

Review of Internal Audit Management Arrangements

Stevenage Borough Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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- any director/member or officer in their individual capacity; or
- any third party.
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Summary Report

Introduction

- 1 The Audit Commission's Code of Audit Practice (the Code) defines the respective responsibilities of both auditors and audited bodies in respect of the following areas:
 - auditing the financial statements; and
 - auditors' responsibilities in relation to the use of resources.
- 2 Internal Audit (IA) represents a key element of an organisation's internal control framework and impinges on both areas.
- 3 Our review of the IA management arrangements, which is carried out every three years, and the scope and quality of the work carried out during 2006/07 sought to assess:
 - the extent of compliance with the CIPFA standards on Internal Audit (Code of Practice for Internal Audit in Local Government in the United Kingdom); and
 - the extent to which we would expect to place reliance on the work performed by Internal Audit relating to the material financial systems and the internal control framework operated by the Council.
- 4 The new Code of Audit Practice and International Standards on Auditing (ISAs) have increased the level of assurance external auditors are required to obtain regarding key financial systems and, consequently, the level of reliance we have sought to place on the work of IA from 2005/06 onwards has also increased.

Background

- 5 This review looks at the adequacy of IA's corporate arrangements and whether it met the expectations of the CIPFA standards in 2006/07. Individual file reviews are also being undertaken to determine the extent to which we can place reliance on specific pieces of work to support our 2006/07 audit. We will report separately on the results of our file reviews once this work has been completed.
- 6 The CIPFA standards themselves are categorised as either organisational or operational, as set out below:

Organisational Standards

- Scope of Internal Audit;
- Independence;
- Ethics for Internal Auditors;
- Audit Committees;

- Relationships with management, other auditors, and other review bodies; and
- Staffing, training and development.

Operational Standards

- Audit strategy;
 - Management of audit assignments;
 - Due professional care;
 - Reporting; and
 - Quality assurance.
- 7 We have reviewed IA against each of these standards. We carried out this work by reviewing their arrangements and procedures and by drawing on a number of sources of information including:
- our cumulative knowledge of the Council;
 - discussions with the Audit Partnership Manager, and the Deputy Audit Manager; and
 - internal audit documentation such as risk assessments, audit plans and other key documents.

Main conclusions

- 8 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 IA engages with and reports to the recently formed Audit Committee.
- 9 Recommendations are included within the detailed sections of the report and repeated in the action plan in Appendix 4.
- 10 The review was carried out in April 2007 and a draft report was issued to management in May 2007. A final management response to the action plan was delayed by the IA manager leaving and a new IA partnership being created. In finalising this report no updating to the original findings has been made except in relation to the staffing standard 6, where the resourcing situation has changed considerably since the time of our review.
- 11 With further possible changes to the joint partnership arrangements, and the proposed recruitment of a new internal audit manager, the Council will need to closely monitor the effectiveness of the internal audit service to ensure timely delivery of the audits as per the agreed internal audit plans.

Detailed Report

Standard 1: Scope of Internal Audit

IA scope is sufficient to meet the requirements of the CIPFA IA standard.

Terms of reference

- 12 The purpose, authority, rights and responsibilities of Internal Audit (IA) is included within the Internal Audit Charter.
- 13 We have reviewed the content of IA's audit charter and noted the following three areas within the charter which did not currently fully reflect the requirements of CIPFA.
- 14 Standard 1.1.1(g) states that the terms of reference should define the role of IA in any fraud-related work. We note that paragraph 4 of the audit charter mentions briefly its role in 'investigation of irregularity and fraud'. However, this section could be expanded to define IA's role in fraud related work, including investigations and define their working relationship with the Council's anti fraud department.

Recommendation

R1 The charter should define IA's role in fraud related work, undertaking investigations and the working relationship with the Council's anti fraud department.

- 15 Standard 1.1.2 states that IA should advise the organisation on the need for subsequent review of the terms of reference. We noted that the charter was last updated in September 2006 and we recommend as good practice that a date be included in the charter to highlight when the next review is due to take place.

Recommendation

R2 The charter should include the date of when the next review is due to take place.

- 16 Standard 1.1.3 states that the IA terms of reference should be formally approved by the organisation. Although the charter has been updated in September 2006, we found no evidence that the charter has been formally approved by the Council. As the Council has recently established an Audit Committee, we recommend that the charter be formally approved by the Audit Committee.

