

DRAFT

Meeting: **Audit Committee**

Portfolio Area: Resources

Date: **26th June 2007**

REVIEW OF THE ADEQUACY OF INTERNAL AUDIT 2006/07

(Finance)

NON-KEY DECISION

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1 PURPOSE

1.1 To review the adequacy of the Council's Internal Audit Service.

2 RECOMMENDATION

2.1 That the Audit Committee approve the assessment that the Internal Audit Service in Stevenage is judged to be effective.

3 BACKGROUND

3.1 The Accounts and Audit Regulations (2003) require the Council to review at least once a year the effectiveness of its systems of internal control and to publish a Statement on Internal Control (SIC) each year, with the Statement of Accounts.

3.2 With effect from 1st April 2006 the Accounts and Audit (Amendment) (England) Regulations 2006 require that as part of considering its systems of internal control the Council also review and report to Committee on the effectiveness of Internal Audit.

3.3 In past years the Council's Internal Audit Manager has produced an Annual Internal Audit Report, which was report to Committee / Panel (the Audit Committee in 2006). This report reviewed the work undertaken by Internal Audit in the previous financial year, expressed the Audit Manager's opinion as to the degree of internal control within the Authority and reviewed Internal Audit's compliance with the Code of Internal Audit Practice. The Audit Manager's Report therefore reflected a degree of good practice before the formal requirement to review was introduced.

3.4 The Audit Manager's Annual Internal Audit Report 2006/07 is still reported elsewhere on this Agenda and continues to review the work undertaken by Internal Audit and

express the Audit Manager's opinion. However, in the light of the new requirements for the Council to review the effectiveness of its systems of Internal Audit consideration of the compliance with the Code of Practice has been brought into this report, which it is intended will meet the requirements of the Regulations.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Approach to the Review of the Effectiveness of Internal Audit

4.1.1 The Internal Audit service within Stevenage in 2006/07 has been provided through the Stevenage & Uttlesford Audit Partnership. It is this service that is subject to the review of effectiveness. The Audit Partnership Manager has recently secured a promotion with Uttlesford District Council. With the departure of the Audit Partnership Manager, Uttlesford DC have given notice of their intention to withdraw from the Partnership arrangement. The Council, having considered the Partnership arrangements to have been very effective, is pursuing opportunities to reform a Partnership with another local authority.

4.1.2 The Department for Communities and Local Government (DCLG) has issued guidance on the amended Regulations. The guidance cites the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government as proper practice in relation to internal audit. The (CIPFA) Code of Practice for Internal Audit includes a checklist, which the guidance considers to be a useful tool in assessing effectiveness.

4.1.3 It is therefore considered that the effectiveness of internal audit will be determined by the degree of compliance with the Code of Practice combine with consideration as to the extent that the outcomes from Audit activities and reviews contribute to the overall system of internal control.

4.1.4 The Guidance indicates that some reliance in the assessment can be placed on other sources of assurance where they adopt robust methodologies. To this extent it is considered that some reliance can be placed on Audit Commission reviews. At the time of writing this report, the Audit Commission's draft report on their three yearly review of the Council's Internal Audit Service has been received. In addition the Use of Resources Assessment will form part of the considerations.

4.1.5 The review has been undertaken by the Head of Finance in consultation with the Strategic Director (Chief Financial Officer / Section 151 Officer). The report has been considered and endorsed by the Council's Strategic Management Board (SMB).

4.2 Findings of the Review of Internal Audit

4.2.1 **The (CIPFA) Code of Practice for Internal Audit checklist**, as completed by the Audit Manager as a self-assessment, is attached at Appendix B. The Head of Finance undertook an independent consideration against the checklist, in advance of the Audit Manager's submission, and the two views significantly accorded with each other. The checklist has been completed largely reflecting "Yes" or "Partial" compliance with the code. Where responses of "No" are given, they generally contain caveats explaining the relevant circumstances or reflect areas that are not considered to materially detract from the effectiveness of Internal Audit in Stevenage and can in most instances be readily addressed, if applicable.

