

AUDIT COMMITTEE

MONDAY 6 JUNE 2011
7.00 PM

Bourges/Viersen Rooms - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING.

AGENDA

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1. Apologies for Absence	
2. Declarations of Interest	
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4. Audit Committee Members Handbook	7 - 76
To receive and approve the revised members handbook for the Audit Committee.	
5. Work Programme 2011 / 2012	77 - 78
To review the work programme for 2011 / 2012.	



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Committee Members:

Councillors: Lamb (Chairman), Stokes (Vice Chairman), Harper, Nadeem, Kreling, Lane and Goldspink

Substitutes: Councillors: Nash and Sharp

Further information about this meeting can be obtained from Gemma George on telephone 01733 452268 or by email – gemma.george@peterborough.gov.uk

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 28 MARCH 2011**

Present: Councillors Newton (Vice Chair), Kreling, Stokes, Harrington, Goldspink and Nash

Officers in attendance: Steven Pilsworth, Head of Corporate Services
Steve Crabtree, Chief Internal Auditor
Diane Baker, Compliance and Ethical Standards Manager
Stuart Hamilton, Resilience Services Manager
Vicky Bales, Senior Business Continuity and Risk Officer
Gemma George, Senior Governance Officer

Also in attendance: Julian Rickett, PricewaterhouseCoopers
Jacqui Short, PricewaterhouseCoopers

1. Apologies for Absence

Apologies for absence were received from Councillor Simons.

Councillor Nash attended as substitute.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 7 February 2011

The minutes of the meeting held on 7 February 2011 were approved as an accurate and true record.

4. Strategic Risk Register

The Resilience Services Manager presented a report to the Committee which detailed the updated Risk Register.

Members were advised that the Directors Group had reviewed and amended the Strategic Risk Register in order to reflect the current risk environment and appetite.

The Register was subject to ongoing three monthly reviews in order to keep it current and directorates reviewed their own registers on a regular basis.

Members were invited to comment on the updated Risk Register and the following issues and observations were highlighted:

- With regards to 'Scrutiny and Engagement Processes', the current score on the register stood at 16, whereas it had previously been 6, Members queried why this was. Members were advised that there had been a number of risks from the previous register which had yet to be rescored.

The register, in its entirety, was due to be rescored after the forthcoming elections.

- A query was raised with regards to how the information was gathered for the Register and whether this information was evidence based. Members were informed that work was undertaken with Zurich and through such work feedback was gathered. Registers were also held in each directorate and the top identified risks from each area were pulled together to form the Risk Register.
- Members requested further training on the Strategic Risk Register. In response, Members were advised that further training would be provided in due course.

ACTION AGREED:

The Committee:

- (1) Considered and endorsed the Strategic Risk Register; and
- (2) Offered feedback and/or recommendations.

5. Regulation of Investigatory Powers Act 2000 (RIPA): Quarterly Report (To 31 December 2010)

The Compliance and Ethical Standards Manager presented a report to the Committee which provided an overview of the Council's approach to the Regulation of Investigatory Powers Act 2000 (RIPA) and its use of these powers over the period October 2010 – December 2010.

RIPA provided a statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' (CHIS). It also permitted Public Authorities to compel telecommunications and postal companies to obtain and release communications data, in certain circumstances. It sought to ensure that any interference with an individual's right under Article 8 was necessary and proportionate. In doing so, RIPA sought to ensure both the public interest and the human rights of individuals were suitably balanced.

Council officers and external agencies working on behalf of Peterborough City Council had to comply with RIPA and any work carried out had to be properly authorised by one of the Council's Authorising Officers. The powers contained with the Act could only be used for the purpose of preventing or detecting a crime or preventing disorder.

The Council had established strong governance around the use of RIPA and provided assurance to the citizens of Peterborough that the powers were only used where necessary and proportionate and in accordance with the law.

Members were advised that RIPA had been utilised four times during the third quarter of 2010 / 2011, three times for test purchasing and once for fly tipping.

Members questioned whether with all the recent cutbacks, could the service still be provided to high standards. Members were advised that the overall reduction in the enforcement teams was not known therefore comment could not be passed upon this point, however there were control mechanisms in place to ensure the service was kept up to standard.

ACTION AGREED:

The Committee received, considered and endorsed the report on the use of RIPA for the quarterly review period of 1 October 2010 to 31 December 2010.

6. External Audit: Audit Plan 2010 / 2011

Chris Hughes and Jacqui Short, External Auditors, presented a report which sought the Committee's response to the Audit Plan 2010 / 2011, as prepared by PricewaterhouseCoopers (PwC).

The Audit Plan had been prepared to inform the Council about the responsibilities of External Audit and how those responsibilities would be discharged. The report had been discussed and agreed jointly by Council representatives and External Audit.

The Plan had been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the City Council and the local government sector. The Plan included a number of follow ups and updates to previous reviews and also new risks which had been identified.

Members' attention was drawn to page 25 of the agenda papers which contained the summary of the results of the risk assessment undertaken and the planned responses highlighted by External Audit.

There were two aspects to the work of External Audit, these being:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources

The Committee was advised that External Audit were required to issue a two-part audit covering both of these elements.

With regards to Accounts, the Committee was advised that External Audit had proposed to treat misstatements less than £100,000 as being trivial and agreement upon this figure was sought from the Committee.

The Committee was further advised that based upon the level of management's control procedures, External Audit considered whether there were any significant risks of fraud that may have a material impact on the financial statements and audit procedures were adapted accordingly. Following on from this, if Members felt that there were any specific areas of concern with regards to fraud they could identify these for External Audit to consider.

With regards to fees, Members were advised that the total was around the same as the previous year and was below the audit fee levels provided by the Audit Commission for the 2010 / 2011 financial year.

Members were invited to comment on the Plan and the following issues and observations were highlighted:

- 2010 / 2011 was highlighted as being the first year of reporting under International Financial Reporting Standards (IFRS) and Members

commented that this would lead to a higher risk of error. Members were advised that this would be the same situation as with any new system.

- Members questioned whether previously highlighted IT issues, the majority of which lay with SERCO, were to be progressed forward. Members were advised that the issues were to be progressed and a review was to be undertaken with regards to actions taken so far and actions to be taken going forward.

Following debate with regards to the level of misstatements being set at £100,000, Members agreed to this being the set level.

Members further stated that there were no specified areas they wished to highlight to External Audit for consideration with regards to fraud.

ACTION AGREED:

The Committee:

- (1) Considered the External Audit Plan for 2010 / 2011 and provided comment on any amendments necessary; and
- (2) Agreed the £100,000 set level for misstatements.

7. Internal Audit: Strategy and Plan 2011 / 2012

The Chief Internal Auditor presented a report to the Committee which sought its approval for the proposed Annual Internal Audit Strategy and Operational Plan for 2011 / 2012.

Members were advised that the Audit Strategy documented the way in which Internal Audit intended to deliver the service and how it ensured that work complied with the standards contained in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. In particular, it stated how the work of Internal Audit would provide the assurances required for the production of the statutory Annual Governance Statement.

The Annual Operational Plan described the individual audit reviews to be undertaken during the year. To determine the scope of the plan for 2011 / 2012 a systematic risk assessment of all auditable areas had been undertaken. This was informed by the review of the risk registers where available, Director and Heads of Service consultation, council and government initiatives and the Medium Term Financial Strategy. The work required to fulfill statutory s.151 responsibilities had also been determined.

Members were invited to comment on the Strategy and Plan and the following issues and observations were highlighted:

- It was highlighted in the Operational Audit Plan 2011 / 2012 that with regards to schools, a replacement to the FMSiS standard was being consulted upon and Members queried what had been done so far. Members were informed that FMSiS had now been abolished and the new standards which had been published were easier to work to as the schools now undertook their own assessments.
- Members queried whether the shared service agreement in place with Cambridgeshire County Council was of benefit to the audit service.

Members were advised that any savings generated would be used to implement additional improvements in the service as identified through business plans as well as going back to the corporate pot to assist in meeting future budget pressures.

- Members further questioned whether, if more contracts were won, would there be enough resources to cover the work required to be undertaken. Members were advised that if additional contracts were won, there would be the potential to recruit further members of staff.

ACTION AGREED:

The Committee considered, endorsed and approved the proposed Annual Internal Audit Strategy and Operational Plan for 2011 / 2012.

8. Feedback Report

The Chief internal Auditor submitted the latest Feedback Report for consideration.

Members had requested analysis to be provided on outstanding invoices and the reasons as to why these invoices were still outstanding. A detailed overview was presented to the Committee and it was highlighted that the number of invoices on hold as at 25 February 2010 was found to be 1,659. By 14 February 2011 this had fallen to 496, a reduction of approximately 70%. Members were further advised that the number of invoices on hold for more than 90 days had reduced by just over 80%.

There were a number of reasons for the invoices being on hold, the highest percentage of these invoices could be attributed to the quantity billed exceeding the quantity ordered and the quantity billed exceeding the order received.

Members were invited to comment on the analysis and positive comments were raised with regards to the reduction in numbers of invoices on hold.

ACTION AGREED:

The Committee noted the Feedback Report.

9. Work Programme 2011 / 2012

The Chief Internal Auditor submitted the draft Work Programme for the municipal year 2011 / 2012 for consideration and approval.

Members were advised that the meeting dates for the next municipal year had yet to be agreed by Full Council.

Members were further advised that training would be provided at the first meeting of the Audit Committee.

The Committee expressed its gratitude to the hard work undertaken by Officers over the previous year.

ACTION AGREED:

The Committee noted and approved the 2011 / 2012 Work Programme.

7.00pm - 7.45pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM No. 4
6 JUNE 2011	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

AUDIT COMMITTEE: MEMBERS HANDBOOK

RECOMMENDATIONS	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
The Audit Committee is asked to:	
1. Approve the adoption of the Audit Committee Handbook (3 rd Edition) (Appendix A).	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee as part of its overall work programme for 2011 / 2012.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to formally adopt the revised Audit Committee Handbook. The 1st Handbook was issued in February 2008 and formally adopted by Members in June 2008. This was revised and reissued in February 2010.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. AUDIT COMMITTEE HANDBOOK

- 4.1 With an identified need to provide members with ongoing training to support their role on this committee, the Chief Internal Auditor proposed to produce an Audit Committee Handbook. This document was to be set up as the initial point of research for members on audit committee matters and to provide suggested questions for members to explore various reports that should be brought before the committee.
- 4.2 The first edition was produced and circulated to committee members, Leader and Deputy Leader of the Council, senior officers, and the External Auditors in February 2008 and adopted in June 2008. The document has been revisited and updated to reflect a revised risk management approach and Assurance Framework together with International Financial Reporting Standards.

5. CONSULTATION

- 5.1 The initial Handbook was discussed and agreed with the External Auditors to ensure that latest best practice was incorporated within the document.

6. ANTICIPATED OUTCOMES

- 6.1 Formal adoption of the Audit Committee Handbook (3rd Edition).

7. REASONS FOR RECOMMENDATIONS

- 7.1 To ensure that the Audit Committee Handbook is included within key documents for the Committee.

8. ALTERNATIVE OPTIONS CONSIDERED

None.

9. IMPLICATIONS

None.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Audit Committee Handbook

AUDIT COMMITTEE HANDBOOK

May 2011

Edition 3.0

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APPENDICES:

- A Assurance Framework
- B Review Questions
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- D Audit Committee: Terms of Reference
- E Additional best practice
- F Audit Committee: Potential Agenda Items
- G Measures to improve effectiveness
- H Audit Committee: Self-assessment checklist
- I Risk Management Policy & Strategy
- J Key Contacts

EDITION

- 1 January 2008. Approved June 2008 Audit Committee.
- 2 Revised: December 2009 Steve Crabtree
- 3 Revised: May 2011 Steve Crabtree

PRINCIPLES

1. WHY DOES AN AUDIT COMMITTEE EXIST IN PETERBOROUGH?

- 1.1 Although legislation does not require Peterborough City Council (PCC) to have an Audit Committee, PCC is required *“to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions”* (Accounts & Audit Regulations, amended 2006). In addition, section 151 of the Local Government Act 1972 requires PCC to *“make arrangements for the proper administration of its financial affairs”*. The Executive Director of Strategic Resources is key to discharging these requirements.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance in October 2005 which provided a practical guide to authorities in their development of committees to suit their needs whilst adhering to fundamental principles particularly concerning governance and the review of the effectiveness of its internal control arrangements.
- 1.3 The Audit Committee is an essential element of good governance. Good governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.
- 1.4 An effective Audit Committee can assist in raising the profile and importance of internal control, risk management and financial reporting arrangements within PCC. It can also act as a forum for the discussion of issues raised by internal and external audit.
- 1.5 The Audit Commission has set a challenge to local authorities to ensure that their Audit Committees work effectively and this was represented within the original Use of Resources Key Lines of Enquiry (KLoE) 4.2 *‘the council has arrangements in place to maintain a sound system of internal control’* which includes: The core functions of an audit committee would require the Council to have *“An Audit Committee has been established that is independent of the executive function, with terms of reference that are consistent with CIPFA’s guidance. It provides effective challenge across the Council and independent assurance on the risk management framework and associated internal control environment to members and the public, and can demonstrate the impact of its work”*.
- 1.6 While there has now been a move away from the KLoE, emphasis still remains, covered by the *“Governing the Business to deliver outcomes - Good Governance”*. The key to maintaining and improving our arrangements revolves around the last part of the statement *“... effective challenge ... and can demonstrate the impact of its work”*. This handbook will attempt to provide suitable guidance to enhance each of these parts.

2. WHAT DOES THE AUDIT COMMITTEE DO?

- 2.1 Until guidance was issued by CIPFA in October 2005, and adopted by Peterborough in May 2006, Peterborough did not have a dedicated Audit Committee. Any audit related items were channelled through the Cabinet and Scrutiny functions.
- 2.2 The main focus of old Audit Committee's work related to internal financial control matters, such as the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The importance of that financial scrutiny has certainly not diminished, but there is now an expectation of a wider focus by the Audit Committee.
- 2.3 The Audit Committee's primary role is to review and conclude upon the adequacy and effective operation of PCC's overall internal control system. In performing that role the Committee's work will predominantly focus upon the framework of risks, controls and related assurances that underpin the delivery of PCC's objectives (the Assurance Framework). As a result, the Committee has a pivotal role to play in reviewing the disclosure statements that flow from PCC's assurance processes. **Appendix A** details the Assurance Framework adopted. In particular these cover the Annual Governance Statement (AGS), included in the Annual Report and Accounts, and relevant declarations by key officers of the authority.
- 2.4 It is the Council's responsibility to establish and maintain processes for governance as part of its Constitution. The Audit Committee independently monitors, reviews and reports on the processes of governance and, where appropriate, facilitates and supports, through its independence, the attainment of effective processes.

3. WHAT ARE THE BENEFITS OF AN AUDIT COMMITTEE?

- 3.1 Audit Committees bring to PCC the following benefits:-
- Reduce the risks of illegal or improper acts;
 - Reinforce the importance and independence of Internal Audit and External Audit;
 - Increase confidence in the objectivity and fairness of financial reporting.
- 3.2 Stricter internal control and the establishment of an Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will: -
- Give additional assurance through a process of independent and objective review; and
 - Raise awareness of the need for internal control and the implementation of audit recommendations.

