



HEAD OF INTERNAL AUDIT

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

2011 / 2012

ANNUAL REVIEW

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¹ CIPFA: Chartered Institute of Public Finance and Accountancy

1 BACKGROUND

- 1.1 The Accounts and Audit Regulations require all Councils to annually review their systems of internal control and to provide an adequate and effective Internal Audit function.
- 1.2 These regulations were amended in 2011. This revision required that the council undertake an annual review of the effectiveness of its internal audit and to present the results of that review to the appropriate committee. Internal Audit is defined as the means by which the Council addresses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance processes are evaluated and reported in the Annual Governance Statement.
- 1.3 To address the Accounts and Audit Regulations 2011 requirement, an assessment of Internal Audit has been carried out which is presented for consideration by the Audit Committee. It contains an opinion on the effectiveness of the Internal Audit Service including a self-assessment against a number of publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). These include “*Code of Practice for Internal Audit in Local Government in the UK*” and the “*Statement on the Role of Head of Internal Audit*”.
- 1.4 The review was undertaken by the Chief Internal Auditor and the report is presented for Members’ consideration and comment.

2 CURRENT ARRANGEMENTS FOR INTERNAL AUDIT

- 2.1 Internal Audit at Peterborough is provided through an in-house team which is part of Strategic Resources, headed up by the Chief Internal Auditor. It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit and investigation functions for the Council.
- 2.2 The Chief Internal Auditor reports directly to the Head of Corporate Services and the Director of Strategic Resources but also has direct access, if required to the Chief Executive, Solicitor to the Council, Council Leader, Executive Members and the Chair of the Audit Committee.
- 2.3 At the start of 2011 / 2012 the in-house team comprised 7.78 FTE approved posts including the Chief Internal Auditor. This diminished during the year as a result of a number of known events – the ongoing shared service arrangements with Cambridge City Council, a voluntary redundancy and maternity leave – and also as a result of a resignation due to an officer being offered a job with another organisation. Where events were known, reductions to the audit plan had been factored in. However, with services such as Adult Social Care transferring into the business and the increased call on Internal Audit time to be spent on grant activity, it is of paramount importance to increase the size of the team and vacancies will be addressed in accordance with Council policy. Shortfalls in resources will be managed by ensuring that audit work is prioritised to ensure that at least a statutory minimum service is provided.
- 2.4 Due to the size of the section, it is not structured around client / service based teams nor the Council’s directorates. This approach has allowed the opportunity for auditors to develop a depth of knowledge and relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers do have specific technical attributes that provide the organisation with a

“first point of contact”. As a result, this provides some continuity to the customer who can regularly deal with the same auditor over a period of time.

- 2.5 The Section’s strategy for the delivery of Internal Audit is set out in the Annual Audit Plan. The Internal Audit Service Terms of Reference (TOR) outline the status of the Section and define the principles of how it operates within the Council. It provides appropriate arrangements to ensure that the Internal Audit Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. This has been agreed with the Audit Committee. Arrangements for investigation work are defined in the Council’s policies and procedures for Anti-Fraud and Whistleblowing and these are reported on in the Investigation Team Annual Report.
- 2.6 Internal Audit undertakes its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (2006). This is best practice guidance for the discharge of an internal audit function covering expectations and the standards required. External Audit carries out its review of the internal audit function against these standards.
- 2.7 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:
- The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of compliance with the CIPFA Code of Practice in producing quality work;
 - Comparison with the Statement on the Role of the Head of Internal Audit;
 - Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
 - The performance of the audit team (details of which are reported in the Head of Internal Audit Opinion report).

