

# **Code of Practice for Internal Audit in Local Government in the United Kingdom 2006**



**Darlington Borough Council**  
**Audit Services**  
**Compliance with the Code**

Ref	Adherence to the Standard	Yes	Partial	No	Response	Evidence
<b>1</b>	<b>Scope of Internal Audit</b>					
<b>1.1</b>	<b>Terms of Reference</b>					
1.1.1	Do terms of reference:					
	a. establish the responsibilities and objectives of Internal Audit	✓			Section 2, Purpose, Scope and Authority	<a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf</a>
	b. establish the organisational independence of Internal Audit.	✓			Section 4, Organisational Relationships and Audit Independence	See link above
	c. establish the accountability, reporting lines and relationships between the Head of Internal Audit and: i). those charged with governance ii). Those parties to whom the Head of Internal Audit may report.	✓			Paragraphs 4.6 to 4.12	See link above
	d. recognise that Internal Audit's remit extends to the entire control	✓			Paragraphs 2.3 to 2.7	See link above

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	environment of the organisation					
	e. identify Internal Audit's contribution to the review of the effectiveness of the control environment.	✓			Paragraph 2.3	See link above
	f. require and enable the Head of Internal Audit to deliver an annual audit opinion.	✓			The terms of reference require the Chief Internal Auditor to provide an annual report, ( Para 4.9) The opinion is provided for within this report.	See link above
	g. define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2.).	✓			Section 3 and paragraph 4.5	See link above
	h. explain how Internal Audit's resource requirements will be assessed.	✓			Paragraph 6.1, Planning	See link above
	i. establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner	✓			Paragraphs 2.4 to 2.7 Authority	See link above

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	organisations and it's 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.	✓			Done as part of a report taken to the Audit Committee annually by the Chief Internal Auditor detailing content and proposed changes (if any) in line with best practice, changes to regulations, etc.	
1.1.3	Have the terms of reference been formally approved by the organisation.	✓			Approved by the Audit Committee 12th July 2006	See link above
1.1.4	Are terms of reference regularly reviewed.	✓			Reviewed annually, any amendments being subject to approval by the Audit Committee	See link above
<b>1.2</b>	<b>Scope of Work</b>					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken	✓			Service planning risks, monitoring of previous audit results, use of the section's Audit Risk Assessment package which provides a risk score for each service	Audit Risk Assessment Process <a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT RISK ASSESSMENT.doc (version 1 Feb07).rtf">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT RISK ASSESSMENT.doc (version 1 Feb07).rtf</a>

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	into account when determining Internal Audit's work and where effort should be concentrated?				area which determines the frequency of the audit review.	
1.2.3	Where services are provided in partnership, has the Head of internal Audit identified:				Minimal partnership working is undertaken at present.	
	a. how assurance will be sought?	✓			Assurance will be sought as provided for in the Section's Role and Terms of Reference , point 2.3 Scope, to be taken to the Audit Committee in June 07.	
	b. agreed access rights where appropriate?	✓			These are provided for in the Partnership toolkit.	
<b>1.3</b>	<b>Other Work</b>					
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the:					
	a. skills	✓			Demonstrable skills through the outputs achieved.	Example of outputs reported to Audit Committee 06/07: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>

	b. resources to do this?	✓			Resources are allocated through the audit planning process. Projects are prioritised depending upon resources available.	
1.32	Do the terms of reference define Internal Audit's role in:					
	a. fraud and corruption work	✓			Section 3	<a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%202012%202006/Item%205%20appendix.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%202012%202006/Item%205%20appendix.pdf</a>
	b. consultancy work	✓			Paragraph 4.5	See link above
<b>1.4</b>	<b>Fraud and Corruption</b>					
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.	✓			Section 4 , Detection and investigation, Anti Fraud and Corruption Strategy.	<a href="http://www.darlington.gov.uk/PublicMinutes/Council/September%2015%202005/Item%2010%20Anti-Fraud%20and%20Corruption%20Arrangements.pdf">http://www.darlington.gov.uk/PublicMinutes/Council/September%2015%202005/Item%2010%20Anti-Fraud%20and%20Corruption%20Arrangements.pdf</a> <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/December%2020%202006/Item%209.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/December%2020%202006/Item%209.pdf</a> <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/December%2020%202006/Item%209%20-%20Appendix%201.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/December%2020%202006/Item%209%20-%20Appendix%201.pdf</a>
<b>2 . Independence</b>						
<b>2.1</b>	<b>Principles of</b>					

