

## THE REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

### CIPFA Code of Practice - Standards

2006 Code standard	Standard Evidence of Achievement (PTE)	As PTE but PTA variant
1. Scope of internal audit <ul style="list-style-type: none"> <li>• Terms of reference</li> <li>• Scope</li> <li>• Responsibilities in respect of other organisations</li> <li>• Fraud and corruption</li> </ul>	Terms of reference included in SOFR (regularly updated to Board). Scope of audit work takes into account risk management processes and wider internal control. Resource levels reviewed and reported to Board on 24 April 2007. The terms of reference identify responsibilities in respect of PTE/PTA/LCC. Terms of reference define audit responsibilities in relation to fraud.	
2. Independence <ul style="list-style-type: none"> <li>• Organisational independence</li> <li>• Status of head of internal audit</li> <li>• Independence of individual internal auditors</li> <li>• Independence of internal audit contractors</li> <li>• Declaration of interest</li> </ul>	Audit Manager has direct access to DG/Clerk/Chair of PTA – see Fin Regs. Reports are made in own name to management and to Audit Committee. No conflict of interest between operational responsibilities and audit has been found – confirmed monthly. Rotation of audit work within the team is the norm as far as practicable. Contractor IT auditor firm – there are none employed. Auditors are required to declare interests annually.	
3. Ethics: <ul style="list-style-type: none"> <li>• Integrity</li> <li>• Objectivity</li> <li>• Competence</li> <li>• Confidentiality</li> </ul>	Staff appraisal system considers these issues; no significant points have been identified. Staff have been made aware of ethics requirements. Guidance has been circulated Covered by Code of Conduct.	
4. Audit Committee <ul style="list-style-type: none"> <li>• Purpose of the Audit Committee</li> <li>• Internal audit's relationship with the Audit Committee</li> </ul>	Terms of reference reflecting current Code of Practice were approved by Board on 23 Jan 2007. They include responsibility for the review of the SIC or governance assurance statement. Audit committee approves audit plan annually (also Board) and monitor monthly (exceptions reported to Board) Head of Internal Audit attends the meetings, reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual report and opinion or assurance on the internal control and risk management framework. See Audit Committee papers	PTA TOR approved at A and G on 2 March 07

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<p>5. Relationships</p> <ul style="list-style-type: none"> <li>• with management,</li> <li>• with other internal auditors</li> <li>• with external auditors</li> <li>• with other regulators and inspectors</li> <li>• with elected Members</li> </ul>	<p>Managers are informed on the scope of each audit. (Evidence is on audit files).  Responsibilities for managers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters (SOFR).  Good working relations established with external audit, including consultation on plan and opportunities for joint working. (See plan working papers).  No external regulators and inspectors.  The responsibilities of internal audit staff and members of the Audit Committee are understood; training is carried out as necessary.</p>	<p>A and G follows similar arrangements,  Members offered training as available eg risk management conference training offered at March 2 meeting (see minutes).</p>
<p>6. Staffing, training and development</p>	<p>The skills and competencies required of each post have been determined. (Job descriptions refers).  Actual skills and competencies have been assessed and any development requirements picked up through the development review process and through to the training plan.  Professional staff are required to complete CPD – identified through development reviews</p>	
<p>7. Audit Strategy and Planning</p>	<p>The risk-based Audit Plan is prepared annually.  The Audit Manager assesses the relative risks in preparing the Plan and this is then discussed and approved by the Audit Committee.  Any issues identified though risk management meetings are formally referred to audit committee as required.</p> <p>Available resources have been compared with the resource need and a report submitted to the Board.</p>	
<p>8. Undertaking Audit Work</p> <ul style="list-style-type: none"> <li>• Planning</li> <li>• Approach</li> <li>• Recording and Assignments</li> </ul>	<p>An audit brief is prepared for each audit. (See audit files).  A risk-based approach is used and an audit opinion is given. (See audit reports).  Issues are discussed with management as they arise.  Standards of working papers are specified and checked as part of the file review. (See file review forms on audit files).  Adequate working papers supporting conclusions drawn and recommendations made are maintained and retained in accordance with defined policy.  Reports are issued to appropriate managers in accordance with defined policy.</p>	

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<p>9. Due professional care</p> <ul style="list-style-type: none"> <li>• Responsibilities of the individual auditor</li> <li>• Responsibilities of the Head of Internal Audit</li> </ul>	<p>All internal auditors are aware of their individual responsibilities for due professional care.</p> <p>Arrangements are in place to monitor this:</p> <ul style="list-style-type: none"> <li>• Audit Manager reviews all audit files and reports.</li> <li>• Appraisals (development reviews) and training.</li> </ul> <p>A whistle-blowing procedure is maintained (see internet)</p> <p>Work is assigned so as to avoid potential conflicts of interest – monthly reports to Audit Committee as appropriate.</p>	
<p>10. Reporting</p> <ul style="list-style-type: none"> <li>• Reporting on audit work</li> <li>• Annual reporting</li> </ul>	<p>Audit reports give an opinion on risks and controls, using approved methodology</p> <p>Scope of audit is set out in report</p> <p>Recommendations are prioritised.</p> <p>Draft reports are discussed with management and action plans agreed in response to recommendations made</p> <p>Reports are issued to appropriate managers.</p> <p>Where necessary, issues are referred to risk management group.</p> <p>Delivery of agreed actions are monitored through Audit Committee and escalated to Board if required.</p> <p>An annual report to support the Statement on Internal Control is presented to the Audit Committee annually (17 April 2007)</p> <p>The report includes the opinion on the control environment and any qualifications to that opinion (both PTA and E)</p> <p>The work on which the opinion is based is set out in the report.</p> <p>The report highlights significant issues.</p>	<p>Authority SIC will also be presented to 17 April Audit Committee meeting and to Audit and Governance on 29/6/07.</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> <li>• Principles of performance, quality and effectiveness</li> <li>• Quality assurance of audit work</li> <li>• Performance and effectiveness of the internal audit service</li> </ul>	<p>Policies and procedures are defined in an audit manual.</p> <p>Audits are assigned according to the skills mix required and so that there is adequate supervision</p> <p>Performance measures are defined and results reported to Audit Committee in the annual report.</p> <p>Client satisfaction surveys are sought after each final report is issued and are summarised in annual report</p> <p>An assessment of the work of internal audit is undertaken periodically by the external auditor.</p>	

## CIPFA Code of Practice - Characteristics of Effectiveness

Characteristic of 'effectiveness'	Evidence of achievement
Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly.	Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.
Understand the whole organisation, its needs and objectives.	The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives. Individual audit assignments identify risks to the achievement of those objectives.
Be seen as a catalyst for change at the heart of the organisation.	Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics. Individual assignments may be catalyst for change.
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal audit provides help and advice on request and supports specific projects identified in plan and on <i>ad hoc</i> basis.
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	When identifying risks and in formulating the plan changes on the national agenda are considered. The audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the local authority.
Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.	Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and encouraging managers to develop their own responses to the risks, rather than audit recommendations. The aim of this is to encourage greater ownership of the control environment amongst managers.
Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	This was explicitly addressed by a paper on resources to the Board on 24 April 2007.