

The Highland Council

Audit and Scrutiny Committee – 26th September 2013

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| Agenda Item | 5 |
| Report No | AS/21/13 |

Benchmarking Report 2012/13

Report by the Head of Internal Audit & Risk Management

Summary

This is the fourth year in which the Internal Audit Section has taken part in the Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking Club. This report provides information in respect of the 2013 Benchmarking exercise which has been analysed in order to assess how well the Section performs in comparison with other authorities and refers to areas for improvement which have been identified.

1. Introduction

- 1.1 The Internal Audit Section has taken part in the annual CIPFA Audit Benchmarking exercise. The information subsequently provided by CIPFA has been reviewed and analysed and the results have been included in a report, a copy of which is attached as **Appendix 1**. Details of the benchmarking process are outlined in section 1.1 of the attached report.
- 1.2 In addition to the annual Benchmarking exercise, the Internal Audit Section also produces a number of different performance indicators covering areas which reports on performance against the audit plan, timely issue of audit reports, and quality and cost of the Internal Audit service. These performance indicators are included within the Head of Internal Audit & Risk Management's annual report. In addition the indicators for performance against the audit plan and cost of the service are included within the Scottish Directors of Finance's Performance Indicators which enables the Highland Council's position to be measured against all other Scottish Councils.

2. Main Findings

- 2.1 The benchmarking has identified 2 areas for improvement in respect of increasing the annual number of chargeable audit days and introducing a programme of continuous auditing exercises, and these are included in the action plan at section 6 of the report.
- 2.2 The actions arising from the 2012 benchmarking exercise were implemented and have been instrumental in ensuring better compliance with the CIPFA Code of Practice which increased the score from 174 to 190. The final position is 99% (190/192) compliance which was the maximum achievable as 2 standards will not be implemented for the reasons set out at section 3.2 of the attached report.

3. Conclusion

- 3.1 The annual benchmarking exercise has identified some further areas for

improvement and actions have been agreed to address these by 31/03/14.

- 3.2 The Section has achieved a very high level percentage with the CIPFA Code but this has now been replaced by the Standards (see agenda item 6). Compliance with the Standards will need to be measured and reported upon each year and this will present a new challenge to the Internal Audit Section.

4. Implications

- 4.1 There are no Resource, Legal, Equalities, Climate Change/ Carbon Clever or Risk implications arising from this report.

Recommendation

Members are asked to note:

- (i) The results of the 2013 benchmarking exercise.
- (ii) That the Internal Audit Section will continue to participate in the annual CIPFA Benchmarking Club in order to seek continuous improvement in the service provided.
- (iii) That an Action Plan has been prepared which identifies areas for improvement and this will be followed up to ensure that the required improvement actions are addressed.

Designation: Head of Internal Audit & Risk Management

Date: 12th September 2013

Author: Donna Sutherland, Audit & Risk Manager

Background Papers:



**Internal Audit Section
Benchmarking Report 2012/13**

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Audit & Scrutiny Members

DATE: 12/09/13

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1. INTRODUCTION

1.1 This is the fourth year in which the Internal Audit Section has taken part in the Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking Club and provides information for the 2013 benchmarking exercise. The benchmarking process operates as follows:

- A detailed questionnaire is completed by the Internal Audit Section and submitted to CIPFA who collate the data for all authorities who take part.
- A draft report is provided which allows the opportunity for the Council's results to be reviewed and amended if necessary.
- The Council is offered the chance to select between 8 and 18 comparator authorities.
- Two final reports are then provided by CIPFA. The first shows the Highland Council's position against all other authorities of the same type, in this case, Unitary authorities. The second report compares the Council's position against the selected comparator authorities (see 1.2 below).

1.2 The authorities selected for comparison purposes are listed below. This consists of all Scottish Local authorities who had taken part and the most comparable unitary authorities in England and Wales.

- Aberdeen
- Argyll & Bute
- Fife
- Glasgow
- West Lothian
- Cardiff
- Cumbria
- East Riding
- East Sussex
- Gloucestershire
- Northumberland
- Shropshire
- Warwickshire.