4. WHERE SHOULD THE AUDIT COMMITTEE BEGIN ITS WORK?

- 4.1 The Committee needs to gain a clear understanding of the broad framework of governance in PCC, particularly with regard to what other committees are doing. The starting point for this is to ensure that the overall process for governance is established and operating. To this end the Committee should use the Assurance Framework as its central tool for planning its work. To rely on this, the Committee needs to spend time ensuring that the Assurance Framework provides a complete coverage of PCC, at a strategic level, and that the listing out of controls and assurances within it are reasonable.
- 4.2 The Committee can then concentrate on the high risk areas, either where the inherent risk is high and the level of dependency upon the operation of controls is critical, or where the residual risk is high and the situation needs monitoring.
- 4.3 The Committee should then use both management and auditors to give it assurance that the way of managing risks is effective. This will mean gaining assurance, in a number of formats, that the controls are effective and the risk acceptable, or else that action plans are in place and being implemented.

5. WHAT AREAS OF WORK ARE TO BE CONSIDERED?

- 5.1 Potential areas of interest for an Audit Committee:-

Internal Control and Corporate Governance

- Reviewing PCC's system of internal control;
- Evaluating the control environment;
- Assessing PCC's risk management strategy and procedures;
- Evaluating the decision-making processes; and
- Reviewing assurances given in the Annual Governance Statement.

Internal Audit

- Reviewing the Internal Audit strategy and plan;
- Receiving the Internal Audit progress reports;
- Assessing effectiveness of Internal Audit;
- Holding discussions with Internal Audit;
- Reviewing Internal Audit reports;
- Reviewing action taken by Chief Officers on audit recommendations; and
- Reviewing the Internal Audit annual report.

External Audit

- Reviewing the External Audit strategy and plan;
- Assessing effectiveness and independence of external audit;
- Holding discussions with External Audit;
- Reviewing the External Audit management letters; and
- Ensuring co-ordination between Internal and External Audit.

Contract Regulations and Financial Regulations

- Reviewing changes made to the regulations;
- Examining the circumstances associated with each occasion when contract regulations are waived; and
- Reviewing the Scheme of Delegation.

Corporate Fraud

- Reviewing the Corporate Fraud Strategy and Policy Statement;
- Reviewing the Corporate Fraud Response Plan;
- Evaluating the Team's compliance with best practice and CIPFA guidance;
- Holding discussions with the Team regarding their direction of travel and future strategies;
- Reviewing the Councils conduct in the receipt and handling of whistleblowing disclosures;
- Reviewing other anti fraud and governance policies and procedures; and
- Receiving corporate fraud progress reports.

Final Accounts

- Scrutinising the statement of accounts;
- Reviewing the policies and procedures followed; and
- Evaluating their compliance with best practice and International Financial Reporting Standards

5.2 Included in **Appendix B** is a list of questions to consider when undertaking reviews.

6. WHAT IS INTERNAL CONTROL?

6.1 An internal control system is defined as being:

“the whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as ‘controls’ or ‘internal controls’ ”.

6.2 Included in **Appendix C** is a list of internal control type examples for reference.

Responsibility for Internal Controls

- The responsibility for the system of internal control (not just internal financial control) rests with the Chief Executive (as the accountable officer). The Audit Committee must be able to assure CMT / Full Council that the systems of internal control are operating effectively.

Control Environment

- The control environment is part of the culture of PCC which sets the meaning of control. It affects the control awareness of all individual employees. The main driving force is the importance that CMT seen to attach to control and probity (integrity and honesty).

Risk Management

- In order to determine the level of controls required it is necessary to assess the nature and extent of the relative risks to achievement of PCC's aims and objectives. The nature of the specific risks to authority should be considered and the level of risk determined with respect to:
 - materiality;
 - vulnerability; and
 - sensitivity.
- These risks are required to be managed efficiently, effectively and economically.

Control Activities

- Control activities are the procedures that help to ensure that management objectives are achieved and policies carried out. They ensure that risks which may inhibit the achievement of objectives are appropriately limited to an acceptable level, taking into account the cost of implementing such controls.

Monitoring Internal Control

- Internal control systems need to be monitored so that management may be sure that they continue to be effective. For a monitoring system to be effective there needs to be a number of stages of monitoring. For example, assessment by line management through to reviews by Internal Audit.
- Poor internal control may lead to the loss of assets, increased waste, losses and errors, with the consequential impact on the cost of affairs of PCC.
- If monitoring internal control is to be effective then CMT must foster an environment where internal control is the responsibility of all staff. It must be seen as an integral part of the quality programme. It is essential for ensuring the financial health of PCC.
- CMT takes internal control seriously and supports strongly the need for its systems to be adequately designed, documented and operated by staff. This will help Internal Audit to minimise / target its work to areas of greatest / highest priority and still give reasonable assurance to management that control objectives are being achieved.

Annual Governance Statement

- The Executive Director of Strategic Resources is required to provide an Annual Governance Statement in its annual accounts, in the role of Accountable Officer. This covers all controls including financial, operational, compliance and the management of risk. Furthermore, the overall governance position for the council is reported on. The Accountable Officer is required to acknowledge responsibility for maintaining a sound system of internal control that supports the achievement of PCC's policies, aims and objectives and for reviewing the effectiveness of the system of internal control. The Executive Director of Strategic Resources will state how the review of the effectiveness of the system of internal control has been carried out and refer to the sources of assurance used.
- The AGS is an integral part of the annual reporting process, to be presented alongside the accounts. It should be prepared along with the accounts and passed to the external auditors for review. The AGS should therefore be the end result of a process of risk management that is embedded in the planning, operational, monitoring and review activities of PCC, these activities being the critical elements of the statement. Production of the AGS should not be conducted as an "add-on" end of year activity. The AGS should explain the nature of control, and any material changes in control, exercised through the whole of the accounting period.

7. WHO ARE THE MEMBERS OF THE AUDIT COMMITTEE?

- 7.1 The Audit Committee must be invested with sufficient authority to act with independence and be provided with sufficient resources to undertake its duties. At the same time the Committee needs to be small enough to ensure that all members can participate actively in discussions.
- 7.2 The members of the Audit Committee currently comprises of 7 councillors, with a quorum of 4 members. The Chief Executive of the authority is not a member of the Audit Committee, although they are invited to attend certain meetings either to form a view and understanding of the Committee's operation or to provide assurances and explanations to the Committee on specific issues. The Executive Director of Strategic Resources (or a nominated representative) and the Chief Internal Auditor would normally be present, together with representatives from Internal Audit, External Audit, and Finance. Others may be invited or required to attend, as required.
- 7.3 Audit Committee distinctiveness is that it should operate independently of any decision making processes and to apply an objective approach in the conduct of its business.
- 7.4 Given the importance and complexity of the Committee's work, as a minimum one member of the Committee should ideally have recent relevant financial experience, and the other members must ensure that they receive induction and training in their role, including some basic financial literacy and an understanding of internal control. Increasingly, there is value in more than one member of the Committee having a financial background.
- 7.5 The selection of the Chairman is an important appointment for the Authority.

8. WHAT AUTHORITY DOES THE COMMITTEE HAVE?

- 8.1 The Audit Committee is invested with sufficient authority to act with independence. It is constituted as a committee of the Council and the Terms of Reference should be set out in the minutes of the Full Council. The Committees' Terms of Reference are included at **Appendix D** and is advisory only.
- 8.2 Audit Committee meetings and their minutes should be formal.
- 8.3 The Audit Committee has explicit authority to receive full access to information and the ability to investigate any matters within its terms of reference, including the right to independent professional advice. The Executive Director of Strategic Resources should ensure that the Committee receives the resources that it needs to do so.
- 8.4 Membership of the Committee should be disclosed in the annual report.

9. HOW FREQUENTLY SHOULD THE AUDIT COMMITTEE MEET?

- 9.1 The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced. It is expected that the Audit Committees will meet 5 to 6 times per year but there is a case, given the Committee's wider remit and the retention of a more focused financial scrutiny role, for this to increase to 7 to 8 times per year. This decision is one for the Committee to make if it is felt necessary to ensure that the Committee meets its Terms of Reference.

10. WHO SHOULD ATTEND THE COMMITTEE MEETINGS?

- 10.1 It is important that the Director of Strategic Resources, the Head of Strategic Finance and the Chief Internal Auditor and the External Audit representative should regularly attend Audit Committee meetings (the Audit Committee may also ask other members of staff to attend so as to provide them with information to inform their considerations). Their participation in discussions is beneficial in informing the discussion among the full members of the Committee, in particular to brief the Committee on the detail behind papers, which will have been prepared for it. However, the Committee may choose to ask particular executives not to attend for a particular item of business, or even to meet from time to time with only "full members" of the Committee present, to facilitate open discussion about a particular issue.
- 10.2 The Audit Committee may sometimes find it beneficial to discuss issues at the end of a meeting after those who are not members have withdrawn. This allows the Audit Committee to decide by themselves what they want to put on the record as their advice to the Executive Director of Strategic Resources.

11. HOW DO THE AUDITORS SUPPORT THE AUDIT COMMITTEE'S WORK?

- 11.1 It is not the role of the Audit Committee to manage the internal and external audit functions; rather it should use the auditors to assist it in meeting its needs, along with other sources of advice and assurance.
- 11.2 In particular, the Committee should actively review the plans of the auditors, understanding the distinct and separate roles that each plays. Whilst the role of external auditors is set out firmly under the Audit Commission's Code of Audit Practice, there is more scope for the Committee to be proactive in influencing the internal audit strategy and requesting work from internal audit that focuses on the assurance needs of the Audit Committee, and thereby the needs of the CMT and Cabinet.
- 11.3 Internal Audit
- 11.3.1 Internal Audit is an important resource that assists the Audit Committee to meet its internal control responsibilities. Therefore, the Audit Committee must evaluate the extent to which the Internal Audit service complies with the mandatory audit standards and agreed performance measures.
- 11.3.2 Internal Auditors should attend every meeting and the cycle of approving and monitoring the progress of internal audit plans and reports, culminating in the Chief Internal Auditor's Annual Opinion on the systems of internal control, are a key feature of the work of the Committee across the year.
- 11.3.3 An important principle is that Internal Audit is an independent and objective appraisal service within an organisation. As such, its role embraces two key areas:
1. The provision of an independent and objective opinion to the Section 151 Officer, CMT, and the Audit Committee on the degree to which risk management, control and governance support the achievement of PCC's agreed objectives; and
 2. The provision of an independent and objective consultancy service specifically to help line management improve PCC's risk management, control and governance arrangements.
- 11.3.4 Each year's annual plan should set out details of the assignments to be carried out, providing sufficient detail for the Audit Committee and other recipients to understand the purpose and scope of the defined assignments and their level of priority. The relationship between the plan and the Assurance Framework is critical. The Committee should be clear on the risks and controls that internal audit will be addressing and where else the Committee needs to turn to be assured on the risks and controls that are not contained within the internal audit plan. The Assurance Framework should be the mechanism that enables this task to be done.
- 11.3.5 The Chief Internal Auditor should have a right of access to the Chair of the Audit Committee, and it should be clear that management should not be allowed to restrict or censure this access. It is good practice for the Chairman to meet informally with the Chief Internal Auditor, potentially in advance of each Audit Committee meeting.

11.3.6 The Chief Internal Auditor's formal annual report to the Audit Committee should present the opinion of the overall adequacy and effectiveness of PCC's risk management, control and governance processes. This opinion will also encompass the Assurance Framework (**Appendix A**).

11.4 External Audit

11.4.1 External Auditors are usually invited to attend every meeting - although they are included in the circulation list for all agenda papers, and the cycle of approving and monitoring the progress of external audit plans and reports, culminating in the opinion on the annual report and accounts, is central to the core work of the Committee.

11.4.2 The objectives of the External Auditors fall under two broad headings, to review and report on:-

1. The Council's financial statements, and on its Annual Governance Statement; and
2. Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

11.4.3 External Auditors are appointed by the Audit Commission, and the appointed auditor, currently PricewaterhouseCoopers, should develop an audit strategy. The strategy should assess the significant operational or financial risks that are relevant to the external auditors responsibilities under the Code of Audit Practice and the Audit Commission's Standing Guidance. The strategy should tailor the nature and conduct of audit work to the Council's circumstances. It is not designed to identify all risks affecting the Council's operations nor all internal control weaknesses. The Audit Committee should challenge whether the external auditors have considered all relevant risks and whether they have developed an appropriate response to those risks.

11.4.4 External Audit should prepare an annual audit plan, designed to implement the audit strategy, for consideration by the Audit Committee.

11.4.5 The annual plan should set out details of the work to be carried out, providing sufficient detail for the Audit Committee and other recipients to understand the purpose and scope of the defined work and their level of priority. The Audit Committee should review the annual plan and the associated fees, although in so doing it needs to recognise the statutory duties of the External Auditor.

11.4.6 The annual audit plan should be kept under review to identify any amendment needed to reflect changing priorities and emerging audit needs. The Audit Committee should consider material changes to the annual audit plan.

11.4.7 The appointed auditor should have a right of access to the Chair of the Audit Committee.

11.4.8 External Audit will issue a number of reports over the year, some of which are required under the Code of Audit Practice and International Standards on Auditing, whilst others will depend upon the contents of the audit plan.

The main mandatory reports will be:

- Report to those charged with governance that sets out the main matters arising from the audit of the financial statements and use of resources work.
- Statutory report and opinion on the accounts and conclusion on whether the Council has put in place proper arrangements to secure, economy, efficiency and effectiveness in the use of resources.
- Annual audit letter In addition to these reports, the External Auditor may issue a Public Interest Report or referral to the Secretary of State, if significant issues or breaches occur.

11.4.9 These reports will also be circulated to CMT and Cabinet.

12. OTHER AREAS THAT SUPPORT THE AUDIT COMMITTEE'S WORK?

12.1 The Committee should satisfy itself that adequate arrangements are in place to counter fraud and they will want to consider the results of counter fraud work, in so far as they have a bearing on the wider role of the Committee.

12.2 PCC is committed to protecting the public funds with which it has been entrusted. Minimising losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purpose for which they are intended, the provision of services to residents of the city. For certain areas, including Housing Benefit, there are specific investigating rules and protocols to be followed, although the principles contained within this document are equally applicable.

12.3 The public is entitled to expect the Council to conduct its affairs with integrity, honesty and openness, and demand the highest standards of conduct from those working for it and with it. The Council has an Anti-Fraud & Corruption Strategy. This strategy sets as the Council's main objective the promotion of a culture that will not tolerate fraud and corruption whether perpetrated within or outside of PCC. It also emphasises that Peterborough will take the strongest possible appropriate action, including prosecution, against offenders.

13. WHAT IS THE VALUE OF PRIVATE DISCUSSIONS WITH THE AUDITORS?

13.1 Private discussions between the Audit Committee members and each (or either) of the auditors, without management present, are an important part of building up a relationship of trust and supporting the independence of the audit functions. These should be formally scheduled to generally take place before at least one meeting a year and can use a standard set of questions (see **Appendix E**) or cover specific issues.

13.2 The value of these discussions is to allow the Committee members and the auditors' freedom to discuss, without any perceived or actual management influence, a range of matters. They also provide an opportunity for the auditors to feedback to the Audit Committee on its own performance.