	<b>Independence</b>					
2.1.1	Is Internal Audit:					
	a. independent of the activities it audits.	✓			The section does not have any operational responsibilities for any of the services it audits	
	b. free from any non audit (operational) duties.	✓			As above	
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.	✓			Wherever possible. This issue is recognised and detailed in the Section's Role and Terms of Reference Para 4.5	<a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf</a>
<b>2.2</b>	<b>Organisational Independence</b>					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence.	✓			The independent status of the section is defined within the Council's Financial procedural rules and the Section's Role and Terms of Reference.	Financial Procedural Rules, Section 5 Internal Audit <a href="http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Financial%20Procedure%20Rules.pdf">http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Financial%20Procedure%20Rules.pdf</a>
2.2.2	Does the Head of					

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	Internal Audit have direct access to:					
	a. officers	✓			By virtue of Para2.6 and 2.7, in the section's Role and Terms of Reference.	
	b. members	✓			As above	
2.2.3	a. is there an assessment that the budget for internal audit is adequate?	✓			Done annually as par of the budget setting process.	
	b. Does any budget delegated to service areas ensure that:	n/a			There is no delegation of budget	
	i). Internal Audit adherence to the Code is not compromised?	n/a			n/a	n/a
	ii). The scope of Internal Audit is not affected?	n/a			n/a	n/a
	iii). Internal Audit can continue to provide assurance for the Statement of Internal Control	n/a			n/a	n/a
<b>2.3</b>	<b>Status of the Head of Internal Audit</b>					
2.3.1	Is the Head of Internal Audit	✓			The Head of Internal Audit reports directly to	



	managed by a member of the Corporate management team?				the Director of Corporate Services	
<b>2.5</b>	<b>Independence of Internal Audit Contractors</b>					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services.	n/a			n/a	n/a
<b>2.6</b>	<b>Declaration of Interest</b>					
2.6.1	Do audit staff make formal declarations of interest		✓		Staff are required to declare any interests to the Chief Internal Auditor as part of their obligations under the Code of Conduct for Employees.	
2.6.2	Does the planning process take account of the declarations of interest registered by staff	✓			Examples would be where a member of staff has a spouse working in another department, that section member would not be permitted to audit those areas for which the spouse has	

					responsibility for.	
<b>3. Ethics for Internal Auditors</b>						
<b>3.1</b>	<b>Purpose</b>					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities	✓			Enshrined in the section's obligations under 5.4 of the Role and terms of Reference. Also discussed at team meetings as appropriate.	
<b>3.2</b>	<b>Integrity</b>					
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓			Evidenced by the level of referrals to the section for advice, guidance, consultancy work required.	
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	✓			As above and evidenced by the high level of client satisfaction achieved and reviews by External Audit.	
<b>3.3</b>	<b>Objectivity</b>					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest	✓			Provided for in point 4.5 Role and terms of Reference, in addition the section has no operational responsibilities.	
3.3.3	Is a time period set by the Head of	✓			At the discretion of the Chief Internal Auditor.	

	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?	✓			Staff are rotated on a regular basis as much as possible commensurate with the size of the section and the requirement to maintain a level of expertise in various key service areas.	
<b>3.4</b>	<b>Competence</b>					
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.	✓			These are discussed via team meetings, service plan posters, information available on the intranet, etc.	
	b. the purpose, risks and issues of the service area/	✓			Audit Services research each assignment prior to commencement.	
	c. the scope of each audit	✓			Done as part of the audit planning stage,	

	assignment				formalised via the pre meeting with the client.	
	d. relevant legislation and other regulatory arrangements that relate to the audit.	✓			A comprehensive audit library is maintained to assist in this purpose. Further information is gathered as part of the planning process, research, discussions with the client, etc.	
<b>3.5</b>	<b>Confidentiality</b>					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality	✓			Provided for in the employee's code of conduct, implicit in the audit role, and detailed in the Role and Terms of Reference, 5.3 and 5.4.	
<b>4. Audit Committee</b>						
<b>4.1</b>	<b>Purpose of Audit Committee</b>					
4.1.1	Does the organisation have an independent audit committee?	✓			Committee's inaugural meeting took place in July 2006.	
4.2	Internal Audit's relationship with the Audit Committee					
4.2.1	Is there an effective working relationship between the audit committee and	✓			Regular liaison takes place between the Chief Internal Auditor and members of the committee. Training	

