

AUDIT COMMITTEE

THURSDAY 7 JUNE 2012
7.00 PM

Forli Room - 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

Page No

1. **Apologies for Absence**
2. **Declarations of Interest and Whipping Declarations**

At this point Members must declare whether they have an interest, whether personal or prejudicial, in any of the items on the agenda. Members must also declare if they are subject to their party group whip in relation to any items under consideration.
3. **Minutes of the Meeting Held on 26 March 2012** 1 - 8
4. **Data Incident Response Policy** 9 - 20

To receive and approve the draft Data Incident Response Policy
5. **Audit Committee Handbook (Edition 4)** 21 - 60

To receive and approve the revised members handbook for the Audit Committee.
6. **Work Programme 2012 / 2013** 61 - 62

To review the work programme for 2012 / 2013



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Karen S Dunleavy on 01733 45226833 as soon as possible.

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Committee Members:

Councillors: D Lamb (Chairman), C Harper(Vice Chairman), N Arculus, Y Maqbool, J Knowles, M Fletcher and S Lane

Substitutes: Councillors: P Kreling, E Murphy and A Miners

Further information about this meeting can be obtained from Karen S Dunleavy on telephone 01733 452233 or by email – karen.dunleavy@peterborough.gov.uk

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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 26 MARCH 2012

Present: Councillors Lamb (Chairman), Kreling, Harper, Nash and Lane

Officers in

Attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Corporate Services
Ben Stevenson, Compliance Manager
Karen S Dunleavy, Governance Officer

Also in

attendance: Julian Rickett, PricewaterhouseCoopers

The Committee received a request to move agenda item 6, External Audit: Audit Plan before item 4 Regulation of Investigatory Powers Act (2000): Quarterly Report (To 31 December 2011). Members agreed to receive the agenda item as requested.

1. Apologies for Absence

Apologies for absence were received from Cllr Stokes

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 6 February 2012

The minutes of the meeting held on 6 February were approved as an accurate and true record.

Members requested an update regarding the request to Corporate Management Team (CMT) on the progress of school places and what the progress on the method of reporting was. The Chief Internal Auditor advised Members that an update was awaited from CMT.

Members sought clarification over whether there was a response on the energy from waste action point arising from the meeting held on 6 February 2012. Members were advised that an email had been sent to Members of the Audit Committee which outlined the position.

4. Regulation of Investigatory Powers Act (RIPA) (2000): Quarterly Report (To 31 December 2011)

The Committee received a routine planned report on the Council's use of RIPA in accordance with the established Work Programme 2011 / 2012. The Committee was also provided with an update of the Council's use of RIPA powers during the third quarter, October to December 2011.

Audit Committee was asked to:

- Receive, consider and endorse the report on the use of RIPA for the third quarter of 2011 – October to December 2011

The following key points within the report were highlighted:

- Covert Operations on Fly Tipping; however, the footage was of too low definition to be considered of value;
- Covert operation on two test purchasing exercises, one of which resulted in the issue of fixed penalty notices; and
- An application for access to telephone communications in order to carry out a business regulation investigation.

Comments and responses to questions were as follows:

- Members sought clarification over the low quality footage and whether there was a good reason for the occurrence. *The Compliance Manager advised Members that light interference had affected the filming, which had impeded the image of the person involved;*
- Members commented that fly tipping was a particular issue in certain areas of the city and that the regularity of the investigations by Peterborough City Council appeared to be very low. *The Compliance Manager advised Members that the purpose of the RIPA report was to use intrusive surveillance. Members were also advised that there were other ways that the Enforcement Teams would use to conduct their investigations, details of which would be provided to Members of the Committee separately;*
- Members raised a question over whether the police were involved in test purchasing exercises. *The Compliance Manager advised Members that a police officer was present;*
- Members sought clarification over whether there were specific dates in which fly tipping activities were investigated. *The Compliance Manager advised Members that some of the investigations were seasonal and would also be triggered through tip offs from the public;*
- Members sought clarification over whether there was media coverage to communicate the successful prosecutions for fly tipping. *The Compliance Manager advised Members that the Council notified the press of all prosecutions made.*

ACTION AGREED:

The Committee endorsed the report on the use of RIPA for the third quarter 2011 – October to December 2011.

5. Use of Consultants

The Committee received a report on the use of consultants following the Sustainable Growth Scrutiny Committee (SGSC) review into Peterborough City Council's use of consultants and the subsequent endorsement of the recommendations by Cabinet.

The Audit Committee was asked to consider the progress report on monitoring arrangements and policies in relation to the use of Consultants, along with their future role in such monitoring arrangements.

The following key points within the report outlining the (SGSC) findings included:

- Examination of the cost of consultants and whether it provided value for money;
- Review of the processes for engaging and monitoring the work of consultants;
- Relationships between consultants and staff of the council; and
- Examine the likely future use of consultants by the council.

Members of the Committee were also informed that they would be given access to the Council's project management system in order to review business cases and that a training session on its use had been organised.

The Audit Committee were also asked to determine what issues and information they would like to consider in future to undertake their role in monitoring the use of consultants.