14. WHAT OTHER ASSURANCES SHOULD BE SOUGHT?

- 14.1 The majority of assurances to the Committee should come from management, and not just from auditors, although they provide a critical element of independent assurance. In this context robust systems of risk management and application of an Assurance Framework should be at the core of any Committee's review process.
- 14.2 To this end the Audit Committee will need to liaise closely with any management and other Committees involved in dealing and managing risk, to minimise any duplication or overlap. The Audit Committee's role is not to manage risks, but rather to ensure that the overall system is in place and effective.
- 14.3 Some assurances will be external to PCC. The Committee members should be using the Executive Director of Strategic Resources and the Chief Internal Auditor to make them aware of relevant reports and recommendations. Others will be internal to PCC and the Committee may wish to understand the nature of their work and the relative appropriateness of their source of assurance.

15. WHAT ADMINISTRATIVE SUPPORT SHOULD THE COMMITTEE EXPECT?

- 15.1 As with any committee, effective work is best achieved if there is good administrative support that allows the members of the Committee to concentrate on their role in preparing for, and contributing to, the meeting. What is also important is that all members of the Committee should participate actively, and that the Chairman of the Committee is not too dominant.
- 15.2 The timing of meetings needs to be discussed with all the parties involved, including the Chief Internal Auditor, the External Auditor and the Executive Director of Strategic Resources, to coincide with key tasks or important events, thereby ensuring that the Audit Committee is able to exercise its power to influence events. **Appendix F** provides an example of the agenda items and the suggested frequency that they should be raised.
- 15.3 For reporting to be effective the Audit Committee needs to decide what level of detail it wants to see, e.g. an executive summary or just a briefing note? **Appendix G** provides details of measures that can be used to improve the effectiveness of the Audit Committee and a self-assessment checklist is shown in **Appendix H**.

ROLES & RESPONSIBILITIES OF KEY OFFICERS

16. KEY OFFICERS

16.1 In order for the Audit Committee to be supported and operate effectively, five key posts are identified within the overall Council structure. These are:

- Chief Executive (i.e. the Head of Paid Service);
- Executive Director of Strategic Resources (i.e. s.151 Officer);
- Head of Corporate Services (Deputy s.151 Officer);
- Solicitor to the Council (and Monitoring Officer); and
- Chief Internal Auditor

16.2 Role of the Chief Executive (Head of the Paid Service)

16.2.1 Section 4 of the Local Government and Housing Act 1989 requires that every Authority designates one of its Officers as the Head of their Paid Service. Functions of the Head of Paid Service:-

Discharge of Functions by the Council	Chief Executive will report to Council on the manner in which the discharge of the Council's functions is coordinated, the number and grade of Officers required for the discharge of functions and the organisation of Officers.
Corporate Management	Chief Executive will be responsible for the corporate management of the Council and for ensuring the co-ordination of services and the provision of appropriate professional advice.
Structure	Chief Executive will determine and publicise a description of the overall departmental structure of the Council showing the management structure and deployment of officers.
Appointment of Staff	The appointment of Officers below Deputy Chief Officer level is the responsibility of the Chief Executive or their nominee, normally the appropriate Director.
Restrictions on Functions	Chief Executive cannot be the Monitoring Officer, but may hold the post of Section 151 Officer if a qualified accountant.

16.3 Role of the Executive Director of Strategic Resources (Section 151 Officer)

16.3.1 The responsibilities of the Executive Director of Strategic Resources (as Section 151 Officer), are set out in Section 151 of the Local Government Act 1972, Section 114 of the Local Government Finance Act 1988, the Local Government Act 2000, the Accounts & Audit Regulations 2003 and Regulations made under the above legislation. The Functions of the Section 151 Officer are:-

Administration of Financial Affairs	S.151 Officer will have responsibility for the proper administration of the financial affairs of the Council.
Contributing to Corporate Management	S.151 Officer will contribute to the Corporate Management of the Council, in particular through the provision of professional financial advice.
Providing Advice	S.151 Officer provides advice on financial matters within the budget framework, maladministration, and probity.
Ensuring Lawfulness and Financial Prudence of Decision-making	After consulting with Chief Executive and the Monitoring Officer, the S.151 Officer will report to the Council, or Cabinet (in relation to an Cabinet function) and the Council's external auditor if he / she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause loss or deficiency, or if the Council is about to enter an item of account unlawfully.

16.4 Head of Corporate Services (Deputy s.151 Officer)

Duties as deemed above for Executive Director.

16.5 Role of the Solicitor to the Council (Monitoring Officer)

16.5.1 The responsibilities of the Monitoring Officer are set out in Section 5 of the Local Government and Housing Act 1989, the Local Government Act 2000 and Regulations made there under. Although there is a specific Standards Committee established within Peterborough, the issues are still relevant to the Audit Committee and those duties are:-

<p>Ensuring lawfulness of decision-making</p>	<p>Report on contraventions (or likely), of any enactment or rule of law after consulting with Chief Executive / Director of Strategic Resources.</p> <p>Report on any maladministration or injustice where the Ombudsman has carried out an investigation and consider and advice on compensation for maladministration.</p> <p>Investigate misconduct in compliance with Regulations and directions of Ethical Standards Officers and act on reports made by Ethical Standards Officers and decisions of the case tribunal</p>
<p>Contributing to corporate management</p>	<p>The Monitoring Officer will contribute to the corporate management of the Council, in particular through the provision of advice on legal, constitutional, procedural and probity issues.</p>

16.6 Role of the Chief Internal Auditor

16.6.1 The Chief Internal Auditor assists the s.151 Officer, in the effective discharge of their responsibilities. To this end, the Chief Internal Auditor provides the s.151 Officer with analysis, appraisals, recommendations, advice and information concerning the activities reviewed, particularly PCC's financial affairs.

APPENDICES

ASSURANCE FRAMEWORK

INTRODUCTION

Peterborough has an improving record of valuing sound financial management and seeking to deliver good frontline services to its residents. There is recognition that to achieve these aims requires a framework to be in place which will provide the assurance necessary.

We define the Assurance Framework as a structure within which the Authority identifies its principal risks to meeting its objectives and assessing the key controls in place to manage them and how effective they are.

This can be expanded:

- *“The Assurance framework is a comprehensive method for the focused management of the principal risks to meeting its strategic objectives, and provides evidence to support the Annual Governance Statement”...*
- *...“It identifies where action plans are needed to develop further controls and assurances to allow more effective management of the authority’s risks and where appropriate these will be reflected in the Authority’s Risk Register.”*
- *“The Assurance Framework enables the Authority to assess risks and the controls and assurances in place to ensure that it can achieve the organisation’s objectives.”*

LINKAGES

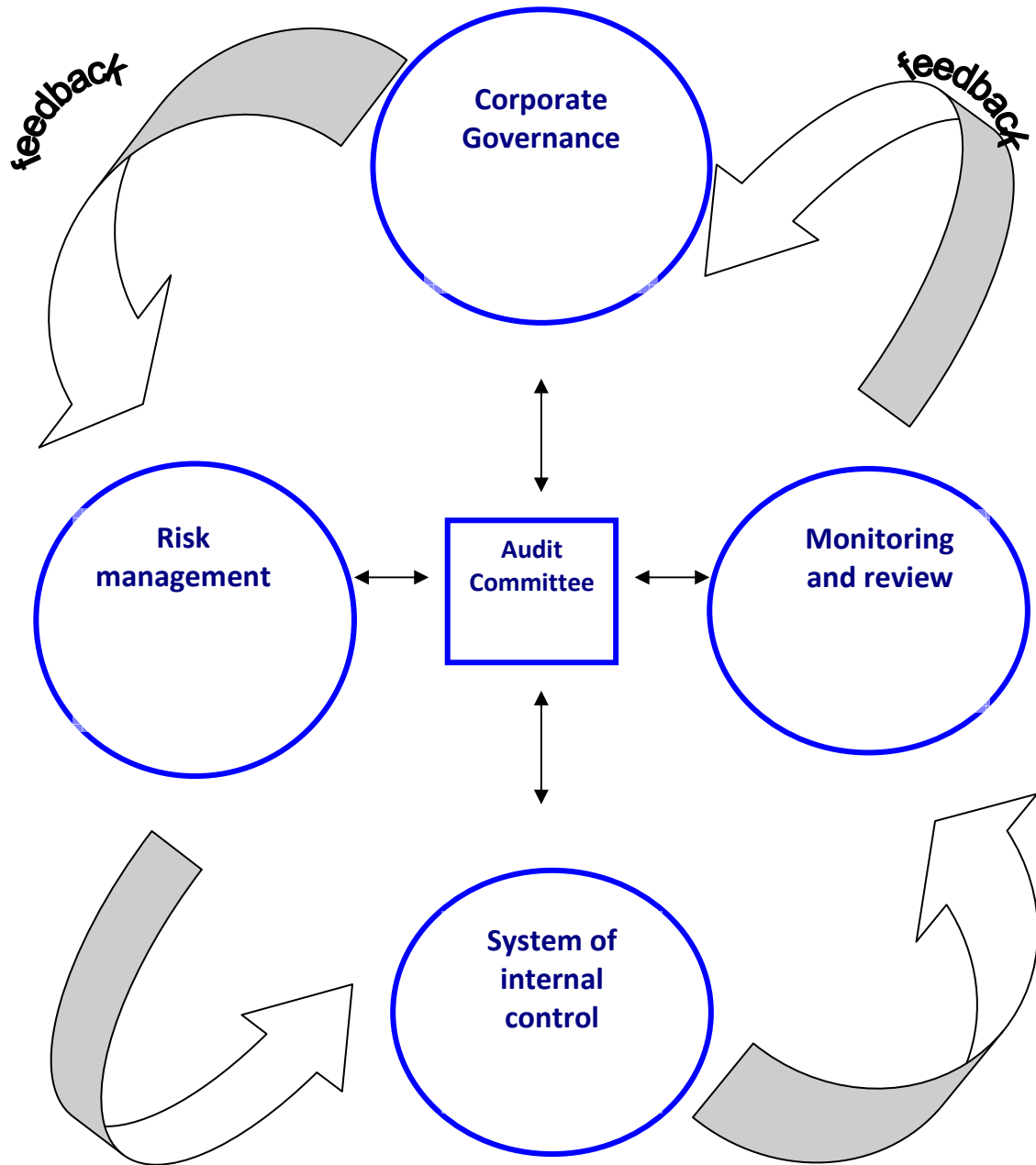
We believe an Assurance Framework should conceptually link various key themes together including:-

- Corporate Governance
- Risk Management
- Systems of Internal Control
- Monitoring and Review procedures.

Each of the above has linkages with the Audit Committee which helps provide fresh connections and focus. Thus if the delivery of our objectives is to be assured we need to have these processes embedded and co-ordinated in a cohesive fashion. We thus see the linkage as set out below.

The following sections set out our progress around the above areas.

Delivery of objectives



CORPORATE GOVERNANCE

Each local authority operates through a governance framework. It is an inter-related system that brings together an underlying set of legislative requirements, governance principles and management processes. Traditionally, local government has conformed in whole or in part and in many different ways to the principles of good governance and has a sound base on which to build. There has been a strong regulatory framework in existence and robust arrangements for monitoring and review.

In 2001, CIPFA in conjunction with SOLACE and with support from key organisations in local government responded to the need to draw together the principles identified by Cadbury, Nolan and the Department of the Environment, Transport and the Regions into a single framework of good governance for use in local government and published *Corporate Governance in Local Government - A Keystone for Community Governance: Framework*. The framework recommended that local authorities review their existing governance arrangements against a number of key principles and report annually on their effectiveness in practice.

Following on from Peterborough adopted its own local code of governance in June 2002. A substantially revised framework, *Delivering Good Governance in Local Government* was produced in 2007 and Peterborough is reviewing its existing arrangements to look for compliance and to put in place any actions required to align us to the new standards.

RISK MANAGEMENT

The work of local authorities is subject to risk factors that can affect the efficiency and effectiveness of service delivery - sometimes with considerable reputational or other damaging effects. The changes faced by local government tend to widen the range of risks still further. Consequently, risk management remains a key element of good corporate governance.

Risk Management is a key element in facing and meeting these challenges and achieving business objectives "right first time" to expected quality standards and continuous improvements - the cornerstone of Value for Money. The benefits of Risk Management include financial efficiencies through, for example, targeting resources more effectively and controlling insurance costs. However, Risk Management is equally, if not more, concerned with non-financial considerations including reputation; promoting opportunity and innovation; providing evidence and transparency regarding decisions made; and minimising the scope for having to deal with unforeseen events or complaints.

Past problems within the private sector and elsewhere have led to the current situation where it has now become a requirement for organisations to develop embedded risk management processes, implement these and sign off supporting statements within their annual accounts. These principles have been applied to the public sector in a number of areas, including:

- Central Government, through risk management and annual assurance statements;
- The Health sector through controls assurance; and
- Registered Social Landlords, through the Housing Corporation's requirement for risk registers.

The position for Local Authorities has also evolved along these lines and there is a requirement for Authorities to develop their risk management arrangements and to report in their annual accounts. Set against this background, in October 2004 Cabinet agreed the Authority's risk management policy and outline strategy. This has subsequently been revised and updated through the Audit Committee on an annual basis, the last being in September (**Appendix I**).

Strategic Risk Register

Corporate (or Strategic) risks are reviewed by CMT half yearly. Significant risks are examined at that level and any risks that remain significant after controls and mitigations have been put in place are reported to Audit Committee so that they can be considered as part of their own review of the Corporate Risk Register. Partnership and project risks are similarly coming more and more to the fore, and are included in the process.

Embedding Risk Management

A programme of work has continued to further develop and embed Risk Management. The following actions have been completed since March 2007:

- CMT have continued to review, monitor and update the Risk Register;
- Audit Committee considered the Policy, Strategy, Corporate Risk Register and progress on actions at their meeting in September 2007 in line with the risk governance arrangements;
- Risk management training has been provided to a number of officers (and members);
- Moves to establish key partnerships and their associated risks;
- Cross cutting risk reviews have been undertaken e.g. climate change; and
- Enhance monitoring processes in relation to project, partnership and contract risk.

The on-going development of risk management now resides with the Resilience Manager (since April 2009).

SYSTEM OF INTERNAL CONTROL

A control is any action or procedure performed by management to increase the likelihood of activities achieving their objectives. In other words, control is a response to risk, either to contain the risk to an acceptable level or to increase the likelihood of a desirable outcome.

A system of internal control provides a framework for all processes and activities designed to give reasonable assurance regarding achievement of objectives. Such systems should be designed to manage, rather than eliminate, the risk of failure. Controls are often broken down into three categories:

- Operational controls: relating to the effective and efficient use of resources.
- Financial controls: relating to the proper management and oversight of PCC's finances, leading to the preparation of reliable published financial statements.
- Compliance controls: relating to compliance with applicable laws and regulations.

Our system of internal control must also encompass the partnerships we have in place.

In recent years our published accounts have contained an Annual Governance Statement. The AGS required officers to carry out a review of the effectiveness of the Council's system of internal control and to report on that review each year.

The sources that the Leader and Chief Executive can take into account in forming a view about the effectiveness of the Council's internal control system have been identified and recorded in an annual action plan to feed into the review. We believe the AGS process is now well developed and embedded into our practices.

MONITORING AND REVIEW

We carefully monitor and review our systems in various ways, and very much value feedback from external sources. The key areas are set out below.

