

## **EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

### **RECOMMENDATION**

- 1.1 To review the sources of assurance and comment on the effectiveness of the system of internal audit.

### **SUPPORTING INFORMATION**

- 2.1 The Accounts and Audit (Amendment) (England) Regulations 2006 state that “the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit”. The regulations go on to state that the findings of this review be considered by a committee of the relevant body, or by members of the relevant body as a whole, as part of the wider consideration of an organisation’s system of internal control.
- 2.2 The Guidance Circular (DCLG Circular 03/2006) issued by the Department for Communities and Local Government to assist organisations in implementing the 2006 amendments added very little by way of explanation of the requirement to review the effectiveness of the system of internal audit stating only that such a review “does not require the establishment of an audit committee, although such a committee would provide an appropriate means through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it. If an audit committee does not exist, the body will need to consider what other equivalent arrangement it needs to put in place to carry out the review”.
- 2.3 The absence of prescription in both the Regulations and the original guidance Circular offered Councils an opportunity to find their own solutions to meeting the requirements of the regulations. Last year, we considered that the Audit and Accounts Committee was the appropriate body to consider the review the effectiveness of the system of internal audit and that the review would be carried out by the Corporate Director – Resources and the Head of Audit and Risk Management.

- 2.4 In January 2009, the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Panel, published guidance (The review of the effectiveness of the system of internal audit), to assist local authorities in interpreting the Regulations. The 'system of internal audit' is a new term introduced by DCLG in 2006, and not a term as yet with any commonly understood meaning. After lengthy consultation amongst practitioners, the CIPFA Audit Panel has interpreted this term as follows:

*The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.*

- 2.5 The CIPFA guidance concludes that "There are a number of options available to authorities, for carrying out the review which include:

- The Head of Internal Audit
- A sub-group of the audit committee
- A review group of officers
- Peer review
- External assessment, or
- A group of members and officers.

Whoever carries out the review, it is vital that all participants are appropriately skilled and have relevant technical support available to them."

- 2.6 The guidance also advises that "Just as the preparation for the Annual Governance Statement (AGS) needs to start early in the year to which the signed statement relates, the review of the effectiveness of the system of internal audit should not be left to the year end. The review feeds into the AGS and should, therefore, be completed first. This guidance is therefore applicable from the 2008/09 financial year."

- 2.7 Given that the guidance was not published until January 2009, we have not been able to wholly follow the advice contained in it, in particular the suggested timeframe for preparation. The review has again been undertaken by the Corporate Director – Resources and the Head of Audit and Risk Management.

- 2.8 This report sets out various areas of assurance that the Audit and Accounts Committee needs to review in order to form an opinion on whether the system of internal audit is effective. The system of internal audit helps the Council to address risks and to ensure that they are effectively managed. Internal Audit is one of the key areas of assurance for the Audit and Accounts Committee and therefore has a significant impact on the Council's Annual Governance Statement. It is important that the Committee gain assurance that Internal Audit itself is effective.

## **CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006**

- 2.9 This publication reflects the changes arising from the amendments to the Accounts and Audit Regulations in 2006 and practice relating to corporate governance that further emphasise the importance of internal audit to the proper management of organisations. It more closely aligns practice with current approaches for auditors, particularly in respect of developments in risk management and the impact on planning internal audit activity. All principal local authorities' internal audit sections should comply with the requirements set out in this Code.
- 2.10 The Code of Practice contains eleven standards as follows:
- Scope of Internal Audit
  - Independence
  - Ethics for Internal Auditors
  - Audit Committees
  - Relationships
  - Staffing, Training and Continuing Professional Development
  - Audit Strategy and Planning
  - Undertaking Audit Work
  - Due Professional Care
  - Reporting
  - Performance, Quality and Effectiveness
- 2.11 The Council's External Auditors review Internal Audit against the Code to determine whether they can place reliance on the work of Internal Audit (see paragraph 2.19).
- 2.12 On an annual basis, the Head of Audit and Risk Management carries out a self-assessment against the Code. The self assessment undertaken in June 2009 is attached at Appendix 2. The self-assessment shows full compliance in the majority of the Code, however, there are several areas where only partial compliance is evident. One of the key issues is the need for reviews of documents, protocols etc to be on a more regular basis.
- 2.13 The Code of Practice states that "an effective Internal Audit should aspire to:
- understand the whole organisation, its needs and objectives;
  - understand its position in respect to the organisation's other sources of assurance and plan its work accordingly;
  - be seen as a catalyst for change at the heart of the organisation;
  - add value and assist the organisation in achieving its objectives;
  - be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
  - be innovative and challenging:

- help to shape the ethics and standards of the organisation;
- ensure the right resources are available – recognising that the skills mix, capacity, specialisms and qualifications/experience requirements all change constantly;
- share best practice with other auditors;
- seek opportunities for joint working with other organisations' auditors.

