

# Appendix Five

## PwC Internal audit service to Northampton Borough Council – Compliance with the CIPFA code of practice for internal audit in local government in the UK (2006)

### Self-assessment at October 2010

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Ref	Adherence to standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	Do terms of reference: <ul style="list-style-type: none"> <li>(a) establish the responsibilities and objectives of Internal Audit?</li> <li>(b) establish the organisational independence of Internal Audit?</li> <li>(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:               <ul style="list-style-type: none"> <li>(i) those charged with governance?</li> <li>(ii) those parties to whom the Head of Internal Audit may report?</li> </ul> </li> <li>(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?</li> </ul>	X			As detailed in IA charter – reviewed and updated October 2010

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Ref	Adherence to standard	Y	P	N	Evidence
	<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 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?	X			Refer to answer above
1.1.3	Have the terms of reference been formally approved by the organisation?	X			Approved by NBC September 2007. Updated Charter being submitted to Audit Committee October 2010.
1.1.3	Are terms of reference regularly reviewed?	X			Refer to answer above
1.2	Scope of Work				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	X			Refer to audit plan
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified:	X			Not a partnership

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Ref	Adherence to standard	Y	P	N	Evidence
	(a) how assurance will be sought? (b) agreed access rights where appropriate?				but audit plan sets out where IA provide assurance
1.3	Other Work				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	X			Access to PwC resources including forensic investigation team.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	X			Reference made within the charter.
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?	X			Set out in NBC anti fraud and corruption policy

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Ref	Adherence to standard	Y	P	N	Evidence
2	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	X X			Outsourced provider – independent of operations
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?	X			Independence is maintained. We do not make recommendations or take decisions in such instances.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	X			Outsourced audit provision totally independent.
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	X			Set out in contract and demonstrated in practice.

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Ref	Adherence to standard	Y	P	N	Evidence
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	X			Refer to audit reports
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: (i) Internal Audit adherence to the Code is not compromised? (ii) the scope of Internal Audit is not affected? (iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	X			See proposal for IA service and Audit Committee approval
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?	X			Report to Director of Finance
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?	X			Independence is maintained. PwC has clear policies on independence
2.6	Declaration of Interest				

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Ref	Adherence to standard	Y	P	N	Evidence
2.6.1	Do audit staff make formal declarations of interest?	X			On PwC engagement files
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	X			Not arisen but we would address this issue

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Ref	Adherence to standard	Y	P	N	Evidence
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	X			Through PwC methodology
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	X			We believe so – through feedback provided
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	X			PwC Code of conduct and all staff undertake ethics training
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	X			
3,3.3	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?	X			No situation has arisen but we would avoid any potential conflict
3.3.4	Are staff rotated on regular/annually audited areas?	X			The career progression

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Ref	Adherence to standard	Y	P	N	Evidence
					pathway within PwC means that auditors will progress to more challenging work as they gain experience and knowledge.
3.4	Competence				
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	X			Built into engagement file and discussed with staff at the commencement of their audits.
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	X			PwC Methodology and Code of Conduct



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Ref	Adherence to standard	Y	P	N	Evidence
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	X			
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?	X			Includes meeting outside of committee
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	X			Audit Committee minutes
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	X			Audit Committee minutes
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (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? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the	X			As above plus training provided to Audit Committee

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Ref	Adherence to standard	Y	P	N	Evidence
	audit plan, or vice versa? (f) present the annual internal audit report to the committee?				
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	X			If required

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Ref	Adherence to standard	Y	P	N	Evidence
5	Relationships				
5.1	Principles of Good Relationships				
5.1.2	<p>Is there a protocol that defines the working relationship for Internal Audit with:</p> <p>(a) management?</p> <p>(b) other internal auditors?</p> <p>(c) external auditors?</p> <p>(d) other regulators and inspectors?</p> <p>(e) elected members?</p>	X			<p>Implicit in audit proposal, annual audit plan and annual report.</p> <p>IA Charter includes reference to relationships.</p> <p>Specific protocol exists between IA and EA</p>
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	X			Regular meetings with key stakeholders
5.2.2	Is the timing of audit work planned in conjunction with management?	X			Refer to audit plan
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers,	X			Subject to appropriate

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Ref	Adherence to standard	Y	P	N	Evidence
	respective roles and confidentiality?				safeguards regarding third party responsibilities
5.4	Relationships with External Auditors				
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	X			Refer to external audit/internal audit protocol
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	X			Regular meetings throughout the year
5.4.3	Are the internal and external audit plans co-ordinated?	X			Plans shared with the Audit Commission
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?	X			IA Charter includes reference to relationships.
5.6	Relationships with Elected Members				

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Ref	Adherence to standard	Y	P	N	Evidence
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?	X			IA Charter includes reference to relationships.
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	X			IA Charter includes reference to relationships.