- 4.2.2 The review of the checklist therefore gives assurance that the Internal Audit Section has the appropriate building blocks in place (Policies, Procedures, Structures) that provide an adequate base from which an effective Service can be expected to be delivered to the required standard. In addition, a summary has been produced at Appendix A, to support the reviewed degree of compliance with each of the elements of the Code.
- 4.2.3 As stated above the Internal Audit Manager's **Annual Internal Audit Report 2006/07** is the subject of a separate report on this Agenda. It is the Audit Manager's opinion that risks within the Authority as identified by Internal Audit are "*largely adequately controlled*". The Audit Manager's report details the Audit Coverage during 2006/07 and details of the areas of Audit Activity conducted during the financial year. Despite an element of slippage in the annual Audit Plan, mainly due to staffing shortages and the requirement to utilise Agency Staffing, the Section 151 and Deputy 151 Officers share this opinion. Contributing to this adequate control is the work undertaken by the Internal Audit Section, which during 2006/07 is assessed to have been undertaken in an effective manner resulting in effective outcomes as reflected in the respective Internal Audit reports and associated Management Action Plans issued throughout the year. 22 areas of the Council's services were the subject of Internal Audit reviews during 2006/07 resulting in over 150 individual recommendations to managers. Of these recommendations the vast majority were assessed as being medium or low risk.
- 4.2.4 Processes are in place to seek to enhance the overall effectiveness of Internal Audit throughout the year with regular meetings between the Audit Manager and Section 151 Officers to review progress to date and audit issues arising.
- 4.2.5 It is considered that the overall effectiveness of the Internal Audit system has been significantly enhanced during 2006/07 with the formation of the **Audit Committee**. The Audit Committee has in itself had a successful first year taking on and addressing its various Terms of Reference, which specifically in relation to Internal Audit have included the review of the Internal Audit Plan, Annual Internal Audit Report and reviews of specific audit reports. It is these reviews of the specific service audit reports that has added an additional dimension to the consideration and potential effectiveness of these reports.
- 4.2.6 The **Audit Commissions Draft Review of Internal Audit Management Arrangements** indicates the following main conclusion:
- *Our overall conclusion is that Internal Audit's corporate arrangements broadly meet the required CIPFA standards. We have noted areas where further improvements can be made. These mainly relate to improving the way in which Internal Audit engages with and reports to the recently formed Audit Committee.*
- Detailed recommendations and an action plan are included in the report and officers are currently in consultation regarding the implementation of these to further enhance the effectiveness of Internal Audit. The comments made by the Audit Commission largely reflect the issues as indicated in the self-assessment checklist and as such support the officers overall opinion derived from the checklist assessment.
- 4.2.7 The Audit Commission has to date been able place reliance on the work of internal audit in relation to key financial controls. This is a further indicator of the effectiveness of Internal Audit.
- 4.2.8 The **Audit Commissions Use of Resources Assessment** issued in March 2007 increased the Council's overall score from 2 to 3, notably reflecting an increase to a

score of 3 in respect of Internal Control. The findings recognised the establishment of the Audit Committee and that Internal Audit continued to operate in accordance with the CIPFA code of practice. This again supports the assessment based on the checklist.

- 4.2.9 An update of the Protocol for Liaison between Internal and External Audit has just been issued by the Audit Commission. This is currently being reviewed between the parties and the Council will be pleased to adopt the protocol where it enhances the effectiveness of audit both internal and external to our mutual advantage.
- 4.2.10 In addition to routine planned audit work leading to the production of internal audit reports the Audit Section provides related advice & assistance; day to day contract monitoring; deals with fraud, corruption & theft referrals as appropriate and delivers ethics & probity training across the Council. These reflect further aspects of the overall work of Internal Audit that also contribute to its overall effectiveness.
- 4.2.11 Satisfaction with the Internal Audit Service, as indicated by services in surveys following the completion of audit reviews in 2006/07, remains very high at 100% satisfaction where surveys were returned.
- 4.2.12 During 2006/07 a Service Level Agreement (SLA) was established with Stevenage Homes Limited (SHL) for the delivery of Internal Audit services to the Company. The Service Level largely reflects those elements of the Audit Plan that were previously conducted in respect of Housing Services. Some audits are conducted jointly in respect of the Council and the Company where they cover corporate systems shared by the two organisations. The Audit Manager reports directly to SHL's Audit Committee and will liaise with SHL's Company External Auditors. These arrangements and relationships are newly established and their effectiveness will be reviewed as part of the planned review of SLA's.

4.3 Areas for Development to Further Enhance the Effectiveness of Internal Audit

- 4.3.1 It is considered that scope for further enhancing the effectiveness of Internal Audit can be achieved in the following areas:
- Review the arrangements to escalate any instances of non-compliance with Audit Recommendations, including with management and through the Audit Committee, as appropriate.
 - Quarterly reporting to the Audit Committee on Internal Audit performance, progress against the Internal Audit Plan, and summary outcomes from completed audits. These reports have been timetabled into the Audit Committee's work plan for 2007/08, as agreed by the Committee in March 2007.
 - Consider changes to the Audit Charter etc as recommended in the Audit Commission Review of Internal Audit & review the Code of Practice Checklist to seek to achieve full compliance, where applicable.
 - Review the arrangements for the ongoing provision of the Internal Audit Service, including consideration of redeveloping partnership arrangements with another local authority.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 None arising directly from this report.

