

AUDIT COMMITTEE

MONDAY 24 MARCH 2014
7.00 PM

Bourges/Viersen 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	
<p>At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification " that has been disclosed to the Head of Legal Services.</p>	
3. Minutes of the Meeting Held on 3 February 2014	3 - 6
4. Risk Management: Strategic Risks	7 - 8
<p>To receive an update on the strategic risks for the Council.</p>	
5. External Audit: Audit Plan	9 - 44
<p>To receive and approve the External Audit Plan.</p>	
6. Internal Audit: Draft Internal Audit Plan 2014/2015	45 - 80
<p>To receive and approve the Internal Audit Plan 2014 / 2015.</p>	
7. Draft Annual Audit Committee Report	81 - 94
<p>To receive the Draft Annual Audit Committee Report prior to submission to Council.</p>	
8. Regulation of Investigatory Powers Act (2000): Quarterly Report 3	95 - 98

To receive an update of RIPA during the 3 months to 31 December 2013.

9. Feedback Report

99 - 102



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 452233 as soon as possible.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair.

Committee Members:

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

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

Public Document Pack



MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 3 FEBRUARY 2014

Present: Councillors Lamb (Chairman), Harper (Vice Chairman), Arculus, Knowles, Lee, Lane and Sandford.

Officers in

Attendance: Kim Sawyer; Director of Governance
Steven Pilsworth, Head of Strategic Finance
Steve Crabtree, Chief Internal Auditor
Ben Stevenson, Compliance Manager
Karen S Dunleavy, Governance Officer

Also in

Attendance: Julian Ricket, PricewaterhouseCoopers
Paul Richards, Serco
Amanda Stevens, Serco

1. Apologies for Absence

Apologies for absence were received from Councillor Fletcher.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of the Meeting held on 4 November 2013

The minutes of the meeting held on 4 November 2013, were approved as an accurate and true record subject to the amendment of the wording in relation to item 5 Treasury Management: Members felt that the two schemes (LAM and HBS) should remain in place for first time buyers until the Council was assured that first time buyers could be accommodated by the option of one of the schemes.

4. External Audit: Annual Audit Letter, Report to Management and Annual Certification.

Julian Ricket of PricewaterhouseCoopers introduced a report on the External Audit Reports in relation to the 2012 Annual Audit Letter, Grant Claims: Annual Certification Report and the Report to Management: Interim and Final Audit 2012/13.

Key points highlighted within the report included:

- Purpose of the Annual Audit Letter and PwC's responsibility;
- PwC's issue of the completion certificate on 25 September 2013, in accordance with the requirements of the Audit Commission Act 1998;
- Audit findings, which included accounting for new academy schools, valuation of property and accounting for the Local Authority Mortgage Scheme (LAMS);
- Final PwC fees;
- There were no major issues highlighted within grant claims and returns;
- PwC recommendations for prior years management reports had been implemented and there were no issues carried forward;
- Ten new control issues had been highlighted for 2012/13;
- There were no high priority categorisation for Peterborough's internal controls;

- The Annual Certification report summarised the work undertaken by PwC on claims and returns for housing council tax benefit, national non domestic rates and teachers pensions agency return;
- The number of errors identified had been in relation to the teachers' pension which had been due to the new certification instructions issued quite late in the process; and
- PwC's fees in relation to the claims compared the previous year.

Julian Ricket PwC and the Head of Strategic Finance responded to questions and comments raised by Members. In summary responses included:

- The audit fee of £183k, had included audit work undertaken by PwC on audit of the statement of accounts, conclusion on arrangements for use of resources and certifying claims and returns. The fee had been reduced compared to the 2011/12 charges;
- The summary of ten errors highlighted within the Report to Management although categorised at medium or low, had been highlighted for shared transaction services. It was not unusual for Local Authorities to experience a breakdown in transition;
- PCC had demonstrated good management responses to the issues highlighted and PwC had been reassured by the comments that the actions would be followed up in 2013/14;
- The number of issues highlighted within the external audit report had been inherited issues arising from the outsourced shared transaction services that transferred to Serco;
- Although inherited issues, Serco would be required to demonstrate that they were dealing with the issues highlighted by PwC and provide PCC with assurances that improvements were being implemented;
- Issues that related to the audit data control integrity would be undertaken by PCC's Audit Team. A data breach would be reported to the Compliance Team in accordance with the data breach policy, which would also be reviewed by PCC's Audit Team;
- The Council Tax support issues currently being experienced due to an increase in residents being expected to pay council tax, had overwhelmed the resources teams in terms of dealing with telephone queries. Going forward, Serco was exploring ways in which to improve customer services in relation to Council Tax support;
- The additional certification fee of £9,960 in 2012/13, had been due to additional testing performed as a result of errors in the initial sample tests conducted by PwC;
- PCC was currently in discussions with Serco in order to recover the additional fees incurred due to errors. It was envisaged that the fee recovery from Serco would result in the reduction of errors being experienced going forward; and
- The grant funded arrangement for Council Tax had ended in 2013/14, which would also provide a reduction of costs from PwC.

The Committee:

Endorsed the final reports produced by external audit namely:

- i) 2012/13 Annual Audit Letter
- ii) Grant Claims; Annual Certification Report; and
- iii) Report to Management: Interim and Final Audit 2012/13.

5. Whistleblowing Policy

The Director of Governance introduced a report to Members on the Council's Whistleblowing Policy, which outlined the processes in place for employees to follow in order to highlighting concerns, such as health and safety, bullying and harassment or suspected cases of fraud

and corruption. Members were also advised by the Director of Governance that the Whistleblowing Policy had also been extended to partners such as Serco in order to provide them with the opportunity to raise any issue or concern they may have regarding the Council's conduct. In addition, the partner's policies would apply to their employee.

The following key points within the report included:

- The policy enabled employees to raise concerns through their line manager or via an alternative confidential route if they believed their line manager was involved;
- The update to the Whistleblowing Policy had been due to the recent changes introduced by the Enterprise and Regulatory Reform Act 2013; and
- The recent legislation change had seen a slight difference in the test applied for reporting concerns. The change meant that an employee was able make a malicious complaint, as long as it was within the public interest to do so.

The Director of Governance provided responses to comments and questions. In summary responses included:

- PCC had received two referrals, one of which was of a serious nature and had been referred to an external investigator;
- The Public Interests Disclosures Act 1998 would apply to all employers, which was aimed to provide protection for all employees; and
- Going forward, an annual report would be presented to Audit Committee outlining the number of Whistleblowing referrals PCC had received.

The Committee:

- i) Reviewed the updated Whistleblowing Policy; and
- ii) Recommended the policy for approval by the Joint Consultation Forum and Employment Committee.

The Committee also recommended:

That the Director of Governance would review Whistleblowing policies of partner organisations in order to ensure that adequate provision was in place to deliver services on behalf of PCC.

6. Anti-Bribery Policy

The Director of Governance introduced a report to Members in relation to the Council's Anti-Bribery Policy. Members were also advised that the policy was being introduced as part of the adoption of the Bribery Act 2010 and was aimed to highlight any incidents of bribery or corruption within the Council and to provide a process for reporting such incidents.

Members of the Committee were also advised that, to date, there had been no incidents or complaints reported under the current procedure.

The Committee

Recommended that the Cabinet Member approve the Anti-Bribery Policy.

7. Feedback Report

The Chief Internal Auditor introduced a report on the feedback of actions that had arisen from the Audit Committee meeting held on 4 November 2013. The Chief Internal Auditor advised Members that outstanding action points included:

- Information in relation to the Local Authority Mortgage Scheme;
- Report on interim arrangements for the Head of Human Resources; and
- Advertising of the benefit fraud campaign and use of bus shelters.

The Head of Strategic Finance advised Members that a request had been made to Lloyds Bank in order to provide guidance for Members over LAMS, which would be distributed once available.

The Director of Governance advised Members that options in terms of the interim arrangements for the Human Resources posts were being explored and a report would be presented to Corporate Management Team.

The Compliance Manger advised Members that the use of bus shelters for the benefit fraud campaign would cost in total £30,000 for a two week period within the City Centre. It was felt that the option had not been financially viable due to the anticipated number of referrals.

AGREED ACTION:

The Director of Governance confirmed that the recruitment arrangements for the interim Human Resources positions would be presented to Audit Committee in the near future.

8. Work Programme

The Chief Internal Auditor submitted the latest version of the work programme for the municipal year 2013/14 for consideration and approval. The Committee was advised that training opportunities relating to Effectiveness of Audit Committees were being explored.

7.00pm – 7:50pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM NO. 4
24 MARCH 2014	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Kevin Dawson, Group Manager - Construction & Resilience	Tel. 453464

RISK MANAGEMENT AND BUSINESS CONTINUITY

RECOMMENDATIONS	
FROM : Kevin Dawson, Group Manager – Construction & Resilience	Deadline date : N/A
<p>Audit Committee is recommended to:</p> <ol style="list-style-type: none"> 1. Consider and note the content of this report 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to the Audit Committee as a routine planned report on risk management and business continuity.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to provide an update on Risk Management and Business Continuity under its terms of reference 2.2.13 and to monitor the effective development and operation of risk management and corporate governance of the Council.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
---	-----------	---	-----

4. RISK MANAGEMENT REVIEW

- 4.1 The Strategic Risk Register has been reviewed by Corporate Management Team (CMT) on 4 March 2014 and undergone minor revision and awaiting formal sign off.
- 4.2 Work has now commenced on assessing and challenging current Departmental Risk Registers to ensure potential risks are identified and adequately managed. Revised Departmental Risk Registers have now been received from Communities, Governance and Growth and Regeneration. Meetings have or are being held with the remaining departments with a view of obtaining updated registers.
- 4.3 The Corporate Business Continuity Policy previously considered by this committee on 5 November 2013 has been reviewed and revised in line with revised international standards and is due to be considered by CMT on 18 March 2014.

- 4.4 The Corporate Business Continuity Plan has recently been revised to reflect the Council's new Departmental Structure and has now been issued to Director's. A public version of the plan will shortly be placed on the PCC Intranet and website.
- 4.4 The operational risk assessment process is currently assisting with the review of current Business Continuity documentation which in turn will lead to new templates being issued to all Council services for completion and return to the Resilience Team. It is also providing a useful profile of areas of high risk, which can be escalated to the strategic registers where necessary.
- 4.5 Key on going issues for 2014/15:
- Completion of a review of current risk management procedures by the Council's Internal Audit team;
 - Quarterly review of Strategic (corporate) risk register by CMT;
 - Coordination of Strategic and Departmental risk registers;
 - Continuation of review and revision of \Service BC Plans;
 - Regular risk "conversations" within and between services at all levels;
 - Updates on Insite, web and E-Learning;
 - Strategic issues e.g. introducing and embedding RM/BCM into procurement processes, induction briefings and business plans; and
 - Delivering training aimed at ensuring Members understand the risk management process and expectations upon officers – a training session on Risk Management was delivered to Cabinet Policy Forum on 26 November 2013.