Recommendation

R3 The audit charter should be formally approved by the Audit Committee.

Standard 2: Independence

Arrangements to ensure IA independence are sufficient to meet the requirements of the CIPFA IA standard.

- 17 The standard states that IA should be sufficiently independent of the activities which it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 18 IA has been managed by the Audit Partnership Manager who reported directly to the Head of Finance on a regular basis. Although these arrangements have worked well locally, we recommend that with the appointment of a new audit manager, the reporting arrangements be reviewed. CIPFA guidance states that the position of the head of IA in the management structure should reflect the influence he or she has on the control environment and that the head of IA should not normally be managed at a lower level than the corporate management team.
- 19 The Council has recently made arrangements to be advised on the discharge of responsibilities in respect of IA via an Audit Committee. IA reports to this Audit Committee and presents various reports. Quarterly performance reports and details of completed audits are not currently reported at the Audit Committee. This is discussed in more detail in paragraph 24.
- 20 Standard 2.6 states that there should be arrangements in place to declare interests or potential conflict of interests. We noted that there is currently no process in place for IA staff to declare any conflicts of interests annually. We recommend that certificates of independence are completed by all IA staff. This should then be reviewed by the IA manager and action taken where appropriate. This process should be undertaken annually, and where staff have no declarations, they should still complete certificates and state nil declarations.

Recommendations

R4 Review the line management/reporting arrangements for the head of IA.

R5 All IA staff should complete certificates of independence. Certificates should be reviewed by the IA manager and where a conflict arises, appropriate action should be taken. All certificates should be completed annually and retained on file.

Standard 3: Ethics for Internal Auditors

Adequate arrangements exist for IA staff to conduct their duties in accordance with the CIPFA standard, and integrity, objective, competence and confidentiality is maintained at all times.

- 21 The standard requires minimum standards for the performance and conduct to be set which should be expected from Internal Auditors when carrying out their duties. We noted there is currently no guidance provided to IA staff to ensure that they are aware of these minimum standards. Staff should be made aware of these standards and remind staff to comply with ethical codes issued by professional institutes of which they are members of, as it does not supersede or replace the requirement on individuals to comply with ethical codes issued by professional institutes. It is recommended as good practice that a code on ethics be produced and circulated to all IA staff. We have provided a good practice example in Appendix 1 which the Council may wish to consider.

Recommendation

R6 Consider producing a code on ethics, which should be circulated to all IA staff.

Standard 4: Audit Committees

Arrangements are sufficient to meet the requirements of the CIPFA IA standard in relation to audit committees.

- 22 The Council established an Audit Committee in May 2006 whose objective is to independently contribute to the Council's process for ensuring that an effective internal control system is maintained. With the requirement to make wider Statements on Internal Control, councils are increasingly looking to audit committees to provide assurance on the arrangements relating to internal control activities.
- 23 When the Audit Committee was first established in May 2006, a terms of reference (ToR) was drafted. We reviewed the draft ToR against the CIPFA guidance and noted some areas which were not included in the draft version. We provided comments on this which was presented at the Audit Committee on 30 May 2006. A copy of the ToR with our comments is attached at Appendix 2. It was noted that the ToR was not updated to reflect our comments.
- 24 As it has been nearly a year since the formation of the Audit Committee, we recommend that the ToR is revisited and updated in accordance with the CIPFA guidance - 'Practical guidance for LA's - Audit Committees'. This should then be formally approved by the Audit Committee. The following outlines some areas that the Council may wish to include in the ToR:

- reports dealing with the management and performance of the IA service; and
 - a report from IA on the agreed recommendations not implemented within a reasonable timescale.
- 25** The Audit Partnership Manager attends all meetings and presents the annual audit plan and the annual report for approval. The ToR state that consideration of summaries of specific reports will be presented at Audit Committees. Our review of the Audit Committee minutes since its formation in May 2006 noted that only one report on 'car loans and leasing' has been presented to the Committee. We recommend that IA present information such as their progress against the audit plan and summaries of key findings to date. This will highlight how IA are performing against the audit plan.
- 26** Although the 2005/06 annual report provided information on the audits that were completed during the financial year, information on any deviations from the audit plan were not communicated. For example, the standard states that if significant matters arise that jeopardise the delivery of the plan, these should be addressed and reported to the audit committee. This is considered further in respect of standard six below.
- 27** Our review noted that the following 10 audits did not take place during 2005/06 as per the approved audit plan:

