

GOVERNANCE COMMITTEE

MEETING: 29TH JUNE 2009

ANNUAL REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

REPORT OF THE FINANCE OFFICER AND CLERK TO THE AUTHORITY

1. Purpose of Report

- 1.1 The purpose of this report is to set out the findings of the annual review of the effectiveness of internal audit, as required by the Accounts and Audit Regulations 2003 (as amended 2006).

2. Description of Decision

- 2.1 The Governance Committee is asked to consider the findings of the self-assessment and external review undertaken by the Audit Commission.

3. Background

- 3.1 The methodology for the review is as follows:
- Internal Audit Services undertake an annual self-assessment, based upon a checklist within the CIPFA Code of Practice;
 - The self assessment is then independently reviewed by the Audit Commission, who carry out whatever testing they deem appropriate to verify the findings of the self-assessment;
 - The Finance Officer and Clerk to the Authority jointly consider the findings of both the self-assessment and the Audit Commission review, and report their findings to the Governance Committee.
- 3.2 The findings of the annual review of the effectiveness of internal audit will also be fed into the process for the production of the Annual Governance Statement.

4. Findings of the 2008/2009 Review

- 4.1 The checklist in the CIPFA Code of Practice has been used to undertake the annual self-assessment by the head of internal audit. The standards covered in the checklist are set out in Appendix 1, together with the findings from the self-assessment.

- 4.2 The self-assessment shows that the internal audit arrangements comply with the Code.
- 4.3 However, given that the Governance Committee and its Terms of Reference have been in place since 2007, it is now considered appropriate that the Committee undertakes a formal review of its remit and how effective it has been in fulfilling its role. It is proposed that this be done by holding a workshop with Committee members in July 2009, and for the results to be reported to the next Committee meeting thereafter.
- 4.4 The Audit Commission have reviewed the effectiveness of internal audit by reference to the CIPFA Code, the self-assessment and a review of a sample of audit files. The Audit Commission's conclusion is as follows:
- We found that there continue to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code.'*
- A copy of the letter from the Audit Commission setting out the above findings is attached at Appendix 2.
- 4.5 Officers from the Internal Audit Service meet regularly with the Chief Fire Officer to discuss the level of service provided to the Tyne and Wear Fire and Rescue Authority and the Chief Fire Officer has stated that he is appreciative of the level of service received and with the professional manner in which the audit work is undertaken.
- 4.6 Having considered the detailed self-assessment, the findings of the Audit Commission's independent review and our cumulative knowledge of the service provided by Internal Audit Services we consider that it is an effective service that meets the required standards.

Background Papers

CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Appendix 1 – Internal Audit Self Assessment

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
1 1.1 1.1.1	<p>SCOPE OF INTERNAL AUDIT</p> <p>Terms of reference</p> <p>The purpose, authority and responsibility of Internal Audit should be formally defined by the organisation in terms of reference which are consistent with this Code. They should:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> i. those charged with governance ii. those parties to whom the Head of 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 to Head of Internal Audit to deliver an annual audit opinion g) define the role of Internal Audit in any fraud-related or consultancy work h) explain how Internal Audit's resource requirements will be assessed i) establish Internal Audit's rights 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. 	Yes	<p>Audit Charter Quality Manual</p> <p>Also:</p> <p>Financial Regulation (FR) 4 relates to 'Internal Audit'</p>

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
1.1.2	The Head of Internal Audit should advise the organisation on the content of the terms of reference and the need for any subsequent amendment.	Yes	Audit Charter Charter reviewed as part of the scheduled Quality System Review Meetings (QSRM)
1.1.3	The terms of reference should, in accordance with the lines of reporting defined above, be approved and routinely reviewed by the organisation.	Yes	Charter updated March 2007 QSRM ensures Charter kept under review
1.2	Scope of Work		
1.2.1	The scope of Internal Audit's remit includes the organisation's entire control environment. In determining where efforts should be concentrated, the Head of Internal Audit should take account of the organisation's assurance and monitoring mechanisms, including risk management arrangements, for achieving the organisation's objectives.	Yes	IAS Quality Procedures Manual (IAS QPM), Section C-1.1
1.2.2	If the Head of Internal Audit or those charged with governance consider that the level of audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of Internal Audit, they should advise the organisation accordingly.	Yes	Covered as part of the Audit Strategy QPM, C-2.1

