

**Joint Report of the Chief Executive and Head of Internal Audit Service
To The Chair and Members of the
Audit and Internal Control Panel
25th March 2010**

**Presenting Officer: Mr Joe McCarthy Chief Executive
Mr Ian Wallace Head of Internal Audit
(RSM Tenon)**

Prepared by: Mr Paul Kirkham

Status: For Decision

Internal Audit Services – Annual Review 2009/2010

1 Purpose

- 1.1 Each year, the Authority is required to review the effectiveness of the Internal Audit Service. This report is intended to allow Members to discharge that responsibility.

2 Recommendations

That Members

- 2.1 Review the
- Cleveland Police Authority specific analysis Appendix A,
 - the corporate self assessment from RSM Tenon Appendix B
 - Summary of questionnaires returned by auditees Appendix C
 - The [OPERATIONAL PLAN PERFORMANCE 2009/10 CONTAINED](#) in the Head of Internal Audit's progress report elsewhere on today's agenda.
- in assessing the effectiveness of the Internal Audit service.

- 2.2 Receive the contract monitoring information contained at Appendix D

3 Reasons

- 3.1 All local authorities have a statutory responsibility to maintain an adequate and effective system of internal audit of their accounting records and control systems. Internal auditors provide officers and members with an independent assessment of the adequacy and effectiveness of the internal controls operating within the organisation. Therefore, some of the work internal audit carry out is directly relevant to the external auditor's statutory responsibilities.
- 3.2 Internal audit work is carried out to standards set out by CIPFA in their 'Code of practice for internal audit in local government in the United Kingdom' ('the Code'). This Code is periodically updated - the current version was issued in late 2006.

These Standards are as follows.

1. Scope of internal audit.
 2. Independence.
 3. Ethics for internal auditors.
 4. Audit committees.
 5. Relationships.
 6. Staffing, training and continuing professional development.
 7. Audit strategy and planning.
 8. Undertaking audit work.
 9. Due professional care.
 10. Reporting.
 11. Performance, quality and effectiveness.
- 3.3 Regulation 6 of the Account and Audit 2003 Regulations was amended in 2006 to require relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings. This process is also part of the wider annual review of the effectiveness of the system of internal control. This regulation in itself does not require the establishment of an audit committee, although such a committee would provide an appropriate means through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it.
- 3.4 In Cleveland this is achieved by your internal audit provider providing a self assessment of its service against the CIPFA standards. CIPFA

Standards are referred to as relevant standards in the Account and Audit Regulations. The self assessment is comprised of a corporate assessment which is common for all RSM Tenon's public authority work, and local assessment for those parts which differ from audit to audit. This is then brought to the Audit and Internal Control Panel, in its role as the authority's audit committee.

- 3.5 At Appendix C the summary of responses from Force and Authority following the completion of audits indicates the views of those who have been subject to audit, about the service. Members are also asked to take into account the [OPERATIONAL PLAN PERFORMANCE 2009/10 CONTAINED](#) in the Head of Internal Audit's progress report elsewhere on today's agenda.
- 3.6 The Panel is asked to consider the submission and assure itself about the effectiveness, or otherwise, of the Internal Audit Service.
- 3.7 Under the terms of the Internal Audit contract RSM Tenon are required to provide assurances about compliance with key items legislation and also to confirm business continuity arrangements. The assurances for 2009/2010 are contained in Appendix D.

4 Implications

4.1 Finance

There are no specific monetary implications within the report as the work to which this report relates are contained within the agreed contract sums with RSM Tenon.

4.2 Staffing

There are no staffing implications as the service is provided by way of a contract with RSM Tenon.

4.3 Diversity and Equal Opportunities

There are no diversity or equal opportunity implications in this report.

4.4 Risk

This report is focused on Internal Audit Services which is a key integral component of the Authority's assurance framework.

5 Conclusions

- 5.1 The report fulfils the requirement for an annual review of the effectiveness of Internal Audit.