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Ref	Adherence to standard	Y	P	N	Evidence
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?	X			Core team are all qualified and experienced
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	X			Access to all PwC resources
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	X			CMIIA qualified and substantial experience
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	X			Over 10 years as Head of Internal Audit
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	X			Within PwC capabilities framework
6.2	Training and Continuing Professional Development				
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies?	X			Through PwC systems

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Ref	Adherence to standard	Y	P	N	Evidence
	(c) Are training or development needs identified and included in an appropriate ongoing development programme?  (d) Is the development programme recorded, regularly reviewed and monitored.				
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	X			As above

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Ref	Adherence to standard	Y	P	N	Evidence
7	Audit Strategy and Planning				
7.1	Audit Strategy				
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	X			Implicit in audit proposal and audit plan.  Audit Charter now in place
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	X			See audit plan
7.1.3	Has the strategy been approved by the audit committee?	X			See audit committee minutes
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance	X			Refer to audit plan



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Ref	Adherence to standard	Y	P	N	Evidence
	management and other assurance processes?				
7.2.1	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?	X			Refer to audit plan
7.2.1	Are stakeholders consulted on the audit plan?	X			Refer to audit plan
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	X			Refer to audit plan
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	X X X X X X			Refer to audit plan
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?				Not applicable
7.2.4	Has the plan been approved by the audit committee?	X			See minutes
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	X			Any amendments are reported to the Audit Committee

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Ref	Adherence to standard	Y	P	N	Evidence
8	Undertaking Audit Work				
8.1	Planning				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	X			Terms of reference produced and agreed in advance of audit commencement
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	X			See Terms of reference
8.2	Approach				
8.2.1	Is a risk-based audit approach used?	X			See audit plan
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	X			We operate a 'no surprises'

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Ref	Adherence to standard	Y	P	N	Evidence
					approach.
8.2.4	Does the audit approach include a quality review process for each audit?	X			PwC methodology
8.3	Recording Audit Assignments				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	X			PwC methodology and working papers
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	X			PwC quality reviews.
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	X X			PwC methodology includes documentation and re-performance standards
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	X			PwC protocols for archiving of files
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	X			Methodology complies with legislation
8.3.3	Is there an access policy for audit files and records?	X			Procedures exist to provide access to third parties

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Ref	Adherence to standard	Y	P	N	Evidence
					when appropriate to do so.

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Ref	Adherence to standard	Y	P	N	Evidence
9	Due Professional Care				
9.2	Responsibilities of the Individual Auditor				
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p> <p>(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?</p> <p>(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?</p> <p>(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>(h) disclosing any non-compliance with these standards?</p> <p>(i) not using information they gain in the course of their duties for personal use?</p>	X			PwC ethics training and code of conduct
9.3	Responsibilities of the Head of Internal Audit				

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Ref	Adherence to standard	Y	P	N	Evidence
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?	X			PwC methodology
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?		X		Not explicit but expected through PwC procedures and code of conduct

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Ref	Adherence to standard	Y	P	N	Evidence
10	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	X			Refer to audit reports
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	X			PwC methodology
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	X			PwC methodology
10.1.5	Are there laid-down timescales for reports to be issued?	X			Protocol for reporting in place
10.2	Reporting on Audit Work				
10.1.4	Do the reporting standards include: (a) format of the reports?	X			PwC methodology
10.1.4	(b) quality assurance of reports?				
10.2.2	(c) the need to state the scope and purpose of the audit?				
10.2.1	(d) the requirement to give an opinion?				
10.1.4	(e) process for agreeing reports with the recipient?				
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached				

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Ref	Adherence to standard	Y	P	N	Evidence
	with management together with appropriate timescales?				
10.2.3	Does the audit reporting process include discussion and agreement of reports?	X			See reports
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	X			See reports
10.2.5	Are areas of disagreement recorded appropriately?	X			See reports
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	X			See reports
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	X			See reports
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	X			See reports
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?		X		See reports  It is managements responsibility to update risk registers
10.3	Follow-up Audits and Reporting				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	X			Reports state follow-up



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Ref	Adherence to standard	Y	P	N	Evidence
					requirements. Follow-up work undertaken as part of audit plan.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	X			Re-reported to Audit Committee.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	X			Failure to address prior audit recommendations is reported and has impacted on our opinions.
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	X			Highlighted in annual report.
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?	X			See annual report
10.4.2	Does the Head of Internal Audit's annual report:				Refer to annual report. Performance metrics continually under review
	(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?	X			
	(b) disclose any qualifications to that opinion, together with the reasons for the qualification?	X			
	(c) present as summary of the audit work from which the opinion was derived, including reliance placed on	X			

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	<p>work by other assurance bodies?</p> <p>(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?</p> <p>(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?</p> <p>(f) comment on compliance with the standards of the Code?</p> <p>(g) communicate the results of the internal audit quality assurance programme?</p>	<p>X</p> <p>X</p> <p>X</p> <p>X</p>			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	X			Regular progress reports provided to Director of Finance and Audit Committee

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Ref	Adherence to standard	Y	P	N	Evidence
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	X			PwC Internal Audit Manual
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	X			Doesn't specifically refer to the Code as it is generic across all sectors. Does specify compliance with relevant standards.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	X			Last reviewed 2009. New global methodology roll out planned for 2011.
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	X			Subject to PwC internal quality review arrangements

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Ref	Adherence to standard	Y	P	N	Evidence
11.2	Quality Assurance of Audit Work				
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?	X			
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audit?	X			PwC methodology
11.2.2	Does the supervisory process cover: a) monitoring progress? b) assessing quality of audit work? c) coaching staff?	X			PwC methodology
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	X			PwC quality arrangements
11.3.2	Does the performance management and quality assurance framework include as a minimum: a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	X			Part of PwC procedures  Individual and team objectives  Internal quality

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Ref	Adherence to standard	Y	P	N	Evidence
	<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>				review process
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?		X		Client satisfaction surveys are used however we remain keen to agree performance indicators with the authority.
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>		X		<p>Informal satisfaction through audit plan and also reappointment.</p> <p>Internal PwC quality review process confirmed compliance.</p>
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality	X			Now annual

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Ref	Adherence to standard	Y	P	N	Evidence
	assurance programme in the annual audit report?				review against CIPFA Code
11.3.5	Does the Head of Internal Audit provide evidence from his or 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?	X			Now annual review against CIPFA Code