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	internal audit?				sessions have been undertaken on areas such as the workings of External and Internal Audit, Risk management etc, to broaden the committees understanding of the relevant processes.	
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			See section 7.	
4.2.2	Does the committee monitor the annual audit plan monitor progress/	✓			The committee approves the annual audit plan and monitors progress on a quarterly basis.	Audit Committee report, approval of annual plan: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%206%20Annual%20Audit%20Plan.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%206%20Annual%20Audit%20Plan.pdf</a>  Audit Committee report, quarterly progress report: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>
4.2.4	Does the Head of Internal Audit:					
	a. attend the committee and contribute to its agenda.	✓			The Head of Internal Audit attend all the Committee meetings and contributes to it's agenda.	Committee minutes and agenda's
	b. participate in the committee's	✓				

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	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.	✓			Training Sessions provided, Role and terms of Reference.	
	d. report on the outcomes of internal work to the committee.	✓			Progress reports are submitted quarterly to the committee	Quarterly progress reports, example being: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>
	e. establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa.	✓			All changes to the plan are agreed and approved by the Audit Committee however the circumstances of the changes arise.	See attached progress report for examples of reported changes. Para 8. <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>
	f. present the annual internal audit report to the committee.	✓			Annual report to be presented to the committee in June 2007 Last years was presented to Cabinet prior to the Committee being inaugurated.	
4.2.5	Is there the opportunity for the	✓			As required.	

	Head of Internal Audit to meet privately with the audit committee.					
<b>5. Relationships</b>						
<b>5.1</b>	<b>Principles of Good Relationships</b>					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with:	✓			The Section's Role and Terms of Reference document 06/07 provides these definitions. The document is approved by the Audit Committee on an annual basis.	See attached link to Role and Terms of Reference: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf</a>
	a. management	✓			Para's 4.6, 4.7, Relationships and relationship with the Director of Corporate Services	See link above
	b. other internal auditors	✓			Points 4.6 Relationships	See link above
	c. external auditors	✓			Para's 4.10, 4.11, 4.12, relationship with External Audit	See link above
	d. other regulators and inspectors	✓			Para 4.6 Relationships	See link above
	e. elected members				Para's 4.8, 4.9, Relationship with Elected Members	See link above
<b>5.2</b>	<b>Relationship with</b>					

	<b>Management</b>					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers.	✓			Undertaken as part of the audit process, pre and exit meetings, etc. Open Door policy of the section demonstrated by the level of requests for advice and guidance, etc. Also by meetings between the Chief Internal Auditor and Directors as part of the planning process.	
5.2.2	Is the timing of audit work planned in conjunction with management.	✓			Discussions are held with management prior to commencement of planning individual assignments to ascertain the most appropriate and beneficial timing for the client to be audited.	
5.3	Relationships with other internal auditors	✓			Liaison is maintained with other internal audit services, via user groups, forums etc. to discuss and disseminate good practice, etc.	To be formalised at June 07's Audit Committee by incorporation in the Role and Terms of Reference.
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles	✓			Joint working is currently being developed with Stockton BC. In addition, the Section utilises an audit management software product, "MK Insight" which is also in	Minutes of Northern User Group: <a href="#">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\25.01.07 Minutes</a>



	and confidentiality.				use by a number of other authorities. The section works closely with these authorities to share best practice, audit templates, etc.	
<b>5.4</b>	<b>Relationships with External Auditors</b>					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each others work.	✓			Wherever possible, both sets of auditors rely on each others work. Liaison takes place to ensure there is minimum duplication. In addition, internal audit will seek to follow up external audit recommendations as part of the audit process.	
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager.	✓			Regular liaison and dialogue takes place as either party requires.	
5.4.3	Are the internal and external audit plans co-ordinated.	✓			Plans are co-ordinated and are both subject to approval by the Audit Committee.	
<b>5.5</b>	<b>Relationships with Other Regulators and Inspectors</b>					

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.		✓			The section is seeking to be more pro active in this area and this is reflected in the revised Role and terms of reference to be taken to the Audit Committee in June 07.
<b>5.6</b>	<b>Relationships with Elected Members</b>					
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.	✓				Role and terms of reference, Para's 4.8, 4.9, relationship with Elected members:  <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/July%2012%202006/Item%205%20appendix.pdf</a>
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	✓				
<b>6. Staffing, Training and Continued Professional Development</b>						
<b>6.1</b>	<b>Staffing Internal Audit</b>					
6.1.1	Is internal audit appropriately	✓				