The data in respect of these comparator authorities and the Highland Council is included within this report.

1.3 The aim of this benchmarking process is to review performance against other authorities and identify any areas where improvements can be made. This report provides the results of the benchmarking exercise (see section 2) and the improvements identified are contained in the Action Plan at section 5.

1.4 An annual review against best practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code) has been also undertaken and details can be found in section 3 of this report. This is the last year in which the CIPFA Code will be used as this was replaced on 1st April 2013 by the Public Sector Internal Audit Standards (the Standards). In future years there will be an annual exercise undertaken which measures conformance with the Standards and this will be reported upon. In addition, the new Standards require that an external assessment is also conducted at least once every five years by a qualified, independent assessor or assessment team.

2. SUMMARY OF RESULTS

2.1 Approach

The CIPFA reports have been reviewed and analysed. It is considered that there is limited scope for change within a number of different areas but some improvements have been identified and these are addressed at sections 2.2 and 2.3 below.

In addition, this report includes cost analysis information and selected information from the new corporate governance section which will be of interest to Members.

2.2 Cost Analysis

The report includes a number of key cost benchmarks for audit costs and gives the figures for the Highland Council (HC) and the group average for the selected comparator authorities (Average) for the four years 2009/10 – 2012/13. The following benchmarks in Table 1 are considered to be of particular relevance:

Table 1

| Benchmark | Year | HC | Average |
|---|---------|--------|---------|
| (a) Number of audit days per £'m gross turnover | 2009/10 | 1.7 | 3.1 |
| | 2010/11 | 2.0 | 2.8 |
| | 2011/12 | 1.5 | 2.7 |
| | 2012/13 | 1.6 | 2.5 |
| (b) Chargeable days per auditor (in-house) | 2009/10 | 178 | 170 |
| | 2010/11 | 183 | 174 |
| | 2011/12 | 147 | 173 |
| | 2012/13 | 153 | 174 |
| (c) Cost per auditor (in house) | 2009/10 | £46.5k | £57.6k |
| | 2010/11 | £59.3k | £55.9k |
| | 2011/12 | £46.6k | £55.6k |
| | 2012/13 | £54.7k | £56.0k |

Comments on the above benchmarks:

- (a) The Council's number of days has varied over the four years examined but has consistently been lower than the average which would suggest that the Internal Audit Section is not over resourced.
- (b) Chargeable days are calculated by taking the available resources and deducting non-productive days (annual leave and public holidays, sickness, training and special leave) and non-chargeable days (Management, Galileo System Administration and General Administration). It is considered that there is scope to review the non-chargeable days with a view to reducing these which will increase the number of chargeable days.
- (c) The general trend shows that the cost per auditor is lower than the average cost.

2.3 Counter-fraud and investigations

The current approach to fraud within the Council has tended to concentrate upon investigating any suspected frauds and irregularities and there has been no proactive work undertaken as outlined in Table 2 below. The need for "continuous auditing" whereby computer programs are used to check whether the Council's financial systems are operating as expected, in order to prevent errors and fraud, has previously been identified. The "continuous" aspect refers to the near real-time capability for financial information to be checked and shared allowing the integrity of information to be evaluated at any given point of time, it also means that the information is verified constantly for errors or fraud.

Table 2

| Workload | No. days | Average days | % of total | Average |
|---------------|-----------|--------------|------------|---------|
| Prevention | 0 | 11 | 0% | 5% |
| Detection | 0 | 53 | 0% | 13% |
| Investigation | 69 | 200 | 100% | 82% |
| Total | 69 | 264 | | |

2.4 Audit Committee information

For the first time the benchmarking questionnaire asked a number of questions about Audit Committee arrangements within the fourteen comparator Councils. The following information has been provided below for the interest of Members. The responses by the individual Councils are shown in brackets and the Highland Council's response is shown in bold.