Comments and responses to questions were as follows:

- Members sought clarification over the timescale on the use of Consultants for 2011 to 2012, and why the report had stated there were twelve months of figures when only ten months had passed. *The Head of Corporate Services confirmed that the figures within the report had reflected a rolling twelve months' (two months of the old financial year and ten months of the current financial year) figures;*
- Members requested that the report for the use of consultants be presented to Audit Committee every six months;
- Members suggested that a template on reporting the use of Consultants should be developed without the need to conduct a full review each time to Audit Committee.
- Members requested detail on the types of projects that Consultants had been involved with for the Council. *The Head of Corporate Services advised Members that an analysis would be included in future reports.*

ACTION AGREED:

The Committee agreed the adoption of their role in monitoring the arrangements for the use of consultants at Peterborough City Council;

It was agreed that the Head of Corporate Services would:

- Produce a six monthly report to Audit Committee on the use of consultants by Peterborough City Council; and
- Would include detail on which departments had used consultants.

6. EXTERNAL AUDIT: AUDIT PLAN

The Committee received a report from PricewaterhouseCoopers (PwC), which gave an outline of the Council's responsibilities and PwCs requirements of the external audit.

The Committee was asked to:

1. Consider the External Audit Plan for 2011/12;
2. Provide comment on any amendments necessary; and
3. Approve the Plan.

Key points highlighted were as follows:

- Scope of the audit
- Audit approach
- Key Risks
- Recent Developments
- Audit engagement team and independence
- Communications plan
- Timetable
- Audit Fees

- Risk of Fraud
- Other engagement information.

Comments and responses to questions were as follows:

- Members raised a question regarding whether PwC had conducted discussions with Peterborough City Council's (PCCs) management over the ways to monitor services provided by outsource companies. *The Committee was informed that PwC would consult with the PCC management structure and consult with audit services over the outsourced arrangements as part of the benefits and efficiencies that PCC were working towards;*
- Members commented about the Children Centres that were being outsourced and whether PCC were receiving value for money in the services provided. *The Head of Corporate Services advised Members that the tendering and contracting process that PCC had conducted was very extensive and exhaustive and that every company would have to provide a sizable amount of detail. Members were also advised that the performance standards were also included within the tender specification. In addition Members were advised that the Scrutiny Committee for Sustainable Growth would monitor the performance of outsourced companies;*
- The Chief Internal Auditor also advised Members that the Internal Audit Plan had included in its schedule, an exercise to monitor the activity around the use of the company SERCO, which provided the Council's Information Technology services;
- Members sought clarification over the level of risk of Peterborough City Council in comparison to the audit fees applied by PwC. *PricewaterhouseCoopers advised Members that a base figure was applied in setting the fee scales for the Council and confirmed that PCC's fee would not be higher than the base fee of £239,400;*
- Members raised a question regarding the transfer of Adult Social Care and how income and expenditure would be accounted for in the PCC accounts. *The PwC representative advised Members that it was either a transfer of a business or an activity which would determine how the expenditure would be shown. Members were also advised that an exercise was currently being conducted to establish what services were being transferred and to where within the Council.*
- Members sought clarification over the specific risks involved with the transfer of Adult Social Care to Peterborough City Council. *The PwC representative advised Members that there was a need to work with PCC to understand what the performance and budget risks were in relation to the service delivery.*
- Members raised a question regarding the transfer of Adult Social Care and whether the service was transferring to PCC with a deficit. *The Head of Corporate Services advised Members that there had been a deficit which had been outlined in the Medium Term Financial Strategy. Members were also advised that measures had been introduced to manage the financial pressures for the current and subsequent financial years. In addition Members were advised that the uptake of additional service users may present a further financial pressure in the future.*
- Members sought further information on the monitoring that was conducted on outsourced services to PCC. *The Head of Corporate Resources advised Members that there was a significant officer, higher management and Scrutiny monitoring processes in place to monitor the services provided by outsourced companies.*

ACTION AGREED:

The Committee:

1. Agreed The External Audit Plan for 2011/12;
2. Provided comment on any amendments necessary; and
3. Approved the Plan.

The Committee also agreed the materiality level of £250,000 to be treated as being 'clearly trivial' within the Audit Plan.

7. INTERNAL AUDIT DRAFT INTERNAL AUDIT PLAN 2012/2013

Members received a presentation from the Chief Internal Auditor regarding the Draft Internal Audit Plan for 2012/2013.

The Committee was asked to consider, endorse and approve the:

1. Proposed Annual Internal Audit Plan for 2012 / 2013;
2. Internal Audit Strategy for 2012 / 2013;
3. Internal Audit Terms of Reference (referred to as the Internal Audit Charter); and
4. Internal Audit Code of Ethics

Key points highlighted were as follows:

- Annual Internal Audit Plan
- Audit Strategy
- Internal Audit Terms of Reference; and
- Code of Ethics

Comments and responses to questions were as follows:

- Members raised a question regarding whether there was any impact following the current budget constraints in order to complete any audits. *The Chief Internal Auditor advised Members that the Audit Team had been working to market their services in order to attract business from other Councils.*
- Members sought clarification over whether the income generated from other Councils would allow the Audit Services to employ extra resources if necessary. *The Chief Internal Auditor advised Members that the service would explore the option of employing extra staff to work between Councils if it was necessary.*
- Members sought clarification over whether sharing the services of the Chief Internal Auditor carried any risks. *The Chief Internal Auditor advised Members that staff within the PCC Audit Team were fully capable of covering the Audit requirements the Council had.*
- Members sought clarification over business rates and how they were set. *The Head of Corporate Services advised Members that business rates were set by the valuation agency and in conjunction with the Government. The Chief Internal Auditor advised Members that there were various enterprise zones within the city where additional charges would be made for services such as Closed Circuit Television.*
- Members raised a question regarding schools audit assessments, where two schools had triggered 'limited assurances' and whether the Audit Department would be revisiting the areas of concern. *The Chief Internal Auditor advised Members that the schools with limited assurances would be revisited as a priority.*
- Members sought clarification over whether the reports for schools should contain further detail on any issues raised following an audit. *The Chief Internal Auditor assured Members that the reports would contain further detail of the issues raised in future.*
- Members raised a question over whether the implementation of the Welfare Reform Act would cause extra work for the PCC Audit Team. *The Chief Internal Auditor advised Members that it would not present a significant impact for the team; however, there was no way of identifying what impact it would present to the Council when it was introduced by the Government.*

