

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



Darlington Borough Council  
Audit Services

*Compliance with the Code*  
2011-2012

| 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="#">Audit Services Role and Terms of Reference March 2008</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:<br>i). those charged with governance?<br>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<br>See Framework of Assurance                          |

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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 Head of Corporate Assurance 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 | ✓ |  |  | Paragraphs 2.4 to 2.7 Authority  | See link above |

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|            | partner 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 if required by the Head of Corporate Assurance detailing content and proposed changes (if any) in line with best practice, changes to regulations, etc. | <a href="#">Audit Committee Report March 2008 Amendments to Terms of Reference</a>                      |
| 1.1.3      | Have the terms of reference been formally approved by the organisation?  | ✓ |  |  | Last approved by the Audit Committee 27 <sup>th</sup> March 2008   |   |
| 1.1.4      | Are the terms of reference regularly reviewed?   | ✓ |  |  | Reviewed annually, any amendments being subject to approval by the Audit Committee   | See link above 1.1.2  |
| <b>1.2</b> | <b>Scope of Work</b>   |   |  |  |  |   |
| 1.2.1      | Are the organisation's assurance, risk management arrangements and   | ✓ |  |  | Service planning risks, monitoring of previous audit results, use of the section's Audit Risk Assessment   | Audit Risk Assessment Process<br><a href="#">Audit Risk Assessment Methodology (version 3 April 08)</a> |

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|            | monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated? |   |  |  | methodology which provides a risk score for each service area which determines the frequency of the audit review.   |  |
| 1.2.2      | Where services are provided in partnership, has the Head of internal Audit identified:                                   |   |  |  | Arrangements in place in respect of Xentrall Shared Services  |  |
|            | a. how assurance will be sought?   | ✓ |  |  | SBC Internal Audit undertakes the Audits in respect of Xentrall Shared Services. A quarterly report is presented to the Audit Committee on progress against the SBC audit plan detailing audit opinions, etc. | <a href="#">Report to Audit Committee 23<sup>rd</sup> March 2012 SBC Audit progress report in respect of auditing Xentrall</a><br><br><a href="#">Appendix to above report</a> |
|            | b. agreed access rights where appropriate?   | ✓ |  |  | Rights of Access are provided for in the SBC/DBC Internal Audit protocol.   | <a href="#">Darlington Stockton IA protocol (2)</a>  |
| <b>1.3</b> | <b>Other Work</b>  |   |  |  |   |  |
| 1.3.1      | Where Internal Audit undertakes consultancy and/or fraud and corruption work,  |   |  |  |   |  |

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|            | does it have the:  |   |  |  |  |   |
|            | a. skills?   | ✓ |  |  | Demonstrable skills through the outputs achieved.  | Example of outputs reported to Audit Committee 11/12:<br><a href="#">Review of Anti-Fraud and Corruption Arrangements report to Audit Committee 16th December 2011</a><br><a href="#">Audit Services Progress Report to Audit Committee 23rd March 2012</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="#">Audit Services Role and Terms of Reference March 2008</a>   |
|            | b. consultancy work?   | ✓ |  |  | Paragraph 4.6  | See link above  |
| <b>1.4</b> | <b>Fraud and Corruption</b>  |   |  |  |  |   |
| 1.4.1      | Has the Head of Internal Audit made arrangements, within the organisation's anti fraud and anti corruption policies, to be notified of all | ✓ |  |  | Section 4, Detection and investigation, Anti Fraud and Corruption Strategy.  | <a href="#">DBC Anti-Fraud and Corruption Strategy</a><br><a href="#">DBC Anti-Fraud and Corruption Policy Statement</a>  |

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|                         | suspected or detected fraud, corruption or impropriety?   |   |  |  |  |   |
| <b>2 . Independence</b> |   |   |  |  |  |   |
| <b>2.1</b>              | <b>Principles of 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 4.6 | <a href="#">Audit Services Role and Terms of Reference March 2008</a> |
| <b>2.2</b>              | <b>Organisational Independence</b>  |   |  |  |  |   |
| 2.2.1                   | Does the status of Internal Audit   | ✓ |  |  | The independent status of the section is defined   | <a href="#">DBC Financial Procedural Rules</a>                        |