5.1.2 Adequate and effective operation of the Internal Audit function is a key part of the Council's overall systems of Internal Control and as such contributes significantly to the proper Financial Management of the Council.

5.2 Legal Implications

5.2.1. It is a requirement on the Council to comply with the Accounts and Audit Regulations.

BACKGROUND DOCUMENTS

- **The Accounts & Audit Regulations**
- **The DCLG Guidance**
- **Cipfa Code of Practice on Internal Audit in Local Government & associated checklist.**
- **2006/07 Annual Internal Audit Report to SBC Audit Committee June 2007**
- **Audit Commission's Review of Internal Audit Management Arrangements SBC**
- **Audit Commission's Use of Resources Auditor Judgements SBC**

APPENDICES

- **Appendix A - Summary Compliance with the Code of Audit Practice**
- **Appendix B - Internal Audit – Checklist Compliance with the Code**

SUMMARY COMPLIANCE WITH THE CODE OF AUDIT PRACTICE

The Code of Practice (*"The Code"*) sets out organisational and operational standards for internal audit in Local Government. A general position statement on compliance with each of these is set out below:

- 1 *Scope of internal audit* – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan. An Audit Charter was introduced during 2004.
- 2 *Independence* – organisational status enables Internal Audit to function effectively. The Audit Manager does not have structural status that complies with The Code (he/she reports to a lower organisational level than the corporate management team), but effective discussion of audit issues is still facilitated with Officers at this level. The independence of individual auditors is characterised by not having any operational responsibility for the areas audited.
- 3 *Ethics for Internal Auditors* – Internal auditors demonstrate integrity in all aspects of their work and an environment of trust and confidence is established. Internal Auditors are objective, free from conflicts of interest and are regularly rotated. The Audit Manager ensures that staff have sufficient knowledge and competencies to undertake their roles. Staff fully understand their obligations in respect of confidentiality.
- 4 *Audit committees or equivalent* – there are specific mechanisms for reporting to members at overview level. An Audit Committee has been introduced during 2006/07 and its contribution to the overall Internal Audit system is developing effectively.
- 5 *Relationship with management, other auditors and other review bodies* – the Council seeks to co-ordinate Internal Audit work with that of other review agencies. External audit relies on the work of Internal Audit for assurance purposes. Liaison meetings are held with external audit and their recently published update on liaison protocols is being reviewed.
- 6 *Staff training and development* – Internal Audit is appropriately staffed in terms of numbers, qualification levels and experience, having regard to its objectives and to The Code. However, during 2006/07 it has been necessary to rely extensively on contract staff to cover staff absences. Successful appointments were made to vacant posts and the section was fully staffed at the end of the financial year. However Uttlesford BC have given notice of their intention to withdraw from the Partnership arrangement. The Council, having considered the Partnership arrangements to have been very effective, is pursuing opportunities to reform a Partnership with another Local Authority.
- 7 *Audit strategy & planning* – a strategy is maintained for delivering the Internal Audit service as per the terms of reference. The risk based Audit Plan is prepared to achieve audit coverage over a five year rolling programme and to match Audit Resources to the Plan. The Plan is reported to and approved by Strategic Management and the Audit Committee.

- 8 *Management of audit assignments* – assignments are prepared, discussed and agreed with line managers. A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.
- 9 *Due professional care* – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out. Care is ultimately achieved by adherence to The Code and quality assurance.
- 10 *Reporting* – audit assignments and their results are reported to those charged with governance and any third parties. The performance of the Internal Audit function against plan was reported to the Stevenage & Uttlesford Audit Partnership Board and will be report to the Audit Committee. Performance during 2006/07 was largely satisfactory.
- 11 *Quality assurance* – the work of Internal Audit is controlled at each level of operation. The management of Internal Audit is effectively controlled through a service plan, audit manual, staff appraisals, performance measures and indicators. Internal Audit is subject to regular quality review by External Audit.