Performance Monitoring

For some years we have maintained a clear focus on monitoring key PIs, projects and service budgets at Member and CMT level, although this is not part of the Audit Committee remit.

A separate data quality review is undertaken by PricewaterhouseCoopers each year.

Review and Challenge

Internal Audit

The Executive Director of Strategic Resources is responsible for ensuring that an effective system of internal control is maintained and operated by the Council. While such a system can only provide reasonable and not absolute assurance that risks are appropriately managed, it should be based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and responsibility. The role of internal audit is to review practice across the Council and to test for compliance and gaps in procedures. Internal Audit must then provide an opinion to the Director and management on the effectiveness of corporate governance, risk management and internal control. The work required to provide such an opinion will be reduced by having effective risk management arrangements.

External Inspection

The Council is assessed by a number of External Inspectors on a range of services. These look at services for our residents and in many cases the support provided. External assessment can be the most valuable source of comment, and any relevant feedback on corporate systems is addressed by the Council through action plans.

External Audit

It is the responsibility of external audit, provided by the Audit Commission, to give an opinion on our accounts and the processes which underpin them. In forming this opinion the Auditor will test a sample of transactions and the key internal processes and systems of control. These systems of control will include the effectiveness and efficiency of the internal audit function and the comprehensiveness of the Council's risk management framework. Recommendations given to the Council are addressed through action plans and ongoing liaison with the Audit Commission.

THE AUDIT COMMITTEE

The purpose of the Audit Committee is to review and challenge the Authority on the adequacy of financial management and audit arrangements; and also to consider the implications of risk and control in the Council.

The Audit Committee meets regularly and has produced an agreed work programme. The Executive Director of Strategic Resources (or a designated deputy) and the Chief Internal Auditor attend these meetings but are not members of this Committee.

We believe our Audit Committee is developing and working well, allowing it to demonstrate effective scrutiny and challenge. This handbook will also assist in its development.

CONSOLIDATION

Set out above are the various strands of our Assurance Framework. These various strands are pulled together through the regular focus on performance and improvement undertaken at Audit Committee. The Committee is fed information on:

- Audit Service performance;
- Risk Management Updates;
- Internal Control Updates;
- Governance updates;
- Fraud updates;
- Recommendations from external agencies including Inspection and External Audit; and
- Internal Audit reports.

These are highlighted in the diagram overleaf.

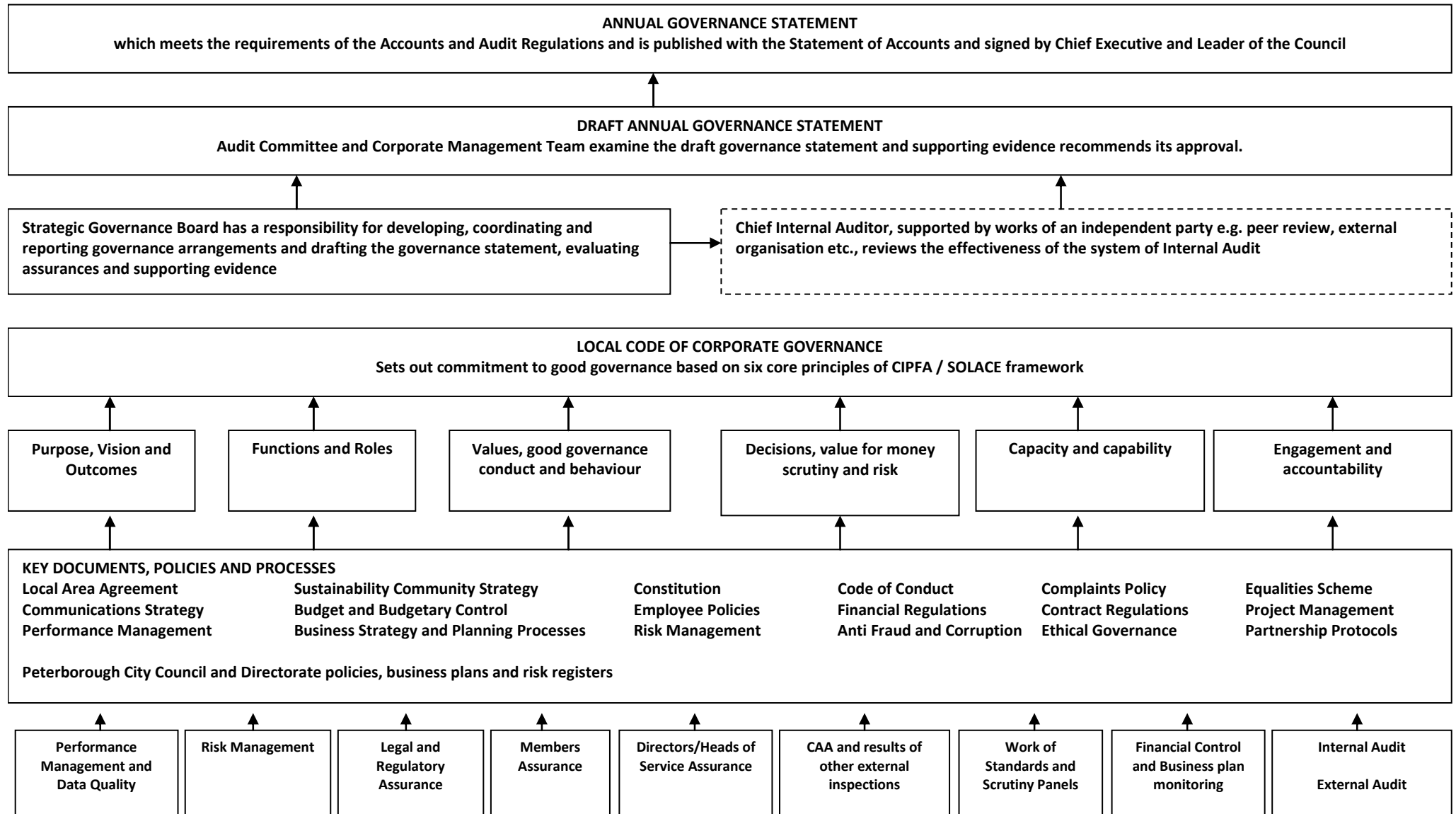
Audit Committee thus analyses, co-ordinates and implements corrective action to ensure that the Council has an effective and cohesive assurance framework in place, and that gaps or failings are addressed.

CONCLUSION

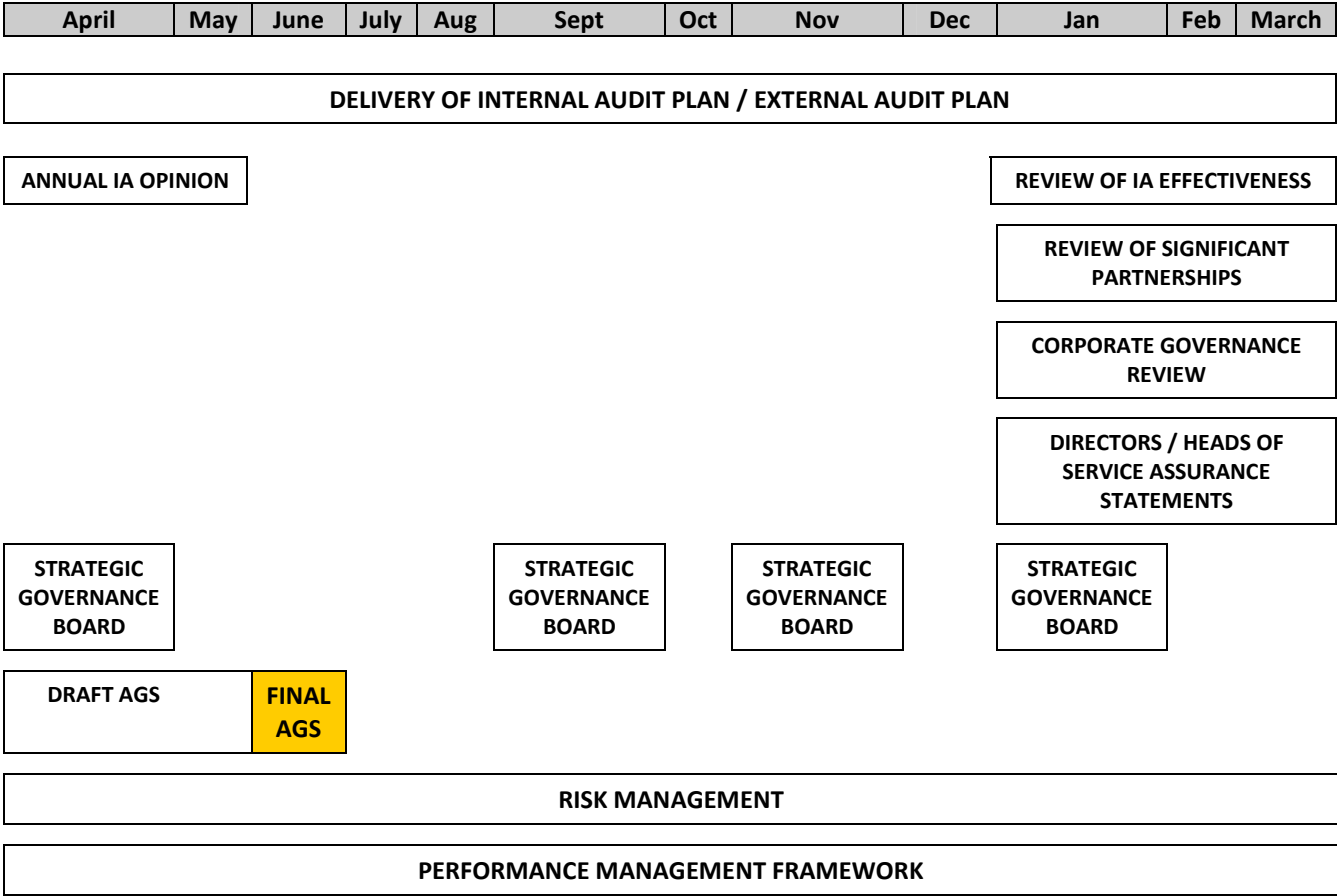
The Council in recent years has built on its internal assurance systems and processes and further enhanced them. The sound performance the Council has achieved on financial and risk management etc is a direct result of the processes we have put in place.

Our belief, based on the above and the outcomes achieved in recent years, is these systems are robust thus the Assurance Framework is being embedded and effective.

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



TIMETABLE FOR THE PRODUCTION OF THE ANNUAL GOVERNANCE STATEMENT



KEY QUESTIONS WHICH THE AUDIT COMMITTEE MAY ASK

This list of questions is not intended to be exhaustive or restrictive, nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a “prompt” to help an Audit Committee ensure that their work is comprehensive.

ON THE STRATEGIC PROCESSES FOR RISK, CONTROL AND GOVERNANCE:

- How is PCC risk management culture generated, and is it appropriate?
- Is there a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?
- Is the Risk Register an appropriate reflection of the risks facing PCC?
- Is appropriate ownership of risk in place?
- How are these risks being managed?
- What are the areas of greatest risk to the achievement of the Council's aims and objectives?
- What areas in the internal control system give management the greatest concern and why?
- How does management know how effective internal control is?
- Is risk management carried out in a way that really benefits PCC or is it treated as a box ticking exercise?
- Is PCC as a whole aware of the importance of risk management and of the organisation's risk priorities?
- Does the system of internal control provide indicators of things going wrong?
- How meaningful is the Annual Governance Statement and what evidence underpins it?
- Does the AGS appropriately disclose action to deal with material problems?
- Have the implications of the results of the effectiveness review been discussed at CMT level?
- Have any major changes been made in internal controls in the past year? Were these made in order to improve existing controls or were they new controls established due to changes in operating systems?
- Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major system changes, including the design of control checks and balances?
- What were the most significant internal control weaknesses uncovered by the Internal and External Auditors during the period?
- What is the auditors' view on the balance between the risk of error in the present internal control system and the cost of additional controls?

ON THE PLANNED ACTIVITY AND RESULTS OF BOTH INTERNAL AND EXTERNAL AUDIT:

- Is the Internal Audit strategy appropriate for delivery of a positive reasonable assurance on the whole of risk, control and governance?
- Will the periodic audit plan achieve the objectives of the Internal Audit strategy, and in particular is it adequate to facilitate a positive, reasonable assurance?
- Does Internal Audit have appropriate resources, including skills, to deliver its objectives?
- Are there any issues arising from management not accepting Internal Audit recommendations and are agreed internal audit recommendations appropriately actioned?
- What assurance is there about the quality of Internal Audit work?
- Is there appropriate co-operation between the internal and external auditors?

ON RELEVANT POLICIES OF PCC:

- Is there an appropriate anti-fraud policy in place and are losses suitably recorded?
- Are suitable processes in place to ensure accurate financial records are kept?
- Has PCC followed International Financial Reporting Standards?
- Have the policies and processes been clearly defined in the statement of accounts;
- Are suitable processes in place to ensure fraud is guarded against and regularity and propriety is achieved?
- Does financial control, including the structure of delegations, enable PCC to achieve its objectives with good value for money?
- Have any cases of fraud or illegal, questionable or unethical activities been uncovered which might affect the accounts or which could cause embarrassment?
- Are issues raised by the External Auditors given appropriate attention?

ON THE ADEQUACY OF MANAGEMENT RESPONSE TO ISSUES IDENTIFIED BY AUDIT ACTIVITY:

- Are agreed procedures in place for monitoring progress with the implementation of recommendations?
- If management reject audit recommendations, which the auditors stand by, are suitable resolution procedures in place?

ON ASSURANCES RELATING TO THE CORPORATE GOVERNANCE REQUIREMENTS FOR PCC:

- Is the range of assurances available sufficient to facilitate the drafting of a meaningful Annual Governance Statement?
- Do those producing the assurances understand fully the scope of the assurance they are being asked to provide and the purpose to which it will be put?
- What mechanisms are in place to ensure the assurances are reliable?
- Are the assurances 'positively' stated (i.e. – premised on sufficient relevant evidence to support them)?
- Do the assurances draw out material weaknesses or losses, which should be addressed?
- Does the AGS realistically reflect the assurances?

ON THE WORK OF THE AUDIT COMMITTEE ITSELF:

- How does the Audit Committee know if it is being effective in achieving its terms of reference and adding value to corporate governance and control systems of PCC?
- Is the Audit Committee content that it has the appropriate skills mix?
- Is the Audit Committee content with its level of understanding of the purpose and work of PCC?
- Is the Audit Committee content that it has sufficient time to give proper consideration to its business?
- Is the Audit Committee content that it is avoiding any conflict of interest?
- Is there evidence of the Audit Committees advice having an impact on PCC?

EXAMPLES OF INTERNAL CONTROL

The following is a list of control type examples produced by the consultative Committee of Accounting Bodies in their auditing guidelines.

Organisation

- Enterprises should have a plan of their organisation, defining and allocating responsibilities and identifying lines of reporting for all aspects of the enterprises' operations, including the controls. The delegation of authority and responsibility should be clearly specified.

Segregation of Duties

- One of the prime means of control is the separation of those responsibilities or duties which would, if combined, enable one individual to record and process a complete transaction. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking. Functions which should be separated include those of authorisation, execution, custody and recording.

Physical

- These are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorised personnel. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.

Authorisation and Approval

- All transactions should require authorisation or approval by an appropriate responsible person. The limits for these authorisations should be specified.