5 ANTICIPATED OUTCOMES

- 5.1 Audit Committee note and comment on the contents of this report.

6 REASONS FOR RECOMMENDATIONS

- 6.1 Risk management is a key component of the Council's Corporate Governance Framework which will take time to review and embed effectively.

7 ALTERNATIVE OPTIONS CONSIDERED

- 7.1 None

8 IMPLICATIONS

- 8.1 The identification of risks and the proper management of those risks will ensure that:
- The Council's environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

9 BACKGROUND DOCUMENTS

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

- 9.1 Peterborough City Council Risk Management and Business Continuity Policies 2013/14

AUDIT COMMITTEE	AGENDA ITEM No. 5
24 MARCH 2014	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):	John Harrison, Executive Director - Resources ☎ 452 398

EXTERNAL AUDIT: AUDIT PLAN 2013/14

R E C O M M E N D A T I O N S	
FROM : PricewaterhouseCoopers	Deadline date : N/A
<p>The Committee is asked to:</p> <ol style="list-style-type: none"> 1. Consider the External Audit Plan for 2013/14 and consider points raised by PwC in the document: <ul style="list-style-type: none"> • Proposed scope, comfortable with the audit risks, and approach • Consider and respond to matters relating to fraud (page 12 and 13) • Consider and respond to the PwC view on the value of trivial misstatements (page 9) • Approve proposed audit fees for the year 2. Provide comment on any amendments necessary; and 3. Approve the Plan. 	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its Work Programme for 2013/14.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to consider and respond to the Audit Plan for 2013/14 from PricewaterhouseCoopers (PwC), the Council's external auditors, in accordance with the Committees' Terms of Reference –

2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance; and

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

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
---	-----------	---	-----

4. EXTERNAL AUDIT PLAN

4.1 The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsible will be discharge. It has been discussed and

agreed jointly by Council representatives and External Audit (PricewaterhouseCoopers (PwC)).

4.2 The Plan (Appendix A) has been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the City Council and the local government sector.

4.3 There are a number of sections within the report as follows:

a) Executive Summary – contains the introductory paragraph, framework for the audit, and details of responsibilities.

b) Audit approach – explanation of the aspects of PwC work:

- Risk Assessment - an explanation of the categories of audit risk applied to the financial statements
- Financial Statements risks - identification to enable PwC to determine where audit effort should be focused. There are a mix of types of risks identified, from the general risk such as fraud which any organisation would face and are not specific to the Council, and those more specific to the Council such as the Property valuation assumptions and methodologies used by the Council's external valuers which have now been agreed by PwC, Council Tax Benefit reform amendments to the Academy system and Savings Targets.
- An explanation of the types of materiality
- An explanation of robust testing including where and when the work is undertaken -
- work required to conclude on the Use of Resources

There is also an explanation of the work carried out on the Annual Governance Statement, Whole of Government Accounts and the aim to provide meaningful conclusions.

c) Risk of fraud – this contains:

- a clarification of roles to mitigate the risk
- explanation of the conditions under which fraud may occur and
- the request to the Audit Committee from PwC on your views on fraud.

d) Audit engagement team – contact details of team and responsibilities of each team member

e) Audit Fees – confirms the fees

f) Appendix A – Independence threats and safeguards

g) Appendix B – Communications Plan

h) Appendix C – Recent Developments

i) Appendix D – Audit Quality

j).Appendix E – Other Engagement Information, including details of electronic communication, access to working papers and overseas processing of information, quality arrangements and events arising between signature of accounts and their publication.

5. CONSULTATION

5.1 The Plan has been circulated to relevant officers for comment, including the Executive Director – Strategic Resources, Head of Strategic Finance, and the Chief Internal Auditor.

6 ANTICIPATED OUTCOMES

6.1 Approval of the External Audit Plan 2013/14.

7 REASONS FOR RECOMMENDATIONS

7.1 The Plan provides a summary of the Auditor's proposed work for 2013/14. Members can ask questions and make comments to the External Auditor on its contents and coverage.

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 The External Auditor can take on board responses received prior to the finalisation of the plan. No specific options are submitted for consideration.

9 IMPLICATIONS

9.1 There are no direct implications arising from this Plan for PricewaterhouseCoopers. Fees identified are commensurate with previous years.

10 BACKGROUND DOCUMENTS

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

External Audit Plan 2013/14

11 APPENDICES

Appendix 1 – Draft External Audit Plan 2013/14

This page is intentionally left blank

www.pwc.co.uk

Peterborough City Council

External Audit Plan 2013/14

13

Government and Public Sector

March 2014



Contents

<i>Executive summary</i>	2
<i>Audit approach</i>	3
<i>Risk of fraud</i>	12
<i>Your PwC team</i>	14
<i>Your audit fees</i>	15
<hr/>	
Appendices	17
<i>Appendix A: Independence threats and safeguards</i>	18
<i>Appendix B: Communications Plan</i>	19
<i>Appendix C: Recent developments</i>	20
<i>Appendix D: Audit quality</i>	21
<i>Appendix E: Other engagement information</i>	25

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

Background

We have prepared this audit plan to provide the Audit Committee of Peterborough City Council (the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ended 31 March 2014.

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We look forward to discussing our report with you on 24 March 2014.

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).

Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

Audit approach

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2013/14 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

- | | |
|----------------------|---|
| ● Significant | Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration. |
| ● Elevated | Although not considered significant, the nature of the balance/area requires specific consideration. |

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2014.

Auditing Standards require us to include two fraud risks as Significant:

- **Management override of controls:**

“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- **Revenue recognition:**

“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.

Both are considered as part of our risk assessment, as detailed below.

Financial Statements risks

Risk	Categorisation	Audit approach
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	Significant ●	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; • Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); • Evaluate the business rationale underlying any significant transactions outside the normal course of business; and • Perform unpredictable procedures targeted on fraud risks. <p>We may perform other audit procedures if necessary.</p>
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p>	Significant ●	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p>

Risk	Categorisation	Audit approach
<p data-bbox="604 215 1093 279">Property valuation and accounting for capital</p> <p data-bbox="604 311 1093 638">The scale and complexity of the Council's estate presents a number of accounting challenges. The Council's measurement of its properties at fair value involves a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p data-bbox="604 654 1093 877">In our previous audits, we have identified accounting issues in this area including the assumptions and methodologies used by the Council's external valuation expert and the accounting for the construction of new Academy schools. This therefore represents an area of elevated risk.</p>	Elevated ●	<p data-bbox="1366 215 2110 247">We will:</p> <ul data-bbox="1366 255 2110 406" style="list-style-type: none"> <li data-bbox="1366 255 2110 343">• use valuations experts to review the assumptions used in determining the fair value of assets recorded within the Council's financial statements; and <li data-bbox="1366 351 2110 406">• consider the accounting treatment within the financial statements.

Risk	Categorisation	Audit approach
<p>Council Tax Benefit reform</p> <p>From 1 April 2013/14, Council Tax Benefit (CTB) was replaced by local authorities' own council tax support and reduction schemes.</p> <p>Prior to the CTB reforms, national rules were set by the Government and therefore standard calculations and system parameters would have applied to the assessment and processing of all claims. Following the abolition of CTB, the Council has introduced a Council Tax Support (CTS) scheme having set their own rules (subject to a number of restrictions imposed by the Government). Changes have therefore been made to claimants' entitlement and processes for assessment, and then to the underlying calculations and parameters within the Academy system (which the Council uses to process claims). Previously such system amendments have been part of a national system upgrade, but this year have been undertaken by the Council reflecting their local rules. This has also involved increased manual processes to apply these parameters and updates from Academy.</p> <p>There is a risk that the new scheme rules have not been appropriately implemented within the Council's controls for assessing entitlement, or have not been effectively applied within Academy, which would impact the accuracy of the CTS calculation.</p>	<p>Elevated ●</p>	<p>As a new scheme has been introduced we will need to perform additional audit procedures this year to:</p> <ul style="list-style-type: none"> • Understand the criteria the Council has set and the initial modelling performed to estimate the cost of the scheme; • Test how this has been translated into new controls over eligibility assessment; • Review the accuracy of budget monitoring and reporting of CTS; • Understand and evaluate the change processes and access to the Academy system; and • Review the parameters now used within the Academy system. <p>We envisage this work will be undertaken by procedures involving the core audit team and IT specialists. Assuming these processes have been well controlled and implemented, the majority of this work is expected to be non-recurrent in FY15.</p> <p>We also need to undertake focused testing on a sample of transactions under the new arrangements. Council Tax Benefit was previously subsidised by the Department for Work and Pensions (DWP) and we undertook certification work on behalf of the Audit Commission as part of the Housing and Council Tax Benefit Return (BEN01). This work was also leveraged to support our work on the audit opinion.</p> <p>However, due to the localisation of schemes it is anticipated that the Audit Commission will revise their certification instructions (as DWP involvement ceases with the new CTS schemes) and we will therefore need to perform additional detailed testing procedures as part of the financial statements' audit to gain assurance over the accuracy, completeness, cut-off and existence of a sample of Council Tax Support claims.</p> <p>We have assessed this as an elevated rather than significant risk due to the level of Council Tax Support within the accounts, and that this is not expected to show material variance or sensitivity, nor to be overly reliant on management judgements.</p>

Other matters affecting the financial statements audit which do not lead to Significant or Elevated risks

National Non-Domestic Rates

We note that there have also been changes within National Non-Domestic Rates (NNDR). The Council is responsible for the collection of NNDR and previously passed this in full to the Government. From 1 April 2013, the amount collected is split between the Government (50%), Cambridgeshire Fire and Rescue Authority (1%), with 49% retained by the Council.

The Council will therefore have to allow for the fact that a proportion of their receipts in 2013/14 will ultimately be repaid to ratepayers following successful appeals, through an appeals provision (as these sums should not be recognised as income). The Council should make a reasonable estimate of lost income following successful appeals, whether the appeal decisions are in 2013/14 or later years. In addition, estimated repayments that have to be made to ratepayers in respect of overpayments in respect of the years before 2013/14, this will create a further liability. Authorities will be able to choose whether to recognise the estimated liability in full in 2013/14, or spread the cost over five years (2013/14 to 2017/18). The Council's share of the provision is c.£2.6m in 2013/14.

The Government has implemented a 'safety net' payment which is funding from the central business rates pot that is used to support local councils whose rate income has fallen by more than 7.5% in any one year. Collection of rates would have to fall by £2.8m to trigger this payment. The maximum exposure to the Council and the Council's share of the provision would not be material to the accounts and as such we do not determine that this represents a significant or elevated risk for the purposes of the audit. We will however review management's estimates re the NNDR appeals provision.