An internal audit service that embraces the challenges set out above will be a vital component of a successful organisation". Appendix 3 summarises how the internal audit service is attempting to meet these aspirations.

### **Internal Audit Work 2008/9**

- 2.14 The Head of Audit and Risk Management's annual report provides further detail relating to the work of internal audit in 2008/9. In summary, the coverage of the Internal Audit Plan was satisfactory and adequate to be able to give an overall opinion on the Council's internal control environment.

### **Performance of Internal Audit 2008/9**

- 2.15 Again the Head of Audit and Risk Management's annual report outlines the key performance measures for 2008/9. The target set for the main indicator, % completion of the audit plan, was achieved.
- 2.16 The Head of Audit and Risk Management has implemented some new performance measures for internal audit that will demonstrate the quality of the internal audit service. These were effective from 1 April 2009.
- 2.17 To assist in the assessment of both the effectiveness of internal audit and the quality of the work provided a survey of all Corporate Directors and Assistant Directors was carried out in March 2009. From the survey it can be concluded that Internal Audit is effective and provides a quality service. The results, together with comments made by respondents, are shown in Appendix 4.

### **External Audit**

- 2.18 External Audit assesses Internal Audit's work when planning their work. In the initial year and then every third year thereafter, they also undertake a more detailed review of Internal Audit against professional standards to:
- assess the effectiveness of Internal Audit as part of the Council's arrangements for internal control.
  - determine whether External Audit can place reliance on the work of Internal Audit.
  - provide Members with an independent opinion on the adequacy of their system of internal audit.

2.19 In its Interim audit report dated September 2008, External Audit stated that:

“Internal Audit substantially complies with the CIPFA Code of Practice for Internal Audit and we will aim to place reliance on its systems work where this will reduce the level of our detailed final accounts testing.” And

“Overall we have concluded that Internal Audit provides an independent and effective service to the Council.”

### **CPA /CAA Use of Resources**

2.20 Another key element of measuring the effectiveness of the system of internal audit is the independently assessed Use of Resources judgement completed by the Audit Commission. The quality and effectiveness on internal audit work is assessed as part of the authority’s CPA inspection. Internal Audit work is included in the internal control element of the Use of Resources block. The score for the 2008 assessment was 3 out of 4, the same score that was achieved in 2007.

### **Effectiveness of the Audit and Accounts Committee**

2.21 The Audit and Accounts Committee was established in September 2005 and is an important part of providing assurance on the internal control framework and monitoring the work of and receiving reports from both Internal and External Audit. Detailed Terms of Reference for the Committee are in place.

2.22 Member training is also a key part of an effective functioning Audit Committee. Training is provided on an annual basis and a training programme is being prepared for 2009/10 to equip members with the necessary skills and knowledge to fulfil their roles.

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<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Code of Practice – Self Assessment Checklist Appendix 3 - Code of Practice – Effectiveness criteria Appendix 4 – Results of Internal Audit Snap Survey

<b>IMPLICATIONS</b>
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**Financial**

1. None directly arising.

**Legal**

2. None directly arising.

**Personnel**

3. None directly arising.

**Equalities impact**

4. None directly arising.

**Corporate objectives and priorities for change**

5. None directly arising.

## Appendix 2

### **CODE OF PRACTICE - INTERNAL AUDIT CHECKLIST – JUNE 2009**

Y = YES, P = PARTIAL, N = NO.

Code Ref		Y	P	N	Comments
<b>1</b>	<b>SCOPE OF INTERNAL AUDIT</b>				
<b>1.1</b>	<b>Terms of Reference</b>				
1.1.1	Do terms of reference:				Terms of reference approved by audit & Accounts Committee on 4 December 2008.
	a) establish the responsibilities and objectives of Internal Audit?	√			
	b) establish the organisational independence of Internal Audit?	√			
	c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:				
	i) those charged with governance?	√			
	ii) those parties to whom the Head of Internal Audit may report?	√			
	d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	√			
	e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	√			
	f) require and enable the Head of Internal Audit to deliver an annual audit opinion?	√			
	g) define the role of Internal Audit in any fraud-related or consultancy work [see also 1.3.2)?	√			
	h) explain how Internal Audit's resource requirements will be assessed?	√			
	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?	√			
1.1.2	Does the Head of Internal Audit advise the	√			