Joe McCarthy
Chief Executive
Cleveland Police Authority

Ian Wallace
Head of Internal Audit Services
RSM Tenon

Appendix A

Parts of the CIPFA Code that are specific to Cleveland Police Authority

Ref	Adherence to the Standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	<p>Do terms of reference:</p> <p>[a] Establish the responsibilities and objectives of Internal Audit?</p> <p>[b] Establish the organisational independence of Internal Audit?</p> <p>[c] establish the accountability, reporting lines and relationships between the Head of Internal Audit and:</p> <p style="padding-left: 20px;">[i] Those charged with governance?</p> <p style="padding-left: 20px;">[ii] Those parties to whom the Head of Internal Audit may report?</p> <p>[d] Recognise that Internal Audit's remit extends to the entire control environment of the organisation?</p> <p>[e] Identify Internal Audit's contribution to the review of the effectiveness of the control environment?</p> <p>[f] Require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>[g] Define the role of Internal of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>[h] Explain how Internal Audit's resource requirements will be assessed?</p> <p>[i] establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	√			
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?	√			
1.1.3	Have the terms of reference been formally approved by the organisation?	√			

Ref	Adherence to the Standard	Y	P	N	Evidence
1.1.3	Are terms of reference regularly reviewed?	√			
1.2	Scope of Work				
1.2.3	Where services are provided in partnership had the Head of Internal Audit identified : [a] How assurance will be sought? [b] Agreed access rights where appropriate?				N/A
1.3	Other Work				
1.3.2	Do the terms of reference define Internal Audit's role in: [a] Fraud and corruption? [b] Consultancy work?	√			
1.4	Fraud and Corruption				
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	√			
2	Independence				
2.1	Principles of Independence				
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?	√			With the exception of the SIG working group, this has not happened to date.
2.2	Organisational Independence				
2.2.2	Does the Head of Internal Audit have direct access to: [a] Officers? [b] Members?	√ √			

Ref	Adherence to the Standard	Y	P	N	Evidence
2.2.3	<p>[a] Is there an assessment that the budget for Internal Audit is adequate?</p> <p>[b] Does any budget delegated to service areas ensure that:</p> <p>[i] Internal Audit adherence to the Code is not compromised?</p> <p>[ii] the scope of Internal Audit is not affected?</p> <p>[iii] Internal Audit can continue to provide assurance for the Statement on Internal Control?</p>	√			<p>Considered by the CEO and the Audit and Internal Control Panel.</p> <p>N/A</p>
2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	√			<ul style="list-style-type: none"> CEO
2.5	Independence of Internal Audit Contractors				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	√			<ul style="list-style-type: none"> Authoritas
3	Ethics for Internal Auditors				
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	√			
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	√			
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	√			<ul style="list-style-type: none"> Audit and Internal Control Panel
4.2	Internal Audit's Relationship with the Audit Committee				

Ref	Adherence to the Standard	Y	P	N	Evidence
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	√			
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			
5	Relationships				
5.1	Principles of Good Relationships				
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: [a] management? [b] other internal auditors? [c] external auditors? [d] other regulators and inspectors? [e] elected members?	√			The IA tender specification, contract and Letter of Engagement.
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with <u>other</u> internal auditors that include joint working, access to working papers, respective roles and confidentiality?				N/A
5.5	Relationships with Other Regulators and Inspectors				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	√			- Audit Commission - HMIC
5.6	Relationships with Elected Members				
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	√			Access to and private meetings with the Chair of the Audit Panel in the ToR.

Ref	Adherence to the Standard	Y	P	N	Evidence
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			
6	Staffing, Training and Continuing Professional Development				
6.1	Staffing Internal Audit				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			The skill mix applied to the internal audit plan is detailed in the operational plan.
7.2	Audit Planning				
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			Annual plan is linked to risk registers and strategic objectives.
7.2.3	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	√			This has not been an issue, but would be reported.
8	Undertaking Audit Work				
8.3.3	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	√			
8.3.3	Is there an access policy for audit files and records?	√			
10	Reporting				
10.1	Principles of Reporting				
10.1.5	Are there laid-down timescales for reports to be issued?	√			ToR
10.2	Reporting on Audit Work				
10.2.5	Are areas of disagreement recorded appropriately?	√			Audit debrief records and the final audit report.
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	√			

