

ORIGINATOR: INTERIM HEAD OF INTERNAL AUDIT SERVICES

PAPER NO. AC13/7

SUBMITTED TO: AUDIT COMMITTEE

**SUBJECT: REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT –
2012/13**

SUMMARY:

1. The report advises the Committee on the annual review of the effectiveness of the system of internal audit; a specific requirement of the Accounts and Audit (England) Regulations 2011.
2. The effectiveness of the system of internal audit for 2012/13, summarised within this report, includes Internal Audit's 2012/13 performance against pre-defined indicators, a self-assessment of compliance with the CIPFA Code of Practice (the Code), an assessment by the External Auditor, and a self-assessment of the Audit Committee.
3. Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires bodies to review the effectiveness of their internal audit once a year and for the findings of the review to be considered by a committee of the body as a whole, as part of the consideration of the system of internal control.

RECOMMENDATION:

1. The Committee is asked to consider the draft CIPFA self-assessment checklist for Audit Committees and whether any changes or action is necessary.
2. The Committee is asked to acknowledge that Internal Audit is compliant with the Code and, through the self-assessments set out in this report, they can take assurance that there is an effective system of internal audit.

The following wording should be included within the Annual Governance Statements for 2012/13:-

"In accordance with Regulation 6 of the Accounts and Audit Regulations 2011, the review of the effectiveness of internal audit has concluded that the opinion in the annual report on internal audit work can be relied upon as a key source of evidence.

The effectiveness of internal audit includes the effectiveness of the Audit Committee (to the extent that its work relates to internal audit), as well as the performance of internal audit".

DETAIL OF THE SUBMISSION

1. KEY ISSUES FOR CONSIDERATION:

Statutory requirements and relevant guidance

- 1.1 The Accounts and Audit Regulations 2011 (the Regulations) require:-
- a) the findings of the review of the system of internal control to be considered by a Committee of the relevant body, or by members of the body meeting as a whole. (Regulation 4); and
 - b) bodies to review the effectiveness of their internal audit once a year and for the findings of the review to be considered by a committee of the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4. (Regulation 6)
- 1.2 The Committee is required to take a view on the tests of effectiveness set out in this report and the extent to which the system of internal audit is effective against them.
- 1.3 There are two dimensions to this review:-
- a) the performance of the internal audit function; and
 - b) the effectiveness of the Audit Committee itself, to the extent that its work relates to internal audit.
- 1.4 The purpose of the review is to ensure that the opinion in the annual report on internal audit work (AC13/8) may be relied upon as a key source of evidence in the Annual Governance Statement.
- 1.5 The review is primarily about effectiveness, not process. The focus of this review should be on the delivery of the internal audit service to the required standard in order to produce the required outcome (i.e. a reliable assurance on internal control and the management of risks).
- 1.6 The Regulations require either the body itself or a committee of the body to review the effectiveness of the system of internal audit. The Department for Communities and Local Government (DCLG) guidance suggests that where there is an Audit Committee, it is the appropriate group to receive and consider the results of the review as this Committee already has oversight of internal audit.
- 1.7 This is not a review which will be carried out by the external auditor as part of the annual audit. External audit will review elements of internal audit's work to assess what reliance can be placed upon it for the purpose of the audit of the accounts. However, this will not cover all elements of the system of internal audit and, therefore, in the external auditor's view, cannot be relied upon to fulfil the requirements of the Regulations.

Testing the Effectiveness of the System of Internal Audit

INTERNAL AUDIT

2012/13 Audit Work Undertaken – Performance Indicators

- 1.8 Appendix A shows the performance of the 2012/13 Internal Audit Plan against a number of performance indicators.
- 1.9 The Audit Committee agreed the Internal Audit Plan for 2012/13 on 30 March 2012 (paper A12/5).