3 BASIS FOR OPINION

3.1 Staff Resources

During 2011 / 2012 there were major reductions in staffing and these are documented in the table below. A number of factors were known in advance, for example maternity leave, and so appropriate amendments could be built into the audit plan. Nevertheless, unplanned work from investigation referrals received and in-year requests for support from directorates did together with a resignation did alter the overall plan coverage, although that covered could still formulate an opinion. There were some audits carried forward from 2011 / 2012 to be completed in Quarter 1.

| Post | FTE | Changes | Reason For Change | At Year End |
|------------------------|-------------|--------------|---|-------------|
| Chief Internal Auditor | 1.00 | -0.50 | Continuation of shared service with Cambridge City Council | 0.50 |
| Group Auditor | 1.30 | - | | 1.30 |
| Principal Auditor | 1.00 | -1.00 | Temporary reduction for whole year due to maternity leave. Officer due to return in June 2012, albeit on reduced hours. | 0.00 |
| Senior Auditor | 2.48 | -1.48 | Voluntary redundancy(June 2011) 0.80 Resignation (Feb 2012) 0.68 | 1.00 |
| Auditor | 2.00 | -1.00 | One post vacant throughout year, to provide savings to the council. However this will be filled. | 1.00 |
| | 7.78 | -3.98 | | 3.80 |

Various options are being explored to fill vacancies to increase available resources including the use of temporary auditors.

3.2 Training and Experience

3.2.1 Training and development plans are in place to encourage development through both the career progression and continuing professional development. The following information about qualifications and experience of staff available for audit work demonstrates the significant experience and rich qualification mix in the Section.

Audit experience:

- Peterborough City Council service ranges from a minimum of 4 years service within Internal Audit to over 20 years; and
- Previous work experience is with banks, accountancy firms, other local authorities and other public sector organisations.

Qualifications:

- Qualified Accountants (CIPFA x1);
- Institute of Internal Auditors – Member (CFIIA x2);
- Institute of Internal Auditors – Practitioner Level (PIIA x1);
- Institute of Internal Auditors – Certificate Level (CIA x1);
- Association of Accounting Technicians (MAAT x1).

3.2.2 The level of experience of audit staff remained static during the year, benefiting initially from stability within the audit team and increased time spent on audit work. There was some rotation of staff to enable a breadth of experience and for continuing professional development and this will continue based on operational need and the priority and timing of work. This approach provides increased flexibility to meet audit and investigation needs, particularly in time specific and statutory audits.

3.3 Compliance with the Code of Practice for Internal Audit in Local Government

3.3.1 The code defines Internal Audit as:

“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.

The control environment is defined as comprising the systems of governance, risk management and internal control.

3.3.2 The code sets out 11 standards for Internal Audit. Of the 11 standards one relates to Performance and Effectiveness. The rest cover audit management, audit process and audit relationships within the organisation.

| Audit Management | Audit Process | Audit Relationships |
|--|--|-----------------------------------|
| Independence Ethics Staffing, Training and Continuing Professional Development | Scope Audit Strategy and Planning Undertaking Audit Work Due Professional Care Reporting | Audit Committees Relationships |

3.3.3 There are 192 questions against the standards. There was a full review in 2011 against these and this demonstrated that that the Section was meeting 188 out of 192 applicable Code requirements. 4 areas identified formed an Action Plan and progress against this is detailed in **Appendix A**. A separate survey is being developed to establish future requirements.

3.3.4 The code also tries to define an effective internal audit, as being one which should “aspire to” the following:

- Understand the whole organisation, its needs and objectives;
- Understand its position in respect to the organisations other sources of assurance and plan its work accordingly;
- Be seen as a catalyst for change at the heart of the organisation;
- Add value and assist the organisation in achieving its objectives;
- Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
- Be innovative and challenging;
- Help to shape the ethics and standards of the organisation;
- Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications / experience requirements all change constantly;
- Share best practice with other auditors; and
- Seek opportunities for joint working with other organisations auditors

3.3.5 An assessment of the position of Internal Audit in respect of these aspirations is set out in **Appendix B**. A number of areas have been identified and these are:

- Develop and extend the shared service arrangements;
- Continue to maintain an understanding of the business; and
- Look to market the services (internally)

3.4 External Audit Opinion

3.4.1 PricewaterhouseCoopers comment in the Annual Audit Letter on the adequacy, or otherwise of Internal Audit as well as other governance arrangements. The latest report, taken to Audit Committee in February 2012 concluded that they could place reliance on the work of Internal Audit. As a result the auditors have confirmed that they will be able to take assurance over the quality and extent of audit work done in 2011 / 2012 including assurance over the core financial systems activity.