AGREED ACTION:

The Committee approved:

1. The Annual Internal Audit Plan for 2012 / 2013;
2. Internal Audit Strategy for 2012 / 2013;
3. Internal Audit Terms of Reference (referred to as the Internal Audit Charter); and
4. Internal Audit Code of Ethics

8. AUDIT COMMISSION; APPOINTMENT OF EXTERNAL AUDITORS

Members received a presentation from the Chief Internal Auditor, to advise Members of changes from central government which would impact on the workings of the Council and in particular the Audit Committee.

Key points highlighted were as follows:

- Department for Communities and Local Government and the future of Local audit consultation;
- Localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market;
- Transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other public bodies to account for local spending decisions;
- Lower audit fees – achieving a reduction in the overall cost of audit;
- High standards of auditing – ensuring that there was effective and transparent regulation of public audit, and conformity to the principles of public audit;
- Requirements for accounts to be prepared in accordance with the necessary directions or regulations and comply with relevant statutory requirements;
- Proper practices to be observed in the completion of the accounts;
- Proper arrangements made by the body to secure economy, efficiency and effectiveness (value for money) in its use of resources
- ‘Secure the provision of high quality audit services at the best prices possible; and
- Minimising the costs to DCLG of redundancy by maximising transfer of audit practice staff under TUPE Regulations.’

Comments and responses to questions were as follows:

- Members sought clarification over whether there would be a reduction in the Audit fees for PwC whilst PCC were tendering for other providers. *The Chief Internal Auditor advised Members that the fees were set at a national standard and were very competitive; however, would not be subject to a fee reduction from PwC.*

9. Draft Annual Audit Committee Report

The Committee received a report on the Draft Annual Audit Committee Report from the Chief Internal Auditor. Members were informed that the report would be presented to Council for consideration.

Key points highlighted were as follows:

- Background to the committee, its roles, responsibilities and membership;
- Its key achievements during the year;

- An overview and coverage of its remit including Internal Audit, Accounts and Financial Management, External Audit, Risk Management, Control Assurance, Corporate Governance, and Fraud and Irregularities; and
- Training provided to ensure that suitable challenge and scrutiny is adopted.

Comments and responses to questions were as follows:

- Members commented that the Audit Committee would arrange a group representatives meeting following the meeting of Full Council due to be held on 18 April 2012, in order to discuss ideas on how the work of the Audit Committee should be improved.

10. WORK PROGRAMME 2012 / 2013

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2012 / 2013 for consideration and approval.

- The Head of Corporate Services commented that the International Financial Standards should be incorporated in the Statement of Accounts Work Programme item.
- Following the agreement of the Committee a six monthly report would be included on the use of Consultants within the Work Programme.

AGREED ACTION:

The Committee noted and approved the 2012 / 2013 Work Programme.

7.00pm – 8.10 pm
Chairman

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AUDIT COMMITTEE	AGENDA ITEM No. 4
7 June 2012	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer:	Diane Baker, Head of Governance	Tel. 452259

DATA INCIDENT RESPONSE POLICY

R E C O M M E N D A T I O N S
FROM : Helen Edwards, Solicitor to the Council
1. To approve the Data Incident Response Policy.

1. ORIGIN OF REPORT

1.1 This report is submitted to the Committee following a referral from the Monitoring Officer.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to seek the Committee's approval for a Data Incident Response Policy.

2.2 This report is for the Committee to consider under its Terms of Reference No. 2.17: To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO
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4. DATA INCIDENT RESPONSE POLICY

4.1 All data controllers, including the Council as a whole and all 57 councillors individually, have a responsibility under the Data Protection Act (DPA) 1998 to ensure appropriate and proportionate security of the personal data which they hold. Anyone who processes personal information must comply with the eight principles of the DPA, which make sure that personal information is:

- Fairly and lawfully processed
- Processed for limited purposes
- Adequate, relevant and not excessive
- Accurate and up to date
- Not kept for longer than is necessary
- Processed in line with your rights
- Secure
- Not transferred to other countries without adequate protection

4.2 This policy puts into place a formal procedure for dealing with any breaches of the DPA which may occur and focuses on the steps to be taken once a breach has been identified. A copy of the draft policy is attached at Appendix 1.

4.3 The loss of personal information can have serious financial, legal and reputational implications for public authorities. The Information Commissioner, who upholds information rights in the public interest, promotes openness by public bodies and regulates data privacy for individuals, has the power to serve a monetary penalty notice on a data controller for loss of personal information. For example two councils have recently received fines of £80,000 and £70,000 following the theft of laptops, which were stolen from employees' homes, and which contained the personal details of individuals.

4.4 It is clear that if there was to be a breach of security around personal data, the Information Commissioner's Office (ICO) would expect the breach to be dealt with effectively. Introducing a policy on dealing with information security breaches serves to formalise measures we already have in place to comply with the seventh data protection principle – ensuring personal data is secure.

