



'Working in partnership for a sustainable, high quality service'



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**INTERNAL AUDIT**  
**EFFECTIVENESS REVIEW**  
**Cheltenham Borough Council**

# Annual Internal Audit Effectiveness Review 2012-13

## Introduction

In April 2012 Cheltenham Borough Council and West Oxfordshire District Council delegated their Internal Audit services to Cotswold District Council. This partnership is known as 'Audit Cotswolds' and provides the internal audit services for the Council. This service is required by the Accounts and Audit Regulations (2011) as set out below:

The Accounts and Audit Regulations (2011) state under regulation 4:

- 1) The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.
- 2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.
- 3) The findings of the review referred to in paragraph (2) must be considered by a committee, following the review, the committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

Under regulation 6:

- 1) a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 2) Any officer or member of a relevant body must, if the body requires:
  - a) Make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
  - b) Supply the body with such information and explanation as that body considers necessary for that purpose

3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.”

4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph

There is not a national measurement of effectiveness for internal audit, however, it is accepted that compliance with relevant standards does go some way to fulfil this requirement. This year due to the changes in the internal audit standards, this is the last year we will be assessed against the CIPFA 2006 code of practice for internal audit in local government. This assessment was reported to the Audit Partnership Board and to this committee timed to support the annual opinion report. For 2013-14 the new CIPFA Public Sector Internal Audit Standards will apply.

### **Results of the review**

Set out below is the assessment of the service against the CIPFA standards:

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### AuditCotswolds Internal Audit - Good Practice Self Assessment Checklist 2012/13

This is the final year where Audit Cotswolds will be assessed under the 2006 CIPFA code of practice. As from 1st April 2013 the new Public Sector Internal Audit Standards (PSIAS) will be in place.

#### Scoring:

- 1 = No** - performance does not comply with good practice  
**2 = Qualified** - partial compliance  
**3 = Yes** - performance complies with good practice

2010/11	2011/12	2012/13	
<b>Audit Cotswolds</b>	<b>Audit Cotswolds</b>	<b>Audit Cotswolds</b>	
enter			<b>Evidence / Source</b>
1, 2 or 3			

#### SETTING CLEAR & PROPERLY FOCUSED OBJECTIVES

##### 1. Internal audit has an agreed terms of reference.

1.1	The internal audit section has written terms of reference.	3	3	3	Financial Rules, supported by Internal Audit Charter (revised 2013), Section 101 Agreement, Partnership Board Terms of Reference
1.2	The TOR have been agreed between the chief internal auditor, senior management and councillors.	3	3	3	Agreed with Corporate Team and Audit Committees
1.3	The TOR have regard to the CIPFA Code of Practice and guidance published by relevant accountancy bodies.	3	3	3	Charter is aligned to the Chartered Institute of Internal Auditors
1.4	The TOR frame objectives for internal audit that take account of the council's corporate aims and objectives.	3	3	3	Annual Plan is aligned to risks to the organisational objectives & Charter is enabling Audit to fulfil this element
1.5	The TOR make clear that internal audit should not be a substitute for effective control.	3	3	3	Charter
1.6	The TOR authorise internal audit's free access to all operations, information, records, assets and personnel across the council.	3	3	3	Financial Rules & Charter
1.7	The TOR are reflected in the council's standing orders and financial regulations.	3	3	3	Financial Rules
1.8	The communication arrangements between members and the chief internal auditor are set out in the TOR or standing orders.	3	3	3	Financial Rules, Audit Partnership Agreement (S101), Charter, Head of Audit Cotswolds Job Description
1.9	The TOR are communicated across the council in the form of a mission statement or charter.	2	2	3	The Charter has been through all partner sites at corporate management level and Audit Committees, Further information is being published to the internet.
1.1	The TOR have been reviewed during the last 3 years	3	3	3	Reviewed in 2013 ready for the new audit standards

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### 2. The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated.