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|       | allow it to demonstrate independence?  |     |  |  | within Section 7 of the Council's Financial Procedural Rules and the Section's Role and Terms of Reference. |     |
| 2.2.2 | Does the Head of Internal Audit have direct access to:                               |     |  |  |   |     |
|       | a. officers?   | ✓   |  |  | By virtue of Para 2.6 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 part 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 | n/a |  |  | n/a   | n/a |



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|            | Control?   |     |   |  |   |     |
| <b>2.3</b> | <b>Status of the Head of Internal Audit</b>  |     |   |  |   |     |
| 2.3.1      | Is the Head of Internal Audit managed by a member of the Corporate Management Team?  |     | ✓ |  | Following the Council's management restructure in 2011 the Head of Corporate Assurance now reports directly to the Assistant Director – Finance. However, direct access is freely available to the Director of Resources and Chief Executive if required. |     |
| <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 Head of Corporate Assurance as part of   |     |

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|  |   |   |  |  | 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.   | <a href="#">Audit Services Role and Terms of Reference March 2008</a> |
| <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.  |   |
| 3.2.2                                  | Do internal auditors demonstrate integrity in all aspects of their                          | ✓ |  |  | As above and evidenced by the high level of client satisfaction achieved and reviews by External Audit.  |   |

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|            | work?  |   |  |  |   |   |
| <b>3.3</b> | <b>Objectivity</b>   |   |  |  |   |   |
| 3.3.1      | Are internal auditors perceived as being objective and free from conflicts of interest?  | ✓ |  |  | Provided for in point 4.6 Role and terms of Reference, in addition the section has no operational responsibilities.   | <a href="#">Audit Services Role and Terms of Reference March 2008</a> |
| 3.3.2      | Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles? | ✓ |  |  | At the discretion of the Head of Corporate Assurance.   |   |
| 3.3.3      | Are staff rotated regularly / annually in respect of areas audited?  | ✓ |  |  | 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   | ✓ |  |  | These are discussed via   |   |

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|                           | organisation's aims, objectives, risks and governance arrangements?                 |   |  |  | team meetings, service plans, information available on the intranet, etc.   |  |
|                           | b. the purpose, risks and issues of the service area being audited?                 | ✓ |  |  | Audit Services research each assignment prior to commencement.  |  |
|                           | c. the scope of each audit assignment?  | ✓ |  |  | Done as part of the audit planning stage, 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  | ✓ |  |  | Committee's inaugural meeting took place in   |  |

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|       | an independent audit committee?  |   |  |  | 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 internal audit? | ✓ |  |  | Regular liaison takes place between the Head of Corporate Assurance and members of the committee. Training 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.   |   |
| 4.2.3 | Does the committee monitor the annual audit plan and progress against it?                  | ✓ |  |  | The committee approves the annual audit plan and monitors progress on a quarterly basis.   | <p>Audit Committee report, approval of annual plan:<br/> <a href="#">Audit Services Annual Audit Plan reported to Audit Committee 23rd March 2012</a></p> <p>Audit Committee report, quarterly progress report:<br/> <a href="#">Audit Services Progress Report to Audit Committee 23<sup>rd</sup> March 2012</a></p> |

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| 4.2.4 | Does the Head of Internal Audit:  |   |  |  |  |   |
|       | a. attend the committee and contribute to its agenda?   | ✓ |  |  | The Head of Corporate Assurance attends all the Committee meetings and contributes to its agenda.                      | Committee minutes and agenda's  |
|       | b. participate in the committee's review of its own remit and effectiveness?  | ✓ |  |  |  |   |
|       | c. ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?        | ✓ |  |  | 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:<br><a href="#">Audit Services Progress Report 10-11 to Audit Committee 23rd March 2012</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. |   |