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
1.2.3	The scope of audit work extends to services provided through partnership arrangements. The Head of Internal Audit should decide, in consultation with all parties, whether internal staff conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary, the Head of Internal Audit should agree appropriate access rights in order to obtain the necessary assurances.	Yes	Access rights are included within appropriate agreements
1.3 1.3.1	Other Work Internal Audit can also, where resources and skills exist, provide additional services, including fraud-related and consultancy work. These services apply the professional skills of Internal Audit through a systematic and disciplined approach and may contribute to the opinion that Internal Audit provides on the control environment.	Yes	Covered as part of the Audit Strategy QPM, F and I
1.3.2	The terms of reference should define the role of Internal Audit in any fraud-related or consultancy work.	Yes	Audit Charter QM, 1.2
1.4 1.4.1	Fraud & Corruption Managing the risk of fraud and corruption is the responsibility of management.	Yes	Audit Plan (Division of Responsibilities) QPM B-2
1.4.2	The Head of Internal Audit should make arrangements, within the organisation's anti-fraud and corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety, to inform their opinion on the internal control environment and Internal Audit's work programme.	Yes	FR 4.4 and 4.5
1.4.3	At the request of management, Internal Audit may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud or corruption.	Yes	FR 4.4 and 4.5 QPM, F

Creating the Safest Community

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
1.4.4	Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.	Yes	Audit Charter (QM 1.2)
2	INDEPENDENCE		
2.1	The Principles of Independence		
2.1.1	Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and professional judgements and recommendations. Internal auditors should not have any operational responsibilities.	Yes	Audit Charter FR 4.1
2.1.2	Audit advice and recommendations, including where Internal Audit has been consulted about significant changes to the internal control systems, are given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures and operations at a later date.	Yes	No restrictions in place
2.2	Organisational Independence		
2.2.1	The status of Internal Audit should enable it to function effectively. The support of the organisation is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.	Yes	Audit Charter FR 4.1
2.2.2	The Head of internal Audit should have direct access to, and freedom to report in his or her own name and without fear or favour to all officers and members and particularly to those charged with governance.	Yes	Audit Charter

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
2.2.3	The organisation should make arrangements for Internal Audit to have adequate budgetary resources to maintain operational independence. Any delegation of budgets for Internal Audit to service level must not compromise this Code, the scope of Internal Audit or the ability of Internal Audit to provide assurance for the Statement on Internal Control.	Yes	Audit Strategy
2.3 2.3.1	Status of the Head of Internal Audit The position of the Head of Internal Audit in the management structure should reflect the influence he or she has on the control environment and he or she should not report or be managed at a lower organisational level than the corporate management team.	Yes	Head of Internal Audit reports to the Finance Officer
2.3.2	The Head of Internal Audit should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the organisation.	Yes	The Head of Internal Audit is a Senior Manager
2.4 2.4.1	Independence of Individual internal Auditors Individual auditors should have an impartial, unbiased attitude, characterised by integrity and an objective approach to work, and should avoid conflicts of interest. They should not allow external factors to compromise their professional judgement.	Yes	Annual declarations of independence QPM A-4
2.5 2.5.1	Independence of Internal Audit Contractors Independence could be impaired if an internal audit contractor also provides non-internal audit services to the organisation. Steps should be taken to avoid or manage any perceived conflicts of interest.	Yes	QM Procedure SUB covers this area

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
2.6 2.6.1	Declaration of Interest It is for the organisation to provide guidance on the type and nature of interests that should be declared. Individual auditors should declare interests in accordance with these requirements. The Head of Internal Audit should review these interests and take appropriate action.	Yes	QPM A-4
2.6.2	The Head of Internal Audit should plan the allocation of work to avoid the risk of conflicts of interest.	Yes	Annual declarations of independence considered during audit planning QPM C-2.1
3 3.1 3.1.1	ETHICS FOR INTERNAL AUDITORS Purpose The purpose of this section of the Code is to set the minimum standards for the performance and conduct of all internal auditors. It applies to all staff responsible for delivering internal audit 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. The Head of Internal Audit must ensure that auditors are regularly reminded of their ethical responsibilities.	Yes	Covered within QPM A-4. Covered in QSRM, Annual Appraisals and Training Plan. Confidentiality clause on all reports