4.5 Whilst there is no legal obligation in the DPA for data controllers to report breaches of security which result in the loss, release or corruption of personal data, the Information Commissioner believes that serious breaches should be brought to the attention of his Office. This policy offers guidance on what those serious breaches could be and how the Council will deal with an incident.

5. ANTICIPATED OUTCOMES

5.1 That the Council will have in place a policy which will assist in meeting its responsibilities under the Data Protection Act 1998.

6. REASONS FOR RECOMMENDATIONS

6.1 A Data Incident Response Policy is considered best practice and whether we have a formal policy in place is something that would be considered by the Information Commissioner's Office if there was a serious breach in security.

7. IMPLICATIONS

7.1 The implications of this policy are that the Council will become more aware when handling people's personal information and will continue to consider the risks and consequences of losing this type of information. It was also ensure that any data breach will be properly handled and in accordance with the law.

8. BACKGROUND DOCUMENTS

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

Guidance on Data Security Breach Management – Information Commissioner's Office (July 2011)

9. APPENDICES

- Appendix 1 – Data Incident Response Policy

Peterborough City Council

Data Incident Response Policy

1.1. Policy Statement

Peterborough City Council holds large amounts of personal and sensitive data. Every care is taken to protect personal data and to avoid a data protection breach. In the unlikely event of data being lost or shared inappropriately, it is vital that appropriate action is taken to minimise any associated risk as soon as possible.

1.2. Purpose

This policy sets out the procedure to be followed by all Peterborough City Council Officers and Members if a data protection, including credit card/debit card, breach takes place.

1.3. Scope

This policy applies to all personal and sensitive data, including credit card/debit card details, held by Peterborough City Council.

1.4. Legal Context

The Data Protection Act 1998 makes provision for the regulation of the processing (use) of information relating to individuals, including the obtaining, holding, use or disclosure of such information.

Principle 7 of the Data Protection Act 1998 states that organisations which process personal data must take “appropriate technical and organisational measures against the unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data”.

1.4.1. Data

Data means information which –

- (a) is being processed by means of equipment operating automatically in response to instructions given for that purpose,
- (b) is recorded with the intention that it should be processed by means of such equipment,
- (c) is recorded as part of a relevant filing system or with the intention that it should form part of a relevant filing system,
- (d) does not fall within paragraph (a), (b) or (c) but forms part of an accessible record as defined by section 68 of the Data Protection Act 1998, or
- (e) is recorded information held by a public authority and does not fall within any of paragraphs (a) to (d).

1.4.2. Personal Data

Personal data means data which relates to a living individual who can be identified –

- (a) from that data, or
- (b) from that data and other information which is in the possession of, or is likely to come into the possession of, the data controller, and includes any expression of opinion about the individual and any indication of the intentions of the data controller or any other person in respect of the individual.

1.4.3. Sensitive Personal Data

Sensitive personal data means personal data consisting of information as to -

- (a) the racial or ethnic origin of the data subject,
- (b) his/her political opinions,
- (c) his/her religious beliefs or other beliefs of a similar nature,
- (d) whether he/she is a member of a trade union (within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992),
- (e) his/her physical or mental health or condition,
- (f) his/her sexual life,
- (g) the commission or alleged commission by him/her of any offence, or
- (h) any proceedings for any offence committed or alleged to have been committed by him/her, the disposal of such proceedings or the sentence of any court in such proceedings.
- (i) Credit card/debit card details pertaining to the data subject

1.5. Types of Breach

Data protection breaches could be caused by a number of factors. Some examples are (this list is not definitive):

- Loss or theft of data or equipment on which data is stored
- Inappropriate access controls allowing unauthorised use
- Equipment failure
- Human error
- Unforeseen circumstances such as fire or flood
- Hacking
- 'Blagging' offences where information is obtained by deception

2. Breach Management

As soon as the data breach occurs or is discovered, it should be reported by whoever has committed or discovered the breach to their manager and the Head of Governance. The Head of Governance will then launch an investigation into the data breach including appointing a designated Investigation Lead Officer (ILO) who will be responsible for all aspects of the breach management process.

2.1. Containment and Recovery

The ILO will:

- Establish if the breach is ongoing and take immediate action to stop the breach and to minimise the impact and effect of the breach;
- Establish who needs to be made aware of the breach and inform them of what they are expected to do to assist in the containment exercise;
- Establish whether there is anything the Council can do to recover any losses and limit the damage the breach can cause;
- Instigate the recovery of physical equipment, where appropriate;
- As far as is practically possible, ensure that Council staff recognise when someone tries to use the lost or stolen data to access accounts;
- Inform the police, where appropriate;
- Inform the banks/building societies and card providers if appropriate: and
- Inform the Head of Communications so that a press statement can be prepared in the event of a media enquiry; depending on the extent and nature of the breach.

If the breach occurs or is discovered outside normal working hours, the investigation and notification of relevant officers should begin as soon as is practicable.

Records must be kept of all actions taken. The ILO is responsible for collating all records.

2.2. Assessment of an Ongoing Breach

The nature of the breach will determine what steps are necessary in addition to immediate containment. This will be done by an assessment of the risks associated with the breach. This risk assessment will be undertaken by the ILO.

