

**Bridgend County Borough Council**

Compliance with the Code of Practice for Internal Audit

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<p><b><u>Introduction</u></b></p> <p><b>Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA, 2006) – CIPFA Code.</b></p> <p>The CIPFA Code's requirements are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2005 (Wales), Section 95 of the Local Government (Scotland) Act 1973, and Section 54 of the Local Government Act (Northern Ireland) 1972. Its themes are also relevant to a wider audience, such as police and fire authorities.</p> <p>The CIPFA Code is aimed at those who play a part in shaping or managing the internal audit function within their organisations, including:</p> <ul style="list-style-type: none"> <li>• Chief Executives</li> <li>• Responsible Financial Officers and other senior management</li> <li>• The Audit Committee</li> <li>• Elected members within local government in the UK, and</li> <li>• Heads of Internal Audit</li> </ul> <p>The CIPFA Code covers the following areas:</p> <ul style="list-style-type: none"> <li>• Scope of Internal Audit</li> <li>• Independence</li> <li>• Ethics for Internal Auditors</li> <li>• Audit Committees</li> <li>• Relationships</li> <li>• Staffing, Training and Continuing Professional Development</li> <li>• Audit Strategy and Planning</li> <li>• Undertaking Audit Work</li> <li>• Due professional Care</li> <li>• Reporting</li> <li>• Performance, Quality and Effectiveness</li> </ul> <p>In 2013 UK Public Sector Internal Audit Standards (PSIAS) will be released, they will apply across the whole of the Public Sector. PSIAS are based on IIA Standards and will replace the Code of Practice, which was last revised in 2006.</p>	
<p><b><u>Standard One</u></b> <b><u>Scope of Internal Audit</u></b></p> <p>The Bridgend County Borough Council 2012/13 Terms of Reference (ToR) were presented to and approved by the Audit Committee on the 4<sup>th</sup> October 2012 (subject to the proposed</p>	<p>1.1 &amp; 1.2 ToR</p>

<p>modification to 16.1 of the Internal Audit Strategy).</p> <p>The role of internal audit is to provide independent, objective assurance on the organisations control environment. In order to fulfil its role it is essential that internal audit remains independent, as detailed in the ToR.</p> <p>When the annual audit plan is formulated the number of audit days available is calculated. This allows the Chief Internal Auditor to prioritise audits and ensure that the department can achieve its objectives.</p> <p>To determine the priorities for internal audit the Chief Internal Auditor uses a process of risk assessment.</p> <p>The scope of work is defined by the Internal Audit Plan and Strategy. The Chief Internal Auditor reports regularly to the Audit Committee on progress against the annual audit plan.</p> <p>Each individual audit report will include an ‘opinion’ on the risk and adequacy of controls. These opinions enable the Chief Internal Auditor to form an opinion on the overall effectiveness of the Council’s internal control environment.</p> <p>There is a formal policy in place for the Anti Fraud and Corruption arrangements of the Council. Corruption is defined in the Constitution as “... it is a serious criminal offence for them corruptly to receive or give any gift, loan, fee, reward or advantage for doing, or not doing, anything or showing favour, or disfavour, to any person in their official capacity...”</p> <p>There are a team of auditors within Internal Audit who have appropriate fraud investigatory skills to undertake any necessary fraud and corruption work.</p> <p>The ToR defines the role of audit in any fraud related or consultancy work. They state that there should be “arrangements in place to ensure that the Internal Audit Shared Service (IASS) is informed of all suspected or detected fraud, corruption or improprieties so that they can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the opinion on the internal control environment.”</p>	<p>1.3,1.4 &amp; 1.5 Internal Audit Plan and Strategy</p> <p>1.6 Overall Audit Opinion</p> <p>1.7 Constitution</p>
<p><b><u>Standard Two Independence</u></b></p> <p>The internal audit department is independent from the activities it audits and does not undertake any non audit duties that may jeopardise independence</p> <p>The internal audit shared service has adopted a policy statement on auditors’ independence, which is included in the terms of reference.</p>	<p>2.1 ToR</p> <p>2.2 Policy statement on auditors’</p>