Table 3

| Question | Response | |
|---|--|--------------------------------------|
| Do you have a specific Audit Committee? | Yes (14) | |
| How many times did the Audit Committee meet in 2012/13? | 3 (1) *1 4 (7) 5 (4) | 6 (1) 9 (1) |
| How is your Audit Committee constituted? | Dedicated Committee or Sub Committee (11) Part of Committee with other functions (3) | |
| Where does the Audit Committee report to? | Full Council (12) Other Committee (1) No response (1) | |
| Is your Audit Committee politically balanced? | Yes (14) No (0) | |
| How is the chairperson selected? | Elected at Full Council (6) Opposition Member (3) Independent Member (1) Independent Non-Member (3) Other (1) | |
| How many members are on the Audit Committee? | 5 (2) 6 (1) 7 (7) 8 (2) | 9 (2) 10 (2) 12 (2) 14+ (2) |

*1 Normal practice is to hold 4 meetings a year but 1 was missed due to the local Government election in May 2012.

The above information shows that the arrangements within the Highland Council are in agreement with the majority of other Councils with the exception of the number of Members on the Audit & Scrutiny Committee.

3. GOOD PRACTICE QUESTIONNAIRE

3.1 Questionnaire

The questionnaire below is a replication of the checklist contained in the CIPFA Code of Practice for Internal Audit (the Code). Compliance with the Code has been measured using a simple scoring system of 1=comply and 0=don't comply and the checklist questions and Highland Council scores are provided. This checklist previously formed part of the benchmarking process but was removed by CIPFA after the 2011 benchmarking exercise. However, section 11.3.1 of the Code requires the Head of Internal Audit to demonstrate that the internal audit service is compliant with the Code. Therefore compliance against the Code continued to be measured and reported as part of the annual benchmarking report. The results of the 2013 assessment are detailed below.

| | | Score |
|------------|--|-------|
| 1 | SCOPE OF INTERNAL AUDIT | |
| 1.1 | Terms of Reference | |
| | Do terms of reference: - | |
| 1.11(a) | establish the responsibilities and objectives of Internal Audit? | 1 |
| 1.11(b) | establish the organisational independence of Internal Audit? | 1 |
| | establish the accountability, reporting lines and relationships between the Head of Internal Audit and: - | |
| 1.11(c i) | those charged with governance? | 1 |
| 1.11(c ii) | those parties to whom the Head of Internal Audit may report? | 1 |
| 1.11(d) | recognise that Internal Audit's remit extends to the entire control environment of the organisation? | 1 |
| 1.11(e) | identify Internal Audit's contribution to the review of the effectiveness of the control environment? | 1 |
| 1.11(f) | require and enable the Head of Internal Audit to deliver an annual audit opinion? | 1 |
| 1.11(g) | define the role of Internal Audit in any fraud-related or consultancy work? | 1 |
| 1.11(h) | explain how Internal Audit's resource requirements will be assessed? | 1 |
| 1.11(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? | 1 |
| 1.12 | Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference? | 1 |
| 1.13 | Have the terms of reference been formally approved by the organisation? | 1 |
| 1.14 | Are terms of reference regularly reviewed? | 1 |
| 1.2 | Scope of Work | |
| 1.21 | 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? | 1 |
| | Where services are provided in partnership has the Head of Internal Audit identified? | |
| 1.22(a) | how assurance will be sought? | 1 |
| 1.22(b) | agreed access rights where appropriate? | 1 |
| 1.3 | Other Work | |
| | Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: - | |
| 1.31(a) | skills; and | 1 |
| 1.31(b) | resources to do this? | 1 |
| | Do the terms of reference define Internal Audit's role in: - | |
| 1.32(a) | fraud and corruption? | 1 |
| 1.32(b) | consultancy work? | 1 |
| 1.4 | Fraud & Corruption | |
| 1.41 | 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? | 1 |