- 1.10 Internal Audit carries out a programme of work which is at a level necessary to satisfy the legal and professional obligations of the PCC and Chief Constable. Suffolk County Council Audit Services were successful in retaining the contract for the provision of an internal audit service to Suffolk Police effective, for five years, from 01 July 2010. The 2012/13 plan was based on an average of 180 audit days per annum. This represented a 5% reduction from the 2011/12 level, which was negotiated with Suffolk County Council following the reduction in funding (Home Office Formula Grant Settlement).
- 1.11 In 2012/13, 104 written recommendations were made, 101 of which were accepted. Other lower risk recommendations have been dealt with verbally and will have been raised during the audits, but not documented within audit reports.
- 1.12 Customer surveys are issued after each audit. Information obtained from these provides Internal Audit with valuable feedback on their processes (before, during and reporting the audit). Responses received have indicated a satisfactory or above level of service. Comments made in the surveys received include:-
- a) "I found the audit team to be very professional and constructive";
 - b) "It was a positive experience and helpful prompt";
 - c) "The auditors involved were professional and understanding in the time pressures involved in my role";
 - d) "The audit team went about their business in a very professional manner and have presented information which will help improve the services provided".

Benchmarking with other Internal Audit Providers

- 1.13 To benchmark the provision of the internal audit service with that of other internal audit providers, an exercise was carried out to obtain:-
- a) The number of planned audit days in 2012/13 and the proposed 2013/14 police audit plans, taking into account the combined gross revenue turnover for the PCC and Constabulary;
 - b) An approximate split of days between main fundamental systems, other systems, establishment reviews, and other items; and
 - c) Regularity of auditing the main fundamental systems.

The results obtained are shown in Appendix B.

- 1.14 The Committee should be aware that the split of days provided by other audit providers will depend on how they have interpreted the headings. For Suffolk, 'main fundamental systems' relates to the main financial systems (Payroll; Income; Expenditure; Treasury Management; General Ledger; and Capital Expenditure); 'other systems' are all other financial and non-financial systems in operation; 'establishment' relates to Police Sectors; and 'other items' relates to contract management such as planning, liaison meetings, anti-fraud & corruption audit work, and time spent on Committee preparation and attendance.
- 1.15 In 2012/13, Internal Audit provided 180 days against a gross revenue turnover of £125m (based on budget).
- 1.16 Although the number of days provided by Internal Audit in comparison to the budget is slightly higher than average, there are some core audits, including the main fundamental systems, which are the systems where the PCC and Constabulary would be most at risk should internal financial controls fail and which are needed irrespective of the size of the overall budget. Consequently, these audits are basically 'fixed costs'. For Suffolk, these audits are undertaken in full once every three years (with self-assessments carried in each

of the other years). The percentage of the audit plan allocated to this area is consistent with other benchmarking audit teams. These audits are required as they also provide Ernst & Young, as external auditors, with important information about these systems. Being able to place reliance on the work of internal audit can reduce external audit work and fees.

- 1.17 For the audit of 'other systems', Suffolk is quite consistent with others. Of those who participated in the benchmarking exercise, half do not audit establishments (i.e. Police Stations).
- 1.18 The time spent on 'other items' for Suffolk is the joint lowest and considerably less than the majority.
- 1.19 The Audit Plan is allocated over a five-year strategic period with assumptions and calculations updated each year. This is risk-based and determines the frequency of audits. The Committee should be aware that there is a risk of not auditing everything annually, albeit this is reduced due to the risk-based planning process. As the Constabulary continues to collaborate systems with Norfolk, it is important that there is an adequate input from Internal Audit is required to ensure all relevant systems and processes are set up and documented correctly, and that key controls are maintained.
- 1.20 This exercise has not taken into account the fees paid for the provision of internal audit services and whether they are provided in-house or by an external provider.