Code Ref		Y	P	N	Comments
	organisation on the content and the need for subsequent review of the terms of reference?				
1.1.3	Have the terms of reference been formally approved by the organisation?	√			
1.1.3	Are terms of reference regularly reviewed?	√			Annually to Audit & Accounts Committee
<b>1.2</b>	<b>Scope of Work</b>				
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?	√			
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?			N/A	Framework agreement to be put in place
<b>1.3</b>	<b>Other Work</b>				
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?	√	√		
1.3.2	Do the terms of reference define Internal Audit's role in:  a) fraud and corruption? b) consultancy work?	√ √			
<b>1.4</b>	<b>Fraud and Corruption</b>				
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?	√			Financial Procedure Rules  Fraud response plan
<b>2</b>	<b>INDEPENDENCE</b>				
<b>2.1</b>	<b>Principles of Independence</b>				
2.1.1	Is Internal Audit:  a) independent of the activities it audits? b) free from any non-audit [operational) duties?	√	√		



Code Ref		Y	P	N	Comments
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?		√		
<b>2.2</b>	<b>Organisational Independence</b>				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			
2.2.2	Does the Head of Internal Audit have direct access to: a) officers? b) members?	√ √			
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	√			
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?			√ N/A	No base budget review
<b>2.3</b>	<b>Status of the Head of Internal Audit</b>				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	√			
<b>2.5</b>	<b>Independence of Internal Audit Contractors</b>				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?			N/A	
<b>2.6</b>	<b>Declaration of Interest</b>				
2.6.1	Do audit staff make formal declarations of interest?	√			
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	√			
<b>3</b>	<b>ETHICS FOR INTERNAL AUDITORS</b>				
<b>3.1</b>	<b>Purpose</b>				

Code Ref		Y	P	N	Comments
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?		√		Annually
<b>3.2</b>	<b>Integrity</b>				
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	√			
<b>3.3</b>	<b>Objectivity</b>				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	√			
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?	√			2 Years
3.3.4	Are staff rotated on regular/annually audited areas?	√			Para 1.10 of Policy on declaration of interests
<b>3.4</b>	<b>Competence</b>				
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?	√ √ √ √			
<b>3.5</b>	<b>Confidentiality</b>				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			
<b>4</b>	<b>AUDIT COMMITTEES</b>				
<b>4.1</b>	<b>Purpose of Audit Committee</b>				
4.1.1	Does the organisation have an independent audit committee?	√			
<b>4.2</b>	<b>Internal Audit's Relationship with the Audit Committee</b>				

Code Ref		Y	P	N	Comments
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	√			
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			
4.2.4	Does the Head of Internal Audit: <ul style="list-style-type: none"> <li>a) attend the committee and contribute to its agenda?</li> <li>b) participate in the committee's review of its own remit and effectiveness?</li> <li>c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?</li> <li>d) report on the outcomes of internal audit work to the committee?</li> <li>e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?</li> <li>f) present the annual internal audit report to the committee?</li> </ul>	√ √ √ √ √ √			
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			
<b>5</b>	<b>RELATIONSHIPS</b>				
<b>5.1</b>	<b>Principles of Good Relationships</b>				
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: <ul style="list-style-type: none"> <li>a) management?</li> <li>b) other internal auditors?</li> <li>c) external auditors?</li> <li>d) other regulators and inspectors?</li> <li>e) elected members?</li> </ul>	√ √ √ √ √			Detailed in terms of reference.
<b>5.2</b>	<b>Relationships with Management</b>				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	√			
5.2.2	Is the timing of audit work planned in conjunction with management?	√			

Code Ref		Y	P	N	Comments
<b>5.3</b>	<b>Relationships with Other Internal Auditors</b>				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?		√		Only with the County Council Audit Service
<b>5.4</b>	<b>Relationships with External Auditors</b>				
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	√			
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	√			
5.4.3	Are the internal and external audit plans co-ordinated?		√		
<b>5.5</b>	<b>Relationships with Other Regulators and Inspectors</b>				
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?		√		Only Ext Audit and AC
<b>5.6</b>	<b>Relationships with Elected Members</b>				
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?		√		No prescribed protocol except for Audit and Accounts Committee
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			
<b>6</b>	<b>STAFFING, TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT</b>				
<b>6.1</b>	<b>Staffing Internal Audit</b>				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			
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?	√			Framework Agreement