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| 2 | INDEPENDENCE | |
| 2.1 | Principles of Independence | |
| | Is Internal Audit: - | |
| 2.11(a) | independent of the activities it audits? | 1 |
| 2.11(b) | free from any non-audit (operational) duties? | 1 |
| 2.12 | 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? | 0 |
| 2.2 | Organisational Independence | |
| 2.21 | Does the status of Internal Audit allow it to demonstrate independence? | 1 |
| | Does the Head of Internal Audit have direct access to: - | |
| 2.22(a) | Officers? | 1 |
| 2.22(b) | Members? | 1 |
| 2.23 | Does the Head of Internal Audit report in his or her own name to Members and Officers? | 1 |
| 2.23(a) | Is there an assessment that the budget for Internal Audit is adequate? | 1 |
| | Does any budget delegated to service areas ensure that: - | |
| 2.23(b i) | Internal Audit adherence to the Code is not compromised? | 1 |
| 2.23(b ii) | the scope of Internal Audit is not affected? | 1 |
| 2.23(b iii) | Internal Audit can continue to provide assurance for the Statement on Internal Control? | 1 |
| 2.3 | Status of the Head of Internal Audit | |
| 2.31 | Is the Head of Internal Audit managed by a member of the corporate management team? | 1 |
| 2.4 | Independence of Internal Audit Contractors | |
| 2.41 | Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services? | 1 |
| 2.5 | Declaration of Interest | |
| 2.51 | Do Audit staff make formal declarations of interest? | 1 |
| 2.52 | Does the planning process take account of the declarations of interest registered by staff? | 1 |
| 3 | ETHICS FOR INTERNAL AUDITORS | |
| 3.1 | Purpose | |
| 3.11 | Does the Head of Internal Audit regularly remind staff of their ethical responsibilities? | 1 |
| 3.2 | Integrity | |
| 3.21 | Has the Internal Audit team established an environment of trust and confidence? | 1 |
| 3.22 | Do Internal Auditors demonstrate integrity in all aspects of their work? | 1 |
| 3.3 | Objectivity | |
| 3.31 | Are Internal Auditors perceived as being objective and free from conflicts of interest? | 1 |
| 3.32 | 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? | 1 |
| 3.33 | Are staff rotated on regular/annually audited areas? | 1 |
| 3.4 | Competence | |
| | Does the Head of Internal Audit ensure that staff have sufficient knowledge of: - | |
| 3.41(a) | the organisation's aims, objectives, risks and governance arrangements? | 1 |
| 3.41(b) | the purpose, risks and issues of the service area? | 1 |
| 3.41(c) | the scope of each audit assignment? | 1 |
| 3.41(d) | relevant legislation and other regulatory arrangements that relate to the audit? | 1 |
| 3.5 | Confidentiality | |
| 3.51 | Do Internal Audit staff understand their obligations in respect to confidentiality? | 1 |

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| 4 | AUDIT COMMITTEES | |
| 4.1 | Purpose of the Audit Committee | |
| 4.11 | Does the organisation have an independent Audit Committee? | 1 |
| 4.2 | Relationship with the Audit Committee | |
| 4.21 | Is there an effective working relationship between the Audit Committee and Internal Audit? | 1 |
| 4.22 | Does the Committee approve the Internal Audit Strategy and monitor progress? | 1 |
| 4.23 | Does the Committee approve the Annual Internal Audit Plan and monitor progress? | 1 |
| | Does the Head of Internal Audit: - | |
| 4.24(a) | attend the Committee and contribute to its agenda? | 1 |
| 4.24(b) | participate in the Committee's review of its own remit and effectiveness? | 1 |
| 4.24(c) | ensure that the Committee receives and understands documents that describe how Internal Audit will fulfill its objectives? | 1 |
| 4.24(d) | report on the outcomes of Internal Audit work to the Committee? | 1 |
| 4.24(e) | establish if anything arising from the work of the Committee requires consideration of changes to the Audit Plan, or vice versa? | 1 |
| 4.24(f) | present the Annual Internal Audit report to the Committee? | 1 |
| 4.25 | Is there the opportunity for the Head of Internal Audit to meet privately with the Audit Committee? | 1 |
| 5 | RELATIONSHIPS | |
| 5.1 | Principles of Good Relationships | |
| | Is there a protocol that defines the working relationship for Internal Audit with: - | |
| 5.11(a) | management? | 1 |
| 5.11(b) | other Internal Auditors? | 1 |
| 5.11(c) | External Auditors? | 1 |
| 5.11(d) | other regulators and inspectors? | 1 |
| 5.11(e) | Elected Members? | 1 |
| 5.2 | Relationships with Management | |
| 5.21 | Does the Head of Internal Audit seek to maintain effective relationships between Internal Auditors and managers? | 1 |
| 5.22 | Is the timing of audit work planned in conjunction with management? | 1 |
| 5.3 | Relationships with other Internal Auditors | |
| 5.31 | Do arrangements exist with other Internal Auditors that include joint working, access to working papers, respective roles and confidentiality? | 1 |
| 5.4 | Relationships with External Auditors | |
| 5.41 | Is it possible for Internal Audit and External Audit to rely on each other's work? | 1 |
| 5.42 | Are there regular meetings between the Head of Internal Audit and the External Audit Manager? | 1 |
| 5.43 | Are the Internal and External Audit Plans co-ordinated? | 1 |
| 5.5 | Relationships with other Regulators & Inspectors | |
| 5.51 | Has the Head of Internal Audit sought to establish a dialogue with the regulatory inspection agencies that interact with the organisation? | 0 |
| 5.6 | Relationships with Elected Members | |
| 5.61 | Do the terms of reference for Internal Audit define the channels of communication with Members and describe how such relationships should operate? | 1 |
| 5.62 | Does the Head of Internal Audit maintain good working relationships with Members? | 1 |
| 6 | STAFFING, TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT | |
| 6.1 | Staffing Internal Audit | |
| 6.11 | Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards? | 1 |
| 6.12 | Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available with the Internal Audit team? | 1 |
| 6.13 | Is the Head of Internal Audit professionally qualified and experienced? | 1 |

