

1. **Characteristic - Internal Audit has a high profile in the structure of the Council and has a high level of independence.**

Evidence

- Internal Audit operates under its own terms of reference that are embedded in the Council's constitution.
- These terms are reviewed when required in the light of changing circumstances. They were in fact reviewed and updated during the last year as reported to the Audit Committee on 14th December 2006.
- Internal Audit reports directly to the Audit Committee in the name of the Audit Manager.
- They have a direct reporting line into the Section 151 Officer and Senior Management Team.
- The scope of internal audit's work covers the Council's control environment, including partnership arrangements where these exist.
- This includes freedom to investigate instances of fraud and corruption.

Conclusion

Internal audit has a suitably high profile in the organisation and is independent.

Areas to be developed

None.

2. **Characteristic - Internal Audit adopts best professional practice**

Evidence

- The Council's function operates in accordance with the CIPFA code of practice for internal audit in local government (2006). This defines the way, through a series of standards, in which the internal audit service should be established and undertake its functions. This includes the ethical responsibilities of auditors.
- Compliance is independently tested through the Audit Commission's Annual Use of Resources (UOR) Assessment and through a triennial (3-year) review of internal audit activities by the Council's appointed external auditors.
- The UOR assessment for 2006/07 (March 2007) confirmed that internal audit operates in accordance with CIPFA's code.
- In addition, the auditors triennial review (July 2006) concluded that overall they were satisfied (apart from some points addressed in an action plan) that the Council has appropriate constitutional and management arrangements in place for its internal audit service.
- They also confirmed that they had been able to place reliance during the last year on internal audit's fundamental systems work to discharge elements of their own statutory duties.

Conclusion

Internal audit adopts best professional practise in undertaking its functions.

Areas to be developed

The internal audit strategy (as set out in the last Service Plan) was last updated in 2004. This will be reviewed and reported to the Audit Committee in September 2007.

3. Characteristic - Internal Audit has good planning arrangements.

Evidence

- All service managers and senior management are consulted on the strategic and annual audit plans and on the scope of each audit where this is required (evidence maintained in individual audit files).
- The strategic audit plan is based on a needs, risk and resource assessment; external support to compliment in-house capacity is identified to meet needs.
- The plan takes into account corporate and wider issues such as partnerships, external funding, business continuity and risk management.
- The plan is considered and approved by the Audit Committee under its terms of reference prior to the planning period (plan for 2007/08 reported on 28th February 2007).
- In addition, audit briefs are prepared where appropriate in conjunction with management for each audit (evidence maintained in individual audit files).

Conclusion

Internal audit adopts best practice in relation to planning its work.

Areas to be developed

None.

4. Characteristic - Internal Audit has good reporting and follow up arrangements.

Evidence

- All Reports are issued to the appropriate management with copies to the Section 151 officer.
- Recommendations are prioritised according to the degree of risk on the internal control environment (Page 2 of 7 format of standard reports).

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- Findings are discussed with management as they arise (evidence maintained in individual audit files).
- Draft reports are issued and discussed with management and actions agreed in response to recommendations (evidence maintained in individual audit files).
- On major financial systems, the final report includes a “Statement on Internal Control” comment relevant to each system.
- The Audit manager submits an annual report in the form of an Assurance Statement to support the Council’s overall Statement on Internal Control. This report includes an opinion on the control environment along with any qualifications, based on the work of internal audit.
- In accordance with reporting requirements, the Audit Committee receives on a quarterly basis, details of all audits with high-risk control issues. Greater detail is supplied on the fundamental financial systems.
- The Committee routinely ask for any high-risk recommendations to be monitored and report back on a regular basis (as evidenced by the main accounting/bank reconciliation system audits in 2006).

Conclusion

Internal audit adopts best practice in relation to reporting and incorporates the necessary statutory requirements.

Areas to be developed

None.

5. Characteristic - Internal audit compliments and adds value to the overall activities and priorities of the Council by challenging and acting as a catalyst for change.

Evidence

- Internal audit provides a supportive role in corporate reviews and developments on governance, whistle blowing, fraud/corruption, security, ethics, codes of conduct and data quality. These issues are subject to regular review as part of the Council’s UOR and other corporate assessments.
- Integral to all audits, activities under review are routinely tested for value for money and operational efficiency, etc. to aid improvement (evidence on audit files).
- Overall, a key function of Internal Audit in relation to continuous improvement is to provide an independent assurance to management that the systems implemented and the processes undertaken are sufficiently robust to contribute to the achievement of corporate priorities and to meet legislative and policy requirements.