<p>The Internal Audit ToR defines a framework within which Internal Audit operate to allow it:</p> <ul style="list-style-type: none"> <li>• Unrestricted access to officers, members and council records;</li> <li>• Reporting in its own name;</li> <li>• Segregation from line operation;</li> <li>• Freedom to determine its priorities in consultation with those charged with governance.</li> </ul> <p>The Chief Internal Auditor has direct access to Senior Officers and Members for reporting purposes. The rights of access and authority to obtain information are clearly defined in the terms of reference. The TOR state that “Internal Audit has unrestricted access to officers, members, council records and to report in its own name.”</p> <p>Internal audit staff are required annually to make a formal declaration of relationships to ensure that a conflict of interest does not occur. Internal Audit Staff have recently signed the amended manual declaration of interest form and these have been kept on file.</p> <p>There is also a requirement to make a declaration if such a conflict of interest is identified in the course of any piece of audit work. Potential conflicts of interest are taken in to consideration by the Chief Internal Auditor when formulating the annual plan and when allocating individual audits.</p>	<p>independence</p>           <p>2.3 Manual declaration of Interest form</p>
<p><b><u>Standard Three</u></b> <b><u>Ethics for Internal Auditors</u></b></p> <p>The Chief Internal Auditor ensures that staff have sufficient knowledge of the organisations aims and objectives by conducting monthly team meetings and staff training sessions. The Appraisal /Personal Development Review System (PDRS) educates staff with regards to the purpose and risks of the service area. This is an annual review which highlights any required training needs.</p> <p>All new members of staff are issued with an “Introduction to Internal Audit” manual to ensure that they have sufficient knowledge of the organisations aims and objectives. New starters are also required to complete e-learning which provides an overview of the council’s priorities, policies and procedures and also the ICT Code of Conduct.</p> <p>The scope of each individual audit assignment is discussed with individual auditors when they are assigned the audit. Audit briefs are issued to identify the scope of work required.</p> <p>The completed work of auditors is reviewed by the Senior Group Auditors. Whilst undertaking these reviews the Group Auditors ensure that the work undertaken is in accordance with the CIPFA</p>	           <p>3.1 Internal Audit manual</p>        <p>3.2 Audit Brief</p>

<p>code of practice.</p> <p>Auditors are perceived as being objective and free from conflicts of interest. Where audit staff have previously worked in another section of the Authority they will not be permitted to undertake audit duties until a reasonable period of time has elapsed, as objectivity may be impaired. This period of time is normally classed as being 12 months.</p> <p>All members of staff within Internal Audit are aware of their obligations in respect to confidentiality; auditors must treat information given to them as confidential and that there must not be any unauthorised disclosure of information. Internal audit staff must abide by the Officer's Code of Conduct within the Council's constitution which states that "In performing their duties, they must act with integrity, honesty, impartiality and objectivity."</p> <p>If members of internal audit fail to meet the standards and requirements of the Officer's Code of Conduct it may result in disciplinary action against them.</p> <p>Members of internal audit are bound by their professional membership. The ethics and due care expected of internal auditors are also outlined in the ToR.</p> <p>Within Internal Audit only the schools team are area specific, all other staff are rotated on a regular basis according to their knowledge and skill. There is a written section on staff resources in the Shared Service Strategy and Annual Plan. "In order to achieve the Annual Audit Plan, the appropriate level of resources and the required mix of skills, experience and specialism are required."</p>	<p>3.3 Council Constitution (Pages 148-153)</p> <p>3.4 IIA Code of Ethics</p>
<p><b><u>Standard Four Audit Committees</u></b></p> <p>The Head of Finance and Performance and the Chief Internal Auditor regularly attend audit committee meetings and are available to meet, as required, with members of the Committee.</p> <p>BCBC has an independent audit committee, the committee comprises of 12 elected members.</p> <p>There is an effective working relationship between the Audit Committee and the Chief Internal Auditor. The Audit Committee is responsible for approving the internal audit plan. The Internal Audit Strategy and Plan for 2012-13 was presented and approved by Audit Committee on the 4<sup>th</sup> October 2012.</p> <p>The Committee monitors progress of Internal Audit via Outturn reports. The internal audit half year outturn report was presented to Audit Committee on the 4<sup>th</sup> October 2012. This report was produced to inform the committee on the actual Internal Audit performance against the first five months of the audit plan year. The report covered the period April 2012 to August 2012 and also provided the Audit Committee with a summary of the audits</p>	<p>4.1 &amp; 4.2 Meeting Minutes 26<sup>th</sup> Sept 12, 4<sup>th</sup> Oct 12</p> <p>4.3 &amp; 4.4 Outturn Report</p> <p>4.5 Completed</p>