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| 6.14 | Does the Head of Internal Audit have wide experience of Internal Audit and management? | 1 |
| 6.15(a) | Do all Internal Audit staff have up-to-date job descriptions? | 1 |
| 6.15(b) | Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for Internal Audit staff? | 1 |
| 6.2 | Training & Continuing Professional Development | |
| 6.21(a) | Has the Head of Internal Audit defined skills and competencies for each level of Auditor? | 1 |
| 6.21(b) | Are individual Auditors periodically assessed against these predetermined skills and competencies? | 1 |
| 6.21(c) | Are training or development needs identified and included in an appropriate ongoing development programme? | 1 |
| 6.21(d) | Is the development programme recorded, regularly reviewed and monitored? | 1 |
| 6.22 | Do individual Auditors maintain a record of their professional training and development activities? | 1 |
| 7 | AUDIT STRATEGY & PLANNING | |
| 7.1 | Audit Strategy | |
| 7.11(a) | Is there an Internal Audit Strategy for delivering the service? | 1 |
| 7.11(b) | Is it kept up to date with the organisation and its changing priorities? | 1 |
| | Does the Strategy include: - | |
| 7.12(a) | Internal Audit objectives and outcomes? | 1 |
| 7.12(b) | how the Head of Internal Audit will form and evidence his or her opinion on the control environment? | 1 |
| 7.12(c) | how Internal Audit's work will identify and address local and national issues and risks? | 1 |
| 7.12(d) | how the service will be provided, i.e. internally, externally or a mix of the two? | 1 |
| 7.12(e) | the resources and skills required to deliver the Strategy? | 1 |
| 7.13 | Has the Strategy been approved by the Audit Committee? | 1 |
| 7.2 | Audit Planning | |
| 7.21 | Is there a risk based plan that is informed by the organisation's risk management, performance management and other assurance processes? | 1 |
| 7.22 | 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? | 1 |
| 7.23 | Are stakeholders consulted on the Audit Plan? | 1 |
| 7.24 | Does the Plan demonstrate a clear understanding of the organisation's functions? | 1 |
| | Does the Plan: - | |
| 7.25(a) | cover a fixed period of no longer than one year? | 1 |
| 7.25(b) | outline the assignments to be carried out? | 1 |
| 7.25(c) | prioritise assignments? | 1 |
| 7.25(d) | estimate the resources required? | 1 |
| 7.25(e) | differentiate between assurance and other work? | 1 |
| 7.25(f) | allow a degree of flexibility? | 1 |
| 7.26 | Is there an imbalance between the resources available and resources needed to deliver the Plan, is the Audit Committee informed of proposed solutions? | 1 |
| 7.27 | Has the Plan been approved by the Audit Committee? | 1 |
| 7.28 | If significant matters arise that jeopardise the delivery of the Plan, are these addressed and reported to the Audit Committee? | 1 |
| 8 | UNDERTAKING AUDIT WORK | |
| 8.1 | Planning | |
| 8.11(a) | Is a brief prepared for each audit? | 1 |
| 8.11(b) | Is the brief discussed and agreed with the relevant managers? | 1 |
| | Does the brief set out: - | |
| 8.12(a) | objectives? | 1 |
| 8.12(b) | scope? | 1 |
| 8.12(c) | timing? | 1 |
| 8.12(d) | resources? | 1 |