Arithmetical and Accounting

- These are the controls to ensure that all relevant transactions are included, accurately recorded and correctly processed. Such controls include checking the arithmetical accuracy of the records, the maintenance and checking of totals, reconciliation's, control accounts, trial balances, and accounting for documents.

Personnel

- There should be procedures to ensure that personnel have capabilities commensurate with their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, selection and training, as well as the innate personal characteristics of the personnel involved, are important features to be considered in setting up any control system.

Management

- These are the controls exercised by management outside the day to day routine of the system. They include the overall supervisory controls exercised by management, the review of management accounts and variance analysis, the Internal Audit function and any other special review procedures. Any system of internal control should include supervision by responsible officials of day to day transactions and recording.

AUDIT COMMITTEE: TERMS OF REFERENCE

These Terms of Reference were agreed by Council in May 2006 and are incorporated into the Constitution (Part 3 Delegations Section 2 - Regulatory Committee Functions). They reflect the particular nature of Audit Committees in Peterborough and reflect the importance of governance arrangements as well as the need to provide assurance that it is well managed across the whole range of its activities.

2.2. AUDIT COMMITTEE**2.2.1 Terms of Reference**

2.2.2 To consider the Director of Strategic Resources annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.

2.2.3 To consider summaries of specific internal audit reports as requested.

2.2.4 To consider reports dealing with the management and performance of the providers of internal audit services.

2.2.5 To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale

2.2.6 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

2.2.7 To consider specific reports as agreed with the external auditor.

2.2.8 To comment on the scope and depth of external audit work and to ensure it gives value for money.

2.2.9 To liaise with the Audit Commission over the appointment of the council's external auditor.

2.2.10 To commission work from internal and external audit.

2.2.11 Regulatory Framework

2.2.12 To maintain an overview of the council's constitution in respect of contract procedure rules, and Financial Regulations.

2.2.13 To review any issue referred to it by the Chief Executive or a Director, or any council body.

2.2.14 To monitor the effective development and operation of risk management and corporate governance in the council.

2.2.15 To monitor council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the council's complaints process.

2.2.16 To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

2.2.17 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

2.2.18 Accounts

2.2.19 To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

2.2.20 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

ADDITIONAL BEST PRACTICE**INTERNAL AUDIT: CONSIDERATIONS**

- The Audit Committee should expect to see audit plans that are derived from clear processes based on risk assessment and corporate objectives that can be reconciled to the Assurance Framework. However, the level and nature of this will depend upon the risk maturity of PCC.
- Audit Committees should receive reports from the Chief Internal Auditor summarising the Internal Audit activity during the relevant period. The report should describe the major audit issues and report outcomes (such as agreed actions), rather than inputs against the audit plan.
- The Audit Committee should monitor the implementation of agreed actions, particularly those highlighted as high priority, by a variety of means, including the follow-up of audits to review whether important recommendations have been actioned by management and that either assurance levels have improved or risks reduced.
- The Audit Committee should ensure that once Internal Audit have agreed their findings and recommendations with management, the resultant agreed actions should identify individuals and timescales for implementation.

REVIEW OF INTERNAL AUDIT: CONSIDERATIONS

- Do formal terms of reference exist, defining Internal Audit's objectives, responsibilities, authority and reporting lines?
- How is the scope of Internal Audit work decided? What are the relative emphases given to internal control reviews, policy compliance reviews, VFM audits and consultancy assignments?
- Are any scope restrictions placed on Internal Audit and, if so, who establishes them?
- Does Internal Audit report directly to an appropriate level of management that will ensure that audit findings are given due weight and attention?
- Are the Internal Auditors free from any operating responsibilities that could impair their objectivity?
- Is the technical knowledge and experience of the Internal Audit staff sufficient to ensure that duties are performed to an appropriate standard?
- Is there clarity as to reliance on third party assurances?
- Is the work of the Internal Auditors properly planned, completed, supervised and reviewed? Are there any quality assurance procedures?
- Is the Internal Audit plan prepared in collaboration with the External Auditors?

EXTERNAL AUDIT: CONSIDERATIONS

- The Audit Committee should expect to see audit plans that are based on a clear assessment of audit risk that recognises the business risks of PCC.
- Audit Committees should receive a report arising from work planned by External Audit summarising External Audit activity for the relevant year. The report should describe the major audit issues, and report outcomes against the audit plan.
- The Audit Committee should ensure follow up audits are carried out to review whether important final report recommendations have been actioned by management.
- Look at the work that External Auditors are proposing to address the risks identified and ensure that it is adding value to PCC. This work should not be used to replace work that is part of the management function, or could be achieved by a better use of other resources.
- In reviewing the draft plan presented to the Committee, members should be concentrating on the outputs from the plan, and what they will need from the External Auditor, balanced against an understanding of the auditor's statutory functions.
- Review of the audit fee is an important role, but the review should be for consistency with the Audit Commission's guidelines and appropriateness in the context of PCC's needs and the statutory functions of the External Auditor. Driving down the cost of audit services may well produce disproportionate reductions in service and value.
- External Audit should be working with both management and other assurance functions, to optimise their level of coverage. The Committee will want to see, and gain assurance, that duplication is minimised.
- External Auditors should be asked about their own internal systems of quality assurance and quality control, and be prepared to feedback on the results of this. The Audit Commission has its own quality assurance process for its appointed auditors.
- Before reviewing the findings of any report, ensure that the scope of the work is absolutely clear. Committee members should be clear what has, and more importantly what has not, been included within the audit review.
- Concentrate on the overall conclusion to start with, since this should indicate the level of issues that the External Auditor wishes to draw to the attention of the Committee
- Prioritise committee time on the major findings and gain assurance that line management are dealing with the other issues. The main question for the Committee should be whether the findings are consistent with their own appreciation of the issues from other information received. If they are inconsistent then it is appropriate to probe and challenge the findings to support the report
- The response of management to audit findings is vital. The Committee should consider have management taken the audit seriously? Does the report highlight issues with policies and processes, or with the people implementing them? Have management agreed a realistic and timely action plan to remedy any problems? When will the action plan be followed up by management and the External Auditors? What further work is required to complete the audit?
- The Chairman of the Audit Committee should have a clear understanding and relationship with the lead from External Audit, at the partner/director/district auditor level, so that any impending Public Interest report should not be a surprise. Once a Public Interest Report is being considered the Committee should receive a briefing from the External Auditor on the statutory background and potential consequences of such a report. This should include the reasons for the consideration and the steps taken to date.

REVIEW OF EXTERNAL AUDIT: CONSIDERATIONS

- Are any scope restrictions placed on External Audit and, if so, who establishes them?
- Are External Audit reports and audit recommendations given due weight and attention?
- Are the External Auditors free from anything that could impair their objectivity?
- Is the technical knowledge and experience of the External Audit staff sufficient to ensure that duties are performed to an appropriate standard? Is there clarity as to reliance on third party assurances?
- Are External Audit reports issued on a timely basis?

PRIVATE DISCUSSIONS WITH BOTH INTERNAL AND EXTERNAL AUDIT

They should not be minuted, unless both the Committee and auditor agree that a note to the Committee's full minutes would be pertinent. The Chairman of the Committee may wish to retain his / her own note of the discussion.

- Do the Internal Auditors have adequate resources to provide the objective assurances required by the Audit Committee?
- Has the External Auditor quoted for enough resources to meet their statutory functions?
- Did the Auditors receive all the co-operation they desired?
- Was any attempt made to restrict the scope of the Auditors work in any way?
- Was the original audit strategy or plan modified due to deficiencies in internal control or accounting records?
- Did the Auditors have any significant disagreements with management (however resolved)?
- How were these resolved?
- Do the Auditors have any concerns about management's control consciousness or operating style?
- What is the Auditors view of their relationship with management?
- Do the Auditors believe they are under any undue pressure?
- Are there any other matters which, in the opinion of the Auditors, should be considered by the Audit Committee?

MAINTAINING THE FINANCIAL FOCUS: CONSIDERATIONS

- The Committee will receive, from the External Auditors, a report on their final accounts work, which should cover any audit adjustments that were required to the draft accounts, and any particular issues that have arisen at the year-end. The report will include details of any uncorrected misstatements (other than those considered by the auditor to be 'clearly trivial') reported to management, which have not been corrected, with a request to the Committee that the corrections are made. If the Committee decides not to correct the misstatements, the auditor will request a written representation from the Committee explaining the reason behind the decision.
- Ensure that appropriate guidelines, processes and standards have been followed to establish the final accounts and their associated statements.

SELF ASSESSMENT: CONSIDERATIONS

Appendix H to this Handbook includes a checklist that Audit Committees should use annually to assess their performance. As with any self-assessment it is important that the Committee members should be constructively critical in their responses, rather than take false assurance that their current interpretation of the requirements is correct.

- Audit Committee members should complete the checklist outside the meeting and the results should be collated by someone independent of the members.
- The involvement of the auditors, either internal or external, may help in interpretation of the questions or discussion on best practice, given their likely experience with other Audit Committees.
- In areas of doubt, the Committee may wish to look at other self-assessment checklists for Audit Committees, or ask for advice on best practice in other parts of the public and private sectors.
- The Committee should draw up its own plan for improvement as a result of the self assessment, either in requesting future training or development for members, or in changes to its processes and procedures

POTENTIAL AGENDA ITEMS

AGENDA ITEM / ISSUE	Frequency				
	Every Meeting	Quarterly	Half Yearly	Yearly	Occasional
Input to Internal Audit Plan and Strategy				X	
Review of Internal Audit Progress Reports			X		
Consider Annual Internal Audit Report and associated opinions				X	
Input to External Audit plans and fees				X	
Consideration of External Audit Management Letter				X	
Consideration of External Audit reports		X			
Review of audited annual accounts and financial statements including AGS				X	
Self assessment of committee's effectiveness				X	
Review of Risk Management Strategy				X	
Review of Strategic Risk Register			X		
Review of Fraud and Irregularity Progress Reports			X		
Review of other reports and policies as appropriate e.g. Changes to Contract Rules, Financial Rules, accounting policies etc.					X
Briefing / Update sessions	X				

MEASURES TO IMPROVE EFFECTIVENESS

Measures that can improve the effectiveness of an existing Audit Committee include the following:-

- Put the goals and duties of the Committee in writing.
- Reassess whether the chairman and other members of the Committee have the appropriate skills and commitment.
- Consider assigning responsibility for leading the discussion of specific topics to individual Committee members in advance of meetings.
- Encourage Audit Committee members to increase their familiarity with the authority's auditing and financial reporting process by, for example, visiting the audit and finance section.
- Consider the principal areas of risk and whether the Committee is allocating them sufficient attention.
- Re-examine and, if necessary, re-define the nature and extent of the relationship between the Committee and the Internal and External Auditors.
- Seek feedback from the External Auditors, and also from management and the Internal Auditors, on the effectiveness of the Audit Committee and suggestions on ways to improve the operation of the Committee.

Features of Audit Committees¹

THE BEST FEATURES		
Membership	Quality of audit committee members	<ul style="list-style-type: none"> • Sound understanding, experience and knowledge of the business • Application of common sense • Good knowledge of technical financial matters
	Quality of audit committee chairman	<ul style="list-style-type: none"> • Strong, effective chairman • Driving audit committee operations towards best practices • Appropriate focus on significant issues • Energy and experience • Ensuring open communication channels
		<ul style="list-style-type: none"> • Appropriate succession planning
		<ul style="list-style-type: none"> • Small enough size to ensure effective dialogue
		<ul style="list-style-type: none"> • Mix of different skills and backgrounds
Behaviours		<ul style="list-style-type: none"> • Openness in considering different perspectives
		<ul style="list-style-type: none"> • Balanced judgements
		<ul style="list-style-type: none"> • Engagement, enthusiasm, wanting to get issues right
		<ul style="list-style-type: none"> • Appropriate time commitment and dedication
		<ul style="list-style-type: none"> • Taking responsibilities as audit committee members seriously
Operations	Agenda and meetings	<ul style="list-style-type: none"> • Robust agenda for audit committee meetings • Preparation in advance of the meetings • Focus on essential issues, dismiss trivial areas • Emphasis on accountability and compliance • Rigorous debate of issues in meetings, not dominated by management
	Resources and supply of information	<ul style="list-style-type: none"> • High quality papers supplied to the audit committee on a timely basis • Communications from management and external auditors: short, focused and tailored for the audit committee • No undue filtering of information by management • Strong member services support to the audit committees operations
	Interaction with management	<ul style="list-style-type: none"> • Challenging management and pressing for necessary changes • Management acknowledging the significance of the audit committee • Ensuring the audit committee has adequate opportunity for interaction with management
	Interaction with auditors	<ul style="list-style-type: none"> • Regular communications, both formal and informal • External auditors engaging in regular private discussions with audit committee chairman • Open discussions about what is required, rather than a "rubber stamp", to enable focus on the right issues • Many opportunities for both external and internal auditors to present findings and views.

¹ Source: Audit Committee Benchmarking Survey: Best and Worse Features (PricewaterhouseCoopers, 2007)

THE WORST FEATURES		
Membership	Quality of audit committee members	<ul style="list-style-type: none"> • Lack of technical competence in accounting issues leading to weak challenge and debate in these areas • Limited knowledge of the business / insufficient briefings on topical issues • Limited understanding of the regulatory environment
	Quality of audit committee chairman	<ul style="list-style-type: none"> • Weak and inactive audit committee chairman • Audit committee chairman being significantly more technically competent and experienced as compared to the other committee members, which causes problems over pacing the dialogue within the meetings • Over reliance on the chairman to go through the papers and lead the debate with management and the auditors
Behaviours	<ul style="list-style-type: none"> • Tick box mentality regarding mundane compliance matters, rather than focus on what really matters 	
	<ul style="list-style-type: none"> • Low degree of engagement 	
	<ul style="list-style-type: none"> • Excessive formality, stifling discussion 	
	<ul style="list-style-type: none"> • Reluctance by members to challenge management and tell them what they really think 	
Operations	Agenda and meetings	<ul style="list-style-type: none"> • Overcrowded meetings • Fatigued audit committee members • Lengthy meetings • Ordering of the agenda such that the accounts are discussed at the end of the meeting • Inappropriate / inconsistent level of attention to different issues
	Resources and supply of information	<ul style="list-style-type: none"> • Excessive volume of papers hampering ability to do the job properly • Late delivery of papers • Content and presentation not tailored to the needs of the audit committee • Insufficient briefing on topical issues
	Interaction with management	<ul style="list-style-type: none"> • Management dominating the meetings • Debate around issues which do not fall within the remit of the audit committee
	Interaction with auditors	<ul style="list-style-type: none"> • Insufficient support from the audit committee in challenging management • "Hand holding" relationship sought by audit committee members

AUDIT COMMITTEE: SELF ASSESSMENT CHECKLIST

Priority	Issue	Yes	No	N/a
ESTABLISHMENT, OPERATION AND DUTIES				
ROLE AND REMIT				
1	Does the audit committee have written terms of reference?			
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?			
1	Are the terms of reference approved by the council and reviewed periodically?			
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?			
1	Can the audit committee access other committees and full council as necessary?			
1	Does the authority's statement on internal control include a description of the audit committee's establishment and activities?			
2	Does the audit committee periodically assess its own effectiveness?			
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?			
MEMBERSHIP, INDUCTION AND TRAINING				
1	Has the membership of the committee been formally agreed and a quorum set?			
1	Is the chair independent of the executive function?			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?			
1	Are new audit committee members provided with an appropriate induction?			
1	Have all members' skills and experiences been assessed and training given for identified gaps?			
1	Has each member declared his or her business interests?			
2	Are members sufficiently independent of the other key committees of the council?			