The most important aspect is an assessment of potential adverse consequences for the individuals, how serious or substantial these are and how likely they are to happen. This will be based on:

- What type of data is involved?
- How sensitive is the data?
- If data has been lost or stolen, are there any protections in place such as encryption?
- What has happened to the data?
- Regardless of what has happened to the data, what could the data tell a third party about the individual?
- How many individuals' personal data are affected by the breach?
- Who are the individuals whose data has been breached?
- What harm can come to those individuals and/or to the Council?

2.3. Notification of the Breach

The ILO shall determine who will be notified, the information the notification will contain and how they will be notified. In determining the extent of the notification the following should be considered (this is not an exhaustive list and each breach must be assessed on its own circumstances):

- Which individuals and/or groups, including Council staff, need to be notified?
- What are the dangers of 'over notifying'?
- Any contractual or operational requirements?
- Which regulatory bodies require notification?
- Can notification help the Council to meet its security obligations with regard to the seventh data protection principle?
- Can notification help the individual? Bearing in mind the potential effects of the breach, could individuals act on the notification to mitigate risks to themselves?
- How many people are affected?
- How serious are the consequences?
- How the notification can be made appropriate for particular groups of individuals.

2.3.1 Determining Serious Breaches

The presumption is that all breaches are 'serious' breaches unless the facts of the breach indicate otherwise.

The ILO must determine if the breach is a serious breach that needs to be notified to the Information Commissioner's Office (ICO). Where necessary the ILO should work with the Regulation Team to determine if the breach is 'serious' for the purposes of notifying the ICO.

In order to establish the seriousness of a breach the following must be considered:

- The potential harm to the data subject as a result of the breach, including any distress the data subject may suffer as a result of the breach, which is dependent on the volume and the sensitivity of the data involved.
- The volume of the data involved - this must be determined by the facts and extent of the breach.

- The sensitivity of the data involved - where the data is classed as sensitive personal data as defined by section 2 of the Data Protection Act 1998 and the release of that data can lead to the data subject suffering substantial harm.

Serious breaches should be notified to the ICO and the notification should include details of:

- The type of information and number of records
- The circumstances of the loss / release / corruption
- Actions taken to minimise / mitigate effect on individuals involved including whether they have been informed
- Details of how the breach is being investigated
- Whether any other regulatory body has been informed and their response
- Remedial action taken to prevent future occurrence
- Any other information that may assist the ICO in making an assessment

2.4. Evaluation and Response

Once the breach has been dealt with the ILO should evaluate and report to the Senior Information Risk Owner and Head of Governance on the effectiveness of the Council's response to the breach.

Where the breach was caused, even in part, by systemic and ongoing problems, then simply containing the breach and continuing 'business as usual' is not acceptable; similarly, if the Council's response to the breach was hampered by inadequate policies or a lack of a clear allocation of responsibility then any response must review and update these policies and lines responsibility accordingly.

The evaluation must consider, although not limited to:

- Ensuring those who need to be aware know what personal data is held and where and how it is stored.
- Establishing where the biggest risks lie.
- Ensuring that where data is shared, either internally to the Council or externally, the method of transmission is secure and that only relevant data is shared or disclosed.
- Identifying weak points in existing security measures.
- Monitoring staff awareness of security issues and looking to fill any gaps through training or tailored advice

2.5 Employment Considerations

This policy should be read in conjunction with the ICT Policy and the Employee Code of Conduct: <http://insite/sites/intranet/InformationLibrary/Files/ICT%20Policy.pdf>
<http://insite/sites/intranet/InformationLibrary/Files/Code%20of%20Conduct%20for%20Employees.pdf>

Where a breach of this policy has occurred it may result in action being taken in accordance with the council's disciplinary policy.

3.1. Monitoring and Review

This policy shall be reviewed every 12 months after implementation.

3.2. Implementation

This policy was implemented on XXXX

4.1. Contacts

Helen Edwards	Solicitor to the Council and Senior Information Risk
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	Owner 01733 452539
Diane Baker	Head of Governance 01733 452559
Steve Crabtree	Chief Internal Auditor 01733 384577
Louise Tyers	Compliance Manager (Regulation) 01733 452284
Alana Diffey	Information Specialist 01733 452276

Appendix 1

Data Protection Breach - Record of Actions Taken - Confidential

Date of breach:	
Description of the data involved:	
Summary of incident:	
Staff/Team involved:	
Investigation Lead Officer: (name & job title)	
Outcome of investigation:	
Date resolved:	

Who to inform

✓		Date completed
	Manager of officer that discovered the breach	
	Head of Governance (who will appoint an Investigation Lead Officer)	
	Senior Information Risk Owner (Solicitor to the Council)	
	Head of Communications	
	Chief Internal Auditor	
	Director(s) (where necessary)	
	All relevant staff	
	Police (where necessary)	
	Data Subject(s) (where necessary)	
	Regulatory Body (where necessary)	
	Information Commissioner's Office ('Serious' breaches only)	

Stolen data or equipment

✓		Date completed
	Inform the police	
	Get a crime reference number Ref. no:	
	Inform ICT Service Desk	
	Inform PCC Insurance	

The Investigation

The investigation should cover the following, and records must be kept of any searches and actions undertaken. All of this information must be retained as evidence of the investigation.