APPENDIX B

: CHECKLIST – COMPLIANCE WITH THE CODE

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
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	<p>Do terms of reference:</p> <p>(a) establish the responsibilities and objectives of Internal Audit?</p> <p>(b) establish the organisational independence of Internal Audit?</p> <p>(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:</p> <p>(i) those charged with governance?</p> <p>(ii) those parties to whom the Head of Internal Audit may report?</p> <p>(d) recognise that Internal Audit’s remit extends to the entire control environment of the organisation?</p> <p>(e) identify Internal Audit’s contribution to the review of the effectiveness of the control environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit’s resource requirements will be assessed?</p> <p>(i) establish Internal Audit’s right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	<p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>Service plan and Internal Audit Charter.</p> <p>Financial Regulations,</p> <p>Annual Internal Audit Report and Opinion.</p> <p>Anti-Fraud & Corruption Policy.</p> <p>Whistleblowing Policy.</p>
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?		√		Head of Internal Audit has editorial control over the above.
1.1.3	Have the terms of reference been formally approved by the organisation?	√			The above will have been approved by, or combination of, SMB and Members.

Ref	Adherence to the Standard	Y	P	N	Evidence
1.1.3	Are terms of reference regularly reviewed?	√			In accordance with the service planning cycle.
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?		√		Internal Audit landscape determined and incorporated into a five year work plan. Frequency of audits influenced mainly by materiality and past results.
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?				
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?	√			Internal audit related advice and assistance only, relating to systems and processes. Local expertise in fraud & corruption work augmented with access to Council's anti-fraud team.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?		√		As 1.1.1 above.
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?	√			Anti-Fraud & Corruption Policies refer.
2	Independence				
2.1	Principles of Independence				

Ref	Adherence to the Standard	Y	P	N	Evidence
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	√			Internal audit has no recognised operational duties.
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?		√		Depends on degree on involvement. Not arisen in recent memory.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			Has reporting lines to SMB and the Audit Committee.
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	√			As above.
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	√			All audit and committee reports in own name.
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate? (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?	√			Annual budgetary review. Budget is not delegated to service areas.
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?			√	Head of Finance.
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?				Contractors are not used to provide non-internal audit services
2.6	Declaration of Interest				
2.6.1	Do audit staff make formal declarations of interest?			√	No more or less than any other employee.

Ref	Adherence to the Standard	Y	P	N	Evidence
2.6.2	Does the planning process take account of the declarations of interest registered by staff?			√	I'm sure it would if there were any.
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?			√	Arguably an Institute role.
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			How would this be evidenced?
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	√			How would this be demonstrated?
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	√			Acknowledged as an independent appraisal activity.
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?			√	No staff have previous operational roles
3.3.4	Are staff rotated on regular/annually audited areas?	√			Assignment sheets illustrate who conducts each audit.
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?	√ √ √ √			Team meetings, 1:1 meetings, access to service plans, pre-audit meetings/briefings. Audit checklist, terms of reference for each assignment.

Ref	Adherence to the Standard	Y	P	N	Evidence
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			On the job training.
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	√			Audit Committee agenda and minutes.
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?	√			Audit Committee work plan contains various internal audit agenda items. Audit Committee training event.
4.2.2	Does the committee approve the internal audit strategy and monitor progress?		√		Endorses audit coverage. Progress to be monitored wef 2007/08.
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			Endorses audit coverage. Progress to be monitored wef 2007/08.
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?	√ √ √ √ √ √			Committee agenda and minutes. Agenda reports.

Ref	Adherence to the Standard	Y	P	N	Evidence
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			Line of communication is open.
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. Perhaps in broad terms.
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	√			Satisfaction survey
5.2.2	Is the timing of audit work planned in conjunction with management?		√		On an exception basis. Timing is usually determined by internal audit.
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?			√	No other internal auditors.
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?	√			Managed audit status. Annual external audit opinion.
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?		√		On a needs basis.
5.4.3	Are the internal and external audit plans co-ordinated?	√			Largely on key

Ref	Adherence to the Standard	Y	P	N	Evidence
					financial systems.
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 so far as internal audit input is required
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?		√		In broad terms.
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			Via Audit Committee.
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?	√			The internal audit team has a range of relevant experience and qualifications.
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?	√			An agency budget can be used to buy in capabilities where it may not exist.
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			Essential criteria on job description and person specification.
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			As above.
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 descriptions and person specifications.
6.2	Training and Continuing Professional Development				

Ref	Adherence to the Standard	Y	P	N	Evidence
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 above. Staff PDMs and training plans.
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	√			As above. Institute portfolios.
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?	√	√		Service plan, audit plan and Audit Charter.
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?	√ √ √ √ √			As above.
7.1.3	Has the strategy been approved by the audit committee?		√		Audit Plan
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisations risk management, performance management and other assurance processes?				See 1.2.1
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	√			Audit Plan. Based upon materiality and past audit

Ref	Adherence to the Standard	Y	P	N	Evidence
	assessment process?				results.
7.2.1	Are stakeholders consulted on the audit plan?	√			Report to SMB, Audit Committee.
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			Audit Plan (includes whole audit universe).
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?	√ √ √ √ √	√		Audit 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?	√			Report to SMB and Audit Committee.
7.2.4	Has the plan been approved by the audit committee?	√			Report to Audit Committee.
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	√			Report to SMB and Audit Committee.
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?	√ √			Brief on each audit file.
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	√ √ √ √ √			As above.