Local Authority Mortgage Scheme

We have previously discussed the accounting for the Local Authority Mortgage Scheme (LAMS) with you, and noted that the accounting treatment can be based on different interpretations of statute. The value of the amount paid into LAMS at 31 March 2013 was not material in the context of the truth and fairness of the accounts as a whole, and there was no impact on our audit opinion in 2012/13. We noted in our *ISA 260 report to those charged with governance 2012/13* that we would need to consider the views again in the light of any further advances, as accountancy practice and the interpretation of statute in this area develops. At this point, there have been no further advances or guidance. Given the immaterial values involved, the fact that the Council has not paid any further monies into the scheme or changed its approach to accounting, we have not identified this as a risk within our audit plan. We will provide a further update with regards to the accounting for LAMS to those charged with governance as and when further guidance in this area is available.

Other Code responsibilities risks

Risk	Categorisation	Audit approach
<p>Savings targets</p> <p>The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings are required to be made in the current and future years. Budget holders may feel under pressure to try and push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.</p>	Elevated ●	<p>We will:</p> <ul style="list-style-type: none">• review the Council's budget monitoring process to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing;• consider the accounting implications of any saving plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure; and• consider the impact of the Local Government Finance Settlement (LGFS) on the Council's budget and future service provision.

**Overall
Materiality:
£10,958,000**

**Triviality:
£350,000**

*Intelligent scoping
Materiality*

	£
Overall materiality	£10,958,000
Clearly trivial reporting de minimis	£350,000

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has initially been set at 2% of 2012/13 expenditure for the year ended 31 March 2014. We will update this assessment as necessary in light of the Authority's actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we have identified that all misstatements less than £350,000 could be classed as clearly trivial and we would like to seek the Audit Committee's views on this de minimis threshold.

Robust Testing

Where we do our work

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

When we do our work

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We have set out some recent developments in Appendix C and we will provide other insights and observations to you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

There is a risk of fraud in any organisation. Here we set out the responsibilities of the relevant parties in relation to fraud.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility	Management's responsibility	Responsibility of the Audit Committee
<p>Our objectives are:</p> <ul style="list-style-type: none"> To identify and assess the risks of material misstatement of the financial statements due to fraud; To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and To respond appropriately to fraud or suspected fraud identified during the audit. 	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> To design and implement programmes and controls to prevent, deter and detect fraud; To ensure that the entity's culture and environment promote ethical behaviour; and To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation. 	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur



Your views on fraud

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. We also recognise that continuity in the audit team is important to you and the

senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Julian Rickett julian.c.rickett@uk.pwc.com 01603 883321</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>
<p><i>Engagement Manager</i> Jacqui Dudley jacqui.dudley@uk.pwc.com 01223 552340</p>	<p>Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA 260 Report and Annual Audit Letter.</p>
<p><i>Team Leader</i> Kotesh Choudary kotesh.choudary@uk.pwc.com 01223 552463</p>	<p>Responsible for leading the field team, including the audit of the statement of accounts, and governance aspects of our work. Regular liaison with the finance team.</p>

Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2014. No changes to the work programme have been proposed therefore scale audit fees have been set at the same level as the fees applicable for 2012/13.

Our indicative audit fee, as agreed in our audit fee letter dated April 2013, compared to the actual fee for 2011/12 and 2012/13 is as follows:

Audit fee	Actual fee 2011/12 £	Actual fee 2012/13 £	Indicative fee 2013/14 £
Audit work performed under the Code of Audit Practice	239,400	163,640	143,640
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Certification of Claims and Returns	36,300	30,278*	18,800**
Total Audit Code work	275,700	193,918	162,440

**this amount is over and above the scale fee published by the Audit Commission. We are currently in the process of agreeing this fee with the Audit Commission and these discussions remain in progress at the time of writing this report.*

As set out in our section on audit risks on page 6, we will also need to undertake additional non-recurrent work to respond to additional audit risks this year related to the new arrangements and system changes on Council Tax Support. An additional fee will need to be agreed with the Audit Commission in relation to audit work to review the design and establishment of new assessment procedures and amendments to the Academy system. It does not however cover related work on transaction testing, which is discussed below.

**We anticipate that the Audit Commission will reduce the certification fee for the Housing and Council Tax Benefit Grant Claim to reflect the fact that arrangements for Council Tax Benefits have been localised in 2013/14. We also anticipate that the LA01 (National Non Domestic Rates) claim will no longer require certification given the localisation of Business Rates. The indicative certification fee figure has therefore been reduced significantly compared to the prior year, but is subject to change depending on the final certification requirements. We will liaise with management as guidance is issued and report back to the Audit Committee with the final position.

Because of these expected certification changes, it is uncertain therefore the extent to which we will be able to obtain assurance over Council Tax Support expenditure and Business Rates income in the statement of accounts from our certification testing (as we have in prior years). We anticipate that this may not be possible or may be significantly reduced due to timing or scope of certification work. If this is the case we will perform additional audit procedures over these items, which will result in an increase in our fee for the financial statements and which will need to be agreed with the Audit Commission. We will update those charged with governance

regarding the impact of this on our proposed audit fees in due course.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We do not review more than three iterations of the statement of accounts and accounting statements;
- We are able to obtain assurance from your management controls;
- No '40+' testing is required for the certification of the Housing Benefit return;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission.

Questions and Objections

In our capacity as appointed auditors, we are required to consider questions and objections raised by local electors. We have been required to undertake additional work to consider matters brought to our attention. These matters have been discussed with management and we will be proposing an additional fee and agreeing this with you in due course.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and we have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Other services

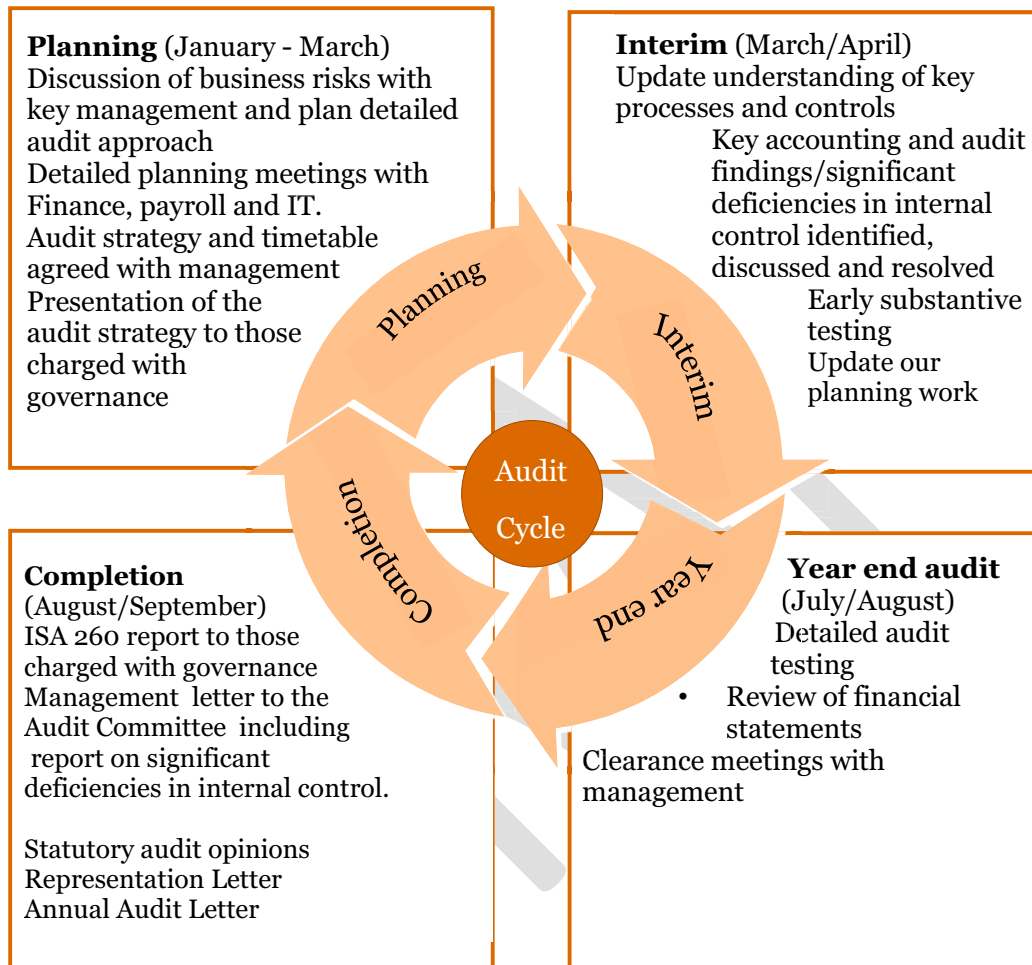
Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£19,700	<p>Self Review Threat: The audit team will conduct the certification of claims and returns and this has arisen due to our appointment as external auditors. There is no self review threat as we are certifying management completed grant returns and claims.</p> <p>Self Interest Threat: As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.</p>

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix B: Communications Plan



Continuous Communication

- Continuous proactive discussion of issues as and when they arise, 'no surprises';
- Continuous evaluation and improvement of the audit; and
- Bringing you experience of sector and best practice.

Appendix C: Recent developments

The Future of Government



Delivering on the Citizen Promise

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has become the watchword. This means doing more for less – meeting rising citizens' expectations by doing things differently to deliver services more effectively and efficiently.

Where Next for public services?

Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them. Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

What guides and shapes the future public body?

As such, tomorrow's public bodies need to navigate themselves by first formulating a strong and clear vision and mission. Together, these will capture the organisation's

strategic ambition and purpose and serve to influence decisions and behaviour within the organisation.

The Local State We're In



Over the past few years, local government has demonstrated its ability to deliver ambitious and far reaching savings programmes. While council Chief Executives are still holding on to their confidence in meeting savings targets for 2013/14, our third annual local government survey shows that confidence in being able to protect services as well has fallen by 40% over the past year. Beyond 2013/14, confidence in meeting savings targets falls further.

Tough choices are ahead as the cracks begin to show and decisions get closer to the frontline. Councils need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.

Appendix D: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

Procedure	Description
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> • A weekly publication covering the week's accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2013 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2012/13 audits are expected in early 2014 and will be publicly available on the Audit Commission's website should you wish to take a look.</p>

Smart People

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/2014 we anticipate the work will include:

- Testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk; and
- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Your audit manager and engagement leader are directly part of this Centre of Excellence and can therefore bring real time thought leadership to you quickly and ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

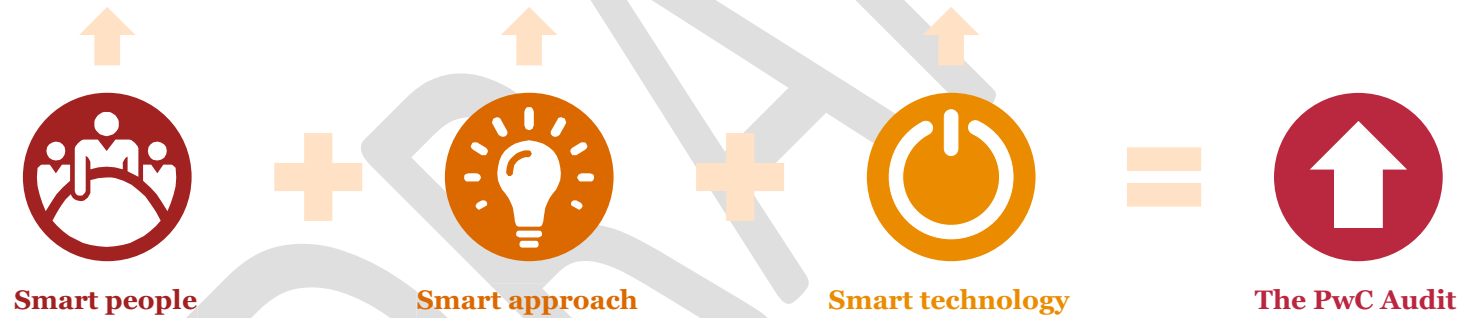
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in Poland and Germany for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.