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|                         | f. present the annual internal audit report to the committee?                                       | ✓ |  |  | Annual report presented to the committee in July 2011  | Annual report presented July 2011 for 2010-11<br><a href="#">Audit Services Annual Report 10-11 reported to the Audit Committee on 11th July 2011</a> |
| 4.2.5                   | Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee? | ✓ |  |  | As required.   |   |
| <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 provides these definitions. The document is approved by the Audit Committee on an annual basis. | See attached link to Role and Terms of Reference:<br><a href="#">Audit Services Role and Terms of Reference March 2008</a>                            |
|                         | a. management?  | ✓ |  |  | Para's 4.5, 4.6, 4.7, Relationships and relationship with the Director of Corporate Services   | See link above  |
|                         | b. other internal auditors?   | ✓ |  |  | Points 4.12 Relationships  | See link above  |
|                         | c. external auditors?   | ✓ |  |  | Para's 4.13, 4.14, 4.15, relationship with External Audit  | See link above  |
|                         | d. other regulators and inspectors?   | ✓ |  |  | Para 4.16 Relationships  | See link above  |

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|            | e. elected members?  | ✓ |  |  | Para's 4.17, 4.8, 4.9. Relationship with Elected Members  | See link above  |
| <b>5.2</b> | <b>Relationship with 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 Head of Corporate Assurance and Directors/Chief officers Board 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.   |   |
| <b>5.3</b> | <b>Relationships with other internal auditors</b>  |   |  |  |   |   |
| 5.3.1      | Do arrangements exist with other internal auditors that include joint working, access to                         | ✓ |  |  | Liaison is maintained with other internal audit services, via user groups, forums, etc. to discuss and disseminate  | See 4.12 Role and terms of reference.<br>MK Insight Northern User Group:<br><a href="#">Darlington Stockton IA protocol (2)</a> |



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|            | working papers, respective roles and confidentiality?                                |   |  |  | good practice, etc. Joint working is undertaken with Stockton BC as part of the Darlington and Stockton Partnership initiative. In addition, the Section utilises an audit management software product, "MK Insight" which is also in 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>  |   |  |  |  |  |
| 5.4.1      | 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.   |  |
| 5.4.2      | Are there regular meetings between the Head of Internal Audit and the External Audit | ✓ |  |  | Regular liaison and dialogue takes place as either party requires.   |  |

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|            | Manager?   |   |   |  |   |   |
| 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 continues to seek to be pro active in this area as reflected in the Section's Role and Terms of Reference Document, March 2008.                                   |
| <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/Audit Committee.<br><br><a href="#">Audit Services Role and Terms of Reference March 2008</a> |
| 5.6.2      | Does the Head of Internal Audit  | ✓ |   |  |   |   |

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|   | 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 staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards? | ✓ |  |  |  |  |
| 6.1.2   | 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?          | ✓ |  |  |  |  |
| 6.1.3   | Is the Head of Internal Audit professionally qualified and experienced?  | ✓ |  |  | CIPFA qualified with over 20 years experience. |  |

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| 6.1.4      | Does the Head of Internal Audit have wide experience of internal audit and management?   | ✓ |  |  | See 6.1.3 above  |  |
| 6.1.5      | 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   | ✓ |  |  | Auditors are assessed via the PDR process both during and at the year end. |  |

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|       | these predetermined skills and competencies?  |   |  |  |   |  |
|       | c. Are training or development needs identified and included in an appropriate ongoing development programme? | ✓ |  |  | Recorded and managed via the PDR process above. |  |
|       | 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  |  |

### 7. Audit Strategy and Planning

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| <b>7.1</b> | <b>Audit Strategy</b>                                     |   |  |  |   |   |
| 7.1.1      | a. Is there an internal audit strategy for delivering the | ✓ |  |  | Internal Audit Strategy approved at the December 2007 Audit Committee | <a href="#">Audit Committee Report December 2007 Audit Services Strategy Document</a> |