Compliance with the CIPFA Code of Practice for Internal Audit / Public Sector Internal Audit Standards

- 1.21 For 2012/13, Internal Audit had to meet the standards laid down in the statutory CIPFA Code of Practice for Audit Services in Local Government in the United Kingdom 2006 (the Code). It provides a framework for measurement, management and monitoring of the function.
- 1.22 To measure compliance with the Code, a checklist has been devised by CIPFA. A self-assessment against this checklist is shown as Appendix C. Where answers to the questions are 'partial' or 'no', a comment has been included on the checklist.
- 1.23 The completed CIPFA checklist shows that Internal Audit is compliant with the Code.
- 1.24 With effect from 01 April 2013, the CIPFA Code of Practice for Audit Services in Local Government in the United Kingdom 2006 is superseded by the Public Sector Internal Audit Standards (PSIAS).
- 1.25 The PSIAS state that the "chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme should be designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *PSIAS* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement". The quality assurance and improvement programme must include both internal and also, at least once every five years, external assessments.
- 1.26 Internal Audit has already completed work to ensure compliance with the PSIAS.

Annual Governance Report

- 1.27 The 2011/12 Annual Governance Report, reported to this Committee by the Audit Commission in September 2012 (A12/22), reported that no significant weaknesses in the design or operation of internal control arrangements were identified. Furthermore, the report stated that “both the Constabulary and Internal Audit have undertaken sufficient work to provide assurance for the Annual Governance Statement.” This indicates continued assurance over the internal audit arrangements.

Quality Assurance

- 1.28 Internal Audit, in striving to achieve its objectives, operates a Quality Assurance System which meets the standard of ISO 9001:2000. The Quality Management Systems operated provide a framework of credibility, support and control which enables the service to be directed and managed so that the needs, wishes and expectation of all customers can be balanced to greatest effects against the coverage necessary to meet statutory requirements and taking into account the views of any external assessors. Compliance with the standard is assessed annually. The last assessment, in July 2012, confirmed that Internal Audit has “established and maintained its management system in line with the requirements of ISO 9001:2000 and demonstrated the ability of the system to systematically achieve agreed requirements for products or services within the scope and the organisation’s policy and objectives”.

Annual Report & Opinion of the Head of Internal Audit

- 1.29 On this agenda, Internal Audit has reported on the work undertaken in 2012/13 and has concluded that “**overall, systems of control are acceptable and financial administration systems are generally effective**” (AC13/8).

AUDIT COMMITTEE

Audit Committee Toolkit

- 1.30 As stated in paragraph 1.4, the effectiveness of the system of internal audit should include the effectiveness of the Audit Committee itself (to the extent that its work relates to internal audit). Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the Constabulary’s corporate and service objectives.
- 1.31 This Committee has a wider terms of reference than the Code. It is important that there is independent assurance about the mechanisms underpinning these aspects of governance. Specifically:
- a) independent assurance of the effectiveness of the control environment and associate anti-fraud and anti-corruption arrangements;
 - b) independent review of financial and non financial performance to the extent that it affects the PCC and Constabulary’s exposure to risk and weakens the control environment, and
 - c) assurance that any issues arising from the process of drawing up, auditing and certifying the annual accounts are properly dealt with and that appropriate accounting policies have been applied.

- 1.32 CIPFA has produced a self-assessment checklist for Audit Committees which has been completed in liaison with the Chief Executive and is shown as Appendix D. This is deemed appropriate to assess the effectiveness of the Audit Committee. The completed checklist shows that the Committee have fully discharged statutory responsibilities (including managing the interaction between the systems of internal control and internal audit) and

have an understanding of what their requirements are. Where answers to the questions are 'no', action is already in place to rectify these or 'no' is the accepted situation.

HOW DO WE MEASURE UP?

- 1.33 From the work undertaken, the Committee can take assurance that there is an effective internal audit. Compliance with the Codes of Practice, Accounts and Audit Regulations and CIPFA guidance, together with continued accreditation to the Quality Assurance Standard, the results of benchmarking, customer satisfaction surveys and performance data outcomes, show high levels of standard are being achieved. The completed CIPFA checklists on the Code of Practice for Audit Services and the Audit Committee Toolkit show a high level of compliance with minor areas for improvement or which are accepted.

2. FINANCIAL IMPLICATIONS:

- 2.1 The current contract with the County Council runs to 30 June 2015.
- 2.2 This report will not alter the current level of costs to the PCC.