Our 'smart' approach underpins your audit

Appendix E: Other engagement information

The Audit Commission appoint us as auditors to Peterborough City Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or

in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland and Germany for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data;
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area;
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998;
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams;
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams;
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Jacqui Dudley.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss

these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.



Private & Confidential

John Harrison, S151 Officer
Peterborough City Council
Town Hall
Bridge Street
PETERBOROUGH
PE1 1HG

March 2014

Dear John

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres, for example, in Poland and Germany for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Julian Rickett

Engagement Leader

DRAFT

DRAFT



In the event that, pursuant to a request which Peterborough City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Peterborough City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Peterborough City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Peterborough City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Peterborough City Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

130610-142627-JA-UK

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 6
24 MARCH 2014	PUBLIC REPORT

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

INTERNAL AUDIT PLAN 2014 / 2015

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director: Resources	Deadline date : N/A
<p>The Committee is asked to examine the draft Internal Audit Plan for 2014 / 2015 and:</p> <ol style="list-style-type: none"> 1. Identify any areas for further consideration; 2. Approve the draft Audit Plan and Audit Strategy; 3. Note the contents of the Internal Audit Charter; 4. Note the contents of the Code of Ethics; and 5. Note the performance indicators set for the service. 	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its agreed Work Programme for 2013 / 2015.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to ensure that the Council reviews and agrees the audit activity for the next audit year.

2.2 This report is for Committee to consider under its Terms of Reference:

- 2.2.1.1 *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; and*
- 2.2.1.17 *To consider the Councils 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	If Yes, date for relevant Cabinet Meeting	N/A
---	----	---	-----

4. BACKGROUND

- 4.1 This report provides an overview of the stages followed prior to the formulation of the Annual Audit Plan for 2014 / 2015. The Annual Audit Plan will then serve as the work programme for Internal Audit and provide the basis upon which the Chief Internal Auditor will subsequently give Audit Opinions on Peterborough City Council's (PCC) system of internal control and risk management, and corporate governance arrangements for 2014 / 2015.
- 4.2 Members' attention is also drawn to the fact that the Audit Charter has been presented for approval. While this has been reviewed regularly, now, in accordance with Public Sector Internal Audit Standards, which came into effect from 1 April 2013, it has been necessary to reflect how the Internal Audit Service will operate in accordance with updated mandatory standards. The foundations of the Public Sector Internal Audit Standards however are not so fundamentally different to those requirements formerly specified in the CIPFA Code of Practice for Internal Audit, although the structure of the Charter must follow a prescribed format which defines the purpose, authority and responsibility of the Internal Audit activity, and clear definitions need to be given of those governance elements fulfilling responsibilities of the 'board' and 'senior management'
- 4.3 In accordance with legislative, regulatory and best practice requirements, PCC has made arrangements for a continuous internal audit to examine the accounting, financial and other operations of the organisation.
- 4.4 A number of key supporting papers have also been developed – e.g. Audit Charter (how we work), Code of Ethics (clarity on conduct) and Performance Indicators (how we monitor service delivery). In conjunction with these documents, an insight into future audit input envisaged is set out in the Strategy alongside a more detailed analysis of audit assignments being lined up for the next financial year.
- 4.5 Resource pressures within the team appear to have stabilised, with the plan being based on a full complement of staff, following recruitment in January 2014 and return from maternity leave in April 2014. The Chief Internal Auditor post is shared with Cambridge City Council (40%) and South Cambridgeshire District Council (20%). This has been factored into current and future plans.

5. THE AUDIT CHARTER

- 5.1 The Public Sector Internal Audit Standards have been primarily introduced to:
- Define the nature of internal auditing;
 - Set basic principles for carrying out internal audit;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 5.2 As part of evidencing that these requirements are being adhered to, there is a duty on the Internal Audit Service to have an Audit Charter which demonstrates how these elements are being handled and managed. This was last presented to Audit Committee in March 2013. The attached Charter covers off the above requirements, acknowledging too that some additional appendices have been needed to give further clarity on important issues such as the Code of Ethics and the Performance Indicators adopted by the Internal Audit function.

- 5.3 Finally, there is an obligation under the mandatory standards to review and re-present the Audit Charter to Audit Committee annually. The Charter has to be re-evaluated to confirm its ongoing validity and completeness, and thereafter, the documentation requires the scrutiny and endorsement of senior management and the Audit Committee. The Audit Charter can be found attached at **APPENDIX A**.

6. CODE OF ETHICS

- 6.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery and is attached at **APPENDIX B**. The basis of standards of conduct for 2014 / 2015 remain unchanged with reference to those followed by Internal Audit in previous years, as the Code of Ethics developed for the current financial year was originally rewritten to mirror the incoming obligations in this area as per the Public Sector Internal Audit Standards.
- 6.2 Aside from the Code of Ethics, the Chief Internal Auditor in the role of the Chief Audit Executive will also be cognisant of and comply with requirements laid down in CIPFA's Statement on the Role of the Head of Internal Audit, and it is further acknowledged that all Internal Audit staff will operate in accordance with their own professional bodies' Code of Ethics, as well as any organisational Codes of Ethics or Conduct relating to their employer.

7. INTERNAL AUDIT STRATEGY AND AUDIT PLAN (APPENDIX C)

- 7.1 The Internal Audit Strategy has the overarching purpose of establishing how the annual programme of audit assignments has been devised, in terms of the process followed when undertaking the annual audit needs assessment, the risk factors applied and how this information is then used to populate the Annual Audit Plans.
- 7.2 The Public Sector Internal Audit Standards recommends Internal Audit undertake annual assessments of the provisions in these areas and this is set out in the document.
- 7.3 The overarching objective of the Audit Plan is to provide a comprehensive programme of review work, sufficient to enable an informed annual opinion and to develop the organisation's Annual Governance Statement. We have produced an Audit Plan which satisfies the obligations of the Public Sector Internal Audit Standards, and provides an acceptable minimum level of audit coverage capable of generating the requisite audit assurances to the organisation, whilst also being affordable.
- 7.4 The Annual Audit Plan for 2014/15 totals 880 days, encompassing various assignments. The assignments have been developed to ensure that the Corporate Management Team and the Audit Committee have a clear understanding as to the direction of Internal Audit work over the course of the new financial year, but additionally that External Audit receive a steer as to the focus of individual audits over the coming year.
- 7.5 Summary details offers a starting point for more detailed audit planning meetings with management. However, the guidance therein should be viewed with some flexibility, as the scope and subsequent parameters for some audits may need to alter in the event of changing corporate priorities, and / or terms of reference requiring adoption may not become wholly clear until discussions have been held with management as to the key priorities and risks facing service delivery, as well as

due consideration being given to how forthcoming audits might potentially add further value for the organisation.

- 7.6 As in previous years, should any significant additional request work be required by Members or Officers, which leads to the potential for resources required exceeding the amount set aside, then the Chief Internal Auditor will establish the course of action to be taken in consultation with the Director of Resources and the Chair of Audit Committee. In the event of this occurring, a separate report will be produced to inform all Members of the Committee.

8. PERFORMANCE INDICATORS

- 8.1 As part of the ongoing appraisal of the service, various indicators have been set to ensure delivery against best practice and also to monitor individual and service performance. These are set out in **APPENDIX D** and are referred through Committee as part of the reporting process.

9. CONSULTATION

- 9.1 The new Audit Plans have been referred to / agreed with Executive Director of Resources (specifically in his role as Section 151 Officer), as well as representatives of the Corporate Management Team.

- 9.2 It has also been submitted to External Audit for their comments.

10. ANTICIPATED OUTCOMES

- 10.1 In reviewing and approving the Audit Charter and related strategic and operational audit planning information, the Audit Committee is making appropriate provisions to ensure that the Internal Audit requirements as stated in the Local Government Finance Act 1982, c.32 and the Accounts and Audit Regulations 2011 are being properly met, and due support is being given to securing an Internal Audit Service, which is compliant with statutory internal auditing standards applicable to public sector organisations.

- 10.2 Approval of the Annual Plan and associated documents.

11. REASONS FOR RECOMMENDATIONS

- 11.1 The Council is subject to the Accounts and Audit Regulations and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice and the Public Sector Internal Audit Standards. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. The attached reports demonstrate how the audit service will be provided and how it will contribute to the Statement.

12. ALTERNATIVE OPTIONS CONSIDERED

- 12.1 The Internal Audit plan could be constructed on a cyclical basis, thus covering all areas of the Council over a period of time. This does not concord with current professional guidance and would not seek to target the limited resource available to areas of high risk.

13. IMPLICATIONS

- 13.1 There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

14. BACKGROUND DOCUMENTS

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

- Public Sector Internal Audit Standards
- Accounts and Audit Regulations 2011
- Local Government Act 1972
- Committee papers
- Risk Registers

15. APPENDICES

- Appendix A: Audit Charter
- Appendix B: Code of Ethics
- Appendix C: Audit Strategy and Audit Plan
- Appendix D: Performance Indicators

This page is intentionally left blank

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT CHARTER**

51

KEY CONTACTS		
Steve Crabtree	Chief Internal Auditor	☎ 384 557
Louise Cooke	Group Auditor	☎ 384 558
Julie Taylor	Group Auditor	☎ 384 559

March 2014

Next Review: By March 2015

1. INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that basically defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the Internal Audit Service within Peterborough City Council (PCC); its authority to access to records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the Audit Committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2. PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3. AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2003, as amended in 2006 and 2011, which state that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". This statutory requirement for continuous Internal Audit has been formally recognised and endorsed within PCC's Constitution.