2.1	Management has defined control objectives for all major systems (financial and non-financial).	2	2	2	Delegated Authorities in the Constitution, Procurement Strategy and Financial Rules.
2.2	Internal audit is consulted about significant proposed changes to internal control systems.	3	3	3	Audit Partnership Manager (APM) and Principal Auditors consulted on change programmes e.g. GO programme, Waste, One Team
2.3	The chief internal auditor provides an overall assessment for management of the robustness of internal control for the council's main systems, based on the work done that year.	3	3	3	Covered by fundamental auditing each year, Annual Report & AGS
2.4	Internal audit reviews demonstrate to managers the strength of internal controls and the levels of risk within their systems.	3	3	3	Assurance opinion given in reports - recommendations prioritised.
2.5	The chief internal auditor reports to the responsible officer or body the basis for demonstrating compliance with Section 151 of the Local Government Act 1972	3	3	3	APM Reports to a partnership board comprising of Section 151 Officers

### 3. Internal audit has a clear role in relation to fraud.

3.1	The council has an anti-fraud and corruption strategy.	3	3	3	Financial Rules, <i>Anti Fraud &amp; Corruption Strategy (being updated)</i> , Whistleblowers Policy and Terms of Reference.
3.2	A framework for internal audit involvement in fraud investigation and prosecution is set down in the anti-fraud and corruption strategy.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.3	The council has a fraud response plan.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.4	The fraud response plan clearly sets out the roles and responsibilities of internal audit and management and includes a protocol for informing the police.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.5	The council has a 'whistleblowing' policy or confidential reporting procedure that has been communicated to all staff.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.6	Where appropriate, fraud investigations lead to recommendations to help disclose similar frauds and improve internal control.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference. Reporting to Audit Committee was introduced in 2012-13
3.7	The anti-fraud and corruption strategy and fraud response plan have been reviewed during the last 3 years.	3	3	2	All partner sites are in the process of updating and aligning anti-fraud policies

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### MAINTAINING INTERNAL AUDIT INDEPENDENCE

#### 4. Internal audit has sufficient organisational status to be able to undertake its work effectively.

4.1	The chief internal auditor has direct access to members, the chief executive and senior managers.	3	3	3	Financial Rules, Internal Audit Charter
4.2	The chief internal auditor formally discusses the work and performance of internal audit with the chief executive / audit panel or equivalent at least annually.	3	3	3	Regular reports to Audit Committee and 1-2-1 briefings with the Section 151 Officer(s)
4.3	Internal audit determines its own priorities, based on risk assessment, in consultation with management.	3	3	3	Annual operational plan based on risk assessment. Audit Committee approves plan after Corporate Management consultation.
4.4	The chief internal auditor reports to the responsible finance officer under s95 or to a more senior manager in the council.	3	3	3	Partnership Board (Section 151 Officers)
4.5	The level of seniority (management tier) of the chief internal auditor within the management structure helps it to function effectively and independently.	3	3	3	APM reports to Sec 151 officer but also access to CT, CEO, Leader and Audit Committee. From April 2011 Audit Partnership Manager now Head of Internal Audit at CBC and all other partner Councils
4.6	Internal audit has unrestricted access to people, systems, documents and property as it considers necessary for the proper fulfilment of its responsibilities	3	3	3	Financial Rules and Charter
4.7	The chief internal auditor is free to report, without fear or favour, eg, the chief internal auditor has the right of final edit and issues reports in his or her own name.	3	3	3	APM reports to Audit Committee

#### 5. Internal audit is free of operational responsibilities that could compromise its independence.

5.1	Internal audit is independent of any line management task and is seen to be independent.	3	3	3	Internal Audit Charter & Financial Rules
5.2	Where internal audit provide advice and consultancy work, are staff clear when they are operating as auditors and when they are not.	3	3	3	Internal Audit Charter & Declarations of Interest
5.3	The chief internal auditor plans assignments to minimise the possibility of staff conflicts of interest.	3	3	3	APM and Principal Auditors allocate work taking account of interests recorded on annual 'declaration of interest' forms submitted by team members
5.4	Whilst reporting to the responsible finance officer, the chief internal auditor has freedom of access to all members and officers, especially the chief executive.	3	3	3	Un-restricted access to all stakeholders