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
3.1.2	<p>There are four main principles that should be observed.</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Competence • Confidentiality 		QPM A-4
3.2	Integrity		
3.2.1	All internal auditors should demonstrate integrity in all aspects of their work. The relationship with colleagues, internal clients and external contacts should be one of honesty, truthfulness, and fairness. This establishes an environment of trust and confidence that provides the basis for reliance on all activities carried out by the Internal Audit team.	Yes	QPM A-4
3.3	Objectivity		
3.3.1	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. The internal auditor must be impartial in discharging all responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity.	Yes	QPM A-4
3.3.2	<p>Internal auditors must act objectively and be perceived as doing so. This can be demonstrated by:</p> <ul style="list-style-type: none"> a) avoiding any conflict of interest arising either from professional or personal relationships or from pecuniary or other interests in an organisation or activity subject to audit b) resisting undue influences that could restrict or modify the scope or conduct of the work or significantly affect the content or judgements in the internal audit report. 	Yes	QPM A-4

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
3.3.3	Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. Auditors should not be assigned to work in an area where they have had an operational or other involvement, until the Head of Audit determines that a suitable period has elapsed.	Yes	QPM A-4
3.3.4	Long term responsibility for the audit of a particular aspect of an organisation can lead to over-familiarity and complacency that could influence objectivity; assignment of ongoing audit responsibilities should be rotated from time to time within the internal audit team.	Yes	QM Chapter 3 Procedure TAD
3.4 3.4.1	Competence Internal auditors should apply knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently. They should obtain sufficient knowledge of: <ul style="list-style-type: none"> 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. 	Yes	Annual appraisals Training Plan Professional training Ad-hoc training QPM A-4 QPM E
3.5 3.5.1	Confidentiality Internal auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Inappropriate disclosure of information by internal auditors could be a disciplinary offence.	Yes	QPM A-4

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
3.5.2	Confidential information gained in the course of audit duties should only be shared with bona fide recipients and must not be used to effect personal benefit.	Yes	QPM A-4
4 4.1 4.1.1	AUDIT COMMITTEES Purpose of the Audit Committee Independent Audit Committees are CIPFA's preferred model for local authorities and are seen as best practice across other parts of the public and the private sectors. However, authorities have the freedom to make their own judgements about appropriate governance arrangements and to justify their decisions through the relevant accountability channels. Where an organisation does not have an audit committee, the Head of Internal Audit should adapt his or her responsibilities under this section of the Code to reflect local circumstances.	Yes	Governance Committee Terms of Reference
4.1.2	The purpose of an audit committee is: <ul style="list-style-type: none"> To provide independent assurance of the adequacy of the risk management framework and the associated control environment To provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment To oversee the financial reporting process. The role is different to that of the scrutiny function, the purpose of which is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals.	Yes	Governance Committee Terms of Reference

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
4.1.3	The audit committee will also review the Statement on Internal Control [prior to approval by the organisation], which in England will include the results of the review of the effectiveness of the system of internal audit.	Yes	Governance Committee Terms of Reference
4.2	Internal Audit's Relationship with the Audit Committee		
4.2.1	The shared interests of the audit committee and Internal Audit suggest that there needs to be an effective working relationship between them.	Yes	Governance Committee Terms of Reference
4.2.2	That relationship has three elements: a) the approval (but not direction) of, and monitoring of progress against, the internal audit and strategy and plan b) using the results of Internal Audit's work to satisfy some of the audit committee's objectives (and vice versa) c) aligning the operations of the committee and internal Audit, as far as possible without compromising their individual responsibilities, to make best use of resources.	Yes	Governance Committee Terms of Reference
4.2.3	The Head of Internal Audit should balance being appropriately accountable to the committee, helping the committee to be effective, and relationships with others, for example the Section 151 Officer.	Yes	Governance Committee Terms of Reference

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
4.2.4	<p>To facilitate the work of the committee, the Head of Internal Audit should:</p> <ul style="list-style-type: none"> a) attend its meetings, and contribute to the agenda b) participate in the committee's review of its own remit and effectiveness c) ensure that it receives and understands documents that describe how Internal Audit will fulfil its objectives (eg the audit strategy, annual work programmes, progress reports). d) Report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa. f) Present an annual internal audit report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues. 	Yes	<p>Governance Committee Terms of Reference</p> <p>Agendas and Minutes of the Governance Committee</p> <p>Audit Strategy</p> <p>Audit Plan</p> <p>Interim Progress Report</p> <p>Annual Report</p>
4.2.5	The Head of Internal Audit should have the opportunity to meet privately with the audit committee.	Yes	Governance Committee Terms of Reference