Ref	Adherence to the Standard	Y	P	N	Evidence
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? [b] Risk registers are updated?	√		√	A management responsibility
10.3	Follow-up Audits and Reporting				
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	√			Results of annual follow up by internal audit is reported to appropriate level of management and Audit Panel.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	√			
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	√			
10.4.3	Has the Head of Internal Audit made provisions for interim reporting to the organisation during the year?	√			
11	Performance, Quality and Effectiveness				

Ref	Adherence to the Standard	Y	P	N	Evidence
11.3.2	<p>Does the performance management and quality assurance framework include as a minimum:</p> <p>[a] a comprehensive set of targets to measure performance:</p> <p>[i] Which are developed in consultation with appropriate parties?</p> <p>[ii] Which are included in service level agreements, where appropriate?</p> <p>[iii] Against which the Head of Internal Audit measures, monitors and reports appropriately on progress?</p> <p>[b] User feedback obtained for each individual audit and periodically for the whole service?</p> <p>[c] A periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>[d] Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>[e] an action plan to implement improvements?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>Regular liaison with the CEO, DCC & DoF</p> <p>Annual audit needs assessment.</p> <p>Internal QA reviews by technical team.</p>
11.3.3	Does the Head of Internal Audit compare the performance and effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	√			
11.3.1	<p>Do the results of the performance management and quality assurance programme evidence that the internal audit service is:</p> <p>[a] meeting its aims and objectives?</p> <p>[b] compliant with the Code?</p> <p>[c] meeting internal quality standards?</p> <p>[d] effective, efficient, continuously improving?</p> <p>[e] adding value and assisting the organisation in achieving its objectives?</p>	√			

Appendix B

John/Rachelle please insert the PDF “Appendix B RSM Bentley-Jennison Corporate” when printing.

Appendix C

Summary of Questionnaires

Internal Audit Service - Management Satisfaction Survey

We are keen that internal audit should monitor and improve, where necessary, our own effectiveness. A number of performance indicators have been adopted and one of particular importance concerns your view of the quality of the audit product.

I would be grateful if you would complete the following short questionnaire on the audit report you have recently received and then return it together with any other comments you might wish to make.

	Very Satisfied	Satisfied	Adequate	Unsatisfactory
General				
How would you rate the overall usefulness of the audit		2	4	
Audit Planning				
Appropriateness of scope and objectives of audit		1	5	
Usefulness of initial discussions			6	
Quality of audit report				
Fair presentation of findings		4	2	
Materiality of findings			6	
Usefulness of recommendations			6	
Clarity		2	4	
Timing				
Duration		2	4	
Timeliness of audit		2	4	
Communication				
On-going updates of progress		2	4	
Consultation on findings/ recommendations		1	5	
General helpfulness of auditors		3	3	
Sufficient consultation?		2	4	
Attitude of staff				
Professionalism of audit staff	1	1	3	
Attitude of audit staff	2	1	3	
Politeness of audit staff	2	1	3	

6 Questionnaires returned

Appendix D

Contract Monitoring		Characteristics	Target Dates/Frequency	Met Y/N
Item				
Adequate insurance being maintained		Insurance required in the contract. Provision of copy of insurance certificate – annually. PI Insurance supplied. Employers, Public and Products Liability Insurance supplied.	March	Y
Health & Safety legislation		Annual certification of compliance with legislation in force from time to time during the contract term. Policy provided.	March	Y
		Notification to the authority of pending or actual enforcement proceedings which have an actual or potential bearing on this contract. None.	Promptly	Y
Data Protection		Annual certification of compliance with legislation in force from time to time during the contract term. Data Protection Policy supplied. Data Handling and Security Policy supplied.	March	Y
		Notification to the authority of pending or actual enforcement proceedings which have an actual or potential bearing on this contract. None.	Promptly	Y
Discrimination		Annual certification of compliance with legislation in force from time to time during the contract term. Equal Opportunities and Diversity Policy supplied.	March	Y
		Notification to the authority of pending or actual enforcement proceedings which have an actual or potential bearing on this contract. None.	Promptly	Y
Business Continuity Plan		Copy of the Business Continuity Plan and results of any testing undertaken during the preceding year. Business Continuity Policy supplied.	March	Y ? testing