3. OTHER IMPLICATIONS AND RISKS:

- 3.1 There are no significant risks to record in the risk register as a result of this report

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	PLEASE STATE 'YES' OR 'NO'
Has legal advice been sought on this submission?	No
Has the PCC's Chief Finance Officer been consulted?	Yes
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Yes
Have human resource implications been considered?	Yes
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Yes
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Yes
Has communications advice been sought on areas of likely media interest and how they might be managed?	Not considered necessary
In relation to the above, have all relevant issues been highlighted in the 'other implications and risks' section of the submission?	Yes

INTERNAL AUDIT PERFORMANCE DATA AS AT 31st March 2013 - SUFFOLK POLICE & CRIME COMMISSIONER

<u>Performance Indicator</u>	<u>Outturn</u>	<u>Comments</u>
1. Prepare risk-based Audit Plan	Achieved	Risk-based audit plans for 2012/13 & 2013/14 approved by the Audit Committee in March 2012 & March 2013 respectively.
2. Achieve 100% of planned audits	Number of audits planned 2012/13	16
	Number of audits completed	15 Planned audit on 'Integrity & Scrutiny Checks' not carried out – agreed with PCC CFO
3. Achieve minimum 90% acceptance of audit recommendations made.	Number made	104
	Number accepted	101
	% accepted	97 Previous year 94% of recommendations accepted
4. Despatch minimum 90% of audit reports within 10 working days of completion of audits.	Audits completed	15
	Number despatched within 10 days	14
	% despatched within 10 days	93 'Property Controls' delayed due to management comments not being provided within contract timescales
5. Achieve minimum 90% customers satisfaction with audit.	Number of surveys issued	12
	Number of surveys received	10
	% of surveys received	83
	Number of satisfied responses	10
	% customer satisfaction	100 From returned surveys
6. Reliance placed on internal audit work by external audit.	Yes	Annual Governance Report and year-end assessment
7. Comply with professional audit standards.	Yes	CIPFA Code of Audit Practice / Public Sector Internal Audit Standards and year-end assessment

NOT PROTECTIVELY MARKED

Summary of Benchmarking for Police Audit Plan

PCC / Constabulary	Gross Revenue Turnover 2012/13	No. of audit days 2012/13	No. of audit days 2013/14	Days per £m GRT	Main Fundamental Systems 2013/14	Other Systems 2013/14	Establishments 2013/14	Other Items 2013/14	Regularity of auditing Main Fundamental Systems	Name of External Auditor
	(£)	Days	Days	Days	Days	Days	Days	Days		
Suffolk	£125m	180	180	1.44	40 (22%)	111 (62%)	16 (9%)	13 (7%)	Every 3 years + self-assessments	Ernst & Young
A	£101m	120	120	1.19	19 (16%)	89 (74%)	0 (0%)	12 (10%)	Cyclical – based upon perceived risk	Grant Thornton
B	£290m	220	221	0.76	44 (20%)	132 (60%)	0 (0%)	45 (20%)	Cyclical	Grant Thornton
C	£156m	210	200	1.28	75 (37.5%)	100 (50%)	0 (0%)	25 (12.5%)	Annually	Wales Audit Office
D	£323m	244	244	0.76	48 (20%)	152 (62%)	0 (0%)	44 (18%)	Every 3 years	Ernst & Young
E	£623m	1,208	1,215	1.95	155 (13%)	740 (61%)	160 (13%)	160 (13%)	Cyclical + regular follow-ups	Grant Thornton
F	£256m	251	249	0.97	75 (30%)	132 (53%)	25 (10%)	17 (7%)	Combination of annual testing and cyclical	Ernst & Young
G	£269m	436	401	1.49	76 (19%)	143 (36%)	25 (6%)	157 (39%)	2 years walkthrough and 1 year compliance	KPMG
H	£299	480	471	1.57	121 (26%)	109 (23%)	161 (34%)	80 (17%)	Annually	Mazars
I	£561	665	830	1.48	250 (30%)	310 (37%)	0 (0%)	270 (33%)	Annually	Grant Thornton