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5.5	Staff with family or close friends within the council do not audit activities within their section.	3	3	3	Chartered Institute of Internal Auditors code of ethics embedded in service & Internal Declaration
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### PLANNING & CONTROLLING THE WORK OF INTERNAL AUDIT

#### 6. Internal audit bases its work on a comprehensive risk assessment.

6.1	Internal audit bases its risk assessment on information from the authority's risk management process and an agreed audit risk methodology.	3	3	3	Risk Registers used where possible - Risk Management Audit undertaken annually to assess risk maturity of organisation. Plus formal consultation process with SLT/SMT
6.2	Internal audit consults widely with management to identify critical systems and risks.	3	3	3	APM consults with SMT/SLT through the year
6.3	Internal audit has a comprehensive understanding of the authority's systems, structures and operations.	3	3	3	Audit plans and reports
6.4	Internal audit uses a formal framework to assess risks.	3	3	3	Audit planning process incorporates organisations risk register and other key documents for assessment.
6.5	Internal audit uses the risk assessment to prepare audit plans and prioritise its work.	3	3	3	Audit planning process incorporates risk assessments (methodology reported to Audit Committees in March 2013)
6.6	Internal audit review their risk assessment basis at least annually periodically, depending on the extent of change within the organisation.	3	3	3	Audit uses an annually developed risk based plan, which is updated quarterly and is approved by Audit Committee

#### 7. Internal audit operates within a structured planning framework.

7.1	Internal audit plans link back to the council's corporate aims and objectives and are co-ordinated with other review programmes (eg Best Value reviews).	3	3	3	Internal Audit Service Plan
7.2	Audit plans are produced in consultation with senior managers across the organisation.	3	3	3	Audit Plan agreed with CT/SLT, Heads of Service and approved by Audit Committee
7.3	Internal audit has a strategic plan based on risk assessment, which sets out the audit scope and objectives.	3	3	3	Audit Plan identifies the risk universe and prioritises the audits - scope and objectives confirmed at the audit brief level
7.4	The strategic plan sets out the resources required to meet the audit needs of the council and identifies any mismatch between resource needs and resource availability.	3	3	3	Available days planning linked to Audit Planning and are reviewed annually by the Partnership Board
7.5	An annual audit plan is produced which translates the strategic plan into audit assignments to be undertaken during the year.	3	3	3	Annual Audit Plan

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7.6	Project plans are set out for each audit assignment, which allocate resources, set out the scope and objectives of the assignment and establish target completion dates.	3	3	3	Audit Brief
7.7	Audit plans are flexible enough to accommodate work that has arisen during the course of the plan without resulting in core risk areas not being reviewed.	3	3	3	The Audit Plan is reviewed quarterly and the Audit Brief identifies the possibility of focus change in the engagement
7.8	Significant changes to audit plans are approved by senior management and the audit committee (or equivalent).	3	3	3	Locally by Sec 151 Officer and/or Audit Committee / across partnership by the Partnership Board
7.9	The planning process takes account of the work undertaken by external audit and other review agencies and inspectorates.	3	3	3	External Auditors and other internal audit teams
7.1	Internal audit strategic plans are reviewed to reflect the changed priorities of the council.	3	3	3	Audit Plan agreed by SMT/SLT and approved by Audit Committee
7.11	The agreed annual audit plan is only revised in exceptional circumstances.	3	3	3	Core plan yes - Risk based plan is fluid