Table 1 Audits not undertaken in 2005/06

Car Loans & Leasing (<i>deferred to 2006/07</i>)	Licensing
Stores	CCTV
Building Maintenance	Forward Planning
Street Cleansing	Housing Allocations
Building Control	Void Properties

- 28** Although there may be valid reasons why this has occurred, it would be good practice for IA to mention in the annual report which audits have been deferred or cancelled and the reasons why.

Recommendations
<i>R7 Revisit the Audit Committee's Terms of Reference and update it in accordance with the CIPFA guidance.</i>
<i>R8 Present a quarterly report to the Audit Committee to highlight progress against the audit plan.</i>
<i>R9 Compare the actual audits undertaken in the year to the approved audit plan and communicate any deviations from the plan to the Audit Committee and in the annual report.</i>
<i>R10 Present Executive Summaries of each audit undertaken, or produce a report to summarise key findings from each of the audits completed.</i>

Standard 5: Relationships

Relationship arrangements are sufficient to meet the requirements of the CIPFA IA standard.

- 29** The standard states that heads of IA should co-ordinate internal audit plans and activities with line managers, other internal auditors, external audit and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.
- 30** IA has built positive relationships with management to maximise the effect of the service. Regular meetings with the Head of Finance takes place monthly to discuss progress of audits, and audit set up meetings takes place with managers responsible for areas to be audited.
- 31** The standard also states that there should be a protocol that defines the working relationship for IA with:
- management;
 - other internal auditors;
 - external auditors;
 - other regulators/inspectors; and
 - elected members.
- 32** We noted that there is a paragraph in the audit charter which mentions the relationship between internal audit and external audit. However, the audit charter does not highlight the relationship IA has with management. With the absence of a protocol for each of the stakeholders above, we recommend as a minimum, that the audit charter be updated to include details of the:
- relationship between IA and the other parties; and
 - direct reporting lines that IA has with management.

- 33 The audit charter does not define the channels of communication with Members and describe how such relationships should operate. It would be good practice to update the audit charter to include this.
- 34 A 'Managed Audit' approach has been agreed between ourselves and IA, and joint working arrangements were detailed in a protocol document produced in July 2004. With the recent changes in our responsibilities under the Code of Audit Practice, and the new International Standards for Auditing (ISA's), we are currently in the process of updating the protocol document. With the new arms length management organisation, 'Stevenage Homes Limited' (SHL) set up in October 2006, IA will still remain responsible for carrying out internal audits. However, as SHL has its own external auditors - 'Baker Tilley,' IA will need to consider producing a separate protocol document to define the working relationship between them and SHL's external auditors, and to define arrangements for co-ordinating their audit plans.
- 35 Internal and external audit meet regularly at audit committees and have general meetings informally. We also review the work of IA annually to assess reliance which can be placed on specific pieces of systems work. Our findings from this review will be reported in a separate report. Every three years, we are required to carry out a detailed review of IA and assess it against its compliance with the CIPFA standards for internal audit.
- 36 A good relationship has existed between ourselves and the Audit Partnership Manager and the audit team. With the recent departure of the Audit Partnership Manager, we will continue to work closely with deputy audit manager, and maintain regular dialogue as outlined in the updated protocol document.

Recommendations
<i>R11 Update the Audit Charter to include a paragraph on the relationship between internal audit and the other parties.</i>
<i>R12 Update the Audit Charter to include a paragraph which defines the channels of communications that internal audit has with members and describes how such relationships should operate.</i>
<i>R13 Update the Audit Charter to include a paragraph the direct reporting lines that internal audit has with management. Suggested text to consider: 'The internal Audit Manager reports on a xxx basis to the Head of Finance and reports functionally to the S151 officer/Director'</i>
<i>R14 Consider producing a separate protocol document to define the working relationship between internal audit and SHL's external auditors.</i>

Standard 6: Staffing, training and development

Staff training and development arrangements are sufficient to meet the requirements of the CIPFA IA standard.