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
5	RELATIONSHIPS		
5.1	Principles of Good Relationships		
5.1.1	Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence.	Yes	Audit Charter Agreed Protocol with Audit Commission Good relationships are in place
5.1.2	The Head of Internal Audit must manage such relationships to ensure that there is clarity on issues such as: <ul style="list-style-type: none"> • The nature of the relationship and its objectives • The responsibilities, expectations and objectives of each party. 	Yes	Regular liaison meetings with senior staff Regular meetings with Audit Commission
5.1.3	An important part of that task is to ensure that Internal Audit's plans and activities are co-ordinated with those of other parties to achieve the most effective audit coverage and to minimise duplication.	Yes	QPM C-2.1 Agreed Protocol with Audit Commission

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
5.2 5.2.1	Relationships with Management Management and staff at all levels in the organisation need complete confidence in the integrity, independence and capability of Internal Audit. The Head of Internal Audit must seek to maintain effective relationships between internal auditors and managers, and should protect the confidentiality of information gained in the course of audit work (unless this would prevent Internal Audit meeting its reporting responsibilities to the wider organisation).	Yes	Good relationships are in place Agreed Protocol with Audit Commission Key Performance Indicators include Post Audit Questionnaire results and Client compliments
5.2.2	Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives, but must not detract from Internal Audit's responsibility for reporting control issues to those charged with governance. Audit work, and especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example, this might be perceived as jeopardising the 'challenge' aspect of internal audit work, or where unannounced visits are necessary.	Yes	Key Performance Indicators include Post Audit Questionnaire results and Client compliments

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
5.3 5.3.1	Relationships with Other Internal Auditors Where internal auditors need to work with the internal auditors of another organisation, the roles and responsibilities of each party should be agreed. Whenever possible, agreement to joint working or to placing professional reliance on work carried out by one party should be sought.	N/A	N/A but would be considered in future wherever appropriate
5.4 5.4.1	Relationships with External Auditors Internal audit is an independent assurance function within the organisation, whereas External Audit is responsible for giving an independent opinion on the organisation's financial statements and a conclusion on its arrangements for seeking economy, efficiency and effectiveness in its use of resources. The relationship between Internal and External Audit needs to take account of their differing roles and responsibilities.	Yes	Agreed Protocol with Audit Commission
5.4.2	The aim of the relationship between internal and external auditors should be to achieve mutual recognition and respect, leading to a joint improvement in performance and to avoid duplication of work. It should be possible for internal and external auditors to rely on each other's work, subject to the limits determined by their different skills and responsibilities, enabling them to evaluate, review and only re-perform where necessary. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of the other.	Yes	Agreed Protocol with Audit Commission Annual audit planning process and timetable (QPM C)
5.4.3	The Head of Internal Audit should seek to meet regularly with the nominated External Audit representative to consult on and co-ordinate their respective plans and, particularly, to discuss how work can be tailored to satisfy each party's responsibilities in areas of common interest. Such meetings are an opportunity to discuss matters of mutual interest and to develop both parties' understanding of the organisation.	Yes	Agreed Protocol with Audit Commission

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
5.4.4	In any case of conflict with the external auditor, the Head of Audit will consult with, or refer the matter to, the appropriate senior officer or the audit committee.	Yes	Agreed Protocol with Audit Commission
5.5	Relationships with Other Regulators and Inspectors		
5.5.1	The Head of Internal Audit must establish and maintain good working relationships with the agencies that may interact with the organisation, with a view to exchanging relevant information.	Yes	Regular liaison with Audit Commission
5.6	Relationships with Elected Members		
5.6.1	The Head of Internal Audit must establish and maintain good working relationships and channels of communication with members. The terms of reference for Internal Audit should describe how such relationships should operate.	Yes	Governance Committee Terms of Reference
6	STAFFING, TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT		
6.1	Staffing Internal Audit		
6.1.1	Internal Audit should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards.	Yes	Audit Strategy QM 3
6.1.2	The Head of Internal Audit should be both professionally qualified and an experienced individual of a calibre reflecting the responsibilities arising from the need to liaise both internally and externally with senior management and professionals. The Head of Internal Audit should have wide experience of internal audit and management.	Yes	Head of Internal Audit is professionally qualified (in audit and management)