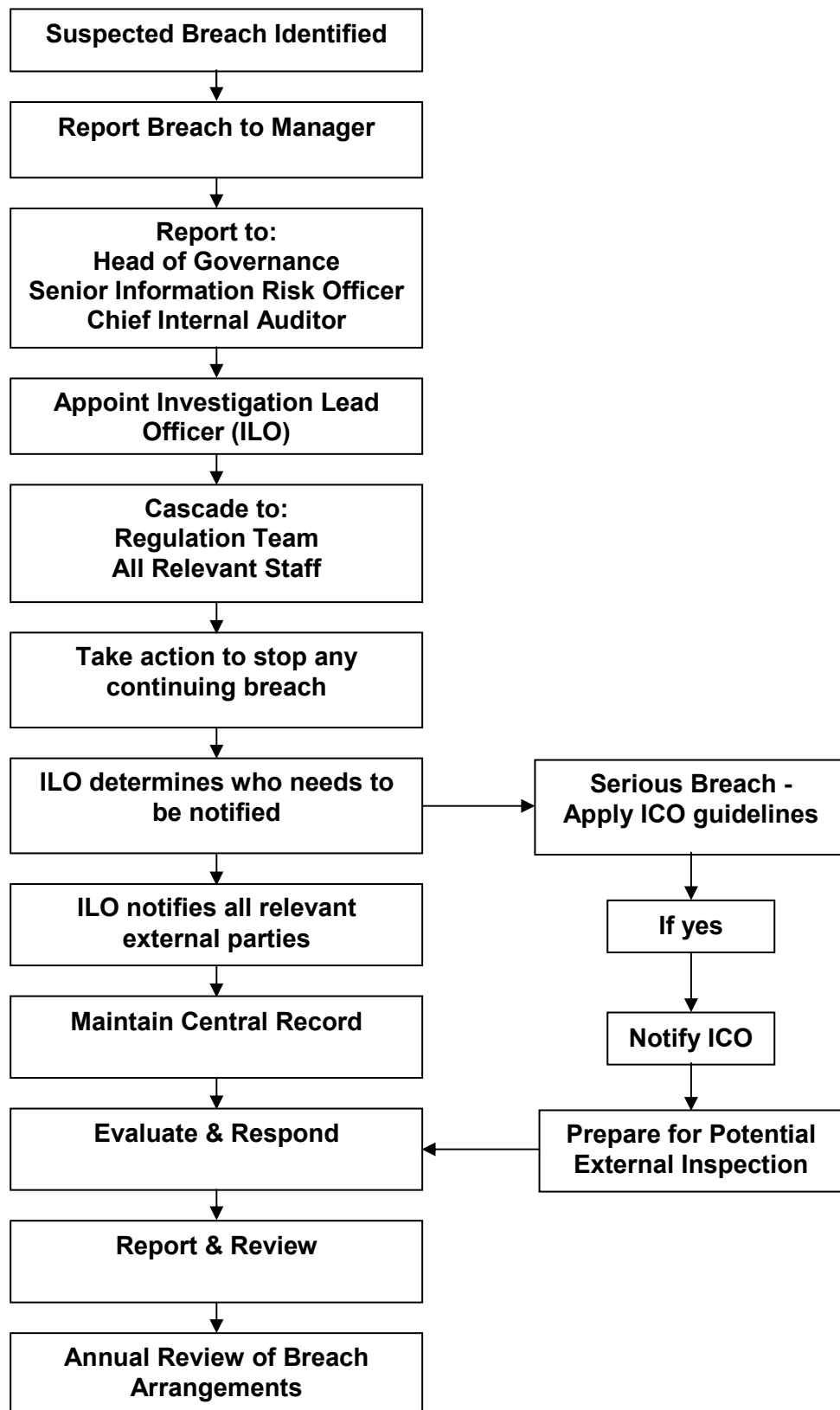
✓		Date completed
	Undertake extensive searches for any physical loss	
	If the data has been lost, and is in paper form only, consider reporting this to the police	
	Assess whether the data subject(s) should be informed of the breach	
	Assess whether the Information Commissioner's Office (ICO) should be informed of the breach	
	Report on the reason(s) for the data breach. If this was due to a lack of operational policy or procedure, this should form part of the report into the breach and be fed back to the relevant senior management team and the Regulation Team	

If the decision is made to inform the data subject

✓		Date completed
	All details necessary to be able to take mitigating actions	
	Include their right to complain to the Council and the ICO	
	Provide details of what the Council has already done to respond to the risks posed by the breach	
	Provide details of the Investigation Lead Officer if they need to contact the Council for further information, or if they have any questions regarding the investigation	

Appendix 2

Data Protection Breach Process Flow Chart



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AUDIT COMMITTEE	AGENDA ITEM No. 5
7 JUNE 2012	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 are asked to:	
1. Approve the adoption of the Audit Handbook (4 th Edition) by this committee.	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as part of its overall work programme for 2012 / 2013.

2. PURPOSE AND REASON FOR REPORT

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 has been revised and reissued each year.

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.
- 4.3 Future updates will reflect on changes to the Audit Committee as the Localism Act is implemented.

5. CONSULTATION

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

Formal adoption of the Audit Committee Handbook (4th Edition).

7 REASONS FOR RECOMMENDATIONS

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 (3rd Edition)
Audit Committee agenda / reports / minutes
Peterborough City Council Constitution

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AUDIT COMMITTEE HANDBOOK

May 2012

Edition 4.0

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EDITION	Produced / Revised	Approval By Audit Committee	Lead Officer
1	January 2008	June 2008	Steve Crabtree
2	December 2009	June 2009	Steve Crabtree
3	May 2011	June 2011	Steve Crabtree
4	May 2012	June 2012	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, 2011). 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 the 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.