- 37 The standard states that IA should be appropriately staffed in terms of numbers, grades, qualification levels, and experience, having regard to its objectives and to these standards. The Audit Partnership Manager has recently left in April 2007, and his post is currently being advertised as vacant. However, there is a local arrangement with the Council where the Audit Partnership Manager is working one day a week at Stevenage BC until his post has been filled.
- 38 Currently, there are 4 full time members of staff consisting of a deputy audit manager, 2 auditors, and an audit technician. There were some slippages in the completion 2006/07 audits due to staffing problems, and the audit team are currently working on completing these audits. With the departure of the Audit Partnership Manager, and the late start to the 2007/08 audits, there is a risk that 2007/08 audits may not be completed by the end of the financial year. However sufficient resources appear to be available to complete the 2007/08 work as the table below demonstrates.

Table 2 Internal Audit resourcing calculation

Days in the year	365 days
Less:	
Weekends	104 days
Bank holidays	8 days
Annual Leave	30 days
Sickness absence	5 days
Total days available	218 days
4 FTEs @ 218 days (not including new audit manager)	872 days
Total available resource	872 days
Total days per 2007/08 audit plan	753 days
Excess/Contingency	119 days

- 39 Due to the delay in finalising this report, the above table has been amended as at January 2008 to reflect the current staffing levels and assume a productivity level of 80 per cent. This is considered more realistic as this reflects time spent on training and meetings

Table 3 Internal Audit resourcing calculation as at January 2008

Days in the year	365 days
Less:	
Weekends	104 days
Bank holidays	10 days
Annual Leave	30 days
Sickness absence	5 days
Total days available	216 days
3.8 FTEs @ 216 days (not including new audit manager)	820 days
Productivity level assumed at 80 per cent	656 days
Total days per 2007/08 audit plan	753 days
Deficit	97 days

- 40 The table above indicates insufficient resources to deliver the 2007/08 audit plan. We understand that there have been slippages in delivering the planned audits to date. However, internal audit arrangements are currently being reviewed to address this shortfall and recruit a full time internal audit manager.
- 41 A monthly monitoring schedule of the audits started and finished is produced by IA. However, the names of the audits do not reconcile exactly to those audits as per the approved audit plan, making it difficult to establish clearly the progress against the plan. Review of the February 2007 monitoring schedule noted there were five audits that had been started prior to December 2006, but were still showing as incomplete. Further review of the progress of the 2006/07 and the 2005/06 audit plan noted the following:

	2006/07	2005/06
Total number of audits as per the audit plan	27	34
Number of audits complete	10	24
Number of audits incomplete (to date)	6	-
Number of audits dropped/(deferred)	6	10
Audits not yet started	2	-

- 42 This represents a high proportion of planned audits either cancelled or deferred. Although there may be valid reasons why this has occurred, it would be good practice for IA to report to the Audit Committee where audits have been deferred or cancelled and the reasons why. The Committee can then consider whether sufficient assurance can be gained in support of the annual Statement on Internal Control without these audits or whether further work should be undertaken.
- 43 The Council needs to continue to monitor the progress of the audits against the audit plan, to ascertain whether adequate resources are in place. It would be useful to report this information to the Audit Committee.
- 44 The standard states that internal auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme. We found adequate arrangements are in place to provide training and development to IA staff.

Recommendations
<i>R15 Report cancelled or deferred audits to the Audit Committee to allow them to consider whether they will have sufficient assurance to support the Statement on Internal Control.</i>
<i>R16 Monitor the progress of the audits for 2007/08 against the audit plan to ensure timely delivery of the audits.</i>
<i>R17 Continue to monitor the progress of the 2006/07 audits, and report information to the Audit Committee</i>
<i>R18 Review the arrangements for addressing the resourcing shortfall for 2008/09</i>

Standard 7: Audit strategy

A formally reported audit strategy does not exist although consideration has been given to the elements which would form such a strategy in the audit charter and the service plan.