CODE OF PRACTICE - INTERNAL AUDIT CHECKLIST (POLICE) - 2013

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

Code Ref		Y	P	N	Comments
1	SCOPE OF INTERNAL AUDIT				
1.1	Terms of Reference				
1.1.1	Do terms of reference:				
	a) establish the responsibilities and objectives of Internal Audit?	√			Financial Regs
	b) establish the organisational independence of Internal Audit?	√			Contract for the Provider of Strategic Financial Services C531 "the Contract".
	c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:	√			The Contract requires compliance with the Code.
	i) those charged with governance?	√			Assurance Framework.
	ii) those parties to whom the Head of Internal Audit may report?	√			Anti-Fraud & Corruption Policy
	d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	√			Annual report to Audit Committee on proposed Audit Plan
	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 organisation on the content and the need for subsequent review of the terms of reference?		√		Contractor, but would do in accordance with Code
1.1.3	Have the terms of reference been formally approved by the organisation?	√			Financial Regs

NOT PROTECTIVELY MARKED

Code Ref		Y	P	N	Comments
1.1.3	Are terms of reference regularly reviewed?	√			Review of Financial Regs / when Audit Plan agreed annually
1.2	Scope of Work				
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?	√			Strategic / Annual Plan
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?	√ √			Joint audit work with Norfolk (variation to contract C511). Joint Working Protocol Eastern Region Internal Auditors Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Norfolk and Suffolk
1.3	Other Work				
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?	√ √			Audit contract Manager is CIPFA / CIPFA Certificate in Investigative Practice qualified Will refer to Economic Crime Unit & Professional Standards where necessary
1.3.2	Do the terms of reference define Internal Audit's role in: a) fraud and corruption? b) consultancy work?	√ √			Financial Regs + Anti-Fraud & Corruption Strategy Financial Regs
1.4	Fraud and Corruption				
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?	√			Anti-Fraud & Corruption Strategy

Code Ref		Y	P	N	Comments
2	INDEPENDENCE				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: a) independent of the activities it audits? b) free from any non-audit [operational) duties?	√ √			Contractor
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?	√			
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			Contractor
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 Annual Governance Statement?	√			Contractual relationship – Budget decided by PCC CFO N/A N/A N/A
2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?				N/A Contractor
2.5	Independence of Internal Audit Contractors				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	√			

Code Ref		Y	P	N	Comments
2.6	Declaration of Interest				
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?	√			
3	ETHICS FOR INTERNAL AUDITORS				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	√			CIPFA Code circulated
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			Audit staff have completed vetting forms
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	√			
3.3	Objectivity				
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?	√			
3.3.4	Are staff rotated on regular/annually audited areas?	√			
3.4	Competence				
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?	√ √ √ √			
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			
4	AUDIT COMMITTEES				
4.1	Purpose of Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	√			Audit Committee
4.2	Internal Audit's Relationship with the Audit Committee				
4.2.1	Is there an effective working relationship between the audit committee and Internal	√			

Code Ref		Y	P	N	Comments
	Audit?				
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			Annual plan; half-yearly report; annual report
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			Progress – A12/27 2013/14 Plan to Audit Committee on 25 March (AC13/3)
4.2.4	Does the Head of Internal Audit: a) attend the committee and contribute to its agenda? b) participate in the committee's review of its own remit and effectiveness? c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? d) report on the outcomes of internal audit work to the committee? e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? f) present the annual internal audit report to the committee?	√ √ √ √ √ √			
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			As necessary
5	RELATIONSHIPS				
5.1	Principals of Good Relationships				
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: a) management? b) other internal auditors? c) external auditors? d) other regulators and inspectors? e) elected members?	√ √ √ √ √			Financial Regs and Contract
5.2	Relationships with Management				
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?	√			
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to	√			Police Audit Group and