2. WHAT DOES THE AUDIT COMMITTEE DO?

- 2.1 Until guidance was issued by CIPFA in October 2005, and adopted by PCC in May 2006, PCC 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 the previous 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. **Appendix A** details the Assurance Framework adopted. In particular these cover the Annual Governance Statement (AGS), included in the Statement of 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:-

- Reduces the risks of illegal or improper acts;
- Reinforces the importance and independence of Internal Audit and External Audit; and
- Increases 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 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 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; and
- Reviewing the External Audit management letters

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;
- 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 policies/procedures followed, including Treasury Management; 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”.

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 Chair 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 Corporate Services 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:
- 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
 - 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:-
- The Council's financial statements, and on its Annual Governance Statement; and
 - 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 the 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	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	Responsible for the corporate management of the Council and for ensuring the co-ordination of services and the provision of appropriate professional advice.
Structure	Determine and publicise a description of the overall departmental structure of the Council showing the management structure and deployment of officers.
Appointment of Staff	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	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	Responsibility for the proper administration of the financial affairs of the Council.
Contributing to Corporate Management	Contribute to the Corporate Management of the Council, in particular through the provision of professional financial advice.
Providing Advice	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, 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 Role of the Head of Corporate Services

16.4.1 Responsibilities mirror that of the Executive Director in regard that they are the Deputy s.151 Officer.

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:-

Ensuring lawfulness of decision-making	Report on contraventions (or likely), of any enactment or rule of law after consulting with Chief Executive / Director of Strategic Resources. Report on any maladministration or injustice where the Ombudsman has carried out an investigation and consider and advice on compensation for maladministration. 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
Contributing to corporate management	Contribute to the corporate management of the Council, in particular through the provision of advice on legal, constitutional, procedural and probity issues.

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 a 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.

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 have subsequently been revised and updated periodically through the Audit Committee.

Risk management currently resides in the Operations Directorate.

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 provided with 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.

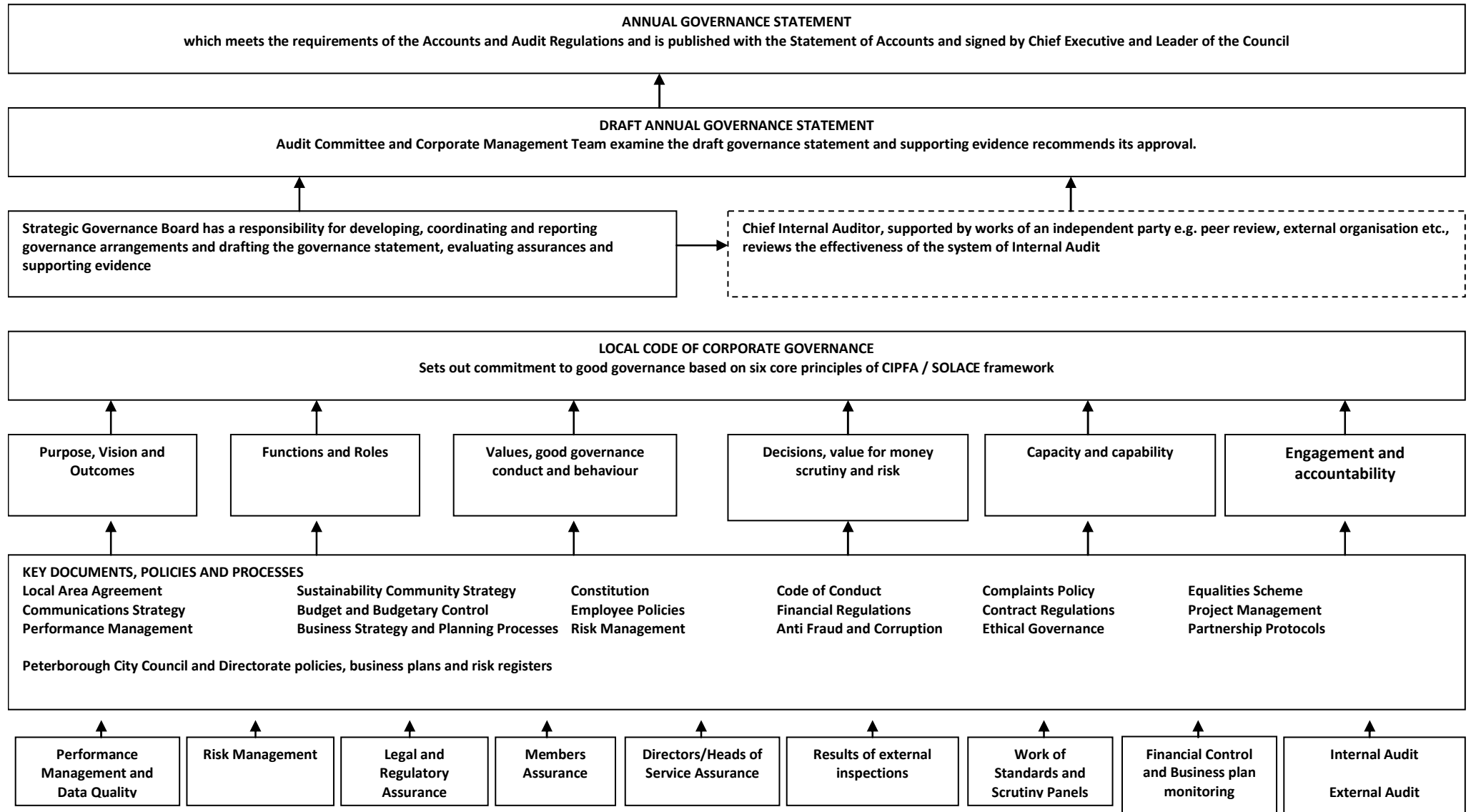
Audit Committee thus analyses, co-ordinates and implements corrective action to ensure that the Council has an effective and cohesive assurance framework in place, and that gaps or failings are addressed.