- 45 The CIPFA code of practice requires the head of IA to produce an audit strategy. The code states that the strategy should be produced setting out how the IA service will be delivered and developed. This should include:
 - how the service will be delivered in accordance with the audit charter;
 - how IA plan links to the Council's objectives and priorities;
 - how IA will contribute to the assurance required for the annual statement of internal control, including how it will contribute to the review of governance arrangements, risk management processes and key internal controls systems;
 - the overall level of resources and skills required for delivery;

- audit reporting - in particular which reports will be presented to the Audit Committee, and progress against the audit plan (*this was requested by committee members in the recent meeting held on 21st March 2007*); and
 - quality of audit work.
- 46 Currently there is no formal strategy in place, although we acknowledge that there maybe some overlap in the information included within the audit charter. The production of a formal strategy and its submission to the Audit Committee would have the added advantage of ensuring that members have also considered the above elements in determining how the internal audit service is provided.
- 47 IA does not have a formal operational plan that allocates staff to audit assignments for the full year in advance, although an overall picture of needs and resources is known. This is an area which IA is keen to develop for 2007/08, and will help with planning audits and ensuring timely delivery of work.

Recommendations
<i>R19 Produce a formal audit strategy and include elements mentioned in paragraph 43.</i>
<i>R20 Develop a plan that allocates staff to audit assignments for the full year in advance.</i>

Standard 8: Management of audit assignments

The management of audit assignments is sufficient to meet the requirements of the CIPFA IA standard. Arrangements and the degree to which reliance can be placed on IA work could be strengthened in relation to the approach and recording and recommendations have been made accordingly.

- 48 The standard requires that a detailed plan for each audit should be prepared and discussed with line managers. We found procedures and standard documentation were compliant with this requirement. Detailed plans were discussed with line managers and adequately documented.
- 49 Assignment terms of reference are prepared and agreed for all audits, which clearly define the scope, objectives, timing and reporting arrangements for all audits.
- 50 We are currently in the process of reviewing IA files and will produce a separate report to detail our findings upon completion of our review.

Standard 9: Due professional care

Management arrangements concerning due professional care are sufficient to meet the requirements of the CIPFA IA standard.

- 51 The standard defines due professional care as the care and skill that a reasonably prudent and competent internal auditor will apply in performing their duties.
- 52 Adequate arrangements are in place to ensure that all IA staff are aware of, and adhere to, the behaviours expected of them. As staff are employed by the Council, the IA staff are expected to have read and understood the Codes of Conduct, and the Financial Regulations.
- 53 A post audit file review checklist is completed for all audits to ensure that audits are completed to a required standard. Client satisfaction surveys are sent out to departmental managers. Discussion with the IA manager noted that a high level of client satisfaction is indicated, although we have not reviewed any responses as these are not kept on file. It is suggested as good practice that feedback from client satisfaction surveys is retained on file, so that where issues have been raised, appropriate action can be taken. The results from the satisfaction surveys should be reported to members at the Audit Committee.

Recommendation

R21 Retain results from client satisfaction surveys on file, and communicate feedback at the Audit Committee.

Standard 10: Reporting

Reporting arrangements are sufficient to meet the CIPFA IA standards, although reporting to the Audit Committee could be enhanced.

- 54 The standard states that the head of IA should determine the way in which audit findings will be reported. The standards have been detailed in the audit charter, and states that draft reports will be issued within five days of completing the work. Initial review of IA reports has noted that this standard is not always met as follows:

Audit	Date work completed/reviewed	Date of draft report issued	Issued within 5 days?
Cash & Payments	3rd April 2007	4th April 2007	Yes
Council Tax	9th January 2007	31st January 2007	No
Housing Rents	9th March 2007	7th March 2007	?

- 55 We will provide further details of whether this standard is being met for other audits within our second report on findings from our file reviews.
- 56 The standard states that IA's annual report should summarise the performance of the IA function against its performance measures and targets. The standard further states the head of IA should report on the results of the performance management and quality assurance programme in the annual audit report.
- 57 Our review of the latest annual report (2005/06) found no evidence of performance measures or the quality assurance programme being reported or summarised in the report.
- 58 We are aware that IA has 6 performance measures which are reported in the annual service plan. These are as follows:

Table 4 Performance Indicators for Internal Audit

Description	2005/06 Actual	2005/06 Target	2006/07 Target
Percentage of productive time to total time available	83 per cent	80 per cent	80 per cent
Percentage of planned audits completed	86 per cent	90 per cent	90 per cent
Percentage of audits completed within the allocated time	82 per cent	80 per cent	80 per cent
Cost per productive day	£225	£200	£225
Percentage of auditee surveys that express satisfaction	100 per cent	90 per cent	90 per cent
External Audit Opinion	Satisfactory	Satisfactory	Satisfactory