Code Ref		Y	P	N	Comments
	working papers, respective roles and confidentiality?				HCCIAG
5.4	Relationships with External Auditors				
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 coordinated?	√			
5.5	Relationships with Other Regulators and Inspectors				
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?	√			HMIC and Ernst & Young
5.6	Relationships with Members				
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?	√			Contract
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			
6	STAFFING, TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT				
6.1	Staffing Internal Audit				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			Contractual Relationship
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?	√			Expertise available (e.g. IT Auditor)
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?	√ √			
6.2	Training and Continuing Professional Development				
6.2.1	a) Has the Head of Internal Audit defined	√			

Code Ref		Y	P	N	Comments
	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?	√			CPD
7	AUDIT STRATEGY AND PLANNING				
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?	√ √			Contract and reports to Audit Committee
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?	√ √ √ √ √			Audit Committee report - Annual Plan " " Contract Contract
7.1.3	Has the strategy been approved by the audit committee?				N/A – Contracted Service
7.2	Audit Planning				
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?	√			

Code Ref		Y	P	N	Comments
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?	√			
8	UNDERTAKING AUDIT WORK				
8.1	Planning				
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? b) scope? c) timing? d) resources? e) reporting requirements?	√ √ √ √ √			
8.2	Approach				
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?	√			
8.3	Recording Audit Assignments				
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?	√ √			

Code Ref		Y	P	N	Comments
	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?	√			
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?	√			
8.3.3	Is there an access policy for audit files and records?	√			
9	DUE PROFESSIONAL CARE				
9.2	Responsibilities of the Individual Auditor				
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 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?	√ √ √ √ √ √ √ √ √ √			Audit Manual and Code of Ethics
9.3	Responsibilities of the Head of Internal Audit				
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?	√			

Code Ref		Y	P	N	Comments
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			
10	REPORTING				
10.1	Principles of Reporting				
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?	√			
10.2	Reporting on Audit Work				
	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 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?	√			Recs stated as being high, medium or low 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	√			

Code Ref		Y	P	N	Comments
	forums? b) risk registers are updated?		√		
10.3	Follow-up Audits and Reporting				
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?	√			
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Annual Governance Statement?	√			Audit Committee
10.4.2	Does the Head of Internal Audit's annual report: <ul style="list-style-type: none"> a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? b) disclose any qualifications to that opinion, together with the reasons for the qualification? c) present as summary of the audit work from which the opinion was 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 Annual Governance Statement? 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? f) comment on compliance with the standards of the Code? g) communicate the results of the internal audit quality assurance programme? 	√ √ √ √ √ √ √			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	√			Meetings with PCC CFO. Audit Committee half-yearly report

Code Ref		Y	P	N	Comments
11	PERFORMANCE, QUALITY AND EFFECTIVENESS				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	√			SCC Audit Services Manual
11.1.1	Does the audit manual provide guidance on: a) carrying out day-to-day audit work? b) complying with the Code?	√ √			
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: a) each individual audit? b) the internal audit service as a whole?	√ √			
11.2	Quality Assurance of Audit Work				
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?	√ √ √			
11.3	Performance and Effectiveness of the Internal Audit Service				
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	√ √ √ √			Performance measures are included within the Contract

Code Ref		Y	P	N	Comments
	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: 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?	√			

Audit Committee

Self-assessment checklist 2013

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
1	Does the audit committee have written terms of reference?	√			The AC operates to the core functions identified in CIPFA Guidance.
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	√			
1	Are the terms of reference approved by the council and reviewed periodically?	√			Approved by the PCC
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	√			
1	Can the audit committee access other committees and full council as necessary?	√			The Audit Committee has access to the PCC and CC
1	Does the Annual Governance Statement include a description of the audit committee's establishment and activities?	√			Included in the draft PCC 2013 Annual Governance Statement to be approved by September 2013.
2	Does the audit committee periodically assess its own effectiveness?	√			
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	√			Key issues communicated to PCC/CC from each Committee meeting through Minutes and bespoke reports on particular issues.
Membership, induction and training					