- 3.2 Further, there are additional requirements place upon the Chief Audit Executive (see below – Organisation and Relationships), to fulfil all aspects of CIPFA’s Statement on the Role of the Head of Internal Audit in Public Sector Organisations, whilst the Council’s Constitution makes Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer. The role of Section 151 Officer at PCC is fulfilled by the Executive Director of Resources.
- 3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation’s:
- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
 - Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
 - Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.
- 3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

4. ORGANISATION AND RELATIONSHIPS

- 4.1 Within the PSIAS, the terms ‘Chief Audit Executive,’ ‘Board’ and ‘Senior Management’ are used to describe key elements of the organisation’s governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. At PCC, the following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:
- Chief Audit Executive
 - Board
 - Senior Management
 - External Audit
 - Other Internal Audit Service Providers
 - Other External Review and Inspection Bodies

4.2 Chief Audit Executive

At PCC, the Chief Audit Executive is the Chief Internal Auditor. This post also provides this role to Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). A Memorandum of Understanding exists between all three and this agreement is subject to annual review. Each authority, as at March 2014, has its own internal staff providing the service. The Chief Internal Auditor has a direct line of reporting to the s.151 officer at each Council and in response to requirements laid down within the PSIAS, it is further confirmed that the Chief Internal Auditor has a direct reporting line and free and unfettered access to the Chief Executive should it be required.

4.3 Board

In the context of overseeing the work of Internal Audit, the 'Board' will be the Audit Committee of the Council, which has been established as part of the corporate governance arrangements at the Council. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against approved plans;
- Annual Audit Opinion; and
- Compliance against Public Sector Internal Audit Standards

Internal Audit will work closely with the Chair and members of the Audit Committee to facilitate and support the activities of the Committee. Moreover, the Chief Internal Auditor also has a direct reporting line, and free and unfettered access to the Chair of the Audit Committee.

4.4 Senior Management

In the context of ensuring effective liaison between Internal Audit and senior officers responsible at PCC for specific aspects of internal control and governance, in a way that ensures the independence of Internal Audit, and provides for a critical challenge to the way that Internal Audit activities are carried out, 'Senior Management' for the purposes of this Charter are the Corporate Management Team of which the Section 151 Officer (Executive Director of Resources) is a key member.

4.5 External Audit

In terms of Internal Audit's interaction with the Council's External Auditors – PricewaterhouseCoopers – in order to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties, whilst also ensuring that External Audit can place maximum reliance on the work of Internal Audit, wherever possible.

4.6 **Other Internal Audit Service Providers**

Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with the other Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing of 'shared' services, which will be both efficient and cost effective for all parties involved, and cause least disruption to the area(s) being audited.

4.7 **Other External Review and Inspection Bodies**

The Internal Audit Section confirms it will likewise co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

5. **OBJECTIVES AND SCOPE**

5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.

5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.

5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the PCC's Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.

- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:
- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
 - The effectiveness of the Council's processes for performance management and accountability.
 - The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
 - The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
 - The provisions developed to support achievement of the organisation's strategic objectives and goals.
 - The systems formulated to secure an effective internal control environment.
 - The completeness, reliability, integrity and timeliness of management and financial information.
 - The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
 - The systems designed to safeguard Council assets and employees.
 - The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.
- 5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement, the Service will also provide support to the Director of Resources in the discharge of his duties as the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.
- 5.6 **Managing the risk of fraud and corruption is the responsibility of management.** However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and the Corporate Compliance Team who undertake various investigations for the Council.
- 5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Audit Committee of such situations.

6. INDEPENDENCE

- 6.1 The Internal Audit Section operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the Chief Internal Auditor direct access to and the freedom to report unedited, as deemed appropriate, to the Audit Committee, the Chief Executive, Section 151 Officer and the Corporate Management Team.
- 6.2 The Chief Internal Auditor, from January 2014, has assumed line manager responsibility for the Insurance section. Any review within this area will be kept separate and reviewed independently of the Chief Internal Auditor.
- 6.3 The remaining Internal Auditors have no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

7. PROFESSIONAL STANDARDS

- 7.1 PCC's Internal Auditors operate in accordance with the Public Sector Internal Audit Standards, 2013.
- 7.2 The Internal Auditors are also governed by the policies, procedures, rules and regulations established by PCC. These include, but are not limited to, Financial Regulations and Contract Standing Orders and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements (e.g. as identified by CIPFA), and all legislation affecting the Council's activities.
- 7.3 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by PCC's Internal Auditors are set out in the Audit Manual.

8. AUDIT RESOURCES

- 8.1 The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.

8.2 The Chief Internal Auditor will ensure that the Internal Audit Service has access to a team of staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include computer audits, contract audits, system reviews, grant certification work, consultancy input to new / modified systems, and special / fraud investigations. In the event of special / fraud investigations being required, there is limited contingency in the Audit Plans to absorb this work and this will be pursued in conjunction with the Corporate Compliance Team.

9 AUDIT PLANNING

9.1 The Chief Internal Auditor will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. Copies of these documents will then be submitted to Corporate Management Team for their approval prior to being taken forward to the Audit Committee for final endorsement, in advance of the new financial year to which they relate.

9.2 The Annual Audit Plan includes the timing, as well as budget and resource requirements for the year. Any difference between the plan and the resources available will be identified and reported to the Audit Committee. The plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

TABLE 1: AUDIT ACTIVITIES	
<ul style="list-style-type: none"> • Core system assurance work • Governance, Risk Management and Assurance Framework • ICT governance and risk • Corporate / Cross Cutting audits, including value for money reviews • Contracts and Projects • Departmental specific reviews • Compliance activity e.g. schools 	<ul style="list-style-type: none"> • Grant claim verification • Fraud and irregularities¹ • Follow up activity • Internal consultancy / advice on risks, controls and procedures • Fee Paying Audit work • Member support

¹ A joint working arrangement between Internal Audit and Corporate Compliance Team to deal with allegations of fraud and irregular activity. A primary role for Internal Audit is to evaluate the control weaknesses that have allowed a fraud to take place or remain undetected, and provide recommendations to improve fraud prevention and detection. Referrals are usually received by the Corporate Compliance Team and investigated by them, with assistance by Internal Audit where required. Where there is irregular activity, but fraud is not suspected, Internal Audit will consider the need for a review.

- 9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this. Internal Audit will reserve the right to make a charge for any additional work that is over and above that originally planned. Annual audit plans will be discussed with each Executive Director and Departmental Management Team prior to their formal approval.

10 REPORTING

- 10.1 The process for completing each audit is set out in **Table 2**. On completion, an Internal Audit report will be prepared that:
- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement;
 - Provides a formal record of points arising from the audit and management responses to issues raised, to include acceptance of audit recommendations with implementation timescales, as well as reasons for rejecting recommendations;
 - Prompts management to implement agreed actions within targeted dates; and
 - Draft reports are quality checked by senior officers within Internal Audit prior to despatch.

TABLE 3: INTERNAL REPORTING ARRANGEMENTS DURING AUDITS	
Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced within 15 working days of completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond within 15 days, including acceptance (or not) of recommendations together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final within 15 days of receiving the response. The report will be distributed to the Chief Executive, Director, Head of Service, service manager together with the Leader of the Council and Audit Committee chair. Unless a special investigation, a questionnaire will be included with the final report to assess management's opinions on the conduct of the audit and the usefulness of the report
Non Responses	If management do not respond to the draft report, a reminder will be sent to the original recipients requesting a response within 10 working days. After that time, a further reminder will be sent to the original recipients and the relevant Director, requesting a response within 10 working days. All delayed or non-responses to audit reports will be reported to the Audit Committee.

- 10.2 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for management's response to Internal Audit recommendations lies with the Chief Executive, Directors, and/or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Audit Committee.
- 10.3 Recommendations are rated and an overall opinion given on the service area reviewed (see **Table 3**). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary. Where there are no responses received from managers despite formally chasing, a report will be deemed as final and issued.

TABLE 3: AUDIT OPINION	
Opinion / Assurance	Description
FULL	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.
SIGNIFICANT	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
NO	Controls are weak and /or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

- 10.4 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:
- The scope including the time period to which the opinions pertains;
 - Any scope limitations;
 - Consideration of all related projects including the reliance on other assurance providers;
 - The risk or control framework or other criteria used as a basis for the overall opinion;
 - The overall opinion, providing reasons where an unfavourable overall opinion is given; and
 - A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

10.5 Our current frequency of reporting is documented in **Table 4**.

TABLE 4: PLANNING AND REPORTING FREQUENCY			
Reports	To	At	Content
Audit Assignment Report	<ul style="list-style-type: none"> • Service Manager (or Head teacher) • Director (or Chair of Governors) 	The end of each audit assignment as the main recipient	<ul style="list-style-type: none"> • Executive Summary • Audit Opinion • Detailed risk issues • Agreed improvement plan
	<ul style="list-style-type: none"> • Chair of the Audit Committee • Leader of the Council • Cabinet Member for Resources • Chief Executive • s.151 Officer 	At the conclusion of the audit for information purposes	<ul style="list-style-type: none"> • Executive Summary • Audit Opinion • Detailed risk issues • Agreed improvement plan
Half Year Progress Reports	Audit Committee	To comply with Committee cycle	<ul style="list-style-type: none"> • Progress against annual plan and performance data • Amendments to current annual plan • Details of significant risk issues • Details of non-responses or non-implementation of recommendations
Annual Opinion and Performance Report	<ul style="list-style-type: none"> • Audit Committee • Corporate Management Team • s.151 Officer • Monitoring Officer • External Audit 	The end of each year	<ul style="list-style-type: none"> • Annual assurance report giving Chief Internal Auditor's opinion on the control environment • Achievement of the annual plan and performance data.
Annual Audit Plan	<ul style="list-style-type: none"> • Audit Committee • Corporate Management Team • s.151 Officer • External Audit 	Beginning of every year	<ul style="list-style-type: none"> • Audit area • Audit risk assessment • Budgeted days • Timetable

11. **QUALITY ASSURANCE AND IMPROVEMENT**

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the Chief Internal Auditor will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Audit Committee.

11.2 **Internal Assessments**

Internal Assessments must include on-going monitoring of the performance of the internal audit activity. The Service operates in accordance with a number of key performance indicators. Performance is subject to regular review by the Audit Team.

Internal arrangements also include receipt of post audit feedback from auditees and should criticism be received, this will immediately be investigated and steps taken to resolve matters raised.

The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the Chief Internal Auditor performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to the Audit Committee. Presenting this information to the Audit Committee enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the Chief Internal Auditor.

11.3 **External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.

The Chief Internal Auditor will agree with the Audit Committee and the Director of Resources the form of the external assessments; and, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, it would be prudent for each authority to be reviewed at the same time. This is currently planned for 2015 / 2016.

PETERBOROUGH CITY COUNCIL

INTERNAL AUDIT CODE OF ETHICS

INTRODUCTION

The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of Peterborough City Council's (PCC) Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- **Objectivity.** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency.** Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

INTEGRITY

PCC Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness.

OBJECTIVITY

PCC Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

CONFIDENTIALITY

PCC Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate;
- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

COMPETENCY

PCC Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

MANAGING ARRANGEMENTS

To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest;
- Confidentiality will not be tolerated; and
- Staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.