Source: 2006/07 Service Plan

- 59 We have not reviewed the accuracy of these performance indicators. However, we are aware that the projected out turn figures for 2005/06 were reported to the Audit Partnership Joint Committee with Uttlesford District Council (DC) in March 2006. As good practice, the projected out turn figures should also be included in the annual report and reported to the Audit Committee.
- 60 We understand that the recent (April 2007) joint partnership meeting was cancelled. With possible changes to the audit partnership for the forthcoming year, and the absence of the joint committee, we recommend that IA report these performance indicators to the Audit Committee at each meeting.

Recommendations

R22 Report performance measures to the Audit Committee quarterly.

R23 Report the projected out turn performance indicators in the annual report.

Follow Up

- 61 The audit charter states that *'it is the policy of IA to follow up all action points detailed in every report. This is to ascertain the extent to which agreed actions are actually implemented. The timing of the follow up depends upon the significance of the individual recommendation'*.
- 62 IA aim to carry out follow up work within a year. However, we found no evidence that all recommendations are being followed up. We recommend as good practice that a report is produced, which highlights all the recommendations made in each audit, and the planned date for undertaking follow up work. This would be useful information to provide to the Audit Committee. An example of this report is shown in Appendix 3. The results of the follow up reviews, particularly where agreed recommendations have not been implemented, should also be reported to the Audit Committee.

Recommendation

R24 Produce a report to highlight the recommendations made in each audit, and the planned date for when follow up work is expected to be undertaken. This would be useful to present at the Audit Committee. Report the results of follow up work to the Committee, particularly where agreed actions have not been implemented.

Standard 11: Quality assurance

Management arrangements are sufficient to meet the requirements of the CIPFA IA standard for quality assurance.

- 63 The standard states that IA should be controlled at each level of operation to ensure that a continuously effective level of performance, compliant with the CIPFA IA standards, is being maintained. The standard requires policies and procedures to be established in a local audit manual to guide staff and that the head of IA should make provision for internal quality reviews to be undertaken periodically by experienced members of the IA function.
- 64 We found no evidence of an audit manual as such. Instead staff are provided with a checklist with guidance which outlines how the auditor should approach and plan and audit, carry out the fieldwork and how they should report the findings. The checklist was dated 2003 and therefore should be reviewed and updated. The checklist does not make reference to a quality assurance programme. However, established supervision procedures are in place throughout the audit, to monitor progress, review work and to coach and support staff.

- 65 We found evidence of a fraud investigation manual which is available to all IA staff.
- 66 From 1 April 2006 the Accounts and Audit regulations have been amended by the Accounts and Audit (Amendment) (England) Regulations 2006, to include a new requirement under regulation 6 (3) for councils to 'at least once in each year, conduct a review of the effectiveness of the system of internal audit'. New Regulation 6(4) goes on to say 'the findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control.'
- 67 The objective is that all bodies when considering the Statement on Internal Control review the operation of the internal audit function. The Council will need to consider how it will meet this requirement for 2006/07 and subsequent years.

Recommendation

R25 The Council should consider how it will comply with the new annual requirement within the Accounts and Audit regulations to annually review the effectiveness of IA.

Appendix 1 –Example internal audit code of ethics

1 Introduction

- 1.1 This Code of Ethics sets the minimum standards for the performance and conduct of the Council's Internal Auditors. It is intended to clarify the standards of conduct expected from the Internal Auditors when carrying out their duties. This code applies to all staff responsible for delivering Internal Audit at XXX Councils but does not supersede or replace the requirement on individuals to comply with ethical codes issued by professional institutes of which they are members or student members and any organisational codes of ethics or conduct.

There are four main principles:

- Integrity
- Objectivity
- Competence; and,
- Confidentiality.

2. Integrity

- 2.1 The Council's Internal Auditors should demonstrate integrity in all aspects of their work. Their relationship with colleagues and external contacts should be one of honesty and fairness. This establishes an environment of trust, which provides the basis for reliance on all activities carried out by the Internal Auditors.