3.4.2 Liaison with the external auditor continues to be productive and offers the opportunity to co-ordinate audit plans and to share information and to inform risk assessments. The Section agreed the scope and approach to auditing the core financial systems enabling Internal Audit to deliver work of increased value to the Council whilst ensuring that the needs of the external auditor are addressed.

3.5 Comparison with Statement on Role of Head of Internal Audit

- 3.5.1 CIPFA published its Statement on the role of the Head of Internal Audit (HIA) in public service organisations in December 2010 following widespread consultation. The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against. The original document was brought to Audit Committee in September 2010.
- 3.5.2 The statement sets out an overarching principles-based framework which is intended to apply to all HIAs in the UK. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional standards. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed.
- 3.5.3 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.
- 3.5.4 The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. CIPFA recommends that organisations should report publicly on compliance to demonstrate their commitment to good practice.

The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:

- *Championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and*
- *Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.*

To perform this role the Head of Internal Audit:

- *Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;*
- *Must lead and direct an internal audit service that is resourced to be fit for purpose; and*
- *Must be professionally qualified and suitably experienced.*

- 3.5.5 There are a series of attributes and personal qualities which sit below these principles, some subjective. However, an initial assessment would indicate that the role of the Head of Internal Audit at Peterborough City Council already meets the underlying aims of the five principles set out above (**Appendix C**). The self assessment has highlighted two specific areas where there could be improvement. This related to the preparation of the Annual Governance Statement (2.1.12) and line management reporting lines (3.1.2).

3.6 Integrated Audit Work With Risk Management and Governance Arrangements

- 3.6.1 Prioritisation of the work of the Audit Section is achieved by the development and delivery of an annual risk based Audit Plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and risk based work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources as illustrated below.
- 3.6.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council's overall objectives. The Section reviews corporate and departmental risk registers, business plans and discusses Council objectives and priorities with Directors and Heads of Service to assess assurance needs. The Audit Plan is discussed and approved by Audit Committee in March each year.
- 3.6.3 It is considered that the 2011 / 2012 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Audit Committee. Some changes were reported in mid-year following additional requests from senior managers; nevertheless, the plan was largely delivered as planned.
- 3.6.4 During the year some audit work was deferred or cancelled due to the timing of the audits and the changes to organisation objectives. The impact of budget cuts and organisational change was reflected in the reassessment of the work and alternative means of gaining assurance where appropriate.
- 3.6.5 For 2012 / 2013, the agreed Audit Plan again show links to the corporate aims / objectives in order to clearly demonstrate how audit work relates to the achievement of Council objectives.

3.7 Performance Measures

- 3.7.1 Internal Audit has a number of performance indicators that it monitors throughout the year. To avoid duplication, these are reported separately within the Head of Internal Audit Opinion. However the key issues are:

| Better Than Target | Area for Improvement |
|--|---|
| Positive feedback on Post Audit Questionnaires (PAQ) | Implementation of recommendations by management |
| 100% of critical / high recommendations made were agreed | |
| Continued reduction in sickness levels (below authority average) | |

3.8 Audit Committee

- 3.8.1 The system of Internal Audit includes the role of the “Audit Committee” and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for Committee remained the same during 2011 / 2012 with continuity of membership assisting in maintaining an effective committee. Membership has altered for 2012 / 2013 with 4 new Members. During 2011 / 2012 regular briefings took place with the Chair of the Audit Committee. This covered the future agenda items together with discussions around the works undertaken by Internal Audit.
- 3.8.2 As part of the audit protocol, all finalised audit reports are issued to the appropriate officers within the Council as well as the Executive Member and Chair of Audit Committee. These reports are discussed at the above briefings.
- 3.8.3 It is proposed that ongoing development and training for the Committee will continue in 2012 / 2013 with a programme of refresher and new Member training to be agreed. A separate handbook will be regularly reviewed on the roles and responsibilities for an effective audit committee.

4 **CONCLUSION**

Consideration of a range of views on the effectiveness of Internal Audit operating within the Council during 2011 / 2012 indicates that this has been both appropriate and effective.