Conclusion

The role of internal audit and the nature of its work ensure that it is able to review operations and offer advice and knowledge to add value to the Council.

Areas to be developed

None

6. Characteristic - Internal audit is involved in major service developments and projects as required.

Evidence

- Internal audit is consulted on a regular basis and indeed sits on relevant project groups.
- Staff attend sessions on IT developments. During the last year this has included proposed changes to input into the main accounting system and implementation of a new budgeting module.
- During the last year, internal audit played an integral part in setting up the new business plan and contract arrangements for Rosliston Forestry Centre and for the review of security arrangements in the new Contact Centre and “Customer First” project.
- It is currently on the project team that is implementing a new Revenues and Benefits Computer system.

Conclusion

Internal audit is routinely consulted and involved in major service developments and projects.

Areas to be developed

None.

7. Characteristic - Internal Audit is pro-active in embedding the internal control framework in the Council’s activities and supports that process.

Evidence

- Again this is integral to the work of internal audit. In particular, its terms of reference include its responsibilities in respect of the review of, and reporting an opinion on, the internal control environment of the organisation.
- Internal Audit ensures that all reviews give assurance to management on internal controls or provide recommendations for their improvement. Therefore, they have an important role to play in influencing and improving the internal control systems of the Council.

Conclusion

Under its terms of reference, internal audit is responsible for embedding the internal control framework in the Council's activities.

Areas to be developed

None

8. Characteristic - Internal Audit staff are sufficiently experienced, qualified and knowledgeable and receive regular development and training.

Evidence

- The skills and competencies required for each post have been determined and set out in the relevant job descriptions and person specifications.
- All staff have training and development plans as part of the Council's Personal Development Review process.
- All staff attend regular courses on audit, which is provided by a nationally recognised and accredited body (CIPFA).
- Internal Audit is a member of the countywide auditor's forum and have access to the network provided by the Midland Auditor's group.
- Access is also provided for updates, documents and material etc, from the Council's subscription to CIPFA's Technical Information Service and Finance Advisory Network.

Conclusion

Internal audit staff are sufficiently experienced and knowledgeable and receive regular development and training.

Areas to be developed

None.

9. Characteristic - Internal Audit is subject to external scrutiny from time to time to ensure resources and associated working arrangements are regularly reviewed and developed.

Evidence

- As in characteristic 2 above, through the UOR and triennial reviews during the last year.
- During the early part of 2006, the Council's Section 151 officer commissioned an external peer review focussing on working arrangements,

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compliance with best practice and the resources employed by internal audit. This concluded that:

“There is a well staffed and experienced team that has both a depth of internal audit experience as well as considerable knowledge regarding the work of the Council, its structures and objectives and indeed the problems which it faces in terms of the delivery of its services. The team delivers an internal audit plan which for the most part satisfies External Audit requirements but which we believe falls short of the expectations of the revised CIPFA Code for Internal Audit in local government which reflects a need for a consideration of control, risk and governance throughout the Authority rather than merely in relation to financial matters.”

- In response to the last point, this was acted upon in completing the audit plan for 2006/07 and 2007/08. In particular, to take account of the risk management framework, governance assurance framework, the LAA/LSP and Disaster Planning, etc. Internal audit now allow time and resources in the plan to cover and support these wider issues.
- With responsibility for overseeing the function and role of internal audit, the Audit Committee is effectively part of the system of internal audit.
- During 2006/07, a measurement of the effectiveness of the Audit Committee was undertaken using CIPFA’s self-assessment checklist. This confirmed that except for 2 points, the Committee was operating effectively.
- The review highlighted that audit satisfaction questionnaires from managers were not routinely used.

Conclusion

Internal audit is subject to regular external review and scrutiny against best practice. This is used to continuously improve the Council’s internal audit function.

Areas to be developed

Introduction of audit satisfaction questionnaires (see 10, below).

10. Characteristic - The performance and quality of internal audit is kept under constant review.

Evidence

- The proportion of the audit plan completed during the year, is reported to the Finance and Management Committee on a quarterly basis as part of the Council’s performance management framework.
- The Audit Manager undertakes quality control checks on individual audits undertaken by his team on a sample basis as agreed with the External Auditor.

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- All recommendations during the year were agreed by management and have or are being actioned (as evidenced on individual audit files).
- An annual assessment of the work of internal audit is undertaken by the external auditor as evidenced in their annual management letter. For 2005/06 (the most recent report), this highlighted that they were able to rely on the work of internal audit for their statutory reviews.

Conclusion

Except for the issue below, internal audit is subject to regular performance and quality review.

Areas to be developed

Introduction of an annual satisfaction survey will be implemented from 2007/08.