PETERBOROUGH CITY COUNCIL INTERNAL AUDIT STRATEGY AND PLAN 2014/15

1 INTRODUCTION

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2011 stipulate that a council should maintain "a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk". The regulations also provide that council's "undertake an adequate and effective internal audit of its accounting records and of its system of internal control" in accordance with the Public Sector Internal Audit Standards. The Council's Internal Audit team are bound by the mandatory requirements of these standards.
- 1.3 Internal Audit Role**
- 1.4 Internal audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- 1.5 The provision of assurance is the key role for Internal Audit. This role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This audit opinion is provided to the Audit Committee and also feeds into the Annual Governance Statement.
- 1.6 The role of Internal Audit, therefore, is to understand the key risks to the Council's objectives and to evaluate the adequacy and effectiveness of management's response to those risks. An overview of risk management and governance processes and key financial controls is also a significant aspect of our work.
- 1.7 Consulting services are advisory in nature and are generally performed at the specific request of management, with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

2 INTERNAL AUDIT PLANNING PROCESS

2.1 Annually, Internal Audit conducts a comprehensive risk-based audit planning process to ensure that all areas of the Council operations (and external partners, where appropriate) are provided with an appropriate and structured Internal Audit service to assist in the continuous improvement process. The purpose is to align audit effort with those areas assessed as posing the greatest risk to the Council. The following sources of information have been used in identifying the priorities put forward for audit coverage:

- Council objectives;
- Medium Term Financial Strategy;
- The Council's strategic and operational risk registers;
- Consultations with individual directors and their management teams
- Consultation with PwC, the council's external auditor
- Consultation with the Audit committee, at this meeting.

2.2 A number of themes have emerged in the preparation of the 2014 / 2015 Internal Audit Plan. These are:

- **Financial pressures** faced by the Council;
- **Contracts and Projects**. This is an essential component of the audit process, especially given the increasing dependence on external suppliers and partners, commissioning and different delivery vehicles in the provision of Council services;
- A continuation of Internal Audit work in **high-level corporate management functions**;
- **Information governance and data security**;
- **Schools**. Governance processes linked with the Schools Financial Value Standard (SFVS);
- **IT systems**. Changes to systems and the move towards more mobile/remote technology.
- **Grant Claims**. Increased requirement for Internal Audit to certify grant claims; and
- **Public Health**. Full integration into the Council from April 2013.

3 STRATEGY FOR DELIVERY OF THE PLAN

3.1 Audit Resources

- 3.1.1 The Internal Audit Service is provided in-house, overseen by a shared Head of Internal Audit. The Internal Audit establishment is 5.46 FTE (detailed below). The Plan has been compiled on the basis of 5.46 FTE in post throughout the year. If resources drop below this level, consideration will be given to the options of recruitment or agency staff. However, we are not planning to recruit to the vacant post.

Post Name	FTE	
Chief Internal Auditor	0.40	Post shared with Cambridge City and South Cambs DC
Group Auditor	1.46	
Principal Auditor	0.60	
Senior Auditor	2.00	
Auditor	1.00	
Total establishment	5.46	

3.2 Shared Service Arrangement

- 3.2.1 A shared service arrangement with Cambridge City Council has been in operation since January 2011, and South Cambridgeshire District Council joined in July 2013. The aim is to share knowledge and best practice, and to increase flexibility and efficiency whilst driving down costs through economies of scale. The audit teams continue to remain distinct entities with the main impact for PCC resulting in a 60% reduction in the time available from the Chief Internal Auditor, along with an associated reduction in costs. We will look to increase efficiency by carrying out joint audits where possible and utilising expertise within teams across the whole shared service. This shared service model is due to continue and further opportunities will be appraised where appropriate. The savings generated go back to the corporate pot to assist in meeting future budget pressures.

3.3 Development of the Audit Service

- 3.3.1 The Internal Audit team will operate to the mandatory professional standards outlined in the Public Sector Internal Audit Standards (PSIAS). This will include:
- Robust quality control of the work conducted
 - Regular training needs assessment to ensure that appropriate skills are available. Joint arrangements will be explored so that officers from all shared service partners can be developed at the same time and also to look for efficiencies in terms of time and cost.
 - Development of audit procedures to ensure that best practice is followed and the service is provided in the most cost efficient manner

- 3.3.2 A key development this year is the implementation of a new audit software system which aims to improve the reporting process, both in terms of individual audit reports and higher level reporting of audit performance and audit coverage. During the year, subject to funding, further modules may be developed that will assist in tracking and reporting upon the implementation of recommendations. The aim also is to introduce this audit software to our shared service partners to improve consistency of working methods.
- 3.3.3 We will continue to look for other partners to enhance the provision of audit. However, we are mindful that any changes will need to be carefully project managed so as to not dilute coverage at Peterborough (or its existing partners). Furthermore, this will also necessitate a re-structure of the service and fundamental change to the service agreement.

4 DETAILED PLAN

The Plan for 2014 / 2015 aims to give the Council the best audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that it can only be a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing at the time.

The basis of the Plan is the work required to fulfil our assurance role, but Internal Audit aims to add value in our work by focusing on those areas that are important to the Council, in terms of strategic priorities as well as the risks that we face. The plan covers core assurance work (financial systems, schools, grant certification, annual governance processes) as well as reviews of the controls mitigating some of our major risks. A key theme this year will be around the financial risks facing the Council and we intend to provide assurance that our processes maximise income and robustly control expenditure. We will also cover other key areas, such as information governance and safeguarding. The Chief Internal Auditor, along with the whole Internal Audit Team, are fully committed to delivering a high quality and responsive Internal Audit service to the City Council. With this in mind, they will be seeking throughout the year to continue to develop the service in accordance with recognised best practice. The overall allocation of time from the estimated 880 days available is as follows:

Table 1: Internal Audit Work Activities		
	Days:	%
Core Systems Assurance Work	100	11
Annual Governance and Assurance Framework	156	18
Strategic and Operational Risks	309	35
External Works	75	9
Grant Certification	75	8
Other Resource Provisions	165	19
TOTAL RESOURCES ALLOCATED	880	100.0

4.1 Core Systems Assurance Work

Audits of the main financial systems of the Council are undertaken on a cyclical basis. The audit plan for 2014 / 2015 includes reviews of budgetary control, the main accounting system, fixed asset accounting, Council Tax Reduction Scheme and accounts receivable. We will co-ordinate our work with our External Auditors to ensure that reliance can be placed on the work provided by Internal Audit.

4.2 **Annual Governance and Assurance Framework**

The work outlined in this section feeds directly into the production of the Annual Governance Statement and provides a high level overview of the governance arrangements at the Council.

4.3 **Strategic and Operational Risks**

An increase in resource levels within the Internal Audit team has allowed us to allocate a significant proportion of our time to this important area of work. Audits have been included as a result of risks identified by management or Internal Audit, or following a particular management request and may be corporate or directorate specific. These areas have been identified in light of their increasing number, their importance in relation to the Council's overall aims and objectives and, at times, their complex linkages and funding arrangements. In particular, Internal Audit intends to add value by providing assurance in areas which impact on a number of the Council's strategic risks, including:

- Failure to realise the Growth Agenda (S106)
- Safeguarding (quality assurance regime)
- Financial Position (income maximisation within a variety of areas; expenditure control within projects, contracts and partnerships; value for money studies)
- Information Governance (data security within a variety of systems)
- Strategic Partnerships (Serco; Skanska)

4.4 **External Works**

PCC Internal Audit provides audit services to Vivacity–Peterborough which is managed through a Service Level Agreement. The contract arrangements have been operational since 2010. These reviews are client confidential and as a result their outcomes are only available to Vivacity. Some further time has been built into the plan to appraise other income generating activities.

4.5 **Grant Claim Certification**

As a result of the organisation obtaining European and other funding, the demand for internal audit to certify grant claims has increased. The activities undertaken to date have proven to be resource intensive due to the need for a rigorous audit certification process, as well as data quality issues.

4.6 **Other Resource Provisions**

Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks and special investigations. Contingency time is included for such events along with the provision for consultancy work that may be undertaken by the Chief Internal Auditor or other members of the audit team.

PETERBOROUGH CITY COUNCIL: INTERNAL AUDIT PLAN 2014 / 2015

VISION FOR THE CITY

STRATEGIC PRIORITIES

- 1 Growth, regeneration and economic development to bring new investment and jobs. Supporting people into work and off benefits.
- 2 Improving educational attainment and skills for all children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city.
- 3 Safeguarding vulnerable children and adults.
- 4 The Environment Capital agenda including pursuing new income streams from solar energy and wind farm developments.
- 5 Supporting the city's culture trust Vivacity to continue to deliver arts and culture.
- 6 Keeping our communities safe, cohesive and healthy.

1.1.1 Draft Internal Audit Plan 2014 / 2015

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
CORE SYSTEM ASSURANCE WORK				
Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.				
Budgetary Control	ALL	A risk based review concentrating on budget management within one or more directorates.	High	Core audit assurance Corporate responsibility to protect finite resources
Main Accounting system	ALL	A cyclical review of key controls.	High	Core audit assurance
Fixed Asset Accounting	ALL	A cyclical review of key controls.	High	Core audit assurance
Council Tax Reduction Scheme	ALL	Joint audit focusing on the changes to council tax benefits.	High	Major changes to system
Accounts Receivable	ALL	A look at how departments recognise and bill for income due, to ensure processes maximise receipts.	High	Core audit assurance Corporate responsibility to protect finite resources
Oracle Financial IT system	ALL	A review of the control framework during the design and implementation of a new/upgraded IT system for the management of Accounts Payable, Accounts Receivable, Ordering and Receipting and the General Ledger.	High	Major changes to system
			TOTAL AUDIT DAYS	100

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK				
Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement, as well as high level governance reviews.				
Annual Governance Statement Review	ALL	Process and framework to feed into work on Annual Governance Statement, including the review of recommendations made by External Audit in their annual letter and verify implementation / progress.	High	Compliance with Accounts and Audit Regulations
Assurance Framework	ALL	Determine what assurance is received in relation to those risks identified in strategic and corporate risk registers. Identify gaps. Consider Internal Audit's role in filling those gaps and also in quality assuring other assurance providers.	High	Core audit assurance
Annual Audit Opinion	ALL	Internal Audit opinion on the state of governance and the internal control framework in place within the Council	High	Compliance with mandatory audit standards
Annual Audit Plan	ALL	Establishment of the annual audit plan for 2015-2016 based on a systematic risk assessment across the Council. This includes a review of the corporate risk registers and the Medium Term Financial Strategy together with consultation with Directors and Heads of Service	High	Compliance with mandatory audit standards
Internal Audit Effectiveness / Audit Committee Effectiveness	ALL	Review of the internal audit service against the new Public Sector Internal Audit Standards and a best practice review of the Audit Committee	High	Compliance with mandatory audit standards
Anti Fraud Culture	ALL	Investigation of matches received from the National Fraud Initiative Liaison with the Corporate Compliance Team and update of Memorandum of understanding Evaluation of control weaknesses that have allowed a fraud to take place or remain undetected and provide recommendations to improve fraud prevention and detection Review impact of the move to DWP of fraud investigation role.	High	Corporate responsibility to protect finite resources
Partnership Governance	ALL	An overview of how we manage the relationships with, and performance of, our partners. For example Serco, Skanska, OP, Safer Peterborough	High	Corporate responsibility to protect finite resources