The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, audit committee and effective management engagement.

BACKGROUND DOCUMENTS

Internal Audit Plans
Internal Audit reports issued
Internal Audit Terms of Reference
Accounts and Audit Regulations 2011
Code of Practice for Internal Audit in Local Government in the UK, CIPFA
Statement on the Role of the Head of Internal Audit, CIPFA

COMPLIANCE WITH CODE OF PRACTICE FOR INTERNAL AUDIT

| Ref | Standard | Recommendations | Progress |
|---------|---|---|---|
| 1 - 4 | SCOPE OF INTERNAL AUDIT; INDEPENDENCE; ETHICS FOR INTERNAL AUDITORS; AUDIT COMMITTEES <ul style="list-style-type: none"> No recommendations | | |
| 5 | RELATIONSHIPS | | |
| 5.1.1 d | Is there a protocol that defines the working relationship for IA with other regulators and inspectors? | Establish a protocol for effective liaison with external inspectors | Regular liaison in place between internal and external audit. Protocols have been established to cover specific testing requirements etc. |
| 5.5.1 | Has the HoIA sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation? | As above | Meetings have been held as and when appropriate, although the number of inspections has diminished following the change of government. |
| 6 | STAFFING TRAINING AND CONTINUAL PROFESSIONAL DEVELOPMENT | | |
| 6.1.2 | Does the HoIA have access to appropriate resources where the necessary skills and expertise are not available within IA? | Develop an overall strategy to take forward specialist auditing areas in conjunction with Cambridge City Council (and others as appropriate). | These are progressed as the shared arrangements are further formalised. |
| 7 – 10 | AUDIT STRATEGY AND PLANNING; UNDERTAKING AUDIT WORK; DUE PROFESSIONAL CARE; REPORTING <ul style="list-style-type: none"> No recommendations | | |
| 11 | PERFORMANCE, QUALITY AND EFFECTIVENESS | | |
| 11.3.4 | Do the results of the performance management and quality assurance programme evidence that the internal audit service is adding value and assisting the organisation in achieving its objectives? | Internal Audit to issue a survey to senior management to establish the extent to which audit is adding value to their services. | Quality surveys are issued at the end of each audit which provides a good barometer throughout the year on quality. A separate questionnaire is being developed which will be issued in due course following the transfer of a number of services into and out of the authority. |

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Based on the assessment against 192 questions, the evidence collected demonstrates the Council operates in compliance with professional standards, and initiates change where improvements to the internal control environment is required. The review has identified a number of areas where ongoing improvements could be made (within internal audit and also corporately).

In conclusion, there are no material weaknesses which impact on the overall effectiveness of the internal control environment.

CIPFA CODE OF PRACTICE: CHARACTERISTICS OF EFFECTIVENESS THAT AN EFFECTIVE INTERNAL AUDIT SHOULD ASPIRE TO

| CHARACTERISTIC OF EFFECTIVENESS | EVIDENCE OF ACHIEVEMENT | AREAS FOR DEVELOPMENT |
|--|--|---|
| Understand the whole organisation, its needs and objectives | The Audit Plan is mapped against the strategic objectives of the Council when it is compiled. | |
| Understand its position in respect to the organisations other sources of assurance and plan its work accordingly | Internal Audit identifies other sources of assurance and takes this into account when preparing the Internal Audit Plan | Monitor and improve the IA governance and assurance arrangements when there are joint service delivery arrangements / outsourced activities |
| Be seen as a catalyst for change at the heart of the organisation | Supportive role of audit for corporate developments such as risk management and ethics. Supportive role of audit for individual projects may be catalyst for change. | Selling the message of the benefits of IA involvement to line management. Reallocate role for Annual Governance Statement. Identified need to extend the role of IA in new and developing projects. |
| Add value and assist the organisation in achieving its objectives | Demonstrated through individual audit assignments and also corporate work | Identified need to extend the role of IA in new and developing projects. |
| Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact | When identifying risks and in formulating the plan changes on the national agenda are considered | Maintain awareness of new developments in the services it audits |
| Be innovative and challenging | Internal Audit has taken a positive approach to its reporting arrangements by focusing on risks The report format has been reviewed and the format and audit opinion descriptions revisited and reaffirmed. | |