Priority	Issue	Yes	No	N/a
MEETINGS				
1	Does the audit committee meet regularly?			
1	Do the terms of reference set out the frequency of meetings?			
1	Does the committee calendar meet the authority's business needs, governance needs and the financial calendar?			
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?			
1	Are meetings free / open without political influences being displayed?			
1	Does the s151 officer or deputy attend all meetings?			
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?			
INTERNAL CONTROL				
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of internal control?			
1	Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?			
1	Does the audit committee consider how meaningful the AGS is?			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?			
1	Has the audit committee considered how it integrates with other committees that have responsibility for risk management?			
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"			
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?			
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?			
2	Does the audit committee review the authority's strategic risk register at least annually?			
2	Does the audit committee monitor how the authority assesses its risk?			
2	Do the audit committee's terms of reference include oversight of the risk management process?			

Priority	Issue	Yes	No	N/a
FINANCIAL REPORTING AND REGULATORY MATTERS				
1	Is the committee's role in the consideration and / or approval of the annual accounts clearly defined?			
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> - The suitability of accounting policies and treatments - Major judgements made - Large write offs - Changes in accounting treatment - The reasonableness of accounting estimates - The narrative aspects of reporting 			
1	Is the audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?			
1	Does the audit committee review the management's letter of representation?			
2	Does the audit committee annually review the accounting policies of the authority?			
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?			
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?			

Priority	Issue	Yes	No	N/a
INTERNAL AUDIT				
1	Does the committee approve, annually the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?			
1	Does internal audit have an appropriate reporting line to the audit committee?			
1	Does the audit committee receive periodic reports from internal audit including an annual report from the Head of Internal Audit?			
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?			
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?			
1	Is there appropriate cooperation between the internal / external auditors?			
1	Does the audit committee review the adequacy of internal audit staffing and other resources?			
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for internal audit in Local Government in the UK?			
2	Are internal audit performance measures monitored by committee?			
2	Has the audit committee considered the information it wishes to receive from internal audit?			
EXTERNAL AUDIT				
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?			
1	Does the audit committee hold periodic private discussions with the external auditor?			
1	Does the audit committee review the external auditor's annual report to those charged with governance?			
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?			
1	Does the audit committee assess the performance of external audit?			
1	Does the audit committee consider / approve the external audit fee?			

Priority	Issue	Yes	No	N/a
ADMINISTRATION				
AGENDA MANAGEMENT				
1	Does the audit committee have a designated secretary from Committee / Member Services?			
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?			
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?			
PAPERS				
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?			
2	Does the audit committee issue guidelines and / or a proforma concerning the format and content of the papers to be presented?			
ACTIONS ARISING				
1	Are minutes prepared and circulated promptly to the appropriate people?			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?			
1	Do action points indicate who is to perform what and by when?			

RISK MANAGEMENT POLICY AND STRATEGY

Risk Management Policy Statement / Strategy

This was formally approved by Audit Committee in September 2009 and is annually reviewed.



Risk Management and Business Continuity Policy

2009-10

Members and management are committed to embedding the principles of risk management in the culture and behaviours across the council. This policy has been agreed by Cabinet and the Corporate Management Team. The policy will be reviewed annually to ensure that it remains in line with strategic activities and objectives, and will be updated as necessary to reflect any significant business change.

Scope

This policy outlines strategic objectives with regard to risk management and business continuity within Peterborough City Council. How these objectives will be achieved is outlined in the accompanying Strategy. It also sets out the standards and definitions the council will be working to, and outlines broad areas of responsibility.

This policy will be communicated to all staff and stakeholders via the council website and Insite, and will also be available on request.

Context

Peterborough City Council (PCC) is a unitary authority, employing around 6,500 staff and providing a wide range of services to a population of approximately 163,300 people (Registrar General, 2007). The council's Vision is to provide a quality of service which genuinely contributes to making Peterborough the place to be in the Eastern region. In this way, the council affects the everyday lives of all who live and work in the city.

Risk is defined by the Institute of Internal Auditors (IIA) as: "the uncertainty of an event occurring that could have an impact on the achievement of the objectives". The council recognises that there are risks in everything it undertakes and that it has a duty to manage these risks. This duty is to staff and those people working in the council, residents, service users, partners and funding agencies. Risk can have both negative and positive consequences, and it is the council's aim to minimise negative impacts and to exploit potential opportunities through a robust risk management process.

Risk management is defined by the Institute of Risk Management (IRM) as: "the process which aims to help organisations to understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure". The Business Continuity Institute (BCI) defines BCM as: "a holistic management process that identifies potential impacts that threaten an organisation; provides a framework for building resilience and the capability for effective response; safeguards the interests of key stakeholders, reputation, brand and value-creating activities".

The relationship between risk management and business continuity management is a complex and often-debated one. For the purposes of PCC, it is helpful to view BCM in simple terms as a risk management control, i.e. once events which could potentially affect service provision have been identified, BCM is one way of reducing the impact of those events materialising. It is therefore useful to have RM and BCM united and coordinated centrally, to increase overall organisational resilience and efficiency.

Civil Contingencies Act 2004

Under the Civil Contingencies Act 2004 (CCA) it is a statutory duty for local authorities to have in place fit for purpose business continuity plans (BCPs). Risk management (RM) is not currently statutory for the council; however, as with business continuity management (BCM), it is in the

interests of the organisation to have sound BCM and RM processes in place, in order to maintain efficient business operations, increase effective decision making and safeguard the interests of stakeholders.

Enterprise Risk Management

Enterprise Risk Management (ERM) is defined by the IIA as: “A rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of an organisation’s strategic and financial objectives”. It is the council’s intention to manage risk within ERM guidelines as good practice; further details are outlined in the strategy.

BS25999

BS 25999 is a new British Standard of business continuity management. It is the council’s intention to manage business continuity within the guidelines of BS25999, with the possibility of achieving accreditation in the future.

Risk Management and Business Continuity Objectives

- Enable the achievement of the council’s strategic priorities:
 - Creating the UK’s environment capital
 - Creating strong and supportive communities
 - Delivering substantial and truly sustainable growth
 - Creating opportunities – tackling inequalities
 - Providing value for money
- Integration of risk management and business continuity into the culture of the council.
- Ensure compliance with laws and regulations.
- Demonstration of effective governance within the council.
- Enable the council to anticipate and respond to changing social, environmental and legislative conditions.
- Provide assurance regarding the management of significant risks.
- Support management in making decisions that pay full regard to risk considerations.
- Mitigation of all effects of a disruptive incident, including threat of litigation, potential financial losses and damage to council reputation.
- Deliver efficient operations, effective processes and efficacious strategies.
- Minimisation of injury, damage, loss and inconvenience to all stakeholders, (including staff, residents, service users, assets etc.), arising from, or connected with, the delivery of council services.
- Increased supply chain resilience.
- Raised awareness of the need for business continuity and risk management by all those connected with the delivery of services (including partners, delivery agents etc).
- A common language and understanding and a joined up and fully coordinated approach with regard to risk management activities throughout the organisation.
- Openness and honesty in all risk communications, and effective reporting procedures throughout the council.
- Introduction of a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.

Responsibilities

A full reporting structure and further details of roles and responsibilities are outlined in the strategy. Broad areas of responsibility for risk management are:

Elected Members have a responsibility to understand the strategic risks that the council faces, and should oversee the effective management of risk by PCC officers.

The Chief Executive will be accountable to Members for the effective management of risk within the council and will ensure that appropriate procedures, resources and skills are introduced in order to achieve this.

The Corporate Management Team will be responsible for monitoring the strategic risk register and receiving notifications of significant risks from departmental risk registers.

The Resilience Services Manager is responsible for leading the BCM and RM processes, which will be coordinated by the Senior Business Continuity and Risk Management Officer. This includes promoting BCM and giving generic advice to the local commercial and voluntary sector, which is also statutory for the council under the CCA. Supportive development and training to this role has been given and will be ongoing as necessary.

Heads of Service will be expected to commit appropriate resources to risk management within their areas.

Risk Champions will be nominated within key areas and will take on the departmental management of operational risk.

All staff have a responsibility to make themselves aware of risk management in everyday duties and to report risk issue as appropriate.



Risk Management and Business Continuity Strategy

2009-10

Version 1.1

Date of Next Review: January 2010

This strategy has been agreed by Cabinet and the Corporate Management Team and will be reviewed on a regular basis to ensure that goals are being met and that activities are still in line with current strategic objectives.

Scope

This strategy supports the risk management and business continuity objectives of the Policy and sets out suggested ways of achieving them, enabling everyone involved in risk management activities within the council to participate within an agreed framework. The strategy outlines methodology, roles, responsibilities etc, but does not replace the need for responsible officers to make informed decisions and manage risks on an ongoing basis. It will enable Members and management to monitor the process of embedding risk management into the council's culture, assess progress and review as necessary.

To be effective, it is essential that risk management is based on an holistic view of risk and takes a dynamic approach. Therefore, this strategy will recommend the use of Enterprise Risk Management (ERM) as best practice, detailed below. Corporate business continuity arrangements do not aim to plan for every imaginable contingency, but are flexible procedures to assist management decision making, and should be followed with a common sense approach. Further details are within the corporate business continuity plan (also under review for 2009-10).

Objectives

- To enable the achievement of the council's risk management and business continuity objectives, as outlined in the Policy.
- To review and challenge current risk management and business continuity management practices.
- To centralise reporting structures through an agreed architecture.
- To simplify and streamline RM processes, ensuring they are accessible and relative.
- Coordinate RM and BCM activities throughout the council and maintain a high profile.
- To facilitate the identification of significant risks, emerging risks and patterns or trends of risks.
- Establish clear accountabilities, roles and responsibilities (outlined in Appendix 1).
- To establish a methodology for identifying, assessing, managing and reporting risks.
- Suggest a suitable method of self-assessment and possible timescales for improvement.
- Set out ways of embedding robust RM practices in the council.
- To formalise the strategic risk appetite.
- To identify and engage with key stakeholders

A timetable of events is outlined in Appendix D.

Definitions

Risk

The uncertainty of an event occurring that could have an impact on the achievement of an organisation's objectives. (Institute of Internal Auditors)

Risk Appetite

The total amount of risk that an organisation is prepared to accept, tolerate or be exposed to at any point in time. (BS 25999)

Risk Management (RM)

The process which aims to help organisations to understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure. (Institute of Risk Management)

Enterprise Risk Management (ERM)

A rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of an organisation's strategic and financial objectives. (Institute of Internal Auditors)

Business Continuity Management (BCM)

An holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats, if realised, might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities. (BS 25999)

Business Impact Analysis (BIA)

The process of analysing business (service) functions and the effect that a business disruption might have on them.

Stakeholder

Any person, group or organisation that affects, or can be affected by, an organisation's actions. (Institute of Risk Management)

Context

There are various risk management activities within the council, including project risk management, performance monitoring, finance risk management etc. However, there is not currently a uniform approach to the processes attached to risk management, i.e. identification, analysis, evaluation, treatment and reporting. Risk management within the council has historically been driven forward by the Chief Internal Auditor, with the lead being the Head of Strategic Finance, to avoid operational conflicts of interest. There was an unsuccessful attempt in 2007 to appoint a dedicated Risk Manager, following which risk management has continued to be the nominal responsibility of Strategic Finance, without a dedicated resource to administrate it and maintain its profile.

Following the Civil Contingencies Act 2004, the council undertook a major programme of Business Continuity Management (BCM), with an officer within the (then) Emergency Planning Team being given responsibility for implementing BC plans. Service areas now have business continuity plans in place to increase their resilience to operational disruption

The Emergency Planning Team has evolved into Resilience Services, incorporating Emergency Planning, Business Continuity, CCTV and Internal Health and Safety. The coordination of all risk management activities within the council is now the responsibility of the Resilience Services Manager, who has a dedicated resource in the Senior Business Continuity and Risk Management Officer. The process of centralising risk reporting through this department will achieve more consistency of approach, more open communications and opportunities to identify gaps and opportunities, and provide a focal point for information, training and reporting etc. By combining the RM and BCM disciplines, it is the aim to embed both within the organisational culture, with a focus on monitoring the continually changing risk horizon and applying necessary ongoing measures to address potentially damaging events. This process will take time, and will require long term ongoing commitment.

Risk Aware Culture

Alarm, The Public Sector Risk Management Association, has recently published the Alarm National Performance Model for Risk Management in the Public Services, which measures the extent to which risk management is having a positive effect on the organisation. The benefits of a risk aware culture are:

- Compliance with laws, regulations and standards
- Assurance on the management of significant risks
- Management decision making that encompasses risk considerations
- Efficiency and effectiveness in operations and projects

Key indicators of a risk-aware culture are:

- Involvement of all stakeholders in all stages of risk management process
- Emphasis on training in RM procedures and learning from events
- Strong leadership in relation to strategy, projects and operations
- Absence of an automatic blame culture but appropriate accountability
- Communication and openness on all RM issues and lessons learnt

This model attempts to show an estimation of where Peterborough City Council is now in terms of the capabilities of the model (shown in red).

Targets:

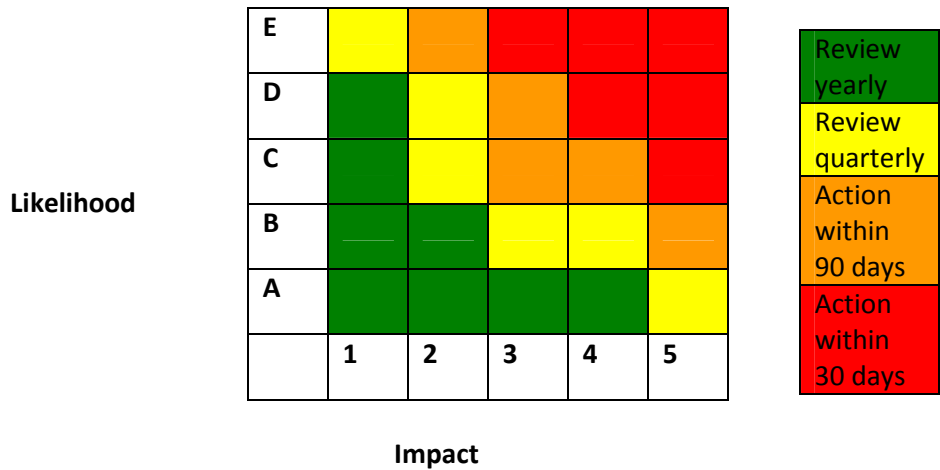
- To be a Level 2 on all capabilities by the end of 2009.
- To be a Level 3 on all capabilities by the end of 2010.

The self assessment will be revisited by the end of 2010 and new targets set.