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| 8.12(e) | reporting requirements? | 1 |
| 8.2 | Approach | |
| 8.21 | Is a risk based audit approach used? | 1 |
| 8.22 | Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen? | 1 |
| 8.23 | Does the audit approach include a quality review process for each audit? | 1 |
| 8.3 | Recording Audit Assignments | |
| 8.31 | Has the Head of Internal Audit defined a standard for audit documentation and working papers? | 1 |
| 8.32 | Do quality reviews ensure that the defined standard is followed consistently for all audit work? | 1 |
| | Are working papers such that an experienced Auditor can easily:- | |
| 8.33(a) | identify the work that has been performed? | 1 |
| 8.33(b) | re-perform it if necessary? | 1 |
| 8.33(c) | see how the work supports the conclusions reached? | 1 |
| 8.34 | Is there a defined policy for the retention of all audit documentation, both paper and electronic? | 1 |
| 8.35 | Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc., and any organisational requirements? | 1 |
| 8.36 | Is there an access policy for audit files and records? | 1 |
| 9 | DUE PROFESSIONAL CARE | |
| 9.1 | Responsibilities of the Individual Auditor | |
| | Are there documents that set out the requirements on all Audit staff in terms of:- | |
| 9.11(a) | being fair and not allowing prejudice or bias to override objectivity? | 1 |
| 9.11(b) | declaring interests that could be perceived to be conflicting or could potentially lead to conflict? | 1 |
| 9.11(c) | receiving and giving gifts and hospitality from employees, clients, suppliers or third parties? | 1 |
| 9.11(d) | using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? | 1 |
| 9.11(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? | 1 |
| 9.11(f) | having sufficient knowledge to identify indicators that fraud or corruption may have been committed? | 1 |
| 9.11(g) | disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice? | 1 |
| 9.11(h) | disclosing any non-compliance with these standards? | 1 |
| 9.11(i) | not using information they gain in the course of their duties for personal use? | 1 |
| 9.2 | Responsibilities of the Head of Internal Audit | |
| 9.21 | Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained? | 1 |
| 9.22 | Are there systems in place for individual Auditors to disclose any suspicions of fraud, corruption or improper conduct? | 1 |
| 10 | REPORTING | |
| 10.1 | Principles of Reporting | |
| 10.11 | Is an opinion on the control environment and risk exposure given in each audit report? | 1 |
| 10.12 | Has the Head of Internal Audit determined the way in which Internal Audit will report? | 1 |
| 10.13 | Has the Head of Internal Audit set out the standards for Internal Audit reporting? | 1 |
| 10.14 | Are there laid down timescales for reports to be issued? | 1 |
| 10.2 | Reporting on Audit Work | |
| | Do the reporting standards include:- | |
| 10.21(a) | format of the reports? | 1 |
| 10.21(b) | quality assurance of reports? | 1 |
| 10.21(c) | the need to state the scope and purpose of the audit? | 1 |