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|            | service?  |   |  |  |  |   |
|            | b. Is it kept up to date with the organisation and its changing priorities?                             | ✓ |  |  |  | See link above and also to the Section's Role and Terms of Reference. |
| 7.1.2      | Does the strategy include:  |   |  |  |  |   |
|            | a. Internal Audit objectives and outcomes?  | ✓ |  |  |  | See link above  |
|            | b. How the Head of Internal Audit will form and evidence his or her opinion on the control environment? | ✓ |  |  |  | See link above  |
|            | c. how internal audit's work will identify and address local and national issues and risks?             | ✓ |  |  |  | See link above  |
|            | d. how the service will be provided, i.e. internally, externally or a mix of the two?                   | ✓ |  |  |  | See link above  |
| 7.1.3      | Has the strategy been approved by the audit committee?.   | ✓ |  |  |  | December 2007   |
| <b>7.2</b> | <b>Audit Planning</b>   |   |  |  |  |   |

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| 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 Section's risk assessment model and methodology.  |  |
| 7.2.2 | Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process? | ✓ |  |  | Although the risk assessment model is extensively utilised, local factors are also taken into account where appropriate, i.e. corporate and dept. risk registers. |  |
| 7.2.3 | Are stakeholders consulted on the audit plan?   | ✓ |  |  | The plan is agreed with the Chief Executive, Directors, the Chief Officers Board and the Audit Committee.   |  |
| 7.2.4 | Does the plan demonstrate a clear understanding of the organisation's functions?  | ✓ |  |  |   |  |
| 7.2.5 | Does the plan:  |   |  |  |   |  |
|       | a. cover a fixed period of no longer than one year?   | ✓ |  |  | The plan is set annually.   |  |

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|  | b. outline the assignments to be carried out?      | ✓ |  |  | Yes   |  |
|  | c. prioritise assignments?                         | ✓ |  |  | Assignments may be prioritised in discussions with stakeholders at their request. Otherwise assignments are allocated on resource availability both within Audit and the service being audited.   |  |
|  | d. estimate the resource required?                 | ✓ |  |  | Each assignment is allocated a number of man days.  |  |
|  | e. differentiate between assurance and other work? | ✓ |  |  | The plan is split between Assurance, Consultancy and Corporate Arrangements work.   |  |
|  | 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 Head of Corporate Assurance 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 |  |



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|                                  |   |   |  |  | the Audit Committee for approval   |                                       |
| 7.2.6                            | If there is 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 |                                       |
| 7.2.7                            | Has the plan been approved by the Audit Committee?  | ✓ |  |  | The plan is approved annually by the Audit Committee   |                                       |
| 7.2.8                            | If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the Audit Committee?                           | ✓ |  |  | As 7.2.6   |                                       |
| <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   | <a href="#">Audit Objective Sheet</a> |

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|            |  |   |  |  | the client managers signs up to.  |  |
|            | b. Is the brief discussed and agreed with the relevant managers? | ✓ |  |  | See 8.1.1   | See link above   |
| 8.1.2      | Does the brief set out:  |   |  |  |   |  |
|            | a. objectives?   | ✓ |  |  | See 8.1.1   | See link above   |
|            | b. scope?  | ✓ |  |  | See 8.1.1   | See link above discussed as part of the pre meeting linked to system risks.        |
|            | c. timing?   | ✓ |  |  | See 8.1.1 the earliest start date is agreed with the client manager, time available is agreed as part of the Annual Audit Plan setting process.   | 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 | <a href="#">Audit Services Annual Report to the Audit Committee 11th July 2011</a> |

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|            |   |   |  |  | the likelihood of the system achieving its objectives.  |  |
| 8.2.2      | Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen? | ✓ |  |  | The approach adopted by the section is one of continuous engagement 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. |  |
| 8.2.3      | Does the audit approach include a quality review process for each audit?  | ✓ |  |  | The approach/process is accredited to the ISO 9001:2008 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.  |  |
| 8.3.2      | Do quality reviews ensure that the defined standard is followed consistently for all  | ✓ |  |  | All audit services work is covered by the ISO9001:2008 Quality Standard. The section maintains a quality  |  |