Code Ref		Y	P	N	Comments
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			
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?	√ √			
<b>6.2</b>	<b>Training and Continuing Professional Development</b>				
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?	√ √ √ √			
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	√			
<b>7</b>	<b>AUDIT STRATEGY AND PLANNING</b>				
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?	√ √			
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, i.e. internally, externally, or a mix of the two? e) the resources and skills required to deliver the strategy?	√ √ √ √ √			

Code Ref		Y	P	N	Comments
7.1.3	Has the strategy been approved by the audit committee?	√			
<b>7.2</b>	<b>Audit Planning</b>				
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	√			
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	√			
7.2.1	Are stakeholders consulted on the audit plan?	√			
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			
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	√ √ √ √ √ √	√		
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?	√			
7.2.4	Has the plan been approved by the 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?	√			
<b>8</b>	<b>UNDERTAKING AUDIT WORK</b>				
<b>8.1</b>	<b>Planning</b>				
8.1.1	a) Is a brief prepared for each audit? b) Is the brief discussed and agreed with the relevant managers?	√ √			
8.1.1	Does the brief set out: a) objectives?	√			

Code Ref		Y	P	N	Comments
	b) scope? c) timing? d) resources? e) reporting requirements?	√ √	√ √		
<b>8.2</b>	<b>Approach</b>				
8.2.1	Is a risk-based audit approach used?	√			
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?		√		
8.2.4	Does the audit approach include a quality review process for each audit?	√			
<b>8.3</b>	<b>Recording Audit Assignments</b>				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	√			
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	√			
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?	√ √ √			
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?		√		Needs reviewing
8.3.3	Do all retention and access policies conform to appropriate, legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?		√		Needs reviewing
8.3.3	Is there an access policy for audit files and records?		√		Needs reviewing
<b>9</b>	<b>DUE PROFESSIONAL CARE</b>				
<b>9.2</b>	<b>Responsibilities of the Individual Auditor</b>				
9.2.1	Are there documents that set out the requirements on all audit staff in terms of:  a) being fair and not allowing prejudice or bias to override objectivity? b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict? c) receiving and giving gifts and hospitality from	√ √ √			

Code Ref		Y	P	N	Comments
	employees, clients, suppliers or third parties? d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest? f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed? g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice? h) disclosing any non-compliance with these standards? i) not using information they gain in the course of their duties for personal use?	√ √ √ √ √ √			
<b>9.3</b>	<b>Responsibilities of the Head of Internal Audit</b>				
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?	√			
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			
<b>10</b>	<b>REPORTING</b>				
<b>10.1</b>	<b>Principles of Reporting</b>				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	√			
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	√			
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	√			
10.1.5	Are there laid-down timescales for reports to be issued?	√			
<b>10.2</b>	<b>Reporting on Audit Work</b>				
	Do the reporting standards include:				
10.1.4	a) format of the reports?	√			
10.1.4	b) quality assurance of reports?	√			
10.2.2	c) the need to state the scope and purpose of the audit?	√			
10.2.1	d) the requirement to give an opinion?	√			
10.1.4	e) process for agreeing reports with the recipient?	√			
10.2.1	f) an action plan or record of points arising from	√			



Code Ref		Y	P	N	Comments
	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?	√			
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	√			
10.2.5	Are areas of disagreement recorded appropriately?	√			
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	√			
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	√			
10.2.6	a) Does the reporting process include details of circulation of that particular audit report? b) Is this included in the brief for each individual audit?	√ √			
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that:  a) recommendations that have a wider impact are reported to the appropriate forums? b) risk registers are updated?	√	√		
<b>10.3</b>	<b>Follow-up Audits and Reporting</b>				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	√			
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	√			
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?		√		
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	√			
<b>10.4</b>	<b>Annual Reporting and Presentation of Audit Opinion</b>				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal	√			

Code Ref		Y	P	N	Comments
	Control?				
10.4.2	Does the Head of Internal Audit's annual report: <ul style="list-style-type: none"> <li>a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?</li> <li>b) disclose any qualifications to that opinion, together with the reasons for the qualification?</li> <li>c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?</li> <li>d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?</li> <li>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?</li> <li>f) comment on compliance with the standards of the Code?</li> <li>g) communicate the results of the internal audit quality assurance programme?</li> </ul>	√			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	√			
<b>11</b>	<b>PERFORMANCE, QUALITY AND EFFECTIVENESS</b>				
<b>11.1</b>	<b>Principles of Performance, Quality and Effectiveness</b>				
11.1.1	Is there an audit manual?	√			
11.1.1	Does the audit manual provide guidance on: <ul style="list-style-type: none"> <li>a) carrying out day-to-day audit work?</li> <li>b) complying with the Code?</li> </ul>	√ √			
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?		√		
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: <ul style="list-style-type: none"> <li>a) each individual audit?</li> <li>b) the internal audit service as a whole?</li> </ul>	√ √			
<b>11.2</b>	<b>Quality Assurance of Audit Work</b>				