| CHARACTERISTIC OF EFFECTIVENESS | EVIDENCE OF ACHIEVEMENT | AREAS FOR DEVELOPMENT |
|---|--|---|
| Help to shape the ethics and standards of the organisation | Involvement in the development of shared services | Involvement by IA in review of policies |
| Ensure the right resources are available – recognising that the skills mix, capacity, specialism and qualifications / experience requirements all change constantly | Regular review of skills through performance reviews to ensure can match organisation. | Awareness of ideal and cost driven resources. |
| Share best practice with other auditors | Team briefings Joint training seminars Intranet site within Cambridgeshire authorities (hosted by Huntingdonshire) Personal links with other auditors elsewhere | |
| Seek opportunities for joint working with other organisations auditors | Always a consideration. Shared service arrangement with Cambridge City Council | Look to bring other districts into the shared service |

CIPFA: STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT: COMPLIANCE CHECKLIST MAY 2012

| REF | ISSUE | YES | NO | N/A | COMMENT |
|---|--|-----|----|-----|---|
| PRINCIPLE 1 | | | | | |
| The HIA in a local authority plays a critical role in delivering the authorities strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments | | | | | |
| 1.1 | GOVERNANCE REQUIREMENTS | | | | |
| 1.1.1 | Set out the HIA's role in good governance and how this fits with the role of others, in particular the Chief Finance Officer, Monitoring Officer and the Head of Paid Service. | ✓ | | | Summarised within the Annual Governance Statement |
| 1.1.2 | Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training. | ✓ | | | |
| 1.1.3 | Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives. | | | ✓ | HIA, or an Internal Audit representative would only be involved if there were specific concerns relating to internal control or risk |
| 1.1.4 | Require staff to report suspected or detected fraud, corruption or impropriety to the HIA. | | | ✓ | Under the current arrangements, staff are expected to report irregularities to their manager, the Fraud hotline; or the Corporate Fraud team in addition to the potential reporting line into Internal Audit. |
| 1.2 | CORE HIA RESPONSIBILITIES | | | | |
| 1.2.1 | Working with others (including the Chief Finance Officer, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation. | ✓ | | | HIA has produced the Annual Governance Statement. HIA also a member of the Strategic Governance Board. |
| 1.2.2 | Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects. | | | ✓ | The Council does not have a formal Leadership Team of Members and Officers |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|-------|--|-----|----|-----|--|
| 1.2.3 | Promoting the highest standard of ethics and standards across the authority based on the principles of integrity, objectivity, competence and confidentiality. | ✓ | | | This is encompassed within Internal Audits Code of Ethics which is annually reviewed (last Audit Committee approval 26 March 2012) |
| 1.2.4 | Demonstrating the benefits of good governance for effective public sector delivery and how the HIA can help | ✓ | | | The Council promotes the benefits of good governance. The HIA assists via the production of the Annual Audit Opinion. |
| 1.2.5 | Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments. | ✓ | | | Lead on production for Annual Governance Statement. |
| 1.3 | PERSONAL SKILLS AND PROFESSIONAL STANDARDS | | | | |
| 1.3.1 | Provide leadership by giving practical examples of good governance that will inspire others. | ✓ | | | HIA uses knowledge of peer organisations to offer practical advice to encourage good practice. |
| 1.3.2 | Deploy effective facilitating and negotiating skills | ✓ | | | |
| 1.3.3 | Build and demonstrate commitment to continuous improvement | ✓ | | | |
| 1.3.4 | Demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating. | ✓ | | | These are available either as an element of regular audits or specific assignments. |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|--|---|-----|----|-----|---|
| PRINCIPLE 2 | | | | | |
| The HIA in a local authority plays a critical role in delivering the authorities strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control. | | | | | |
| 2.1 | GOVERNANCE REQUIREMENTS | | | | |
| 2.1.1 | Set out the responsibilities of the HIA, which should not include the management of operational areas. | ✓ | | | The HIA has clear responsibilities. There are no operational areas. |
| 2.1.2 | Ensure that internal audit is independent of external audit. | ✓ | | | Formal protocol adopted |