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|       | 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. |  |
| 8.3.3 | 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.  |  |
|       | c. see how the work supports the conclusions reached?.   | ✓ |  |  | See 8.3.2.  |  |
| 8.3.4 | Is there a defined policy for the retention of all audit documentation, both paper and electronic? | ✓ |  |  | A retention policy is maintained with the Section's Quality Management System.  | <a href="#">Access and Archiving Policy (version 3 April 2008)</a> |

|                                 |  |   |  |  |  |  |
|---------------------------------|--|---|--|--|--|--|
| 8.3.5                           | Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, freedom of Information Act, etc. and any organisational requirements? | ✓ |  |  |  |  |
| 8.3.6                           | Is there an access policy for audit files and records?   | ✓ |  |  | An access policy is maintained as part of section 28 of the Service's ISO procedures.  | <a href="#">Access and Archiving Policy (version 3 April 2008)</a> |
| <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="#">Code of Conduct for Employees</a>                      |
|                                 | a. being fair and not allowing prejudice or bias to override   | ✓ |  |  | Implicit in all sections of the Code of Conduct for Employees  | See link above to Code of Conduct for Employees                    |

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|  | objectivity?  |   |  |  |  |   |
|  | 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<br>Professional Competency              |   |
|  | f. having sufficient knowledge to identify indicators   | ✓ |  |  | As above, supervision and management arrangements, CAAT's          |   |

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|            | that fraud or corruption may have been indicated?   |   |  |  | 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 is achieved and maintained? | ✓ |  |  | Management and supervision arrangements, 1-1's PDR's, monitoring of client satisfaction.  |   |

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| 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 Head of Corporate Assurance. However the auditor has the option to report via the confidential reporting system operated by the Council (whistle blowing) if they so wished.  | <a href="#">Confidential Reporting Policy</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. |
| 10.1.2               | Has the Head of Internal determined the way in which Internal Audit will report?  | ✓ |  |  | Reporting is done via a draft stage to agree the content and timescales for implementation of recommendations. Upon agreement from the client manager a final report is issued to the Director. On a   |   |



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|             |  |   |  |  | 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.  |  |
| 10.1.3      | Has the Head of Internal set out the standards for internal audit reporting? | ✓ |  |  | The standard for reporting is incorporated within the Section's QMS.   |  |
| 10.1.4      | 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. |  |
| <b>10.2</b> | <b>Reporting on Audit Work</b>   |   |  |  |  |  |
|             | Do the reporting standards include:  |   |  |  |  |  |
| 10.2.1      | a. format of the reports?  | ✓ |  |  | Section 15 of the QMS  |  |
|             | b. quality   | ✓ |  |  |  |  |

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|        | assurance of reports?  |   |  |  |  |  |
|        | c. the need to state the scope and purpose of the audit?   | ✓ |  |  |  |  |
|        | d. the requirement to give an opinion?   | ✓ |  |  |  |  |
|        | e. process for agreeing reports with the recipient?  | ✓ |  |  |  |  |
|        | f. an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales? | ✓ |  |  |  |  |
| 10.2.2 | 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. |  |
| 10.2.3 | Has the Head of Internal Audit determined a  | ✓ |  |  | Recommendations are prioritised into three categories – high, medium   |  |

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|        | process for prioritising recommendations according to risk?  |   |  |  | and low.  |  |
| 10.2.4 | 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 each audit report determined when preparing the audit brief?                                     | ✓ |  |  | Discussed at the audit pre meeting with the client.   |  |
| 10.2.7 | a. Does the reporting process include details of circulation of that particular audit                                  | ✓ |  |  | Detailed within the content of the report.  |  |

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|             | report?   |   |  |  |  |  |
|             | b. is this included in the brief for each individual audit?                               | ✓ |  |  | See 10.2.6   |  |
| 10.2.8      | 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 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 |  |

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|        |  |   |  |  | recommendations which have failed to be implemented within the agreed timescale. The overall follow up process forms part of the section's QMS.  |   |
| 10.3.2 | Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendation not implemented by the agreed date? | ✓ |  |  | The Head of Corporate Assurance 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, ICT 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 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.  |   |