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
			and has wide experience in internal audit and management Requirement of the Job Profile
6.1.3	The Head of Internal Audit is responsible, in accordance with the organisation's human resources processes, for recruiting appropriate staff. They are responsible for ensuring that up to date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.	Yes	QM 3 Procedure RAS
6.2 6.2.1	Training and Continuing Professional Development The Head of Internal Audit should define the skills and competencies for each level of auditor and measure their staff against them. The Head of Internal Audit should periodically assess individual auditors against these predetermined skills and competencies. Any training or development needs identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored.	Yes	Competency matrix in place. Considered as part of annual appraisal process Training plan in place and progress regularly reviewed QM 3 Procedure TAD

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
6.2.2	All internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies, for example CIPFA's approach to CPD, or the organisation's own appraisal and development programme. Individual auditors should maintain a record of such professional training and development activities.		Annual appraisals and Training plan QM 3 Procedure TAD
7 7.1 7.1.1	AUDIT STRATEGY AND PLANNING Audit Strategy The Head of Internal Audit must produce an audit strategy; this is a high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities. The strategy can be presented as a document in its own right or integrated into an existing document, such as the business or service plan. It sets the context within which more detailed plans can be developed. The strategy should be kept up to date with the organisation and its changing priorities.	Yes	Audit Strategy
7.1.2	The strategy will communicate the contribution that Internal Audit makes to the organisation and should 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 to support the annual Statement on Internal Control c) How Internal Audit's work will identify and address significant 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.	Yes	Audit Strategy

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
7.1.2	The strategy should be approved, but not directed by, the audit committee.	Yes	Audit Strategy
7.2 7.2.1	Audit Planning The Head of Internal Audit should prepare a risk based audit plan designed to implement the audit strategy. In preparing the plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation's risk management processes. Where the outputs from these processes are not deemed sufficiently reliable, the Head of Internal Audit should undertake his or her own risk assessment. The Head of Internal Audit should consult stakeholders on the draft plan and revise the plan if appropriate.	Yes	Operational Audit Plan QPM C-2.1
7.2.2	In order to compile the plan, there must be a clear understanding of the organisation's functions and the scale and breadth of potential audit areas.	Yes	Operational Audit Planning Process QPM C-2.1
7.2.3	The audit plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.	Yes	Operational Plan is for one year QPM C-2.1
7.2.4	Once the planned work has been determined, this should be compared to resource availability. Where there is an imbalance between the two, the audit committee should be informed of proposed solutions. The audit committee should approve, but not direct, the internal audit plan.	Yes	5-year plan is used to consider resource issues. Covered in Audit Strategy QPM C-2

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
7.2.5	The Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.	Yes	Where necessary this would be done
8	UNDERTAKING AUDIT WORK		
8.1	Planning		
8.1.1	For each audit, a brief should be prepared, discussed and agreed with relevant line managers. The brief should establish the objectives, scope and timing for the assignment, and its resource and reporting requirement.	Yes	QPM E-1.1
8.2	Approach		
8.2.1	Audit work should be undertaken using a risk-based approach.	Yes	QPM E
8.2.2	At each stage of the audit, auditors should consider what specific audit work needs to be conducted and evidence gathered to support an independent and objective audit opinion.	Yes	QPM E
8.2.3	During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage.	Yes	QPM E
8.2.4	All audit work should be subject to an appropriate internal quality review process.	Yes	QPM E-10
8.3	Recording Audit Assignments		
8.3.1	The Head of Internal Audit must specify the required standard of Internal Audit documentation and working papers and, through the review process, ensure that those standards are met.	Yes	QPM E-7.1

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
8.3.2	The Head of Internal Audit must have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. Internal Audit working papers must always be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.	Yes	QPM E-7.1
8.3.3	The Head of Internal Audit should specify how long all audit documentation should be retained, whether held on paper or electronically, having regard to organisational policy and statutory requirements. The Head of Internal Audit should control access to audit documents and should, before releasing them to third parties, obtain the approval of the relevant management.	Yes	QM Procedure DDC
9 9.1 9.1.1	DUE PROFESSIONAL CARE Principles of Due Professional Care Due professional care is: <ul style="list-style-type: none"> • working with competence and diligence - it does not imply infallibility • the use of audit skills, knowledge and judgement based on appropriate experience, training (including CPD, ability, integrity and objectivity) • respecting and understanding confidentiality 	Yes	QPM A-4
9.1.2	Adherence to these standards will contribute to demonstrating that due professional care has been exercised.	Yes	QPM A-4

