

Appendix 3**The internal control environment**

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) defines the internal control environment as: -

Comprising the systems of governance, risk management and internal control.

The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management.

The International Auditing Standard (315) also states that it encompasses the following:-

- Communication and enforcement of integrity and ethical values
- Commitment to competence [including ensuring the required level of knowledge and skills]
- Participation by those charged with governance [this includes audit committee members or its equivalent]
- Management's philosophy and operating style [including monitoring business risk]
- Organisational structure [to achieve its objectives]
- Assignment of authority and responsibility
- Human resources policies and practices

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Last Revised 15/06/2012

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