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	staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards.					
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.	✓			In general service are provided in house but in respect of IT skills for example, the section has entered into an agreement with PwC to provide training in this respect on a skills transfer basis.	
6.1.2	Is the Head of Internal Audit professionally qualified and experienced.	✓			CIPFA qualified with over 20 years experience .	
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management.	✓			See 6.1.2 above	
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.	✓				
<b>6.2</b>	<b>Training and Continuing Professional Development</b>					
6.2.1	a. Has the Head of Internal Audit defined the skills and competencies for each level of auditor	✓			Job and person specifications	
	b. Are individual auditors periodically assessed against these predetermined skills and competencies.	✓			Auditors are assessed via the PDR process both during and at the year end.	
	c. Are training or development needs identified and included in an appropriate ongoing	✓			Recorded and managed via the PDR process above.	

	development programme.					
	d. Is the development programme recorded, regularly reviewed and monitored.	✓			As above	
6.2.2	Do individual auditors maintain a record of their professional training and development activities.	✓			As above	
<b>7. Audit Strategy and Planning</b>						
<b>7.1</b>	<b>Audit Strategy</b>					
7.1.1	a. Is there an internal audit strategy for delivering the service.		✓		No formal strategy document is maintained. The principles of service delivery are enshrined in the Section's Role and Terms of Reference.	
	b. Is it kept up to date with the organisation and its changing priorities.	✓			See above	
7.1.2	Does the strategy include:					
	a. Internal Audit objectives and	✓			See above	

	outcomes.					
	b. How the Head of Internal Audit will form and evidence his or her opinion on the control environment.	✓			See above	
	c. how internal audit's work will identify and address local and national issues and risks.	✓			See above	
	d. how the service will be provided, i.e. internally, externally or a mix of the two.	✓			See above	
7.1.3	Has the strategy been approved by the audit committee.		✓		See above	
<b>7.2</b>	<b>Audit Planning</b>					
7.2.1	Is there a risk based plan that is informed by the organisation's risk management, performance management and other assurance processes.	✓			The audit plan is produced on an annual basis utilising the CIPFA based risk assessment model.	
7.2.1	Where the risk	✓			Although the risk	

	management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process.				assessment model is extensively utilised, local factors are also taken into account where appropriate, i.e. corporate and dept. risk registers.	
7.2.1	Are stakeholders consulted on the audit plan.	✓			The plan is agreed with the Chief Executive, Directors and the Audit Committee	
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions.	✓				
7.2.3	Does the plan:					
	a. cover a fixed period of no longer than one year?	✓			The plan is set annually	
	b. outline the assignments to be carried out.	✓				
	c. prioritise assignments.	✓			Assignments may be prioritised in discussions with stakeholders at their request. Otherwise assignments are allocated on resource availability both within	

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					Audit and the service being audited.	
	d. estimate the resource required.	✓			Each assignment is allocated a number of man days	See above
	e. differentiate between assurance and other work.	✓			The plan is split essentially between Assurance and Consultancy. Consultancy tasks may be undertaken to support risks identified via Service Planning for example such as the Darlington and Stockton partnership. Other consultancy tasks may be undertaken at the request of the stakeholder.	See above
	f. allow a degree of flexibility.	✓			The proposed plan may be adjusted at the request of stakeholders to take account of particular issues within departments although the Chief Internal Auditor reserves the right not to alter the original plan. Variations may also occur during the course of the year depending upon circumstances arising. These are	



					reported to the Audit Committee for approval	
7.2.4	If there an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions.	✓			Progress reports are made to the audit committee quarterly. Any issues (e.g. reduction in resources following a member of staff leaving) would be reported together with proposed action to be taken	
7.2.4	Has the plan been approved by the audit committee.	✓			The plan is approved annually 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.	✓			As 7.2.4	
<b>8. Undertaking Audit Work</b>						
<b>8.1</b>	<b>Planning</b>					
8.1.1	a. is a brief prepared for each audit.	✓			A pre audit meeting is held with the client to discuss the scope of the audit assignment. An objective sheet is produced which the client managers signs up to.	<a href="\\OA-SERVER\SHAREDS\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Objective Sheet.doc">\\OA-SERVER\SHAREDS\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Objective Sheet.doc</a>
	b. Is the brief	✓			See 8.1.1	See link above