| 2.1.3 | Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA Strategy for these and associated plans and reports and ensure the work is independently managed. | | | ✓ | |
| 2.1.4 | Establish clear lines of responsibility for those with an interest in governance (e.g. Head of Paid Service, Monitoring Officer, CFO, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies. | ✓ | | | This is set out within the Audit Committee Handbook and the Annual Governance Statement |
| 2.1.5 | Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns. | ✓ | | | The HIA has a direct line of access to the Audit Committee; appropriate Members; Chief Executive as well as normal reporting lines within the Strategic Resources Department. |
| 2.1.6 | Agree the terms of reference for Internal Audit with the HIA, the Audit Committee and the CFO, as well as the Leadership Team. | ✓ | | | There is an annual review of the terms of reference for Internal Audit. This "Audit Charter" accompanied the Plan for approval by Audit Committee on 26 March 2012. |
| 2.1.7 | Set out the basis on which the HIA can give assurances to other organizations and the basis on which the HIA can place reliance on assurances from others. | ✓ | | | Assurance arrangements are set out in the Audit Committee Handbook |
| 2.1.8 | Ensure that comprehensive governance arrangements are in place, with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistleblowing. | ✓ | | | Reviewed as part of the Annual Governance Statement and documented in the Committee Handbook. |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|--------|--|-----|----|-----|---|
| 2.1.9 | Ensure that the annual internal audit opinion and report are issued in the name of the HIA. | ✓ | | | Issued June committee cycle each year. |
| 2.1.10 | Include awareness of governance in the competencies required by members of the Leadership Team. | ✓ | | | Although there is no formal Leadership Team, senior Members and officers are involved in reviewing governance arrangements. |
| 2.1.11 | Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report. | | ✓ | | This has not been complied with – due to capacity issues. |
| 2.1.12 | Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team. | ✓ | | | Presented annually. Last approved 26 March 2012. |
| 2.2 | CORE HIA RESPONSIBILITIES | | | | |
| 2.2.1 | Giving assurance on the control environment. This includes risk and information management and internal controls across all systems. | ✓ | | | |
| 2.2.2 | Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risks register, anti fraud and corruption strategy, corporate plan. | ✓ | | | |
| 2.2.3 | Produce evidence based annual internal audit opinion on the authority's control environment. | ✓ | | | |
| 2.2.4 | Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance. | ✓ | | | This principle is adopted in practice wherever relevant |
| 2.2.5 | Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests. Assessing whether lines of responsibility and assurance are clear. | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|--------|---|-----|----|-----|--|
| 2.2.6 | Liaising closely with the external auditor to share knowledge and to use audit resources most effectively. | ✓ | | | Governed by a separate protocol. |
| 2.2.7 | Producing an internal audit strategy that fits with and supports the authority's objectives. | ✓ | | | See 2.1.12. All audits are mapped to the overarching corporate objectives of the Council. |
| 2.2.8 | Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy. | ✓ | | | |
| 2.2.9 | Consulting stakeholders, including senior managers and Members on the internal audit strategy. | ✓ | | | The Strategy is agreed by the S.151 Officer and the Audit Committee. External Audit is also consulted. |
| 2.2.10 | Setting out how the HIA plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others. | ✓ | | | See 2.1.7 |
| 2.2.11 | Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy. | ✓ | | | In practice, liaison tends to be focused on the annual plan rather than the strategy |
| 2.2.12 | Liaising with the external auditor on the internal audit strategy, but not been driven by external audit's own priorities. | ✓ | | | In practice, liaison tends to be focused on the annual plan rather than the strategy |
| 2.3 | PERSONAL SKILLS AND PROFESSIONAL STANDARDS | | | | |
| 2.3.1 | Give clear, professional and objective advice. | ✓ | | | |
| 2.3.2 | Report on what is found, without fear or favour. | ✓ | | | |
| 2.3.3 | Demonstrate integrity to staff and others in the authority. | ✓ | | | |
| 2.3.4 | Exercise sound judgment in identifying weaknesses in the authority's control environment and a balanced view on how significant these are. | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|-------|---|-----|----|-----|--|