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| 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 2010/11 report was taken to the Audit Committee in July 11.  | <a href="#">Audit Services Annual Report 2010-11 to Audit Committee 23rd July 2011</a> |
| 10.4.2      | Does the Head of Internal Audit's annual report:   |   |  |  |  |  |
|             | a. include an opinion on the overall adequacy and effectiveness of the organisation's control environment? | ✓ |  |  | Opinion given in section 6 of the annual report, see 10.4.1. above.  | See above link   |
|             | b. disclose any qualifications to that opinion, together with the reasons for the qualification?           | ✓ |  |  | Yes if appropriate.  | See above link   |

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|  | 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 Annual Governance Statement?                         | ✓ |  |  | Yes if appropriate  | See above link |
|  | e. compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? | ✓ |  |  | See body of the report  | See above link |
|  | 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 |

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|             | g. communicate the results of the internal audit quality assurance programme?                            | ✓ |  |  | Section 7, Performance Indicators.   | 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 Head of Corporate Assurance |                |
| <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.     |                |
| 11.1.2      | Does the audit manual provide guidance on:   |   |  |  |  |                |
|             | a. carrying out day to day audit work?   | ✓ |  |  |  |                |
|             | b. complying with the Code?  | ✓ |  |  |  |                |
| 11.1.3      | Is the audit manual reviewed regularly and updated to reflect changes in                                 | ✓ |  |  |  |                |



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|        | working practices and standards?   |   |  |  |   |  |
| 11.1.4 | 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 taking appropriate remedial action. |  |
|        | 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   |  |

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|             |  |   |  |  | the committee quarterly providing an indication of ongoing performance.  |  |
| <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 process in place to ensure that all staff are supervised appropriately throughout all audits?                             | ✓ |  |  | A hierarchical system applies. Supervision where required is provided from the Head of Corporate Assurance to the Audit Manager, the Audit Manager 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. |  |
| 11.2.3      | Does the supervision   |   |  |  |  |  |

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|             | 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.<br>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   | ✓ |  |  | A set of performance targets are produced annually, approved by the audit committed and  |  |

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|        | quality assurance programme in place?  |   |  |  | progress reported upon quarterly. Quality Assurance is provided via the sections QMS and individual supervision of audit assignments. |  |
| 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 appropriate parties?                              | ✓ |  |  | With the Audit Committee and Section 151 Officer.   |  |
|        | 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 | ✓ |  |  | See 11.3.1  |  |

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|  | progress?   |   |  |  |   |  |
|  | 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 with the Code and the audit manual?  | ✓ |  |  | Undertaken as part of the Section's Quality Management System.  |  |
|  | e. an action plan to implement improvements?  | ✓ |  |  | As part of compliance with ISO 9001:2008, 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. |  |

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| 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 Head of Corporate Assurance, also year on year comparison undertaken via CIPFA benchmarking results. |  |
| 11.3.4 | Do the results of the performance management and quality assurance programme evidence that the internal audit service is:  |   |  |  |  |  |
|        | a. meeting its aims and objectives?  | ✓ |  |  |  |  |
|        | b. compliant with the Code?  | ✓ |  |  | Evidenced by external audits review of internal audit.   |  |
|        | c. meeting internal quality standards?   | ✓ |  |  | Maintained Accreditation for ISO 9001:2008 in September 2011   | <a href="#">Audit Committee Report 16th December 2011 re: ISO 9001:2008 Standard</a> |
|        | d. effective, efficient and continuously improving?  | ✓ |  |  | Demonstrated by the section's outputs, client satisfaction, external quality assessment.   |  |

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|        | e. adding value and assisting the organisation in achieving its objectives?  | ✓ |  |  | Evidenced via Consultancy projects undertaken, client satisfaction surveys external QMS reviews.  |  |
| 11.3.5 | 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. |  |
| 11.3.6 | Does the Head of Internal Audit provide evidence from his/her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit? | ✓ |  |  | Undertaken via the Annual Audit report.   |  |