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1	Has the membership of the audit committee been formally agreed and a quorum set?	√			For an Interim AC.
1	Is the chair independent of the executive function?	√			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	√			
1	Are new audit committee members provided with an appropriate induction?	√			All four members of previous Authority (with 3 having previously served on the Authority's AC). The new role was covered at the first meeting of the Interim AC.
1	Have all members' skills and experiences been assessed and training given for identified gaps?	√			See above.
1	Has each member declared his or her business interests?	√			All members are required to declare their interests at the start of each meeting.
2	Are members sufficiently independent of the other key committees of the council?	√			
Meetings					
1	Does the audit committee meet regularly?	√			Three meetings of the Interim AC are scheduled during 2013.
1	Do the terms of reference set out the frequency of meetings?	√			PCC Decision No. 11 – 2013 sets out the number of meetings.
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	√			

1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	√			
1	Are meetings free and open without political influences being displayed?	√			
1	Does the authority's S151 officer or deputy attend all meetings?	√			PCC CFO + CC CFO both attend.
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	√			
INTERNAL CONTROL					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	√			
1	Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?	√			
1	Does the audit committee consider how meaningful the Annual Governance Statement is?	√			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	√			
1	Has the audit				

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	committee considered how it integrates with other committees that may have responsibility for risk management?	√			The AC has considered the PCC's Risk Management Strategy.
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"		√		Under consideration by the Constabulary.
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?		√		
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	√			
2	Does the audit committee review the authority's strategic risk register at least annually?		√		It is the role of the AC to consider the effectiveness of risk management arrangements and not to consider the content of the Register.
2	Does the audit committee monitor how the authority assesses its risk?	√			
2	Do the audit committee's terms of reference include oversight of the risk management process?	√			
FINANCIAL REPORTING AND REGULATORY MATTERS					
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	√			
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> the suitability of accounting policies and treatments 	√			

	<ul style="list-style-type: none"> major judgements made large write-offs changes in accounting treatment the reasonableness of accounting estimates <p>the narrative aspects of reporting?</p>				
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	√			
1	Does the audit committee review management's letter of representation?	√			Annual Governance Report
2	Does the audit committee annually review the accounting policies of the authority?	√			
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	√			
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	√			Appropriate training as deemed necessary. The statutory officers specifically advise the Committee of pertinent issues. .
INTERNAL AUDIT					
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work	√			

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	addresses the authority's significant risks?				
1	Does internal audit have an appropriate reporting line to the audit committee?	√			
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Audit?	√			From CFOS.
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	√			
1	Does the audit committee hold periodic private discussions with the Head of Audit?	√			As required and requested.
1	Is there appropriate cooperation between the internal and external auditors?	√			
1	Does the audit committee review the adequacy of internal audit staffing and other resources?			√	Not applicable – service provided by contract.
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	√			Part of this review
2	Are internal audit performance measures monitored by the audit committee?	√			Part of this review
2	Has the audit committee considered the information it wishes to receive from internal audit?	√			
EXTERNAL AUDIT					
1	Do the external				

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	auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?	√			
1	Does the audit committee hold periodic private discussions with the external auditor?	√			As required and requested.
1	Does the audit committee review the external auditor's annual report to those charged with governance?	√			
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	√			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	√			
1	Does the audit committee assess the performance of external audit?		√		The Audit Committee can take assurance that the work of the Audit Commission's auditors is subject to a quality assurance scheme operated internally and externally.
1	Does the audit committee consider and approve the external audit fee?	√			The PCC and CC have little say over the amount of external audit fees which are set by the Audit Commission.
ADMINISTRATION					
Agenda management					

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1	Does the audit committee have a designated secretary from Committee / Member Services?	√			
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	√			
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	√			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?		√		Requests for consideration of business and inclusion of agenda items are made to the Chief Executive. The requests may be made by any member, relevant officer, or internal and external audit. If any item arises subsequent to publication of the Committee's agenda that is of an urgent nature then the item may be considered by the AC.
Papers					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	√			
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	√			Papers to the AC must comply with the PCC's report/decision templates.
Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?	√			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	√			There is a matters arising item on the Agenda for oral updates to be given.
1	Do action points indicate who is to				Actions are made clear in the AC resolutions.

	perform what and by when?	√			
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