3. Objectivity

- 3.1 Objectivity is a state of mind that has regard to all considerations relevant to the activity or process being examined without being unduly influenced by personal interest or the views of others. Internal Auditors should display professional objectivity when providing opinions, assessments and recommendations.

4. Competence

- 4.1 Internal Auditors should apply the knowledge, skills and experience needed in the performance of their duties. They should carry out their work in accordance with the standards contained within the CIPFA's Code of Practice for Internal Audit in Local Government 2006. They should not accept or perform work that they are not competent to undertake, unless they have received adequate training and support to carry out the work to an appropriate standard.

5. Confidentiality

- 5.1 Internal Auditors must safeguard the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so.
- 5.2 Confidential information gained in the course of audit duties must not be used to effect personal gain.

6. Operational Arrangements

6.1 Achieving Compliance with the Code of Ethics

- 6.1.1 On an annual basis, the Internal Auditors must sign an undertaking, which confirms that they are fully conversant with their ethical responsibilities and will fully comply with these requirements when discharging their day-to-day duties.

6.2 Maintaining Audit Independence

- 6.2.1 In addition, it is essential that the Internal Auditors are able to demonstrate independence and hence, objectivity. To this end, Internal Audit staff are obligated to declare potential conflicts of interest as they arise, so as to enable other staff to be assigned to specific reviews, thereby avoiding any compromising of independence. Audit objectivity will also be upheld, in so far as Internal Auditors will not be able to carry out audits in an area where they have had previous operational roles within the last 18 months. Similarly, there will be an expectation that Internal Audit staff will be required to rotate between the three Councils in the audit partnership at 3-yearly intervals to ensure that an innovative approach to reviews is obtained and staff development is encouraged.
- 6.2.2 The Audit Manager will receive copies of the annual declarations made by the Internal Audit staff, plus any additional declarations of interest as and when they occur, and will ensure that this information is taken into account when audits are subsequently allocated to individuals.
- 6.2.3 In the case of the Audit Manager, their Line Manager will be required to inspect their annual declaration in relation to ethical responsibilities and general independence.

6.3 Securing Integrity

6.3.1 In order to be assured that the Internal Auditors demonstrate integrity in all aspects of their work, a requirement also exists that quality control processes have been developed to safeguard the Council's position in this matter.

6.4 Demonstrating Competence

6.4.1 It is a pre-requisite that all Internal Audit staff are aware of and understand:

- the organisation's aims, objectives, risk and governance arrangements;
- the purpose, risks and issues affecting the service area to be audited;
- the terms of reference for the audit assignment so that there is a proper appreciation of the parameters within which the review will be conducted; and,
- the relevant legislation and other regulatory arrangements that relate to the service area to be audited, e.g. Statutes, the Council's Financial Regulations and/or Contract Standing Orders, Partnership/Service Level Agreements, Internal Strategies/Policies/Procedural Notes, etc.

6.5 Observing Confidentiality

6.5.1 A breach of confidentiality by an Internal Auditor will not be tolerated and will result in the expulsion of the individual from the audit services contract.

Appendix 2 – Audit Committee Terms of Reference

- 1 To Add Audit Committee ToR (PDF document)

Appendix 3 – Example of how IA can monitor whether recommendations have been implemented

Audit Recommendations Outstanding

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

No	Audit year	Audit	Department Audit	Assurance	Recommendation	Priority 1 /2 /3	Implementation date	Responsible officer	Status