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| 10.21(d) | the requirement to give an opinion? | 1 |
| 10.21(e) | process for agreeing reports with the recipient? | 1 |
| 10.21(f) | an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales? | 1 |
| 10.22 | Does the audit reporting process include discussion and agreement of reports? | 1 |
| 10.23 | Has the Head of Internal Audit determined a process for prioritising recommendations according to risk? | 1 |
| 10.24 | Are areas of disagreement recorded appropriately? | 1 |
| 10.25 | Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management? | 1 |
| 10.26 | Is the circulation of each audit report determined when preparing the audit brief? | 1 |
| 10.27(a) | Does the reporting process include details of circulation of that particular audit report? | 1 |
| 10.27(b) | Is this included in the brief for each individual audit? | 1 |
| | Does the Head of Internal Audit have mechanisms in place to ensure that: - | |
| 10.28(a) | recommendations that have a wider impact are reported to the appropriate forums? | 1 |
| 10.28(b) | risk registers are updated? | 1 |
| 10.3 | Follow-up Audits & Reporting | |
| 10.31 | Has the Head of Internal Audit defined the need for and the form or any follow-up action? | 1 |
| 10.32 | Has the Head of Internal Audit established appropriate escalation procedures for Internal Audit recommendations not implemented by the agreed date? | 1 |
| 10.33 | Where appropriate, is a revised opinion given following a follow-up audit and reported to management? | 1 |
| 10.34 | Are the findings of audits and follow-ups used to inform the planning of future audit work? | 1 |
| 10.4 | Annual Reporting & Presentation of Audit Opinion | |
| 10.41 | Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control? | 1 |
| | Does the Head of Internal Audit's annual report: - | |
| 10.42(a) | include an opinion on the overall adequacy and effectiveness of the organisation's control environment? | 1 |
| 10.42(b) | disclose any qualifications to that opinion, together with the reasons for the qualification? | 1 |
| 10.42(c) | present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? | 1 |
| 10.42(d) | draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control? | 1 |
| 10.42(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? | 1 |
| 10.42(f) | comment on compliance with the standards of the Code? | 1 |
| 10.42(g) | communicate the results of the Internal Audit quality assurance programme? | 1 |
| 10.43 | Has the Head of Internal Audit made provision for interim reporting to the organisation during the year? | 1 |
| 11 | PERFORMANCE, QUALITY & EFFECTIVENESS | |
| 11.1 | Principles of Performance, Quality & Effectiveness | |
| 11.11 | Is there an audit manual? | 1 |
| | Does the audit manual provide guidance on: - | |
| 11.12(a) | carrying out day-to-day audit work? | 1 |
| 11.12(b) | complying with the Code? | 1 |
| 11.13 | Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards? | 1 |
| | Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: - | |
| 11.14(a) | each individual audit? | 1 |
| 11.14(b) | the Internal Audit service as a whole? | 1 |
| 11.2 | Quality Assurance of Audit Work | |

| | | |
|--------------|---|------------|
| 11.21 | 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? | 1 |
| 11.22 | Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits? | 1 |
| | Does the supervisory process cover:- | |
| 11.23(a) | monitoring progress? | 1 |
| 11.23(b) | assessing quality of audit work? | 1 |
| 11.23(c) | coaching staff? | 1 |
| 11.3 | Performance & Effectiveness of the Internal Audit Service | |
| 11.31 | Does the Head of Internal Audit have a performance management and quality assurance programme in place? | 1 |
| | Does the performance management and quality assurance framework include as a minimum:- | |
| | a comprehensive set of targets to measure performance:- | |
| 11.32(a i) | which are developed in consultation with appropriate parties? | 1 |
| 11.32(a ii) | which are included in service level agreements, where appropriate? | 1 |
| 11.32(a iii) | against which the Head of Internal Audit measures, monitors and reports appropriately on progress? | 1 |
| 11.32(b) | user feedback obtained for each individual audit and periodically for the whole service? | 1 |
| 11.32(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? | 1 |
| 11.32(d) | internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual? | 1 |
| 11.32(e) | an action plan to implement improvements? | 1 |
| 11.33 | 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? | 1 |
| 11.34 | Do the results of the performance management and quality assurance programme evidence that the Internal Audit service is:- | |
| 11.34(a) | meeting its aims and objectives? | 1 |
| 11.34(b) | compliant with the Code? | 11 |
| 11.34(c) | meeting internal quality standards? | 1 |
| 11.34(d) | effective, efficient, continuously improving? | 1 |
| 11.34(e) | adding value and assisting the organisation in achieving its objectives? | 1 |
| 11.35 | Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report? | 1 |
| 11.36 | Does the Head of Internal Audit provide evidence from his or her review of the performance and quality on the Internal Audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of Internal Audit? | 1 |
| | | |
| | Total: | 190 |
| | Total Number of checks: | 192 |