Code Ref		Y	P	N	Comments
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?	√			
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?	√			
11.2.2	Does the supervisory process cover: a) monitoring progress? b) assessing quality of audit work? c) coaching staff?	√ √ √			
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service</b>				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	√			
11.3.2	Does the performance management and quality assurance framework include as a minimum:  a) a comprehensive set of targets to measure performance: i) which are developed in consultation with appropriate parties? ii) which are included in service level agreements, where appropriate? iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress? b) user feedback obtained for each individual audit and periodically for the whole service? c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy? d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual? e) an action plan to implement improvements?	     √  √  √  √	     √  √  √		
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?	√			
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is:				

Code Ref		Y	P	N	Comments
	a) meeting its aims and objectives? b) compliant with the Code? c) meeting internal quality standards? d) effective, efficient, continuously improving? e) adding value and assisting the organisation in achieving its objectives?	√ √ √ √	√		
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?	√			
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?	√			

## Appendix 3

### Code of Practice – Characteristics of Effectiveness

<b>Characteristics of effectiveness</b>	<b>Comment</b>
Understand the whole organisation, its needs and objectives.	The audit plan draws on a wide range of corporate information and demonstrates how audit work will provide assurance in relation to the authority's functions in meeting the Council's objectives. Individual audit assignments identify risks to the achievement of mainly operational activities which link to the objectives of the Council.
Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly.	Internal Audit plans activity taking account of other assurance sources e.g. Audit Commission,
Be seen as a catalyst for change at the heart of the organisation.	Recommendations in reports are accepted and implemented across the Council. Internal Audit is approached and provides advice to Managers on procedural improvements and control enhancement.
Add value and assist the organisation in achieving its objectives.	Internal Audit strives to fully understand the nature of the individual services it reviews in order to provide informed comment within individual audits
Be forward looking –knowing where the organisation wishes to be and aware of the national agenda and its impact.	Council priorities are taken into account when planning audit work. Audit keeps up to date with national developments affecting local government.
Be innovative and challenging	Internal audit has taken a positive approach to its reporting arrangements by focusing on risks, and using a focussed report style.

<b>Characteristics of effectiveness</b>	<b>Comment</b>
Help to shape the ethics and standards of the organisation	Effective liaison with the Council's Monitoring Officer and s151 Officer.
Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	Budgetary resources are adequate. Development of staff is aligned to organisational need.  Finalising a Framework agreement with a specialist internal audit provider to cover for vacancies etc.
Share best practice with other auditors.	Attend Audit Groups and take part in general networking
Seek opportunities for joint working with other organisation's auditors.	As above.

## Appendix 4

### Internal Audit – Snap Survey – March 2009

**In relation the audit work we have carried out in your area of responsibility during 2008/9, how would you rate the following:**

Excellent	Good	Fair	Poor	Very Poor	Missing Score
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<b>1</b>	The overall focus and scope of audit work ?	1	5	2		1
<b>2</b>	The level of consultation upon audit coverage ?	2	7			
<b>3</b>	Audit's responsiveness / helpfulness to your needs ?	5	4			
<b>4</b>	The quality of audit staff you have encountered ?	4	3	2		
<b>5</b>	The quality of the audit work that you have received ?	2	5	2		
<b>6</b>	Audit's communication of their findings ?	1	6	2		
<b>7</b>	The quality of audit advice provided ?	1	8			
<b>8</b>	The improvements to control & reduction of risks resulting from audit work ?		7	2		
<b>9</b>	What is your overall rating of the audit service provided ?	2	7			

**Finally, in what ways could we improve our service to you?**

1. An organisation list with key responsibilities/leads/specialisms would be helpful.
2. Clearly defined audit plan objectives and timetable of work so that service managers can plan their schedule of work and work programme.
3. Continuing to allow sufficient time for audits to take place.
4. Difficult to say since my experience of your service was very good.
5. I am happy with the balanced and impartial advice and help I receive from audit.
6. More of the same
7. The less positive responses are generally related to capacity - the problem that affects many of us. And the capacity is a much to do with our ability to respond effectively as yours to do the same.
8. To change the emphasis of the service to one of helping and advising rather than catching out.
9. To empathise more with the position managers in particular find themselves in trying to manage where everything is a priority, demands are increasing but resources are reducing.