

**ANNUAL REVIEW OF THE INTERNAL AUDIT SERVICE  
(Report by the Director of Commerce & Technology)**

**1. Introduction**

- 1.1 The Accounts & Audit Regulations 2006 require the Council to conduct a review of the effectiveness of its system of internal audit. The review, which has to be completed at least once in each year, is required to be considered by the Panel before it approves the Statement of Assurance on Corporate Governance.

**2. 2006 Code of Practice**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Code of Practice for Internal Audit in Local Government late last year. The Code, which is recognised as best practice, consists of 11 Standards (see table below) which set out how the internal audit service should perform its functions.

Standard	
1	<b>The Scope of Internal Audit</b> – deals with formal terms of reference, coverage of the internal control environment and the audit's role in relation to preventing fraud and corruption.
2	<b>Independence</b> – deals with overall operational independence as well as auditors own independence and impartiality.
3	<b>Ethics</b> – sets minimum standards for the performance and conduct of all internal auditors under the four main principles of integrity, objectivity, competence and confidentiality.
4	<b>Audit Committees</b> – deals with the relationship between the Audit & Risk Manager and the Audit Committee (i.e. this Panel).
5	<b>Relationships</b> – sets out the principles of good relationships with management, other internal auditors, external auditors, other regulators and inspectors and elected members.
6	<b>Staffing, Training and Continuous Professional Development</b> – deals with staff resources, qualifications and training.
7	<b>Audit Strategy and Planning</b> – deals with the requirement to produce a strategy document and annual audit plan.
8	<b>Undertaking Audit Work</b> – deals with risk based auditing, the processes to be carried out in individual audit assignments, incl. planning, fieldwork and quality control.
9	<b>Due Professional Care</b> – deals with auditor competence and diligence, respecting and understanding confidentiality.
10	<b>Reporting</b> – sets out the principles of reporting on audit assignments, follow-up arrangements and providing an annual opinion on the control environment.
11	<b>Performance, Quality and Effectiveness</b> – sets out the need for an audit manual and establishing quality and performance measures.

### **3. Undertaking the Review**

- 3.1 The Code of Practice contains a checklist which has been used as the basis for a self-assessment review of the internal audit service by the Audit & Risk Manager. The checklist was enhanced by obvious questions relating to private sector practice and contained 90 questions. The review was undertaken during the period March to May this year and required the collation of a significant volume of documents.
- 3.2 The Review shows that, with the exception of those areas reported to the Panel in February 2007 (line management by the Head of Financial Services rather than the Director Commerce & Technology and the non-audit responsibilities of delivering risk management and insurance services) the service fully meets the requirements of the Code.
- 3.3 The review has identified a small number of areas where improvements could be made to the current working practices. These are listed in Annex A.
- 3.4 This view is corroborated by the Council's external auditors who have conducted their own independent review of the internal audit service against the Code of Practice. They conclude that the internal audit service meets the requirements of the Code and have made no recommendations for further action.

### **4. Recommendation**

- 4.1 It is recommended that the Panel note
- that the internal audit service meets the requirements of the CIPFA Code of Audit Practice 2006; and
  - the action plan that prepared to address the areas for improvement identified.

#### **ACCESS TO INFORMATION ACT 1985**

CIPFA Code of Practice for Internal Audit in Local Government 2006

Internal audit self-assessment

Email correspondence with the external auditor

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## Internal Audit Self Assessment – Areas for improvement

Standard	Self assessment question	Response	Date to be introduced by
1.1	Is the scope of Internal Audit clearly set out in agreed Terms of Reference, which have been communicated across the organisation, and are subject to regular review?	Revised terms of reference and audit strategy were approved by the Panel in February 2007. These need to be included on the audit intranet pages.	31 July 2007
2.6	<p>Are arrangements in place for Internal Audit staff to declare and record potential conflicts of interest?</p> <p>Are arrangements in place for annual certificates of independence to be completed and signed by all Internal Audit staff for submission to the Audit &amp; Risk Manager?</p>	<p>At the start of each audit the relevant auditor is required to confirm on the audit review sheet that they are aware of no potential conflicts of interest in relation to the audit.</p> <p>It is considered that this will be more effective and up to date than an annual certificate.</p> <p>Staff are regularly reminded of the importance of recognising potential conflicts of interests. The Audit Manual also contains a section on this area.</p>	No further action
3.3.4	Are audits of particular parts of the organisation rotated between audit staff to ensure independence of approach?	<p>It is necessary to balance rotation with the benefits of existing experience in the allocation of audits when the audit team is few in number.</p> <p>The audit manager rotates audits where it is beneficial and personally reviews the audit brief and quality during the course of each audit which would highlight any over-familiarity or complacency.</p>	Under constant review.
4.2.4	Does the Audit & Risk Manager participate in the Corporate Governance Panel's review of its remit and effectiveness?	A review has not yet been undertaken.	
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	<p>The audit manual contains detailed procedures explaining the whole auditing process and is regularly updated – last update was February 2007.</p> <p>The 2006 Code has made few material changes and these will be included in the next review.</p>	30 September 2007