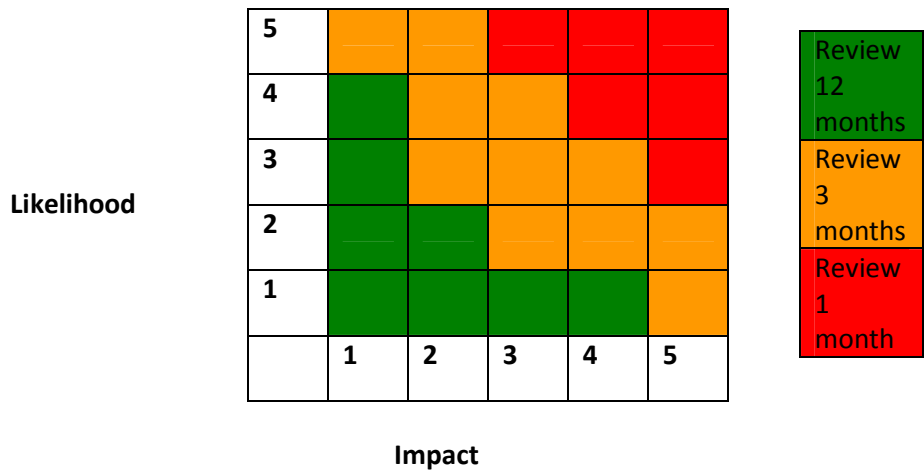
	Leadership & Management	Strategy & Policy	People	Partnership, Shared Risk & resources Processes	Processes	Risk Handling & Assurance	Outcomes & Delivery
Level 5: RM is DRIVING the organisation	Senior management uses consideration of risk to drive excellence through the business, with strong support and reward for well-managed risk-taking	Risk management capability in policy and strategy making helps to drive organisational excellence	All staff are empowered to be responsible for risk management. The organisation has a good record of innovation and well managed risk taking	Clear evidence of improved partnership delivery through RM and that key risks to the community are being effectively managed	Management of risk and uncertainty is well integrated with all key business processes and shown to be a key driver in business success	Clear evidence that risks are being effectively managed throughout the organisation. Considered risk-taking part of the organisational culture	RM arrangements clearly acting as a driver for change and linked to plans and planning cycles
Level 4: RM is EMBEDDED & INTEGRATED within the organisation	RM is championed by the CEO. The Board and senior management challenge the risks to the organisation and understand their risk appetite	Risk handling is an inherent feature of policy and strategy making processes. RM system is benchmarked and best practices identified and shared across the organisation	People are encouraged and supported to take managed risks through innovation. Regular training and clear communication of risks is in place	Sound governance arrangements are established. Partners support one another's RM capability and capacity	A framework of RM processes in place and used to support service delivery. Robust BCM system in place	Evidence that RM is being effective and useful for the organisation and producing clear benefits. Evidence of innovative risk taking	Very clear evidence of very significantly improved delivery of all relevant outcomes and showing positive and sustained improvement
Level 3: RM is WORKING for the organisation	Senior managers take the lead to apply RM thoroughly across the organisation. They own and manage a register of key strategic risks and set the risk appetite	RM principles are reflected in the organisation's strategies and policies. Risk framework is reviewed, developed, refined and communicated	A core group of people have the skills and knowledge to manage risk effectively and implement the RM framework. Staff are aware of key risks and responsibilities	Risk with partners and suppliers is well managed across organisational boundaries. Appropriate resources in place to manage risk.	RM processes used to support key business processes. Early warning indicators and lessons learned are reported. Critical services supported through continuity plans	Clear evidence that RM is being effective in all key areas. Capability assessed within a formal assurance framework and against best practice standards	Clear evidence that RM is supporting delivery of key outcomes in all relevant areas
Level 2: RM is HAPPENING within the organisation	Board/councillors and senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented	RM strategy and policies drawn up, communicated and being acted upon. Roles and responsibilities established, key stakeholders engaged	Suitable guidance is available and a training programme has been implemented to develop risk capacity	Approaches for addressing risk with partners are being developed and implemented. Appropriate tools are developed and resources for risk identified	RM processes are being implemented and reported on in key areas. Service continuity arrangements are being developed in key service areas.	Some evidence that RM is being effective. Performance monitoring and assurance reporting being developed	Limited evidence that RM is being effective in, at least, the most relevant areas
Level 1: RM is ENGAGING with the organisation	Senior management are aware of the need to manage uncertainty and risk and have made resources available to improve	The need for a risk strategy and risk-related policies has been identified and accepted. The RM system may be undocumented with few formal processes present	Key people are aware of the need to understand risk principles and increase capacity and competency in RM techniques through appropriate training	Key people are aware of areas of potential risk in partnerships and the need to allocate resources to manage risk	Some stand-alone risk processes have been identified and are being developed. The need for service continuity arrangements has been identified	No clear evidence that RM is being effective	No clear evidence of improved outcomes

Risk Appetite

The risk appetite is the corporate statement of the level and nature of risk that is acceptable to the organisation. Below is the current PCC risk matrix, which should act as the benchmark for the acceleration of significant risks. This matrix replaced the 6x4 model previously in use.



Below is a suggested simplified matrix, with reviewed likelihood and impact descriptors:



Likelihood Descriptors:

- | | | |
|----------|-------------|---|
| 1 | Negligible | Little likelihood of risk occurring except in exceptional circumstances |
| 2 | Low | Unlikely to occur in the next 10 years |
| 3 | Moderate | Reasonable chance of occurring during the next 5 years |
| 4 | Significant | Likely to occur during the next 12 months |
| 5 | Very High | More likely to occur than not at least once in the next 12 months |

Impact Descriptors:

	1	2	3	4	5
Descriptor	Negligible	Low	Moderate	Significant	Very High
Service/Business Interruption	No noticeable service interruption	Minor disruption, manageable by altered operational routine	Some significant operational areas compromised	All or most significant operational areas compromised	Sustained or permanent loss of core service or facility
Financial	Up to £10,000 loss or <£10k of budget over £25m	£10k - £25k or >0.1 % of budget over £25m	£25k - £100k or >0.25% of budget over £25m	£100k - £500k or >0.5% of budget over £25m	>£500k or >0.2% of budget over £25m
Compliance	Minor non-compliance with standards	Non-compliance with standards, addressed by low-level management action	Non-compliance with core standards	Major non-compliance with core standards	Serious breach of compliance and potential prosecution
Objectives/Projects	Insignificant cost increase/schedule slippage	Minor schedule slippage/reduction in quality/scope	Schedule slippage/reduction in scope or quality	Failure to meet secondary objectives	Failure to meet primary objectives
Reputation/publicity	Awareness limited to individuals within organisation	Local media – short term.	Local media – long term. Significant effect on staff morale	Extensive local and short term national coverage	Long term national coverage, MP concern and scrutiny
Environmental	No noticeable impact on environment	Minor impact on environment, no long term effects	Short term impact on environment, medium term effects	Significant impact on environment with possible long term effects	Long term impact on environment

Classification System (risk definitions)

Risks are typically assessed within classifications, and there are various models in existence, such as PESTLE (Political, Economic, Social, Technological, Legal, Environmental), all of which can be modified and adapted to suit a particular organisation.

It is proposed to streamline the current classification system in use within PCC (Appendix C) and to adopt the following:

Strategic: events that need to be taken into account in judgements about projects, medium to long-term goals and objectives for PCC. These will in general be high-level risks e.g.

- Project risks
- Governance etc

Operational: events which could affect service provision, e.g.

- Physical damage (fire, flood etc)
- Staff shortage
- ICT loss
- Contractors etc

Compliance: events which could affect compliance with standards, laws and regulations.

Financial: events which could have a financial impact.

Reputation: events which could affect public perception about the organisation, staff morale, stakeholder interest etc.

Environmental: events which could have an environmental impact.

Strategic risks should be managed throughout all Directorates, as they are likely to affect/be affected by everyone. For example, failure to mitigate the effects of climate change is a high-level risk, but one which every Directorate should have some input into managing. An aim of this review is to identify all strategic risks which should be managed departmentally and ensure they are placed onto relevant risk registers.

Enterprise Risk Management

Enterprise Risk Management (ERM) is defined by the Institute of Internal Auditors (IIA) as: “A rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of an organisation’s strategic and financial objectives”. In terms of Peterborough City Council, this encompasses the four strategic priorities, all underpinned by delivering value for money. It is therefore the aim to adopt ERM as a comprehensive and dynamic risk management approach within the council.

The Institute of Risk Management (IRM) suggests the following ERM framework:

- Strategic Objectives
- Risk Assessment
 - Analysis
 - Identification
 - Description
 - Estimation
- Risk Evaluation
- Risk Reporting (threats and opportunities)
- Decision
- Risk Treatment (response)
- Residual Risk Reporting
- Monitoring

Strategic Objectives

Risks should be measured against their impact on the ability of the council to achieve its objectives. If a potential event or incident will not ultimately impact upon this, then it does not necessarily need to be viewed as a risk. In terms of departmental risk management, a good starting point is the service/business plan, and identifying events which could impact on these.

Risk Assessment

Risks are assessed and measured in terms of the **likelihood** of an event occurring, and the **impact** the event would have if it occurred. There are various methods of risk assessment, a combination of which should ideally be used, to ensure maximum input and comprehensiveness. These include

questionnaires, checklists, workshops, inspections and audits, dependency analyses etc. In this way, information can be used from historic events, near misses etc. and up to date views on new or potential risks can be identified.

Directors and their managers are responsible for identifying risks within their service areas, and, as part of this process, accepting ownership of those risks.

Risk Evaluation

Using the output from the assessment process, a profiling exercise should be undertaken to determine the relative priority of the identified potential risk impacts. A tolerance level is then established i.e. a level of risk which can be accepted. This should be in line with the strategic risk appetite (see above). The risks should then be managed according to priority.

Risk Reporting

Risk registers are currently maintained departmentally, but are not consistent in terms of appearance, risks identified, control measures etc, and do not contain enough supporting information on risk assessments, inherent and residual scores etc. There are various risk management software options available, but it may be desirable to establish sound and regular reporting through the Resilience Team using methods currently available, beginning the embedding process and keeping central control of the proceedings, before reviewing the practice and assessing the best methodology. In other words, to choose a system that fits the council’s risk management processes, rather than adapt processes to fit a system which may not be suitable.

A reporting structure is attached at Appendix 2.

As a minimum, the following reports will be provided:

Recipient	Frequency	Format
Corporate Management Team	Half-yearly	Detailed commentary on the council’s strategic risks and overall risk profile
Audit Committee	Half-yearly	Overview and commentary on the council’s strategic risk profile
Strategic Governance Board	Half-yearly	Commentary on the overall risk profile and on the operation of the risk management strategy and the risk management process
Audit Committee	Annually	Report to support Committee’s review of the operational performance of the risk management strategy and risk management process

Decision

Once risks are assessed, evaluated and profiled, a decision has to be made on the appropriate response. This will be a joint effort by managers, champions, and risk officer. Risks identified as significant will be escalated to CMT for appraisal. Risk owners will be assigned who will then be responsible for managing the controls and reporting on progress.

Risk Response

Risks should be viewed in terms of both negative and positive impacts (downside and upside), which will assist in the response decisions.

When the risk assessment and profiling process has identified material potential risk exposures, the best course of action should be determined from one or more of the following response options:

- Tolerate the risk: If the risk falls within the accepted appetite then no further action is required.
- Treat the risk: reduce the level of risk through mitigating controls.
- Transfer the risk: share the responsibility by insurance, outsourcing etc.
- Terminate the activity associated with the risk.

Residual Reporting

In order to estimate the effectiveness of risk management, it is important to re-assess risks once control measures have been put in place. This is the residual level of the risk and is part of the dynamic approach. Embedding this process will require regular and continual input from services and the risk officer.

Monitoring

Progress in managing risk must be monitored (through the ongoing tracking of key risk indicators) to ensure that:

- Risk events and losses are identified and reported promptly enabling action to be taken to minimise the overall cost impact.
- Emerging risks, trends, patterns and other changes in the risk profile are identified as quickly as possible.

The risk owner is responsible for ensuring their risks are monitored on a regular basis. CMT reviews the council's strategic risks half-yearly. Operational risks will be reviewed at least quarterly within Directorates.

Monitoring of risk management processes should take a dynamic approach and be regarded as ongoing, with modifications being made as necessary.

Training, Information and Communication

The council's aim is to embed a more open and accessible risk management culture, which embraces the reporting of risk issues throughout the organisation, including near misses, events and arising risks. Communication is a vital part of this. By centralising the process within the Resilience Team, risk communications will become more consistent and opportunities and gaps in awareness identified. Regular communications with officers involved in all levels of RM activities will also help to identify key stakeholders.

The following are some measures which the strategy aims to put in place over the next year:

- Establishment of risk champions from service areas by end of 2009. This will require commitment from senior management and heads of service.

- Identify key areas of risk management and best way of coordinating reporting activities by end of 2009.
- Training in ERM principles and terminology, coordinated by the Resilience Team, to include cabinet, councillors and Audit Committee. This will be an ongoing process.
- Regular ongoing workshops to examine and challenge current risk registers, identify stakeholders and share knowledge and experience of risk management, starting by end of 2009.
- Updates via Insite and other relevant media. Raise risk management profile by making more information more accessible and prominent. Starting by end 2009 and ongoing.
- Engagement with Members, management and all staff. Ongoing process.
- Establish risk management within recruitment and induction procedures by end of 2010.

Business Continuity Management

The BCM programme is well under way and service areas now have plans in place. End-users have been encouraged to use the Shadow Planner system to administer their plans; while this has proved a useful method of rolling out BCM to all services and teaching the basic principles of BCM, champions are showing a preference for having their local plans on Word or Excel documents, which are more easily accessed and shared within their departments. It is therefore proposed at this stage, to continue administrating plans corporately using Shadow Planner, as there are two more years of licence, and to compile a new generic Word template for all services to adapt to their own service. These will then be entered on Shadow Planner by the Resilience Team to continue mapping inter-dependencies etc and to enable easier auditing.

The next stage of BCM is to ensure the process is continued and embedded. The current review of risk management will assist this, as BCM can be identified both as a strategic risk applicable through all Directorates, and as a control measure to mitigate potential service disruption. A major part of BCM is risk assessment, and business continuity can be viewed simplistically as a risk control (treatment of risk). The joined up approach will help to embed both the RM and BCM processes.

The corporate approach to BCM is to increase overall resilience to any kind of disruption. Therefore, business continuity plans are generic, simple and flexible, to enable informed and effective management decision-making. The plans establish lines of accountability and outline recovery requirements, but do not aim to be prescriptive. Key elements of the BCM strategy are to:

- Provide a generic Word template for all services to adapt by end 2009.
- Maintain plans on Shadow Planner, including BIA, administrated by the Resilience Team.
- Review BCM champions following the recent restructure, identifying key gaps by end of 2009.
- Establish a timeframe of service areas to work intensively on reviewing RM and BCM.
- Identify lack of BCM as a strategic risk throughout all Directorates by end of 2009.
- Embed BCM as a risk management control throughout Directorates by end of 2010.
- Identify ongoing training needs and provide workshops, training and information as required.
- Establish BCM/RM in recruitment and induction processes by end of 2010.
- Establish BCM/RM in business and service plans by end of 2010.
- Address supply chain issues via Strategic Procurement by end of 2010.

Further details on BCM are within the Corporate Business Continuity Plan (also under review for 2009-2010)

Resources

There is provision in the Resilience Services budget for an assistant risk management/business continuity officer. However, it is proposed at this time to start the process with current resources and assess workloads and workstreams before recruiting, so that the new role can be clearly defined. There is admin support currently available who can assist in the interim.