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
9.2 9.2.1	<p>Responsibilities of the Individual Auditor</p> <p>Individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. They should:</p> <ul style="list-style-type: none"> a) be fair and not allow prejudice or bias to override objectivity b) declare any interest that could be perceived to be conflicting or could potentially lead to conflict. c) Not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's policy). d) Use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, professional judgements and recommendations. e) Be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy, and conflicts of interest f) Have sufficient knowledge to identify indicators that fraud or corruption may have been committed g) Disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements h) Disclose in reports any non-compliance with these standards i) Not use information they obtain in the course of their duties for personal benefit or gain. 	Yes	QPM A-4

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
9.3	Responsibilities of the Head of Internal Audit		
9.3.1	The Head of Internal Audit should develop a monitoring and review programme to ensure that due professional care is achieved and maintained.	Yes	QPM E-10.1
9.3.2	The Head of Internal Audit should ensure that procedures are in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct.	Yes	Whistle-blowing Policy
9.3.3	The Head of Internal Audit should make provision to avoid conflicts of interest and for the appropriate training and continuing professional development of all Internal Audit staff.	Yes	Annual declaration of independence Annual appraisals and Training Plan (QM Procedure TAD)
10	REPORTING		
10.1	Principles of Reporting		
10.1.1	The Head of Internal Audit should determine the way in which audit assignments and their results will be reported, subject to the provisions of these standards and the requirements of those charged with governance and any third parties.	Yes	Audit Charter QPM E-9.1
10.1.2	The Head of Internal Audit should have direct access, and freedom to report in their own name and without fear or favour, to all officers and members, particularly to those charged with governance.	Yes	Governance Committee Terms of Reference Audit Charter QM1

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
10.1.3	The Head of Internal Audit should determine the way in which Internal Audit will report, in accordance with these standards and the organisation's requirements.	Yes	QPM E-9.1
10.1.4	The Head of Internal Audit should set standards for reporting, including the format of reports, quality assurance within the internal audit service and the process for agreeing report with the recipient.	Yes	QPM E-9.1 and QPM E-10
10.1.5	Reports should be accurate, clear, concise and constructive. They should be issued promptly and within laid-down timescales.	Yes	QPM E-9.1 Covered as part of Post Audit Questionnaires
10.2 10.2.1	Reporting on Audit Work The aim of every internal audit report should be: <ul style="list-style-type: none"> a) to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment b) to prompt management to implement agreed actions for change leading to improvement in the control environment and performance. c) to provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales. 	Yes	QPM E-9.1
10.2.2	Each report should include the scope and purpose of the audit to help the reader to understand the extent, or limitations, of the assurance provided by the report.	Yes	QPM E-9.1

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
10.2.3	Before issuing the final report, the internal auditor should normally discuss the contents with the appropriate levels of management to confirm the factual accuracy, to seek comments and to confirm the agreed management actions. A draft report is useful for this purpose.	Yes	Exit Meetings are held for all work QPM E-8.1 & E-9.1
10.2.4	Recommendations should be prioritised according to risk.	Yes	Categorised as High, Significant, Medium and Low (also make Observations) QPM E-9.1
10.2.5	The recommendations and the resultant management action plans should be agreed prior to the issue of the final report. Any areas of disagreement between the auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted.	Yes	QPM E-9.1
10.2.6	The Head of Internal Audit should determine the circulation of audit reports having due regard to their confidentiality and legislative requirements. The recipients of the audit report, i.e. those that have the authority to agree management actions, should be determined when preparing the audit brief. Internal Audit should normally obtain the consent of management, and vice versa, before reports are issued to third parties.	Yes	QPM E-9.1

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
10.2.7	Mechanisms should be in place to ensure that recommendations with a wider impact that the area under review are reported to the right forum and also ensure that risk registers are updated.	Yes	All reports are issued to Chief Officer. Wider issues are discussed at Liaison meetings
10.3	Follow Up Audits and Reporting		
10.3.1	Management has responsibility for ensuring that agreed actions are implemented. Internal Audit should obtain assurances that actions have been implemented, particularly those where risks are high. The Head of Internal Audit will determine the need for and the form of follow up action.	Yes	One of the Key Performance Indicators covers this area QPM E-11.1
10.3.2	The Head of Internal Audit should develop escalation procedures for cases where agreed actions have not been effectively implemented by the date agreed. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.	Yes	Escalation Procedure in place QPM E-11.1
10.3.3	Where follow-up reveals changes that impact on the original audit opinion, the revised opinion should be reported to the appropriate level of management.	Yes	Memo or report is issued after all follow-up work
10.3.4	The findings of audits and follow-up reviews should inform the planning of future audit work.	Yes	QPM C-1.1 and E-11.1