### 8. Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies.

8.1	The timing of internal audit assignments is normally arranged with the management concerned to minimise disruption.	3	3	2	2012~13 has been an exceptional year with significant service changes as a result audit has not always been able to align to management's requested timing.
8.2	There is an ongoing dialogue between the auditor and client service throughout the audit assignment.	3	3	3	Agreed brief, includes findings feedback, draft report discussion and agreements
8.3	External audit place reliance on the work of internal audit ( <i>evidenced by explicit mention in annual Audit Letter</i> ).	3	3	3	KPMG at CBC provided a statement to this effect
8.4	Internal audit and external audit regularly exchange audit files.	3	3	3	Audit files reviewed every year
8.5	Internal audit effectively co-ordinates its work with external audit and other review agencies.	3	3	3	This has been particularly important due to the GO Shared Service
8.6	Internal audit maintains good working relationships and channels of communication with elected members.	3	3	3	APM is the key contact for all Audit Committees

### 9. Internal audit properly manages, controls and records its work.

9.1	Internal audit has documented policies and procedures contained in an audit manual.	2	2	3	Audit Manual has been updated for new audit standards 2013
9.2	The chief internal auditor allocates staff to assignments according to their skills and experience.	3	3	3	Annual Plan Allocation + Assurance/Consultancy on Programmes/Projects



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9.3	Internal audit staff understand the objectives of their assignments and their responsibilities.	3	3	3	Scope set out in Brief
9.4	Internal audit has a rigorous approach to collecting and managing evidence.	3	3	3	Structured Working Papers and file system
9.5	Adequate working papers are prepared to support internal audit findings, conclusions and recommendations.	3	3	3	Audit files reviewed by Principal Auditors
9.6	Internal audit work is documented at all levels from audit planning to reporting.	3	3	3	Structured Working Papers
9.7	Internal audit assignments are adequately supervised and reviewed.	3	3	3	Audit files reviewed by Principal Auditors - APM approves final reports

### RESOURCING THE INTERNAL AUDIT WORK PROGRAMME

#### 10. Internal audit is adequately staffed and resourced.

10.1	The chief internal auditor is professionally qualified and has wide experience of internal audit and its management.	3	3	3	Member of 3 professional bodies (CMAA / CMgr FCMI / AMS) and three postgraduate qualifications (DMS/MA/PgDip) and 10+ years experience
10.2	The chief internal auditor has identified a staffing structure that enables internal audit to meet its objectives and the changing needs of the organisation.	3	3	3	Organisation structure approved - partnership business case
10.3	Internal audit has adequate resources to enable it to meet its work objectives efficiently and effectively.	3	3	3	Organisation structure approved + consultancy+ Partnership agreement
10.4	Internal audit employs or has access to people with relevant skills and experience in order to undertake the required tasks.	3	3	3	In 2012/13 additional contractors were used to support the team following staff turnover
10.5	Where required the chief internal auditor can 'buy in' people for specialist work who are suitably experienced and qualified.	3	3	3	Consultants and Partnership staff. Recruited an ICT Auditor in 2012/13
10.6	Internal audit uses appropriate the latest technology for planning, audit work and reporting.	3	2	2	Internal system using Microsoft Office software - ICT networking has not been effective for the partnership.
10.7	All audit staff have job descriptions and personnel specifications that reflect their current post.	3	3	3	JD and PS exist for all posts

#### 11. Internal audit staff are suitably trained and developed.

11.1	An induction programme has been prepared for all new audit staff.	3	3	3	Formal Council Induction programme + Published training programme
11.2	Training is tailored to the needs of individual auditors and includes both theoretical knowledge and its practical application.	3	3	3	Appraisal system + coaching for new staff + relevant external training

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11.3	Internal auditors keep up-to-date with current developments in auditing and the issues facing the audited body.	3	3	3	CIIA / CIPFA / AAT / CIMA memberships, GCIAG & MDCIAG, TISonline, CMI online, Team Brief & CPD plan
11.4	All staff maintain competence through professional development.	3	3	3	Appraisal system and training programme
11.5	The chief internal auditor coordinates and keeps under review the training and development requirements of internal auditor staff.	3	3	3	Appraisal system and team meetings