| 2.3.5 | Work well with others with specific responsibilities for internal control, risk management and governance including Head of Paid Service, the Monitoring Officer, the CFO, Audit Committee and Members. | ✓ | | | HIA is a member of the Strategic Governance Board which oversees developing good governance across the organization. |
| 2.3.6 | Be concerned for action – influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented. | ✓ | | | Critical and High Recommendations are reported through to Audit Committee to ensure delivered |
| 2.3.7 | Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct. | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|---|---|-----|----|-----|--|
| PRINCIPLE 3 | | | | | |
| To perform this role the Head of Internal Audit must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee | | | | | |
| 3.1 | GOVERNANCE REQUIREMENTS | | | | |
| 3.1.1 | Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contact or agreement. | ✓ | | | |
| 3.1.2 | Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team. | ✓ | | | |
| 3.1.3 | Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract of agreement with the internal audit provider. | | ✓ | | Reports to Head of Corporate Services, although has direct access to senior officers on the Management Team. |
| 3.1.4 | Establish an Audit Committee in line with guidance and good practice. | ✓ | | | |
| 3.1.5 | Set out the HIA's relationship with the Audit Committee and its Chair. | ✓ | | | |
| 3.1.6 | Ensure that the authority's governance arrangements allow the HIA: <ul style="list-style-type: none"> To bring influence to bear on material decisions reflecting governance; Direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit To attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|------------|--|-----|----|-----|--|
| 3.1.7 | Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations. | ✓ | | | Set out in the Audit Charter – last approval 26 March 2012 |
| 3.1.8 | Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services. | ✓ | | | |
| 3.2 | CORE HIA RESPONSIBILITIES | | | | |
| 3.2.1 | Escalating any concerns through the line manager, CFO, Monitoring Officer, Head of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate. | ✓ | | | |
| 3.2.2 | Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements. | ✓ | | | Reported to Committee 6 February 2012 |
| 3.2.3 | Consulting stakeholders, including senior managers and Members on the internal audit strategy. | ✓ | | | See 2.2.9 |
| 3.3 | PERSONAL SKILLS AND PROFESSIONAL STANDARDS | | | | |
| 3.3.1 | Network effectively to raise the profile and status of internal audit. | ✓ | | | |
| 3.3.2 | Adopt a flexible style, being able to collaborate and advise but able to challenge as appropriate. | ✓ | | | |
| 3.3.3 | Build productive relationships both internally and externally. | ✓ | | | |
| 3.3.4 | Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity. | ✓ | | | Majority of member contact is through the Audit Committee |
| 3.3.5 | Be seen to be objective and independent but also pragmatic where appropriate. | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|---|---|-----|----|-----|---|
| PRINCIPLE 4 | | | | | |
| To perform this role the Head of Internal Audit must lead and direct an internal audit service that is resourced to be fit for purpose | | | | | |
| 4.1 | GOVERNANCE REQUIREMENTS | | | | |
| 4.1.1 | Provide the HIA with the resources, expertise and systems necessary to perform their role effectively. | ✓ | | | |
| 4.1.2 | Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assess performance and takes action as appropriate. | ✓ | | | |
| 4.1.3 | Ensure that there is a regular review of internal audit quality. | ✓ | | | Annual review by External Audit of a number of audits undertaken in the year, in order to establish whether or not can place reliance on the work undertaken. In addition, post audit questionnaires are issued to clients to complete following each audit conducted. |
| 4.1.4 | Ensure that where the HIA is from another organisation that they do not also provide the external audit service. | ✓ | | | |
| 4.2 | CORE HIA RESPONSIBILITIES | | | | |
| 4.2.1 | Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external stakeholders. | ✓ | | | |
| 4.2.2 | Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate. | ✓ | | | |
| 4.2.3 | Informing the CFO, the Leadership Team and Audit Committee if there are sufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given. | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|-------|---|-----|----|-----|---|