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
10.4 10.4.1	Annual Reporting and Presentation of Audit Opinion The Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control.	Yes	Governance Committee Terms of Reference Annual Report produced
10.4.2	The Head of Internal Audit's annual report to the organisation must: a) include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment b) disclose any qualifications to that opinion, together with the reason for the qualification c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets. f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.	Yes	Interim Report and Annual Report to Governance Committee QM 5

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
10.4.3	In addition to the annual report, the Head of Internal Audit should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report.	Yes	Interim Report to Governance Committee QM 5 Quarterly Reports to Finance Officer
11 11.1 11.1.1	PERFORMANCE, QUALITY AND EFFECTIVENESS Principles of Performance, Quality and Effectiveness The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with this Code. The manual should be regularly reviewed and updated to reflect changes in working practices and standards.	Yes	Comprehensive Quality System – certified to ISO9001:2000
11.1.2	Performance, quality and effectiveness should be assessed at two levels: a) for each individual audit b) for the internal audit service as a whole.	Yes	QPM E-10.1 Quality System Key Performance Indicators in place for service as a whole

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
11.2 11.2.1	Quality Assurance of Audit Work The Head of Internal Audit should ensure that audit work is allocated to staff with the appropriate skills, experience and competence.	Yes	QPM A4 and C-2.1
11.2.2	The Head of Internal Audit should ensure that Internal Audit staff at all levels are appropriately supervised and work is reviewed throughout all audit work to monitor progress, assess quality and coach staff. The extent of supervision will depend on the competence and experience of the individual auditor.	Yes	All work is independently reviewed by senior staff QM 2.5 and QPM E-1.1
11.3 11.3.1	Performance and Effectiveness of the Internal Audit Service The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is: <ul style="list-style-type: none"> a) meeting its aims and objectives b) compliant with this Code c) meeting internal quality standards d) effective, efficient, continuously improving e) adding value and assisting the organisation in achieving its objectives 	Yes	Key Performance Indicators (KPIs) in place Comprehensive Quality System certified to ISO9001:2000 Performance monitored and

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
			reported on a monthly, quarterly, six monthly and annual basis
11.3.2	<p>The performance management and quality assurance framework must include, but not be limited to:</p> <ul style="list-style-type: none"> a) A comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The Head of Internal Audit should measure, monitor and report appropriately on the progress against these targets. b) Seeking user feedback 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 this should 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. 	Yes	<p>KPI's agreed with Governance Committee.</p> <p>QM 5.</p> <p>Service Level Agreements.</p> <p>Post Audit Questionnaires.</p> <p>QSRM</p> <p>QM Procedure</p> <p>IQA.</p> <p>Continuous Improvement Action Plan.</p> <p>External ISO Inspections (6 monthly).</p>

PREVENTING PROTECTING RESPONDING

Ref	CIPFA Standard	Standard Met? Yes/No	Quality System / Other Document Reference
11.3.3	The Head of Internal Audit needs to ensure that the performance and effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.	Yes	Annual Reports Trend Analyses
11.3.4	The Head of Internal Audit should report on the results of the performance management and quality assurance programme in the annual report.	Yes	Annual reports QM 5
11.3.5	The results of the Internal Audit performance and quality assurance processes are likely to contribute to the organisation's review of the effectiveness of the systems of internal audit.	Yes	This Self Assessment is to be considered by Audit Commission in forming their view



8th May 2009

Paul Davies
Assistant City Treasurer
(Audit & Procurement)
City Treasurer's Department
Civic Centre
SUNDERLAND
SR2 7DN

Dear Paul

Review of effectiveness of Internal Audit Services

We have carried out a review of the effectiveness of Internal Audit Services (IAS) for 2008/09. The review included:

- an assessment of the IAS Quality System against the 2006 CIPFA Code of Practice for Internal Audit (the Code); and
- a detailed review of six Internal Audit Services' files.

We found that there continue to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code.

We will provide you with a detailed report of our findings and conclusions shortly.

Yours sincerely

Lynn Hunt
Audit Manager