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



APPENDIX B

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 annual report and opinion of the Executive Director – Strategic Resources 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 Annual Governance Statement 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 statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the 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

ESTABLISHMENT, OPERATION AND DUTIES

ROLE AND REMIT

- Does the audit committee have written terms of reference?
- Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?
- Are the terms of reference approved by the council and reviewed periodically?
- Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?
- Can the audit committee access other committees and full council as necessary?
- Does the authority's statement on internal control include a description of the audit committee's establishment and activities?
- Does the audit committee periodically assess its own effectiveness?
- Does the audit committee make a formal annual report on its work and performance during the year to full council?

MEMBERSHIP, INDUCTION AND TRAINING

- Has the membership of the committee been formally agreed and a quorum set?
- Is the chair independent of the executive function?
- Has the audit committee chair previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?
- Are new audit committee members provided with an appropriate induction?
- Have all members' skills and experiences been assessed and training given for identified gaps?
- Has each member declared his or her business interests?
- Are members sufficiently independent of the other key committees of the council?

MEETINGS

- Does the audit committee meet regularly?
- Do the terms of reference set out the frequency of meetings?
- Does the committee calendar meet the authority's business needs, governance needs and the financial calendar?
- Are members attending meetings on a regular basis and if not, is appropriate action taken?
- Are meetings free / open without political influences being displayed?
- Does the s151 officer or deputy attend all meetings?
- Does the audit committee have the benefit of attendance of appropriate officers at its meetings?

INTERNAL CONTROL

- 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?
- Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?
- Does the audit committee consider how meaningful the AGS is?
- Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?
- Has the audit committee considered how it integrates with other committees that have responsibility for risk management?
- Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"
- Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?
- Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?
- Does the audit committee review the authority's strategic risk register at least annually?
- Does the audit committee monitor how the authority assesses its risk?
- Do the audit committee's terms of reference include oversight of the risk management process?

FINANCIAL REPORTING AND REGULATORY MATTERS

- Is the committee's role in the consideration and / or approval of the annual accounts clearly defined?
- Does the audit committee consider specifically:
 - 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
- 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?
- Does the audit committee review the management's letter of representation?
- Does the audit committee annually review the accounting policies of the authority?
- Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?
- 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?

INTERNAL AUDIT

- 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?
- Does internal audit have an appropriate reporting line to the audit committee?
- Does the audit committee receive periodic reports from internal audit including an annual report from the Head of Internal Audit?
- Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?
- Does the audit committee hold periodic private discussions with the Head of Internal Audit?
- Is there appropriate cooperation between the internal / external auditors?
- Does the audit committee review the adequacy of internal audit staffing and other resources?
- 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?
- Are internal audit performance measures monitored by committee?
- Has the audit committee considered the information it wishes to receive from internal audit?

EXTERNAL AUDIT

- Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?
- Does the audit committee hold periodic private discussions with the external auditor?
- Does the audit committee review the external auditor's annual report to those charged with governance?
- Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?
- 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?
- Does the audit committee assess the performance of external audit?
- Does the audit committee consider / approve the external audit fee?

ADMINISTRATION

AGENDA MANAGEMENT

- Does the audit committee have a designated secretary from Committee / Member Services?
- Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?
- Are outline agendas planned one year ahead to cover issues on a cyclical basis?
- Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?

PAPERS

- Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?
- Does the audit committee issue guidelines and / or a proforma concerning the format and content of the papers to be presented?

ACTIONS ARISING

- Are minutes prepared and circulated promptly to the appropriate people?
- Is a report on matters arising made and minuted at the audit committee's next meeting?
- Do action points indicate who is to perform what and by when?

APPENDIX I

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

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				✓							
Operations Directorate								✓			

GLOSSARY

A + A	<p>Accounts and Audit Regulations, 2011</p> <p>Legislation which dictates that Peterborough City Council is required <i>“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”</i>.</p>
AGS	<p>Annual Governance Statement</p> <p>Document which details the governance arrangements in place at the Council. This is produced each year and is included within the statement of accounts, including any weaknesses identified which need addressing.</p>
CIPFA	<p>Chartered Institute of Public Finance and Accountancy</p> <p>Accountancy body, primarily in the public sector which oversees best practice.</p>
CMT	<p>Corporate Management Team</p> <p>Directors forum to discuss strategic policies etc.</p>
s.151	<p>Section 151 Local Government Act, 1972</p> <p>Legislation which requires Peterborough City Council to <i>“make arrangements for the proper administration of its financial affairs”</i>. The Executive Director of Strategic Resources has delegated powers to discharge this.</p>
PCC	<p>Peterborough City Council</p>
SOLACE	<p>Society of Local Authority Chief Executives</p>

AUDIT COMMITTEE	AGENDA ITEM No. 6
7 JUNE 2012	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 2012 / 2013

1. ORIGIN OF REPORT

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 2012 / 2013 together any training needs identified.

2. UPDATE

2.1 Work Programme

The Work Programme (Appendix 1) 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.

3. Appendices

- Appendix 1 - WORK PROGRAMME FOR 2012 / 2013