	discussed and agreed with the relevant managers.					
8.1.1	Does the brief set out:					
	a. objectives.	✓			See 8.1.1	See link above
	b. scope.	✓			See 8.1.1	See link above
	c. timing.	✓			See 8.1.1 the earliest start date is agreed with the client manager, time available is agreed as part of the planning stage with the relevant Director	See link above
	d. resources.	✓			See 8.1.1	
	e. reporting requirements.	✓			Discussed as part of the pre meeting. The section follows a standard reporting methodology	
<b>8.2</b>	<b>Approach</b>					
8.2.1	Is a risk based audit approach used.	✓			Each system is audited against its principal risks and the adequacy of the key controls in place designed to mitigate such risks. Depending upon the findings, an assurance based opinion is given on the likelihood of the system achieving its objectives.	Assurance based opinions and definitions:  <a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT OPINION STATEMENTS.doc">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT OPINION STATEMENTS.doc</a>
8.2.3	Does the audit approach show when management	✓			The approach adopted by the section is one of continuous engagement	

	should be informed of interim findings where key (serious) issues have arisen.				with the client during the course of the audit. Therefore any major issues identified would be brought to the attention of management as part of the ongoing process.	
8.2.4	Does the audit approach include a quality review process for each audit	✓			The approach/process is accredited to the ISO 9001:2000 International Quality Standard. As part of this process, there are review stages built in throughout the life of an audit assignment.	
<b>8.3</b>	<b>Recording Audit Assignments</b>					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers.	✓			A standard format is used for Audit reporting. The section is currently migrating onto a computerised audit management system which defines electronic working paper formats. It is envisaged all 2007/8 audits will be conducted in this new format.	<a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Paperless working paper system.doc">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Paperless working paper system.doc</a>
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all	✓			All audit services work is covered by the ISO9001:2000 Quality Standard. The section maintains a quality	Compliance checking: <a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance</a>

	audit work.				management system which reviews all audit work for consistency of approach/ recording format. Upon completion of each assignment, a review is undertaken to ensure all standards have been followed to ensure compliance with the system.	<a href="#">with the Code of Practice for Internal Audit in Local Government\Performing a Quality Audit.doc (version 1 Feb07).doc</a>  Completed compliance check:  <a href="#">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Council Tax 06-07.doc</a>
8.3.2	Are working papers such that an experienced auditor can easily:					
	a. identify the work that has been performed.	✓			Work is undertaken against predefined tests within an audit work programme and results recorded against this test.	
	b. re-perform it if necessary.	✓			See 8.3.2.a	
	c. see how the work supports the conclusions reached.	✓			See 8.3.2.a	
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic.	✓			A retention of documentation policy is maintained with the Section's Quality Management System.	<a href="#">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Archiving Policy.doc (version 1 Feb07).doc</a>

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.	✓				
8.3.4	Is there an access policy for audit files and records.		✓		Only External Audit currently have access. Any other access is granted at the discretion of the Chief Internal Auditor	
<b>9. Due Professional Care</b>						
<b>9.2</b>	<b>Responsibilities of the Individual Auditor</b>					
9.2.1	Are there documents that set out the requirements on all audit staff in terms of:	✓			The responsibilities and requirements are enshrined within the Council's Code of Conduct for Employees, Section 5 of the Constitution, Codes and Protocols, and the Standards and Due Care sections of the Role and Terms of Reference	<a href="http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Code%20Of%20Conduct%20For%20Employees.pdf">http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Code%20Of%20Conduct%20For%20Employees.pdf</a>
	a. being fair and	✓			Implicit in all sections of the	See link above to Code of Conduct for Employees

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	not allowing prejudice or bias to override objectivity.				Code of Conduct for Employees	
	b. declaring interests that could be perceived to be conflicting or could potentially lead to conflict	✓			Para's 29-33, Personal Interests – Code of Conduct for Employees	See link above to Code of Conduct for Employees
	c. receiving and giving gifts and hospitality from employees, clients suppliers or third parties.	✓			Para's 42-59, Possible Inducements – Code of Conduct for Employees	See link above to Code of Conduct for Employees
	d. using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions.	✓			Para 9, Code of Conduct for employees	See link above to Code of Conduct for Employees
	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.	✓			Terms of Reference –fraud Professional Competency	