### 12. Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls.

12.1	The chief internal auditor produces an annual report, which contains a view on the soundness of the council's internal control system.	3	3	3	Year end annual report to Audit Committee - feeds into the AGS
12.2	Internal audit has documented, systematic, procedures in place for producing and clearing reports.	2	2	3	New Charter and Manual
12.3	Reporting arrangements, including timescales for drafting, finalisation and management action have been agreed with management.	2	2	3	New Charter and Manual
12.4	Internal audit produces clear, concise, constructive written reports <i>(in the opinion of the external auditor)</i> .	3	3	3	External audit provided with copies of Internal audit reports
12.5	Before issuing final reports, internal audit discusses the contents with management, and may submit a draft to confirm factual accuracy.	3	3	3	This has been particularly challenging in 2012-13 due to shared service changes
12.6	Where internal audit and management disagree the relevance of the factual content, the chief internal auditor has the opportunity to refer to this in his/her report.	3	3	3	Sec 151 officer, Director, CEO, Audit Committee Chairman, Leader of the Council (Case example CRB audit)

### 13. Internal audit follow up their recommendations to ensure action is taken.

13.1	Internal audit, agrees 'SMART' action plans, which identify persons responsible for implementation, with management to review progress of implementation by both parties.	3	3	3	A Risk based Recommendation Action Plan in every report
13.2	Internal audit reports instances of significant failure to comply with action plans to the appropriate senior management/members corporate management team.	3	3	3	Reports identify previous recommendations that have not been implemented
13.3	Where management do not implement internal audit recommendations, it is clear that they accept the risk resulting from not taking action.	3	3	3	Risk exposure is highlighted in the action plan and follow up, reported to Audit Committee
13.4	The results of follow up work by internal audit are used to update the Audit Committee.	3	3	3	Follow-up work is reported to Audit Committees

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13.5	The results of follow up work by internal audit are used to inform updated audit plans.	3	3	3	Audit follow-up feeds Audit Planning process, plans have included some specific follow-up audits
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### HOLDING INTERNAL AUDIT TO ACCOUNT FOR ITS PERFORMANCE

#### 14. Internal audit has a performance management framework that ensures continuous review of its performance.

14.1	Internal audit is accountable to an audit committee or equivalent body.	3	3	3	Audit Committee
14.2	The chief internal auditor prepares an annual plan that is presented to senior management and the audit committee (or its equivalent).	3	3	3	CT/SLT and Audit Committees
14.3	The chief internal auditor uses a set of indicators to measure the performance of internal audit.	3	3	3	Reported through Covalent + Partnership Board. APM receives an annual appraisal by the Partnership Board
14.4	Internal audit has a documented system for evaluating the performance of the unit as a whole.	3	3	3	Partnership Board and Annual effectiveness review
14.5	The chief internal auditor is responsible for continuously maintaining and developing the performance management in internal audit.	3	3	3	Service plan tasks & Team meetings
14.6	Internal audit is accredited under a national or international quality standard (eg IIP, EFQM, etc).	3	3	3	CIPFA Code of Practice & CIA Standards

#### 15. The chief internal auditor promotes and maintains professional standards in internal audit.

15.1	Internal auditors possess knowledge of the council and its systems to a level commensurate with their role in the unit.	3	3	3	Appraisal and training promotes + Audit Partnership Manager + Principal Auditor role guides
15.2	Internal auditors are impartial in discharging their responsibilities	3	3	3	Internal Audit Charter
15.3	Disciplinary procedures are invoked where a staff member contravenes the ethical standards required by the accountancy bodies.	3	3	3	Employee Code of Conduct
15.4	Internal audit maintains a current register of declarations of interest, and acceptance of hospitality.	3	3	3	Officer Declaration of Interest & Hospitality register

### SUMMARY

	2010/11	2011/12	2012/13	
<b>1 = No</b> - performance does not comply with good practice	0	0	0	0%
<b>2 = Qualified</b> - partial compliance	5	6	4	4%
<b>3 = Yes</b> - performance complies with good practice	92	91	93	96%
<b>Total Questions</b>	97	97	97	100%

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The results show a 96% full compliance and 4% partial with no instances of non-compliance.