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
Information Governance	ALL	Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group	High	Core audit assurance	
Risk Management	ALL	Involvement in risk working group. Follow-up of 13-14 audit to ensure actions implemented.	Medium	Core audit assurance	
				TOTAL AUDIT DAYS	156

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
STRATEGIC AND OPERATIONAL RISKS				
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks				
Eligibility criteria	3	Review compliance with the new eligibility criteria within Adult Social Care	Medium	Corporate responsibility to protect finite resources
Framework – IT system	3	Review the operating model within the Adult social Care IT system	High	New system developed Management request
Public Health Delivery	5	Review integrity of data collection/reporting of PH indicators. OR. Review of contract management of service providers within Communities.	Medium	Risk of not meeting PH targets identified
Commissioning	ALL	Review new commissioning procedures, to include a look at whether all aspects of financial accountability have been appropriately incorporated into new directorates/roles.	High	Major change to structure to mitigate budget risks and improve effectiveness in this area.
Children's Services – Quality Assurance Regime	3	Ensure procedures are robust to enable reliance on the assurance.	Medium	A key control mitigating against several risks (safeguarding, capability, change management)
Children's Services – IT system	3	Review access arrangements to ensure appropriate data security and conflicts of interests are managed	Medium	Management request
Petty Cash	3	Follow-up of audit in 2013-4 relating to theft of Children's Services petty cash. Review of accountability (Serco/PCC)	Low	Management request
Children's Services – Leaving care allowances	3	Ensure robust procedures are in place and compliance with them.	Low	Management Request
Schools	1, 2	Review of financial and governance controls in five schools. Assurance required as part of the Schools Financial Value Standard (SFVS)	Medium	Ensure finite resources are appropriately managed Core audit assurance
Resources – Capital Project management	ALL	Review corporate processes designed to ensure effective decision making, monitoring, control and benefits realisation.	High	Project management risk identified.

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
Resources - RECAP	4	Review the project management of the expanding Material Recycling Facility. Possibility for a joint audit with our shared service partners.	Medium	Ensure finite resources are appropriately managed Major change
Data Security - IT	ALL	Review the control of data security on mobile/remote technology and the proposed move to cloud based servers. Monitor the implementation of the replacement for GCSx (Public Service Network) and implications for more stringent BPSS	High Low	Information governance risk identified Major change
Business Continuity	ALL	Review processes in place to protect against business interruption risks	Medium	Core audit assurance Risk identified in risk registers
Procurement	ALL	Review corporate procurement process across PCC/Serco to ensure that an effective policy is in place and complied with.	High	Ensure finite resources are appropriately managed
Contracts	ALL	A look at contract letting and managements for some specific contracts	Medium	Ensure finite resources are appropriately managed Core audit assurance
Projects	ALL	Look at some specific projects, either across the life of a project, or concentrating on particular stages such as feasibility, delivery or post-implementation review	Medium	Ensure finite resources are appropriately managed Core audit assurance
S106/POIS/CIL	1	Consider whether the processes in place are effective in maximising income	High	Identified in risk register.
Value For Money	ALL	If time permits, a review of some identified activities to ensure they are being operated cost effectively. Areas for consideration include: phones, Pcards, usage of corporate contracts, business rate retention, New Homes Bonus.	Low	Ensure finite resources are appropriately managed
			TOTAL AUDIT DAYS	309

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
EXTERNAL WORKS					
Work which generates an income for the Council					
Vivacity	5	Works agreed as part of an ongoing Service Level Agreement	High	Contractual requirement	
Other	-	Exploration of further income streams	Medium	Income Generation	
				TOTAL AUDIT DAYS	75

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
GRANT CLAIM CERTIFICATION					
Certification of claims in relation to funding requirements					
Various Grants	ALL	ZECOS (2 per year) CTIE (2 per year) Disabled Facilities Grant DFT (Local Plan Integrated Transport) DFT (Local Transport Plan Highways) GAF Troubled Families	High	To meet government and EU requirements	
				TOTAL AUDIT DAYS	75

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	TOTAL
OTHER RESOURCE PROVISIONS (CORPORATE SUPPORT)			
Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.			
Carry Forward Activities	ALL	Provision for the completion of 2013-14 audits	30
Follow Up Provision	ALL	Revisiting audits after 6 months to monitor the implementation of recommendations	25
Requested Work Contingency	ALL	Allowance exists to provide flexibility within the audit plan for time spent on providing risk and control advice to officers, management /members and ad hoc requests and consultancy work.	80
Committee Support	-	Production of reports and attendance at Council committees and boards	30
TOTAL AUDIT DAYS			165

This page is intentionally left blank

APPENDIX D

INTERNAL AUDIT PERFORMANCE INDICATORS

Indicator	Target	Purpose
% audit recommendations accepted by management	90%	<p>Acceptance of audit recommendations by management ensures that where improvements are required to the internal control environment, appropriate action will be taken to secure these enhancements.</p> <p>However, there can be occasions where recommendations are disputed. In these cases, there may be justifiable reasons for management not supporting the recommendation, e.g. compensating controls have been put in place. Conversely, management can take the decision to accept the risks identified, particularly if insufficient resources preclude action being taken. However, this will mean that there are vulnerabilities in systems of internal control, which are not being addressed.</p>
% high priority recommendations implemented	90%	Management's commitment in implementing high priority recommendations ensures that high profile risks / fundamental flaws in systems of internal control are suitably resolved.
Number of days between the completion of audit fieldwork and issue of draft report	90%	The draft report is the first stage after which management will have written confirmation of the audit outcomes. This should be issued within 15 days. Issue on a timely basis provides better opportunity for management to be able to comment, and also ensures that the audit plan is delivered as expected.
Number of days between the issue of the draft and final report	90%	Delivery of a timely final report ensures that management can commence the process of addressing internal control weaknesses. This should be issued within 15 days
Average score given to audit feedback	Above 3.75	This is the main indicator of audit quality and is based upon the feedback received by management for individual audit assignments. Maximum score is 5. Scores of 3 and below are followed up.

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 7
24 MARCH 2014	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):	Karen S Dunleavy, Governance Officer	☎ 452233

DRAFT ANNUAL AUDIT COMMITTEE REPORT

R E C O M M E N D A T I O N S	
FROM : Kim Sawyer, Director of Governance	Deadline date : N/A
Audit Committee are asked to approve the Annual Audit Committee Report as shown in Appendix A.	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee in line with the agreed Work Programme for the Municipal Year 2013 / 2014.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The Audit Committee has been in operation since Annual Council in May 2006 (first meeting June 2006). The Committee has a wide ranging remit that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including internal audit, anti-fraud and the financial reporting framework. These are shown in its terms of reference.
- 2.2 **Best practice recommended by relevant professional bodies is that audit committees should produce an annual report** which details the work of the Committee for the Municipal Year, and sets out its plans for the future building on the lessons learnt.
- 2.3 This report is for Committee to consider under its Terms of Reference:
- 2.2.1.16 To consider the Councils 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	If Yes, date for relevant Cabinet Meeting	N/A
---	-----------	---	-----

4. DRAFT ANNUAL REPORT

- 4.1 Audit Committee members have been issued with an Audit Committee Handbook which identifies all the key activities and work delivered through the Committee. Best practice within this publication establishes a need to highlight to a wider audience the works

undertaken by the Committee and to enhance its profile across the organisation. Following new guidance issued in January 2014 the Handbook is being revised. In addition, training on the effectiveness of Audit Committees is being explored at a county-wide level for summer 2014.

4.2 The attached Draft Annual Report has been produced (**Appendix A**). The report shows:

- Background to the Committee, its roles, responsibilities and membership;
- 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.

5. ANTICIPATED OUTCOMES

5.1 Publication of the report will enable the public to gain an insight into the role of the Committee and will ensure that the Committee can continue to progress and develop in the future. The City Council continues to evolve its Audit Committee in line with best practice to provide effective challenge to the governance arrangements adopted.

5.2 Subject to approval by Audit Committee, it is intended to present the report to Council for noting as part of the Committee's annual update in order to demonstrate the work carried out to improve the governance arrangements across the Council.

6. REASONS FOR RECOMMENDATIONS

6.1 To seek endorsement from Members that the Committee is delivering against its terms of reference and provided effective challenge to the organisation.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 None required at this stage.

8. IMPLICATIONS

8.1 This report contains no specific financial implications.

9. BACKGROUND DOCUMENTS

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

9.1 Draft Audit Committee Annual Report

10 APPENDICES

10.1 Appendix A - Draft Audit Committee Annual Report

**(DRAFT) ANNUAL REPORT FROM
THE CHAIR OF AUDIT COMMITTEE
2013 / 2014**

Assurance

Governance

Accountability

Risk Management

Independence

AUDIT COMMITTEE: ANNUAL REPORT 2013 / 2014

INTRODUCTION

MEMBERSHIP AND MEETINGS

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

PLANS FOR 2014 / 2015

INTRODUCTION

This is the 5th annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice¹ and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has endeavoured to improve the Council's governance and control environments.

The Audit Committee was established by the City Council at its meeting in May 2006. Following its first year of operation, the membership was reduced from 10 to 7 members. This has subsequently been increased to 8 in 2012/13, following the incorporation of the Sub Committee to the Audit Committee into its Terms of Reference.

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risks and weakens the control environment, and to oversee the financial reporting process.

The key benefits of an Audit Committee can be seen as:

- Raising greater awareness of the need for internal control and the implementation of both internal and external audit recommendations;
- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes; and
- Providing additional assurance through a process of independent and objective review.

The Terms of Reference for the Committee can be found at **Annex A** of this report.

This report sets out the work undertaken by the Committee for 2013 / 2014 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Committee has overseen good progress in all areas under its supervision.

Audit Committee members have received training on key issues throughout the year, and further details of this can be found later in this report.

MEMBERSHIP AND MEETINGS

During 2013 / 2014, the Audit Committee met on the following dates:

- 6 June 2013
- 24 June 2013
- 23 September 2013
- 4 November 2013
- 3 February 2014

The last Audit Committee meeting for the Municipal Year is due to be held on 24 March 2014.