Ref	Adherence to the Standard	Y	P	N	Evidence
8.2	Approach				
8.2.1	Is a risk-based audit approach used?	√			Planning material on each audit file, specifically risk map.
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?			√	Judgement is used.
8.2.4	Does the audit approach include a quality review process for each audit?	√			Quality review paperwork on each file.
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 audit manual.
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	√			Quality review paperwork on each file.
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?	√ √ √			Audit files.
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	√			Current and previous file.
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?	√			Follow corporate norm.
8.3.3	Is there an access policy for audit files and records?	√			Files must be signed for in a book.
9	Due Professional Care				
9.2	Responsibilities of the Individual Auditor				

Ref	Adherence to the Standard	Y	P	N	Evidence
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p> <p>(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?</p> <p>(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?</p> <p>(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>(h) disclosing any non-compliance with these standards?</p> <p>(i) not using information they gain in the course of their duties for personal use?</p>		√		<p>Local documents do not exist to cover all these features. Some are covered corporately.</p> <p>Not convinced that some are sufficiently significant.</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?	√			File review process on each file.
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			Via team meetings & 1:1s
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?	√			Each audit report.
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	√			Audit Charter.
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	√			As above.

Ref	Adherence to the Standard	Y	P	N	Evidence
10.1.5	Are there laid-down timescales for reports to be issued?	√			Protocols set out in Audit Charter.
10.2	Reporting on Audit Work				
10.1.4	Do the reporting standards include:				Standard docs. File review docs.
10.1.4	(a) format of the reports?	√			Terms of reference for each assignment.
10.2.2	(b) quality assurance of reports?	√			Protocols in Audit Charter.
10.2.1	(c) the need to state the scope and purpose of the audit?	√			Management Action Plans.
10.1.4	(d) the requirement to give an opinion?	√			
10.2.1	(e) process for agreeing reports with the recipient?	√			
10.2.1	(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?	√			End of audit exit meeting, clearance of draft report and management action plan.
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	√			Prioritised management action plans.
10.2.5	Are areas of disagreement recorded appropriately?	√			Management action plans.
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	√			As above.
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	√			Protocol determined in Audit Charter.
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?	√			As above.
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	√		√	Audit Committee, S151 meetings.
10.3	Follow-up Audits and Reporting				

Ref	Adherence to the Standard	Y	P	N	Evidence
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	√			Audit Plan.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	√			Escalation to Head of Finance and S151 Officer. Associated emails.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	√			Associated follow up reports.
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	√			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?	√			Annual Audit Report & Opinion.
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? (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 above. As above.
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?		√		Informal, largely verbal arrangements.
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				

Ref	Adherence to the Standard	Y	P	N	Evidence
11.1.1	Is there an audit manual?	√			Standard docs.
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	√		√	Standard docs.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	√			As above.
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?	√ √			File review arrangements & docs. Performance indicators, standards & targets.
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?		√		No formal process. Judgement is used.
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?	√			Deputy Audit Manager.
11.2.2	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work? (c) coaching staff?	√			Audit file docs. Job description and person spec.
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?	√			A range of PIs, targets and standards. File review docs.
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	√			As above. Satisfaction surveys. Annual Audit

Ref	Adherence to the Standard	Y	P	N	Evidence
	<p>appropriate?</p> <p>(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?</p> <p>(b) user feedback obtained for each individual audit and periodically for the whole service?</p> <p>(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>(d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>(e) an action plan to implement improvements?</p>	√			Report and Opinion.
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?	√			As above, year on year available.
11.3.1	<p>Do the results of the performance management and quality assurance programme evidence that the internal audit service is:</p> <p>(a) meeting its aims and objectives?</p> <p>(b) compliant with the Code?</p> <p>(c) meeting internal quality standards?</p> <p>(d) effective, efficient, continuously improving?</p> <p>(e) adding value and assisting the organisation in achieving its objectives?</p>	√ √ √ √ √			As above. Annual Internal Audit Report and Opinion. Management Action Plans.
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?		√		Implicit in the Annual Audit Report and Opinion.
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?	√			Annual Audit Report and Opinion.