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The charter should define IA's role in fraud related work, undertaking investigations and the working relationship with the Council's anti fraud department.	2	IA Manager	Yes	To update Audit Charter for presentation at Sept 2008 Audit Committee.	Sept 2008
6	R2 The charter should include the date of when the next review is due to take place.	2	IA Manager	Yes		Sept 2008
7	R3 The audit charter should be formally approved by the Audit Committee.	2	Audit Committee	Yes		Sept 2008
7	R4 Review the line management/reporting arrangements for the head of IA.	2	Head of Finance	Yes	To consider the reporting arrangements with the new Head of Finance.	June 2008
7	R5 All IA staff should complete certificates of independence. Certificates should be reviewed by the IA manager and where a conflict arises, appropriate action should be taken. All certificates should be completed annually and retained on file.	3	IA Manager	Yes		March 2008
8	R6 Consider producing a code on ethics, which should be circulated to all IA staff.	2	IA Manager	Yes	Not all IA staff are professionally qualified and therefore are not bound by a professional body's Code of Ethics.	Sept 2008
10	R7 Revisit the Audit Committee's Terms of Reference and update it in accordance with the CIPFA guidance.	2	Head of Finance	Yes		Sept 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R8 Present a quarterly report to the Audit Committee to highlight progress against the audit plan.	3	IA Manager	Yes	Currently in place and ongoing.	Jan 2008
10	R9 Compare the actual audits undertaken in the year to the approved audit plan and communicate any deviations from the plan to the Audit Committee and in the annual report.	3	IA Manager	Yes	Currently in place and ongoing.	Jan 2008
10	R10 Present Executive Summaries of each audit undertaken, or produce a report to summarise key findings from each of the audits completed.	2	* Head of Service * Chair of Audit Committee * IA Manager	Yes	To consider the format of reporting ie. Executive Summaries/reporting high risk audit recommendations along with any follow up work that has taken place.	Sept 2008
11	R11 Update the Audit Charter to include a paragraph on the relationship between internal audit and the other parties.	1	IA Manager	Yes	This is currently under consideration within the Herts Audit Group.	June 2008
11	R12 Update the Audit Charter to include a paragraph which defines the channels of communications that internal audit has with members and describes how such relationships should operate.	2	IA Manager	Yes	To update the Audit Charter for presentation in Sept 2008.	Sept 2008
11	R13 Update the Audit Charter to include a paragraph the direct reporting lines that internal audit has with management. Suggested text to consider: 'The internal Audit Manager reports on a xxx basis to the Head of Finance and reports functionally to the S151 officer/Director'	2	Head of Service/IA Manager	Yes	Link to R4.	June 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R14 Consider producing a separate protocol document to define the working relationship between internal audit and SHL's external auditors.	2	IA Manager/SHL external auditors	Yes	To consider for 2009/10.	December 2008
13	R15 Report cancelled or deferred audits to the Audit Committee to allow them to consider whether they will have sufficient assurance to support the Statement on Internal Control.	3	IA Manager/Head of Service	Yes	Currently in place.	Jan 2008
13	R16 Monitor the progress of the audits for 2007/08 against the audit plan to ensure timely delivery of the audits.	3	IA Manager	Yes	Staff have their own work programmes, and a report to Audit Committee for Jan 2008 is currently being drafted.	Jan 2008
13	R17 Continue to monitor the progress of the 2006/07 audits, and report information to the Audit Committee	3	IA Manager/Head of Finance	Yes	Information presented to Audit Committee. Progress reports to be taken to each Audit Committee as a standing agenda item.	Jan 2008 & ongoing
14	R18 Review the arrangements for addressing the resourcing shortfall for 2008/09.	3	Head of Finance	Yes	This is currently in progress	ongoing
15	R19 Produce a formal audit strategy and include elements mentioned in paragraph 38.	2	IA Manager	Yes	To consider for 2009/10.	April 2009
15	R20 Develop a plan that allocates staff to audit assignments for the full year in advance.	3	IA Manager	Yes	This is now in place up to March 2008. This will be continued for 2008/09.	Ongoing
16	R21 Retain results from client satisfaction surveys on file, and communicate feedback at the Audit Committee.	2	IA Manager	Yes		Sept 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
18	R22 Report performance measures to the Audit Committee quarterly.	3	IA Manager	Yes		June 2008
18	R23 Report the projected out turn performance indicators in the annual report.	3	IA Manager	Yes	Establish new meaningful performance indicators.	June 2008
18	R24 Produce a report to highlight the recommendations made in each audit, and the planned date for when follow up work is expected to be undertaken. This would be useful to present at the Audit Committee. Report the results of follow up work to the Committee, particularly where agreed actions have not been implemented.	3	IA Manager/Head of Finance	Yes	Consider with Chair of Audit Committee how best to report follow up recommendations.	June 2008
19	R25 The Council should consider how it will comply with the new annual requirement within the Accounts and Audit regulations to annually review the effectiveness of IA.	3	Head of Service/IA Manager	Yes	Currently discussing how this will be practical.	June 2008