

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 ITA variant
1. Scope of internal audit <ul style="list-style-type: none"> • Terms of reference • Scope • Responsibilities in respect of other organisations • Fraud and corruption 	Terms of reference included in SOFR (updated to Board April 10). Scope of audit work takes into account risk management processes and wider internal control. The terms of reference identify responsibilities in respect of PTE/ITA/LCC. Terms of reference define audit responsibilities in relation to fraud.	
2. Independence <ul style="list-style-type: none"> • Organisational independence • Status of head of internal audit • Independence of individual internal auditors • Independence of internal audit contractors • Declaration of interest 	Internal Audit Manager has direct access to DG/Clerk/Chair of ITA – 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 at Audit Committee. 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 – this is reported to Audit Committee.	Reports made to A and G by Internal Audit Manager
3. Ethics: <ul style="list-style-type: none"> • Integrity • Objectivity • Competence • Confidentiality 	Staff appraisal system considers these issues; no significant points have been identified. Staff have been made aware of ethics requirements, guidance has been circulated and is also available through Metro's values. Covered by Code of Conduct.	
4. Audit Committee <ul style="list-style-type: none"> • Purpose of the Audit Committee • Internal audit's relationship with the Audit Committee 	Terms of reference reflecting current Code of Practice were approved by Board on 23 Jan 2007, revision due in June 10. They include responsibility for the review of the annual governance statement. Audit Committee approves audit plan annually (also Board) and monitors monthly (exceptions reported to Board) Internal Audit Manager 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.	ITA TOR approved at A and G on 2 March 07, revision due June 10. Clarification of role of A and G re monitoring of audit recs approved at A and G in March 10.

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<p>5. Relationships</p> <ul style="list-style-type: none"> • with management, • with other internal auditors • with external auditors • with other regulators and inspectors • with elected Members 	<p>Revised procedure now in place for agreeing project brief and timescales for each audit with the relevant manager in advance (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). Joint protocol agreed in 2010 – due to be issued by Audit Commission June 10. 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.</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 but takes the three year picture into account in terms of full audits/light touch. The Internal Audit Manager assesses the relative risks in preparing the Plan and this is then discussed and approved by the Audit Committee. Any issues identified through risk management meetings are formally referred to audit committee as required or vice versa.</p> <p>Available resources have been compared with the resource need.</p>	
<p>8. Undertaking Audit Work</p> <ul style="list-style-type: none"> • Planning • Approach • Recording and Assignments 	<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"> • Responsibilities of the individual auditor • Responsibilities of the Head of Internal Audit 	<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"> • Audit Manager reviews all audit files and reports. • Appraisals (development reviews) and training. <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"> • Reporting on audit work • Annual reporting 	<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 and/or Board.</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 Annual Governance Statement is presented to the Audit Committee annually (due to be presented to the meeting in May 2009)</p> <p>The report includes the opinion on the control environment and any qualifications to that opinion (both PTE and ITA)</p> <p>The work on which the opinion is based is set out in the report.</p> <p>The report highlights significant issues if there are any.</p>	<p>Authority AGS will be presented to Audit and Governance in June.</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> • Principles of performance, quality and effectiveness • Quality assurance of audit work • Performance and effectiveness of the internal audit service 	<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 – this was last done in 2009 and a number of improvements have been put in place by the Internal Audit Manager as a result.</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 the plan and on an <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.	The opportunity to bring in specialist resource has been identified by the Audit Committee and can be done if required.