commenced or ongoing, and those completed for the period.	Audits Report
<p><b><u>Standard Five Relationships</u></b></p> <p>The Council Constitution defines the working relationship for Internal Audit and Elected Members. For example, employee/member relationships are defined in the councils Constitution as “Mutual respect between qualifying employees and members is essential to good local government, and working relationships should be kept on a professional basis.”</p> <p>The constitution also defines how staff members are expected to operate with members of the public “Qualifying employees of relevant authorities should deal with the public, members and other employees sympathetically, efficiently, and without bias.”</p> <p>BCBC Constitution stipulates standards that employees are expected to conduct themselves. The standards of the constitution are that “Local government employees are expected to give the highest possible standard of service to the public, and where it is part of their duties, to provide appropriate advice to councillors and fellow employees with impartiality.”</p> <p>The Chief Internal Auditor seeks to maintain effective relationships with managers and consults with Directors and Heads of Service when preparing the annual audit plan. If audits of certain areas have to be left until a particular quarter, this is incorporated in to the scheduling. The Senior Group Auditors aim to ensure that work is planned in conjunction with management where possible.</p> <p>KPMG Europe LLP is the Council’s External Auditors and the Chief Internal Auditor is available to meet with them at any time and particularly prior to every Audit Committee meeting. External and Internal Audit Staff work closely together to ensure minimal disruption to the Client and no duplication of effort occurs.</p>	5.1 Council Constitution
<p><b><u>Standard Six Staffing, Training and Continuing Professional Development</u></b></p> <p>The Chief Internal Auditor is professionally qualified and highly experienced in the Audit field, as required by the CIPFA Code.</p> <p>Auditors are assessed against their job description on an annual basis via the Appraisal / Personal Development Review System (PDRS) which identifies and documents training and development needs.</p> <p>A ‘Staff Training Records’ file is located within the department for auditors to maintain a record of their professional training and development activities.</p> <p>Where it is felt the necessary skills/ expertises are not available in</p>	6.1 PDRS

<p>the current internal audit team the Chief Internal Auditor will put forward a proposal to the Audit Committee on why there is a need for specialised resources. If this is approved by the Committee the Chief Internal Auditor will acquire the resources accordingly, through recruitment if necessary.</p> <p>The framework for assessing the level of behavioural and technical skills required is documented in ‘the excellent internal auditor’ training matrix as well as a brief description of each audit role. These training matrices are based on job descriptions and person specifications. The framework is being implemented in accordance with the schedule of implementation.</p> <p>Job descriptions and person specifications can be obtained from Human Resources.</p>	
<p><b><u>Standard Seven</u></b> <b><u>Audit Strategy and Planning</u></b></p> <p>The Internal Audit Strategy and Internal Audit plan encompass the overall strategic approach for the audit section and this strategy is in line with the CIPFA requirements.</p> <p>The Internal Audit Shared Service strategy was presented and approved by the Audit Committee in October 2012. The 2012/13 strategy states that “Internal Audit’s mission is to provide a high quality and respected service that seeks to give independent assurance to management on the effectiveness of the Council’s internal control environment and make recommendations for their continual improvement.”</p> <p>The audit plan was also presented to the Audit Committee during the October 2012 meeting. The internal audit plan is formulated using a risk based approach. The ToR state that the priorities for internal audit need to be determined through the process of risk assessment.</p> <p>In order to prepare the plan the Senior group auditors and the Chief Internal Auditor use the audit risk model called APACE to identify, assess and score risks. This model is used to ensure that the work undertaken by internal audit focuses on the significant risk areas and fundamental systems. A range of sources are used to help the internal audit management team determine the risk scores these include previous audit reports, directorate plans and risk registers. The risk register is updated after the completion of every audit.</p> <p>All the audits planned for the financial year are recorded in the audit plan and individual auditor plans are derived from this. Available audit days are calculated taking in to consideration overheads, annual leave and sickness.</p>	<p>7.1 Internal Audit Strategy &amp; Annual Plan</p> <p>7.2 &amp; 7.3 Risk Calculation</p>