3.2 Results

Previous benchmarking exercises identified the need for improvements to ensure compliance with the Code. These have now been implemented (see section 4) and this is demonstrated by the significant increase in score from 174 last year to 190. As previously reported this is the highest score that can be achieved as the Head of Internal Audit and Risk Management has decided that standards 2.12 and 5.51 will not be addressed for the following reasons:

2.12 - It is ensured that when staff are consulted that this is restricted to advice on internal controls and they do not become involved in any operational matters so there is no need to preclude them from reviewing/ making comments during future audits.

5.51 – This standard does not take account of the change in recent years to reduce the number of inspection agencies and the change in approach. The Head of Internal Audit & Risk Management has regular meetings with Audit Scotland who lead on the Shared Risk Assessment and Improvement Plan which details the audit and inspection plans for 5 inspection bodies, and this is considered to be a suitable approach to addressing the standard’s requirements.

4. FOLLOW-UP OF PREVIOUS ACTIONS

| Area for Improvement | Action proposed | Target Date | Responsible Officer | Update |
|---|---|-------------|---|--|
| Ensure that a review of the effectiveness of the Audit and Scrutiny Committee is undertaken. | Review will be undertaken in conjunction with the Chair. Will be based upon the Self-assessment Checklist for Measuring the Effectiveness of the Audit Committee prepared by CIPFA. | 31/03/13 | Head of Internal Audit & Risk Management with A&S Committee Chair | Completed and reported to A&SC on 28/03/13. |
| The Terms of Reference to detail the audit resources. | Terms of Reference document will be amended accordingly as part of the current review of Galileo. | 31/03/13 | Auditor | Completed as part of implementation of Galileo v3.6 on 30/04/13. |
| Timescale to be prescribed for the issue of the draft report following completion of the fieldwork. | Guidance on timescales to be produced and circulated to staff. | 31/03/13 | Head of Internal Audit & Risk Management | Guidance issued 07/03/13. |
| | Relevant "milestone" to be input into Galileo. | 31/03/13 | Auditor | Completed as part of implementation of Galileo v3.6 on 30/04/13. |
| The circulation for the audit report will be determined and will be detailed in the Terms of Reference. | Terms of Reference document will be amended accordingly as part of the current review of Galileo. | 31/03/13 | Auditor | Completed as part of implementation of Galileo v3.6 on 30/04/13. |

5. CONCLUSION

- 5.1 The benchmarking has identified some areas for improvement and these are outlined in the action plan at section 6. Progress against the action plan will be followed up to ensure that the actions are implemented.
- 5.2 The previous actions from the 2012 benchmarking exercise have been implemented and this is demonstrated by the increase in compliance with the CIPFA Code which rose to 99%. Unfortunately, the Code has now been replaced by the Standards and this brings forward a new challenge with regard to ensuring compliance with the Standards which must be measured and then reported upon.
- 5.3 The benchmarking exercise will be continue to be undertaken annually to enable performance to be measured both annually and to assess year on year trends.

6. ACTION PLAN

| Report Ref | Area for Improvement | Action proposed | Target Date | Responsible Officer |
|------------|--|---|-------------|--|
| 2.2 | Increase number of chargeable days. | This will be addressed when preparing the 2014/15 audit plan. | 31/03/14 | Head of Internal Audit & Risk Management/ Audit & Risk Manager |
| 2.3 | Change the present approach to fraud and investigation to undertaking an element of preventative and detective work each year. | An allowance of time for a programme of continuous auditing will be included in the 2014/15 audit plan. | 31/03/14 | Head of Internal Audit & Risk Management/ Audit & Risk Manager |