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	f. having sufficient knowledge to identify indicators that fraud or corruption may have been indicated.	✓			As above, supervision and management arrangements, CAAT,s NFI, data matching exercises, etc.	
	g. disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice.	✓			Para's 6-10 Confidentiality and Disclosure of Information – Code of Conduct for Employees	See link above to Code of Conduct for Employees
	h. disclosing any non-compliance with these standards.	✓			Para's 6-10, Confidentiality and Disclosure of Information, Section	See link above to Code of Conduct for Employees
	i. not using information they gain in the course of their duties for personal use.	✓			Para's 6-10, Confidentiality and Disclosure of Information, Section	See link above to Code of Conduct for Employees
<b>9.3</b>	<b>Responsibilities of the Head of Internal Audit</b>					
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care	✓			Management and supervision arrangements, 1-1's PDR's, monitoring of client satisfaction.	

	is achieved and maintained.					
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct.	✓			In general, such suspicions would be discussed directly with the Chief Internal Auditor. However the auditor has the option to report via the confidential reporting system operated by the Council (whistle blowing ) if they so wished.	Confidential Reporting Policy:  <a href="http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Code%20of%20Conduct%20For%20Employees.pdf">http://www.darlington.gov.uk/dar_public/Documents/Corporate%20Services/Democratic/Constitution/Code%20of%20Conduct%20For%20Employees.pdf</a>
<b>10. Reporting</b>						
<b>10.1</b>	<b>Principles of Reporting</b>					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report.	✓			An overall opinion is given in respect of the service area being audited. This takes into account the risk exposure of individual areas of risk , the appropriate controls in place mitigating such risk and seeks to provide assurance that such controls are being achieved, which then informs the overall audit opinion.	The audit provides 4 levels of assurance based opinion. An overall opinion is given for the service area under review. An opinion is also given for each individual risk being audited within the service area.  The Audit Opinion Scoring Methodology is detail via the link below:  <a href="\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT OPINION STATEMENTS.doc">\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT OPINION STATEMENTS.doc</a>
10.1.3	Has the Head of Internal determined the way in which Internal Audit will	✓			Reporting is done via a draft stage to agree the content and timescales for implementation of recommendations. Upon	



	report.				agreement from the client manager a final report is issued to the Director. On a quarterly basis the Audit Committee receive details of the opinion given in respect of those audit achieving full or substantial assurance and a synopsis of finding in respect of those receiving a less than substantial opinion.	
10.1.4	Has the Head of Internal set out the standards for internal audit reporting.	✓			The standard for reporting is incorporated within the Section's QMS.	
10.1.5	Are there laid-down timescales for reports to be issued.	✓			There are agreed timescales for issuing reports, these being, exit meeting to draft, 7 working days, response to draft to final, 3 working days. These timescales are reported to the Audit Committee on a quarterly basis as part of the Section's suite of performance indicators. (nos.11 and 12)	<a href="\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\PERFORMANCE MONITORING.doc (version 1 Feb07).doc">\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\PERFORMANCE MONITORING.doc (version 1 Feb07).doc</a>
<b>10.2</b>	<b>Reporting on Audit Work</b>					
	Do the reporting standards include:					

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10.1.4	a. format of the reports	✓			Section 15 of the QMS	<a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT REPORT.doc (version 1 Feb07).rtf">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\AUDIT REPORT.doc (version 1 Feb07).rtf</a>
10.1.4	b. quality assurance of reports.	✓				
10.2.2	c. the need to state the scope and purpose of the audit.	✓			See link to the QMS, Section 15 Audit Report	See link above
10.2.1	d. the requirement to give an opinion	✓			See link to the QMS, Section 15 Audit Report	See link above
10.1.4	e. process for agreeing reports with the recipient.	✓			SEE link to the QMS, Section 15 Audit Report	SEE link above and the link to the audit process attached:
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.	✓			See link to the QMS, Section 15 Audit Report	See link above
10.2.3	Does the audit reporting process include discussion and agreement of reports.	✓			An exit meeting is held with the client to discuss findings and the way in which they will be reported. A draft report is issued initially, any amendments	

					are subsequently built into the final report.	
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk.	✓			Recommendations are prioritised into three categories.	See link below for definitions:  <a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Priority Ranking of Audit Recommendations.doc">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Priority Ranking of Audit Recommendations.doc</a>
10.2.5	Are areas of disagreement recorded appropriately.	✓			Areas of disagreement would be recorded within the Schedule for Agreed improvements under management comments as disagreed with which would then be reported to the relevant Director. In practice this is extremely rare. Such cases would be reported to the Audit Committee.	
10.2.5	Are there weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management.	✓			See above.	
10.2.6	Is the circulation of	✓			Discussed at the audit pre	

	each audit report determined when preparing the audit brief.				meeting with the client.	
10.2.6	a. Does the reporting process include details of circulation of that particular audit report.	✓			Detailed within the content of the report.	
	b. is this included in the brief for each individual audit	✓			See 10.2.6	
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 forums.	✓			Examples could be common themes of recommendations in schools being reported to head teachers forums, etc.	
	b. risk registers are updated.	✓			Depending upon the criticality of the recommendation this would be done within the department.	
<b>10.3</b>	<b>Follow-up Audits and Reporting</b>					