| 4.2.4 | Implementing robust processes for recruitment of internal audit staff and / or the procurement of internal audit services from external suppliers. | ✓ | | | Council procedures followed, including use of agency staff if required. |
| 4.2.5 | Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met. | ✓ | | | Annual performance reviews undertaken |
| 4.2.6 | Developing succession plans and helping staff with their career progression. | ✓ | | | |
| 4.2.7 | Establishing a quality assurance and improvement programme that includes: <ul style="list-style-type: none"> • Ensuring that professional internal audit standards are complied with • Reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders • Providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; • Putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality • Ensuring that internal auditors declare any interests that they have • Seeking continuous improvement in the internal audit service | ✓ | | | |
| 4.2.8 | Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from the, implementing improvements where appropriate. | ✓ | | | Includes networking through Cambridgeshire Audit Group; CIPFA Better Governance Forum and other peer groups |
| 4.2.9 | Demonstrating how internal audit adds value to the authority. | ✓ | | | Identified within the Audit Strategy |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|--------|---|-----|----|-----|--------------------------------|
| 4.3 | PERSONAL SKILLS AND PROFESSIONAL STANDARDS | | | | |
| 4.3.1 | Demonstrate leadership and be an ambassador for internal audit | ✓ | | | |
| 4.3.2 | Create, communicate and implement a vision for the internal audit service | ✓ | | | Identified within the Strategy |
| 4.3.3 | Create a customer focused internal audit service | ✓ | | | |
| 4.3.4 | Establish an open culture, built on effective coaching and a constructive approach | ✓ | | | |
| 4.3.5 | Promote effective communication with internal audit, across the broader organisation and with external stakeholders | ✓ | | | |
| 4.3.6 | Set and monitor meaningful performance objectives for staff | ✓ | | | |
| 4.3.7 | Manage and coach staff effectively | ✓ | | | |
| 4.3.8 | Comply with professional standards and ethics | ✓ | | | |
| 4.3.9 | Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately | ✓ | | | |
| 4.3.10 | Ensure where necessary that outside expertise is called upon for specialist advice not available within the internal audit service | ✓ | | | |
| 4.3.11 | Promote discussion on current governance and professional issues and their implications | ✓ | | | |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|---|---|-----|----|-----|---|
| PRINCIPLE 5 | | | | | |
| To perform this role the Head of Internal Audit must be professionally qualified and suitably experienced. | | | | | |
| 5.1 | GOVERNANCE REQUIREMENTS | | | | |
| 5.1.1 | Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation | ✓ | | | Qualified HIA in accordance with Statement and set in the posts job description and post responsibilities. |
| 5.1.2 | Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role | ✓ | | | Skills, knowledge and experience built upon through previous / current role(s). Ongoing monitoring. Separate resources budget / staffing independent of Strategic Resources division. Regular review for appropriateness. |
| 5.2 | CORE HIA RESPONSIBILITIES | | | | |
| 5.2.1 | No specific requirements | | | ✓ | |
| 5.3 | PERSONAL SKILLS AND PROFESSIONAL STANDARDS | | | | |
| 5.3.1 | Be a full member of an appropriate professional body and have an active programme for personal professional development. | ✓ | | | CIPFA qualified (1993). Continuing personal development undertaken since qualification in accountancy and audit environment within local government. |
| 5.3.2 | Adhere to professional internal auditing (and where appropriate accounting and auditing) standards | ✓ | | | |
| 5.3.3 | Demonstrate a range of skills including communicating, managing an influencing, as well as an understanding of IT and consultancy. | ✓ | | | |
| 5.3.4 | Have prior experience of working in internal audit | ✓ | | | Internal Audit environment since 1995. |

| REF | ISSUE | YES | NO | N/A | COMMENT |
|-------|---|-----|----|-----|---------|
| 5.3.5 | Understand and have experience of strategic objective setting and management | ✓ | | | |
| 5.3.6 | Understand the internal audit and regulatory environment applicable to local government | ✓ | | | |
| 5.3.7 | Demonstrate a comprehensive understanding of governance, risk management and internal control | ✓ | | | |
| 5.3.8 | Undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the authority's activities and processes | ✓ | | | |