity work, etc. The accompanying risk assessment score sheet, showed the prioritisation. A number of contingency days were included in the annual plan. Details of the assignment are given in the Planning Memorandum for each audit.	Note: For 2010/11, the Audit Plan gives a brief description of the scope of the audits. The Risk Assessment Summary shows the priority and estimated days needed. Agreed common approach that no contingency days would be included. Instead, priorities would be revised, and Audit Committee advised of this, if needed.
7.2.3	(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?				✓ ✓✓✓✓✓✓✓✓	
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?	√			Approved at the June meeting of the Committee cycle in 2009/10, as work had been brought forward from 2008/09 in the first quarter.	Note: 2010/11 Plan approved on 21/4/10.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
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 Sought Audit Committee approval to revise the Audit Plan, where 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.
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].

32

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.	

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> <ul style="list-style-type: none"> (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? (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? 	<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. Review checklist is filed on each system audit file.</p> <p>Annual Employee Development Interviews to identify any training needs. On-the-job supervision and training.</p>
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	✓	<p>Quality Procedure AS03. Instructed to notify the Audit Manager.</p> <p>Also have a Confidential Reporting Code</p>

					and Anti Fraud & Corruption Strategy.
Ref	Adherence to the Standard	Y	P	N	Reasons for non-compliance / Compensating measures in place / Action Required
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. 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	Do the reporting standards include:		
(a) format of the reports?	✓		
(b) quality assurance of reports?	✓		
10.1.4	(c) the need to state the scope and purpose of the audit?	✓	
10.2.2	(d) the requirement to give an opinion?	✓	
10.2.1	(e) process for agreeing reports with the recipient?	✓	
10.1.4	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓	
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 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.

36

		Included in the covering e-mail. Key contacts included in the Planning Memorandum and in the Audit Quality Procedures [AS01 & AS02].	
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?	√ √	
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.
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 Covenant 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.

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? [SIC replaced by Annual Governance Statement in 2008/09.]	√	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: <ol style="list-style-type: none"> include an opinion on the overall adequacy and effectiveness of the organisation's control environment? disclose any qualifications to that opinion, together with the reasons for the qualification? present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? 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] ? compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? comment on compliance with the standards of the Code? 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 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	✓			All auditors work in the same office. Ongoing supervision and monitoring of progress. Progress formally checked in	

	audits?		compiling monthly performance indicators.
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 e.g. Management of Leased Transport contract in 2009/10.
11.3	Performance and Effectiveness of the Internal Audit Service		Note: Standard approach to be agreed with implementation of Shared 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 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? (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?	✓ ✓ ✓	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. Timelines included in Planning Memo. Monitored as at 11.3.1 above. Questionnaires following each audit reinstated from October 2009. Annual Management Satisfaction Questionnaire. 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. Previous quality review to demonstrate compliance with this code – May 2009. Annual review for compliance now required by Accounts & Audit Regulations. Actions are identified to implement improvements where appropriate.
	(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?	✓ ✓ ✓	(a) (ii) Decision was taken corporately to discontinue Service Level Agreements. (b) Corporate complaints procedure is also in place. No complaints recorded against internal audit.

40

Ref	Adherence to the Standard				Reasons for non-compliance / Compensating measures in place / Action Required
		Y	P	N	
11.3.3	Does the Head of Internal Audit compare the performance and 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: <ul style="list-style-type: none"> (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>All key objectives met. 83% of audit plan achieved, despite loss of 1 experienced member of staff. All testing on the main financial systems was completed by the end of March 2010. Impact of deferred work quantified as minimal.</p> <p>Compliant with the Code for 2009/10.</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; giving a presentation & issuing guidance on risk management, giving a presentation to Members and Management on the Anti-Fraud Strategy and emphasising their role in the process; continued to give advice to the project team on the implementation of the Marketplace system (new purchasing system).</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?	<input checked="" type="checkbox"/> <p>Annual report on Internal Control to the Audit Committee (May). 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>
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?	<input checked="" type="checkbox"/> <p>This checklist provides the evidence for consideration by Corporate Team and then the Audit Committee in May.</p>

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2009/10

PROGRESS AGAINST THE 2008/09 ACTION PLAN

APPENDIX C

	ACTION	PROGRESS
1	Put in place arrangements to maintain audit independence.	Implemented Arrangements reported to Audit Committee and incorporated in revised Audit Services Charter approved 23/9/09. Arrangements implemented in practice. Quarterly report to Audit Committee confirmed that no non-audit work was undertaken in 2009/10.
2	Quality check (Triennial Review of Internal Audit) to be undertaken by the external auditor.	Implemented Reported to Audit Committee 23/9/09. Confirmed internal audit's compliance with the CIPFA Code of Practice.
3	Regular meetings to be held between internal and external auditor. Formal Protocol to be finalised.	Outstanding Changeover of external auditors. Maintained e.mail contact on ad hoc basis. To be progressed in 2010/11
4	Level of non-audit work to be minimised, monitored and reported quarterly to Audit Committee. [To increase coverage of audit planned work]	Implemented Quarterly report to Audit Committee confirmed that no non-audit work was undertaken in 2009/10. Achieved 83% of planned work in 2009/10. [Compared to 66% in 2008/09 because of the exceptional circumstances]
5	Planned audits to be prioritised and impact of deferred audits to be considered and approved by Audit Committee.	Implemented Quarterly reports to Audit Committee included impact of deferred audits, where this was necessary.
6	Management requests built into audit plan where possible and contingency days allowed for ad hoc requests.	Implemented 5% of audit days used for client support / advice and work specifically requested by managers.
7	Ensure the Capita Symonds assurance statement is in place as part of the Final Accounts working papers.	Implemented Assurance Statement received.
8	Prepare a report to summarise the work of the Audit Committee in the year, as further evidence of its effectiveness.	Implemented Quarterly reports presented to Full Council.

43