<p><b><u>Standard Eight</u></b> <b><u>Undertaking Audit Work</u></b></p> <p>An Audit Brief that sets out the objectives, scope, timing, resources and reporting requirements for the individual assignments, is prepared and issued to the relevant manager prior to the commencement of audit work.</p> <p>An audit folder is held on the internal audit “O”: Drive this provides proformas and standard documents and working papers that need to be completed when undertaking individual audit assignments.</p> <p>A standard audit folder is set up under the relevant job number and each section within it is referenced clearly so that the work trail can be followed through from the audit brief, audit testing, working papers, debrief and to the report stages.</p> <p>The majority of audit files are now retained electronically and can be accessed by all members of the internal audit team.</p> <p>The review process is undertaken by the Senior or Group auditors. For each individual audit assignment; audit briefs, working papers, and reports all get reviewed, this is to ensure that consistency is achieved.</p> <p>There are defined policies for the retention of and subsequent access to all audit documentation, which conforms to the appropriate legislation and organisational requirements.</p>	<p>8.1 Audit Brief</p>
<p><b><u>Standard Nine</u></b> <b><u>Due Professional Care</u></b></p> <p>The ‘Officers Code of Conduct’ and ‘Audit Business Processes” are examples of the documents that set out the requirements of all audit staff in terms of being fair and not allowing prejudice or bias to override objectivity.</p> <p>The Terms of Reference establishes a monitoring and review programme to ensure that due professional care is achieved and maintained.</p> <p>The internal audit staff are members of CIPFA, ACCA, MIIA and AAT, and consequently have to abide by the codes of ethics set by these organisations.</p> <p>In addition due professional care is referred to in the BCBC Constitution. Guidance is given to employees in relation to all things that they may encounter in their day to day working, for example; hospitality and gifts, corruption, use of financial resources, stewardship, equality, outside commitments and personal interests.</p>	<p>9.1 ToR</p> <p>9.2 IIA Code of Ethics</p>

<p>The Whistle blowing policy is available for auditors which encourages an open culture whereby staff are seen to have a moral obligation, a right and a duty to raise concerns on bad practice. This culture includes the duty of senior auditors to ensure that staff can easily express concerns and have those concerns dealt with thoroughly without the risk of recrimination.</p> <p>As noted in the ToR employees are expected to have due professional care whilst undertaking their work.</p>	<p>9.3 Whistle Blowing Policy</p>
<p><b><u>Standard Ten Reporting</u></b></p> <p>A standard report document is used by internal auditors for each audit undertaken. An overall audit opinion is given within each report in the form of an assurance rating</p> <p>To conclude an audit an exit meeting takes place with the relevant manager to allow discussion and agreement of recommendations before the draft audit report is issued.</p> <p>Contained in the draft report is a management implementation plan. The purpose of the plan is for the officers concerned to acknowledge acceptance of the auditors' recommendations and to record what activities they will introduce and the timescales in which they plan to achieve them.</p> <p>The management Implementation plan format is designed so that recommendations are ranked according to significance.</p> <p>The circulation of the audit report is usually determined in the audit brief.</p> <p>There are no specified timescales for reports to be issued however; the Group Auditors and the Senior Group Auditors encourage that reports are issued in an accurate and timely manner.</p> <p>The "Audit Planning and Control Environment" (APACE) system is extensively used by Internal Audit to record any significant findings, areas of disagreement, recommendations and risk categories when reporting on audit work.</p> <p>The Chief Internal Auditor has mechanisms in place to ensure that recommendations that have a higher impact are reported to the appropriate forum and that risk registers are updated as necessary.</p> <p>Any reports containing Significant or Fundamental recommendations are subject to a follow up within 3 to 6 months to ascertain whether agreed actions have been implemented. Any Merits Attention recommendations are followed up within 6 to 12 months.</p>	<p>10.1 Draft Final Report</p>



<p>The Chief Internal Auditor provides an annual internal audit report to the Audit Committee that includes an overall opinion on the adequacy and effectiveness of the control environment. The department's productivity during the year is summarised and reported in the annual report.</p>	
<p><b><u>Standard Eleven</u></b> <b><u>Performance, Quality and Effectiveness</u></b></p> <p>The Chief Internal Auditor has satisfactory processes in place to ensure that all staff are suitably supervised when conducting audits.</p> <p>When allocating individual audits thought is given to the level of expertise, skills and competences required to carry out the audit.</p> <p>The Senior Group Auditors provide support and guidance when required. New starters are partnered with an experienced Auditor who will provide assistance and direction when needed.</p> <p>APACE is a management tool that is used to measure performance in terms of assessing productivity levels and audits completed within the budget set</p> <p>Quality of work is ensured by supervision of staff throughout all audits and, by use of training records and experience, ensuring that work is allocated to the most appropriately skilled and experienced Auditor.</p> <p>Client feedback is sought for each audit by the use of Client Satisfaction Surveys (CSS). These surveys record information relating to audit planning, conduct of audit, audit report and agreement with overall audit opinion. The outcome of these surveys is reported to the audit committee.</p>	<p>11.1 CSS</p>