Ideally, services should become empowered to manage their own risks and business continuity effectively, with the Senior Business Continuity and Risk Management Officer's being a coordinating and facilitating role. Training and support to this role has been provided and is ongoing.

Conclusion

Risk management is an ongoing process requiring commitment from all levels, from Members and senior management to all staff. The council should not be looking at a quick-fix solution, whose novelty will soon wear off, but a long term, continuous programme which offers practical and flexible ways of embedding the process. As the council evolves, risk management activities will evolve with it, therefore the strategy and processes within it need to be regularly reviewed and updated. We should be prepared to identify and implement necessary changes and to encourage open communications throughout the council.

Roles and Responsibilities

The council recognises that it is the responsibility of all members and employees to have due regard for risk in performing their duties. The key roles and responsibilities for risk management are:

Full Council:

Role: All Members are responsible for governing the delivery of services to the local community. Members therefore have a responsibility to understand the strategic risks that the council faces in delivering services and consider the risk management implications of any action within the strategic decision-making process.

Leader/Cabinet:

Role: The Leader of the council is the Cabinet member with responsibility for the overall corporate vision and direction for the council. The Leader is supported in this role by Cabinet, together with the Chairman of the Audit Committee who is designated Member Champion for risk management.

Committee and Scrutiny Chairs:

Role: To support the strategic approach to risk management and the ongoing implementation of the processes. Committee and Scrutiny Chairs will develop and maintain the level of awareness and knowledge of RM appropriate to their role, including the implication of significant risks, and ensure that relevant risk management processes are applied to their areas of responsibility.

Audit Committee:

Role: The Audit Committee is the principal interface with Members for the purposes of supporting and monitoring the council's risk management arrangements. The Committee receives reports on the council's performance in relation to risk management and this provides an opportunity for challenge and discussion.

Responsibilities:

- Approve the risk management policy and strategy.
- Monitoring the council's risk management and internal control arrangements.
- Review an annual assessment of the effectiveness of the risk management and internal control framework.
- Approve the public disclosure of the annual outcome of this assessment (the Governance statement) and publish it in the Annual Statement of Accounts.

Chief Executive:

Role: The Chief Executive has accountability to Members for effective management of risk within the council and will ensure that appropriate procedures, resources and skills are in place in order to achieve this.

Responsibilities:

- Ensure that risks are managed effectively through the development of an all-encompassing corporate strategy.
- Require Directors to have awareness of the risks facing the services they manage and have effective measures to monitor and control this exposure.
- Promote and oversee implementation of the corporate risk strategy.
- Monitor and review the effectiveness of the strategy.
- Help with the identification of and assessment of operational and project risks.
- Understand the implications of the most significant risks on the council and stakeholders.
- Consider the implications of poor decisions regarding risk.
- Consider the financial implications of the risks that have been identified and are retained by the council, and ensure that adequate monetary provision is made in case contingencies arise.

Corporate Management Team:

Role: To ensure that risk is managed effectively by contributing to the development of an all-encompassing corporate strategy. To implement the risk management policy agreed by Members, directing officers towards a high-level risk management approach to establishing a robust system of internal control.

Responsibilities:

- Gain an understanding of RM and its benefits.
- Ensure that RM is included in discussions by management teams.
- Determine the RM framework, policy, strategy and processes.
- Determine the council's risk appetite, prioritise strategic and cross cutting risks and determine action on them.
- To review the strategic risk register.

Strategic Governance Board

The Terms of Reference are to be confirmed.

Role: To share experience of risk, risk management and strategy implementation across the council.

Responsibilities:

- Identify areas of overlapping/cross-departmental risks
- Drive new initiatives.
- Feed into strategy review.
- Drive process of risk profiling/assessment.
- Report to Audit Committee

Resilience Services Manager:

Role: To support the council and its services by facilitating the development, implementation, operation and review of the risk management strategy.

Responsibilities:

- Develop the risk management strategy and promote, support and oversee its implementation.
- Oversee the design, development and delivery of programmes to communicate risk management awareness to members and staff.
- Oversee the design, development and delivery of risk management training to members and managers with specific responsibility for the management of risk.
- Manage the risk management and BCM budget.
- Identify and communicate risk management issues to all departments.
- Oversee the development and implementation of a process to monitor overall risk levels and report to Chief Auditor/Chief Executive/Cabinet.
- Assist departments in undertaking risk management activity via training, facilitation of risk identification and assessment and/or direct support.
- Supervise and support the resources allocated to facilitate these responsibilities.
- Ensure all areas of risk management, operational and strategic, are monitored and cross-cutting issues are raised with the appropriate groups.

Chief Internal Auditor:

Role: To challenge established risk management processes, including risk identification and evaluation, and to provide assurance to officers and members on the effectiveness of the controls put in place to mitigate risk. This role should be separated from the activity of establishing and operating risk management processes and control structures, which remain the responsibility of officers allocated to risk management.

Responsibilities:

- To report on the effectiveness of risk management processes.
- To evaluate and test the controls put in place to mitigate risk.
- To monitor and review the effectiveness of the strategy.

Heads of Service/Service Managers:

Role: To manage operational risk effectively in each area.

Responsibilities:

- Implement details of the risk strategy.
- Maintain a risk register for their service area.
- Identify, analyse and profile departmental risks.
- Monitor progress of risks and actions in place to mitigate them.
- Allocate appropriate resources to risk management and business continuity.
- Ensure that risk management issues are cascaded throughout their service areas.

Risk Champions:

Role: To facilitate effective departmental risk management.

Responsibilities:

- To attend training and workshops to understand the processes of risk management.
- To manage and report on departmental risk as required.

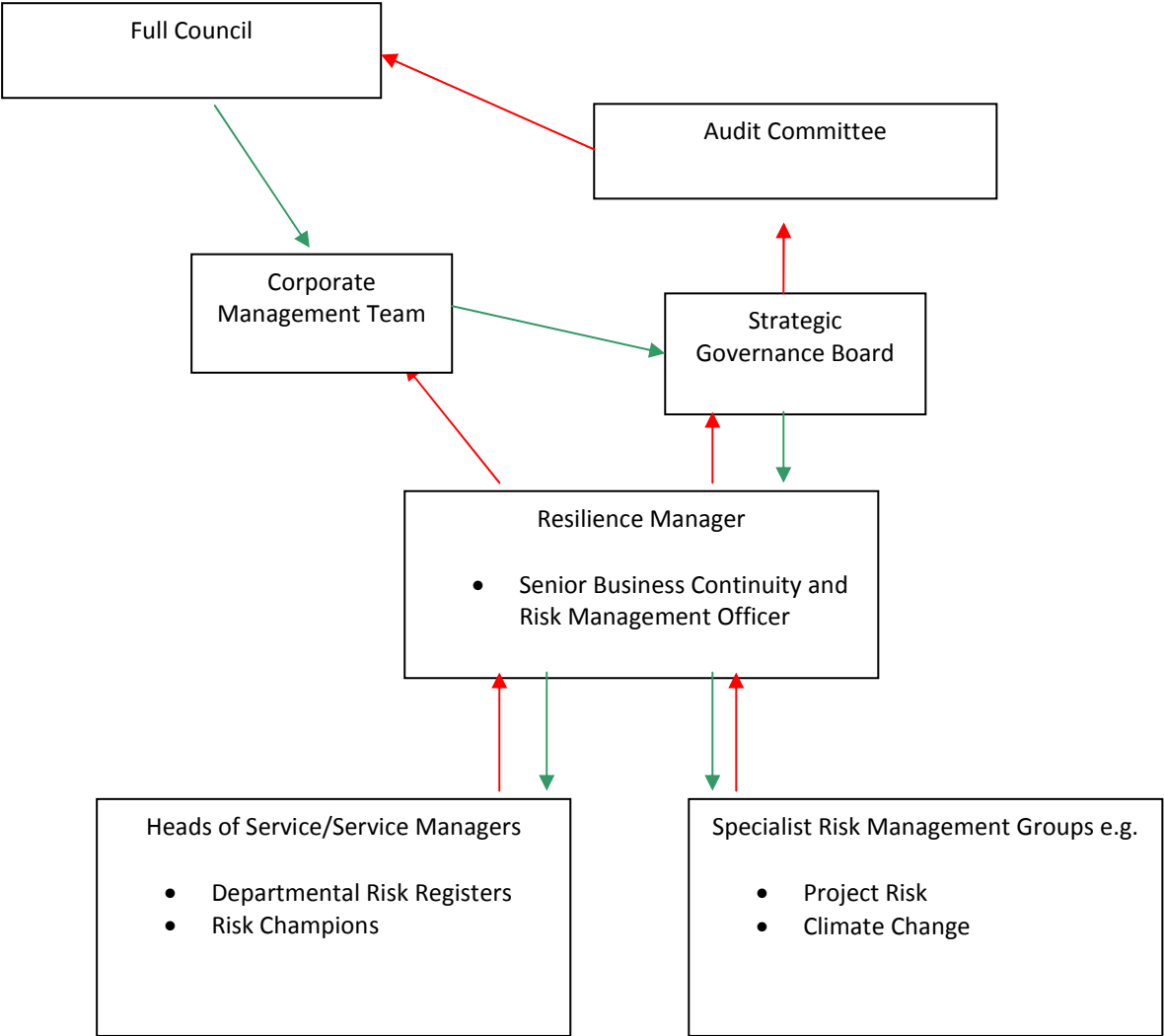
All Staff:

Role: To be aware of risk management issues in their area of work.

Responsibilities:

- Identify and report potential risk issues.
- Be aware of changed circumstances and risks.
- Understand, accept and implement risk management issues.

Reporting Structure



Key:
Reports on RM activities
Monitors and instructs

Risk Definitions Previously in Use

STRATEGIC RISK	Hazards and risks that need to be taken into account in judgements about the medium to long term goals and objectives for PCC
Political	Those associated with failure to deliver either central government policy, or meet the administration’s manifesto commitments.
Economic	Those affecting the ability of PCC to meet its financial commitments. These include budgetary control pressures, the failure to purchase adequate insurance cover, external macro level economic changes, or the consequences of proposed investment decisions.
Social	Those relating to the effects of changes in demographic, residential or social-economic trends on PCC’s ability to deliver its objectives
Technological	Those associated with the capacity of the organisation to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures affecting PCC’s ability to deliver its objectives.
Legislative /Regulatory	Those associated with current or potential changes in national or European Law
Environmental	Those relating to the environmental consequences of progressing PCC’s strategic objectives
Competitive	Those affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value
Customer/Citizen	Those associated with failure to meet the current and changing needs and expectations of customers and citizens

OPERATIONAL RISK	Hazards and risks that managers and staff encounter in the daily course of their work
Professional /Managerial	Those associated with the particular nature of each profession (e.g. social work service concerns over children at risk etc)
Legal	Those related to possible breaches of regulation
Financial	Those associated with financial planning and control to minimise the occurrence of unforeseen budgetary pressures, lack of capital resources in the current year and in the future
Physical	Those related to fire, security, accident protection and health and safety
Contractual /Partnership	Those associated with the failure of contractors to deliver services or products to the agreed cost and specification
Reputational	Those relating to PCC's reputation and the public perception of PCC's efficiency and effectiveness
Technological	Those relating to reliance on operational equipment (e.g. IT systems or equipment and machinery)
Environmental	Those relating to pollution, noise or energy of ongoing service operation

KEY OFFICER CONTACTS: AUDIT COMMITTEE

Name	Position	Telephone No.
John Harrison	Executive Director of Strategic Resources	01733 452 398
Helen Edwards	Solicitor to the Council / Monitoring Officer	01733 452 539
Steve Crabtree	Chief Internal Auditor	01733 384 557
Steven Pilsworth	Head of Corporate Services	01733 384 564
Kim Sawyer	Head of Legal Services	01733 452 361
Diane Baker	Head of Governance	01733 452 559
Andy Cox	Senior Category Manager	01733 452 465
Stuart Hamilton	Resilience Services Manager	01733 207 207

KEY OFFICER CONTACTS: GOVERNANCE AREAS

	Assurance Framework	Internal Controls	Internal Audit	Contract Regulations	Financial Regulations	Corporate Fraud	Ethical Standards	Risk Management	Annual Governance Statement	Corporate Governance	Strategic Governance Board
Helen Edwards										✓	✓
Steve Crabtree	✓	✓	✓	✓	✓				✓	✓	✓
Steven Pilsworth					✓					✓	
Kim Sawyer				✓							
Diane Baker						✓	✓			✓	✓
Andy Cox				✓							
Stuart Hamilton								✓			

AUDIT COMMITTEE	AGENDA ITEM No. 5
6 JUNE 2011	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

WORK PROGRAMME 2011 / 2012

1. ORIGIN OF REPORT

- 1.1 This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report provides details of the proposed Work Programme for the Municipal Year 2011 / 2012 together any training needs identified.

2. UPDATE

2.1 Work Programme

The Work Programme (**Appendix A**) is based on previous years meeting dates / agendas. The programme will be refreshed in consultation with senior officers and the Committee membership throughout the year.

2.2 Training

An overview of the works channelled through the Audit Committee will be provided alongside this agenda. In addition, prior to each committee meeting, further training will be provided subject to the needs of the committee.

WORK PROGRAMME FOR 2011 / 2012

Date	Work Programme	Key Officer
6 June 2011	<p>First meeting of the Audit Committee in the Municipal Year. It is proposed that following Full Council, subject to changes in membership from previous years, the meeting will be set aside to provide an overview of the Committee and the roles and responsibilities of Members. This will include training / guidance in relation to:</p> <ul style="list-style-type: none"> • Internal Audit and External Audit; • Risk Management; • Finance Standards and Final Accounts Closure; • Governance, Fraud and Investigations. 	Steve Crabtree Steven Pilsworth
27 June 2011	<ul style="list-style-type: none"> • Internal Audit: Annual Report 2010 / 2011 • Fraud: Annual Report 2010 / 2011 • Annual Governance Statement • Statement of Accounts 2010 / 2011 • Feedback Report 	Steve Crabtree Diane Baker Steve Crabtree Steven Pilsworth
5 September 2011	<ul style="list-style-type: none"> • Risk Management Strategy • RIPA: Progress Report Q1 • Feedback Report 	Stuart Hamilton Diane Baker
26 September 2011	<ul style="list-style-type: none"> • Audit of Statement of Accounts • Feedback Report 	Steven Pilsworth
7 November 2011	<ul style="list-style-type: none"> • Internal Audit: Mid-Year Progress against Audit Plan • Risk Management: Strategic Risks • Treasury Management Update • RIPA: Progress Report Q2 • Feedback Report 	Steve Crabtree Stuart Hamilton Steven Pilsworth Diane Baker
6 February 2012	<ul style="list-style-type: none"> • External Audit: Annual Audit Letter • External Audit: Report to Management • External Audit: Grant Claims Annual Certification • Feedback Report 	Steven Pilsworth / PwC
26 March 2012	<ul style="list-style-type: none"> • RIPA: Progress Report Q3 • Internal Audit: Strategy and Audit Plan 2012 / 2013 • External Audit: Audit Plan • Feedback Report 	Diane Baker Steve Crabtree PwC

Each meeting may be supplemented by additional reports deemed appropriate for the Committee. This could relate to specific work requests for Internal Audit or External Audit; changes made to Financial Regulations or Contract Regulations; or other governance or legislation which impacts on the work of the Committee.