10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow up action.	✓		Recommendations with a high or medium priority are followed up on a quarterly basis with the client managers to ensure they have been implemented. A quarterly progress report is presented to the Audit Committee on an exception basis detailing only those recommendations which have failed to be implemented within the agreed timescale. The overall follow up process forms part of the section's QMS.	Detailed procedure and link to Audit Committee report:  <a href="#">\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Follow up of Audit Recommendations.doc (version 1 Feb07).rtf</a>
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendation not implemented by the agreed date.			The Chief Internal Auditor has discretion to agree a time extension for the implementation of recommendations in cases where for example the recommendation is almost complete, there have been unforeseen complications, IT issues, etc. In such cases a revised date would be agreed and the recommendation tracked accordingly against the new date. In situations where unsatisfactory progress was being made, these would be escalated	See above link and link with narrative to the Audit Committee progress report.

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					through to the Audit Committee for consideration.	
10.3.3	Where appropriate, is a revised opinion given following a follow –up audit and reported to management.	✓			If considered necessary in extreme cases.	
10.3.4	Are the finding of audits and follow-ups used to inform the planning of future audit work.	✓			Findings are used to inform the planning process . A poor audit for example may result in that audit being revisited either earlier or more frequently than normal on the planning cycle.	
<b>10.4</b>	<b>Annual Reporting and Presentation of Audit Opinion</b>					
10.4.1	Does the Head of Internal Audit provide an annual report to support the statement on internal control.	✓			The 05/06 report was taken to Cabinet in June 06. For 06/07 the report will be taken to the Audit Committee in June 07.	Annual Report 05/06. Section 6. Statement of Internal Control: <a href="http://www.darlington.gov.uk/PublicMinutes/Cabinet/June%206%202006/Item%2015%20Audit%20Services%20Annual%20Report.pdf">http://www.darlington.gov.uk/PublicMinutes/Cabinet/June%206%202006/Item%2015%20Audit%20Services%20Annual%20Report.pdf</a>
10.4.2	Does the Head of Internal Audit's annual report:					
	a. include an opinion on the overall adequacy	✓			Opinion given in section 6 of the annual report, see 10.4.1. above.	See above link

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	and effectiveness of the organisation's control environment.				Also at point 4.5. Review of Audit Assignment Work.	
	b. disclose any qualifications to that opinion, together with the reasons for the qualification.	✓			Yes if appropriate.	See above link
	c. present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies.	✓			See body of the report	See above link
	d. draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control.	✓			Yes if appropriate	See above link
	e. compare the actual work undertaken with the planned work and summarise	✓			See body of the report	See above link

	the performance of the internal audit function against its performance measures and targets.					
	f. comment on compliance with the standards of the code.	✓			Implicit in point 1.1 of the report. This is further defined in the section's Terms of Reference.	See above link
	g. communicate the results of the internal audit quality assurance programme.	✓			Section 7, Performance Indicators, point 7.3	See above link
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year.	✓			Quarterly progress reports are presented to the Audit Committee by the Chief Internal Auditor	Quarterly progress Report March 07: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>
<b>11</b>	<b>Performance, Quality and Effectiveness.</b>					
<b>11.1</b>	<b>Principles of Performance, Quality and Effectiveness.</b>					
11.1.1	Is there an audit manual	✓			An electronic manual is held on the section's e drive based on CIPFA best practice and format.	<a href="\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Audit Manual.doc">\\OA-SERVER\SHARED\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Audit Manual.doc</a>



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11.1.1	Does the audit manual provide guidance on:					
	a. carrying out day to day audit work.	✓				See link above
	b. complying with the Code.	✓				See link above
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards.	✓				See link above, Due to be reviewed to take account of the revised 2006 Code.
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of:					
	a. each individual audit.	✓			A client survey is submitted to the client manager at the completion of each audit to obtain feed back on the review undertaken. A range of feed back is requested together with a score based on 1 to 5 , 1 being very poor, 5 very good. Any scores of 1 or 2 are followed up with the client manager to ascertain reasons for non satisfaction with a view to	<p>Extract from the Sections QMS in respect of Client Satisfaction Surveys:</p> <p><a href="#">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Client Satisfaction Survey.doc (version 1 Feb07).doc</a></p> <p>Client Survey copy:</p>

					taking appropriate remedial action.	<a href="\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Client Survey.doc">\\OA-SERVER\SHARED\$\DocLib\Corporate\Audit\Compliance with the Code of Practice for Internal Audit in Local Government\Client Survey.doc</a>
	b. the internal audit service as a whole.	✓			The aggregate of client survey scores is maintained on a database and subsequently reported to the audit committee on a quarterly basis. In addition, a suite of further performance measures are also maintained reported to the committee quarterly as well providing an indication of ongoing performance.	Suite of performance Measures 2006/7: <a href="http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf">http://www.darlington.gov.uk/PublicMinutes/Audit%20Committee/March%2028%202007/Item%206.pdf</a>  page 14 Key performance Indicators
<b>11.2</b>	<b>Quality Assurance of Audit Work</b>					
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.	✓			The audit plan is allocated to auditors on this basis wherever possible while trying to maintain a degree of rotation to broaden the skills and knowledge base of the section.	
11.2.2	Does the Head of Internal Audit have	✓			A hierarchical system applies, supervision where	

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	a process in place to ensure that all staff are supervised appropriately throughout all audits.				required is provided from the Chief Internal Auditor to Audit Managers, the Audit Managers manage directly assignments and consultancy tasks undertaken by other members of the section. All work is subject to review and sign off before exit meetings/audit reports are issued.	
11.2.2	Does the supervision process cover:					
	a. monitoring progress	✓			Progress is monitored on an ongoing basis as part of the audit process and more formally via 1-1's.	
	b. assessing quality of audit work.	✓			Undertaken as part of the management/file review process. All work is scrutinised prior to an exit meeting being held with the client. Any matters requiring further work are addressed at this stage.	
	c. coaching staff.	✓			Staff may be coached by either assisting a more senior member of staff in undertaking an assignment to improve skills, knowledge base, etc., or by	

					undertaking an assignment directly by being assigned discreet tasks by the manager with progress being closely monitored on an ongoing basis.	
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service.</b>					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place.	✓			A set of performance targets are produced annually, approved by the audit committee and progress reported upon quarterly. Quality Assurance is provided via the sections QMS and individual supervision of audit assignments.	2006/07 performance targets.
11.3.2	Does the performance management and quality assurance framework include as a minimum:					
	a. a comprehensive set of targets to measure performance.	✓			See 11.3.1	
	i). Which are developed in consultation with	✓			With the Audit Committee and Section 151 officer.	

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	appropriate parties.					
	ii). Which are included in service level agreements, where appropriate.	✓			Yes where appropriate.	
	iii). Against which the Head of Internal Audit measures, monitors and reports appropriately on progress.	✓			See 11.3.1	
	b. user feed back obtained for each individual audit and periodically for the whole service.	✓			A client survey is requested from each client manager upon completion of each audit assignment.	
	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 future strategy.	✓			See 7.1	
	d. Internal quality reviews to be undertaken periodically to ensure compliance	✓			Undertaken as part of the Section's Quality Management System.	

	with the Code and the audit manual.					
	e. an action plan to implement improvements.	✓			As part of compliance with ISO 9001;2000, the section is required to demonstrate continuous improvement, both in terms of P.I.s and service /system performance. Action plans would also be produced in the event of the section receiving a poor response via client survey feedback	
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.	✓			Year on year comparison undertaken by the Chief Internal Auditor, also year on year comparison undertaken via CIPFA benchmarking results.	
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is:					

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	a. meeting its aims and objectives	✓				
	b. compliant with the Code.	✓			Evidenced by external audits review of internal audit.	
	c. meeting internal quality standards.	✓			Reaccredited for ISO 9001:2000 in March 2007.	
	d. effective, efficient and continuously improving.	✓			Demonstrated by the section's outputs, client satisfaction, External quality assessment.	
	e. adding value and assisting the organisation in achieving its objectives.	✓			Evidenced via Consultancy projects undertaken, client satisfaction surveys external QMS reviews.	
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.	✓			Results are reported both quarterly in terms of a progress report and annually as part of the annual audit report to the audit committee.	
11.3.5	Does the Head of Internal Audit provide evidence from his/her review of the performance and quality of the internal audit	✓			Undertaken via the Annual Audit report	

	service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit.					
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