The Audit Committee membership increased from 7 to 8 following the incorporation of the Sub Committee to the Audit Committee into the Terms of Reference. There is a cross representation of all parties in accordance with the make up of the Council. The members for 2013 / 2014 were (excluding substitutes):

¹ Best practice as contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) document "A Toolkit for Local Authority Audit Committees"

Table 1: Audit Committee Membership 2013 / 2014

Conservative	Peterborough Independent Forum	Liberal Democrats	Labour
Lamb (Chair) Harper (Vice Chair) Arculus Lee	Lane Fletcher	Sandford	Knowles

A number of Audit Committee members also sit on various other committees and panels. On occasions there may be clashes with the Audit Committee and where this occurs, apologies are received for any episodes of non-attendance and where available, substitutes attend.

Senior officers from the Council are also present, including the Executive Director of Strategic Resources, Chief Internal Auditor and the Head of Strategic Finance. Dependent on the subject matter on the agendas, other officers will attend in addition to external representation from the Councils' External Auditor and Relationship Manager.

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

Background

The Audit Committee's original terms of reference covers 6 main areas:

- Internal Audit
- Internal Control and Corporate Governance
- Annual Accounts
- Risk management
- External Audit
- Counter Fraud and Irregularities

Following abolition of the national Standards regime, Members Code of Conduct was then incorporated into the Terms of Reference for this committee.

Internal Audit

2.2.1 Terms of Reference

2.2.1.1	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.
2.2.1.2	To consider summaries of specific internal audit reports as requested.
2.2.1.3	To consider reports dealing with the management and performance of the providers of internal audit services.
2.2.1.4	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
2.2.1.9	To commission work from internal and external audit.

24 June 2013

- *Effectiveness of Internal Audit.* Each year, as part of the production of the Annual Governance Statement which accompanies the Accounts, the Audit Committee also reviewed the effectiveness of the system of internal audit noting planned actions to address any areas of partial compliance. In addition, comparisons were made with the new Public Sector Internal Audit Standards.
- *Annual Audit Opinion.* Internal Audit produces an Annual Audit Plan which forms the basis of their audit activity. Progress is noted throughout the year and an independent annual report is produced highlighting assurances obtained across the organisation as well as any misgivings into the effectiveness of controls. The report also sets out the teams' performance. Where standards have not been maintained across the Council, Audit Committee are provided with Executive Summaries of Audit reports for further scrutiny. Internal Audit concluded that they were able to provide reasonable assurance based on the work reviewed in the year.

4 November 2013

- *Internal Audit Mid-Year Opinion.* The Audit Committee received a half year progress report highlighting internal audit performance against targets and quality assurance results to enable it to review and comment on the work and performance of internal audit. Any areas reviewed which are considered to be weak or requiring attention following Internal Audit activity can result in officers from across the Council being held to account. Similarly, this has been used for officers to explain the non-implementation of recommendations.

24 March 2013

- *Annual Audit Plan.* Audit Committee received the 2014/15 Internal Audit Plans.
- Effectiveness of the Audit Committee – the Committee was due to receive an update on its effectiveness, however training will be provided on the recent best practice standards first. This is proposed to be delivered across Cambridgeshire.

Internal Control and Corporate Governance

2.2.1 Terms of Reference

2.2.1.1	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.
2.2.1.5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2.2.1.10	Regulatory Framework
2.2.1.11	To maintain an overview of the Council's constitution in respect of contract procedure rules, and Financial Regulations.
2.2.1.12	To review any issue referred to it by the Chief Executive or a Director, or any Council body.
2.2.1.15	To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
2.2.1.16	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3 February 2014

- *Corporate Governance.* The Committee received reports on the updates to the Whistleblowing Policy, which was intended to provide PCC employees and partner agencies with a process in order to highlight concerns regarding issues such as health and safety, bullying and harassment or suspected cases of fraud and corruption. The policy update had been initiated by the recent changes introduced for the Enterprise and Regulatory Reform Act 2013. At its meeting the Committee recommended that the Director of Governance would review Whistleblowing policies of partner organisation in order to ensure that adequate provision was in place to deliver services on behalf of PCC.
- The Committee also received a report on the Anti - Bribery Policy, which was introduced to the Council in line with the Bribery Act 2010, which aimed to highlight any incident of bribery or corruption within the Council. The Committee was encouraged to learn that there had been no incidents or complaints reported under the current procedure.

24 June 2013

- *Annual Governance Statement.* A key role of the Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Committee must satisfy itself that the Authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions needed to improve it. This is done through receiving and scrutinising reports on the relevant areas and calling officers to account where necessary.
- The Committee reviewed the draft Annual Governance Statement on 24 June 2013, noting areas for improvement following a review of internal controls, risk management arrangements and significant governance issues. The Committee agreed to final changes to the Statement prior to its inclusion in the Statement of Accounts.

24 June 2013/23 September 2013

- *Invest to Save Schemes.* Under the Committee's remit to commission work from external audit, PwC was requested to conduct a scope of work to look at the governance arrangements with respect to elements of the allocation of expenditure within the Council's budget policy framework. The request was made at the Committee's meeting held on 27 March 2013.
- Following PwC's conclusion of not being minded to challenge the Council's decision making process in order to determine the governance arrangements in response of the allocation of £100m to the 'Invest to Save' budget, the Director of Governance was requested to produce a report on the principles followed in terms of allocating the funding for 'Invest to Save' Schemes. The report was received by the Committee on 23 September 2013, which outlined the policy, process, authority and legality in relation to the allocation of 'Invest to Save' Schemes.

4 November 2013

- *Use of Consultants.* Following the review of consultants used by the Council in 2010, it was recommended, and agreed that Audit Committee would monitor progress. The Committee received an update in November 2013. Following the update the Committee requested a report on the interim positions within Human Resources division, which had been included within the consultancy report.

23 September 2013

- *Revised Contract Regulations.* The Committee received an update to the existing Contract Regulations under Part 4, Section 11 of the Council's Constitution, which was last reviewed in 2007. Within the Audit Committee's role of maintaining and overseeing the Council's contract procedures and financial regulations, it recommended the revised Contract Rules to Council for inclusion within the Constitution and to replace the Contract Regulations.

Annual Accounts

2.2.1 Terms of Reference

2.2.1.17	Accounts
2.2.1.18	To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
2.2.1.19	To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

24 June 2013

- *Budget Monitoring: Final Outturn 2012 / 2013 and Statement of Accounts.* The Committee reviewed and scrutinised the outturn and Statement of Account on 24 June 2013 prior to its submission to the external auditors for audit. Change in legislation has meant that the Committee do not have to normally do this, but it was seen as good practice to adopt. The Committee then approved the Statement of Accounts for 2012 / 2013 and authorised its signing by the Chair. The Committee delegated authority to the Executive Director of Strategic Resources to make, following consultation with the Portfolio Holder for Resources, any non-material amendments to the Accounts arising from the external audit to be carried out by the Audit Commission between July and September 2013.

23 September 2013

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Committee.

4 November 2013

- *Treasury Management Update*. A separate report was submitted which outlined the councils approach to Treasury Management, in line with agreed practices identified in the Medium Term Financial Strategy. Further details are also set out in the outturn reports submitted in June each year.

Risk Management

2.2.1 Terms of Reference

2.2.1.10	Regulatory Framework
2.2.1.13	To monitor the effective development and operation of risk management and corporate governance in the council.

24 March 2014

- *Risk Management: Strategic Risk*. The Committee was due to receive an update report on the strategic risks for the Council.

External Audit

2.2.1 Terms of Reference

2.2.1.5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2.2.1.6	To consider specific reports as agreed with the external auditor.
2.2.1.7	To comment on the scope and depth of external audit work and to ensure it gives value for money.
2.2.1.8	To liaise with the Audit Commission over the appointment of the council's external auditor.
2.2.1.9	To commission work from internal and external audit.

23 September 2013

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Committee. Following review the Committee approved and agreed the:
 - audited Statement of Accounts for 2012 / 2013 and adjustments;
 - signing by the Executive Director of Strategic Resources of the Council's letter of representation; and
 - actions to be taken in respect of the issues identified by the auditors that did not result in changes to the accounts.

3 February 2013

- Committee scrutinised the Annual Audit and Inspection Letter in respect of 2012 / 2013 and considered the Annual Grant Claims Certification.

24 March 2014

- Annual Audit Plan.

Counter Fraud & Irregularities

2.2.1 Terms of Reference

2.2.1.10	Regulatory Framework
2.2.1.13	To monitor the effective development and operation of risk management and corporate governance in the council.

23 September 2013

- The Committee received an annual report highlighting counter fraud and irregularity work over the previous year. The Committee's review of the work and performance of the counter fraud team showed strong support and interest.

23 September 2013 / 4 November 2013

- Quarterly update reports have been provided into the use of RIPA. A report is due to be presented to the Committee at its meeting scheduled for 24 March 2014.

Member Code of Conduct

2.2.1 Terms of Reference

2.2.1.20	Promoting and maintaining high standards of conduct by Councillors and co-opted members
2.2.1.21	Assisting the Councillors and co-opted members to observe the Code of Conduct
2.2.1.22	Advising the Council on the adoption or revision of the Code of Conduct
2.2.1.23	Monitoring the operation of the Code of Conduct
2.2.1.24	Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct
2.2.2	Terms of Reference of the Hearing Panel (sub-committee to the Audit Committee). The Hearings Panel is a sub-committee of the Audit Committee. The Panel has the following functions:
1	When matters are referred by the Monitoring Officer granting dispensations to Councillors and co-opted members allowing them to (A) participate in the debate and / or (b) vote on any matter in which they have a disclosable pecuniary interest;
2	On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated
3	Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure
4	The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

6 June 2013

Outcome of Standards Complaints under the previous regime (pre July 2012). The Committee received a report on the position in respect of all the outstanding complaints prior to the introduction of the new standards regime in July 2012. The Committee also received an update on the appointment of the Deputy Independent Person. Following the update the Committee put forward suggestions with regards to the recruitment campaign for the Deputy Independent Person.

Training

Throughout the year, the provision of ongoing training to Members has been the cornerstone of developing members (new and existing). During the year, officers provided presentations on:

- Preparation and scrutiny of the Statement of Accounts and the impact of International Financial Reporting Standards on these;
- Risk management and business continuity; and
- Verto – The Council’s project recording system.

The Chief Internal Auditor was exploring regional training opportunities relating to the Effectiveness of Audit Committee in light of the recent adoption of the new standards.

FUTURE DEVELOPMENTS AND PLANS FOR 2014 / 2015

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2014 / 2015 this will involve:

- Continuing to drive up standards of corporate governance;
- Continuing to equip existing and any new Members to fulfil the Committee’s responsibilities by providing or facilitating training on all aspects of the Committee’s remit;
- Assisting and supporting officers to promote the work of the Committee and the roles of internal audit, external audit and risk management;
- Supporting the continued production of high quality and compliant statutory accounts;
- Helping to further increase awareness within the Council of its governance arrangements, with particular emphasis on information; and
- Providing effective challenge to officers, raising awareness for sound internal control arrangements and giving assurance to the Authority that its control arrangements are sound.

2.2 AUDIT COMMITTEE: TERMS OF REFERENCE²

2.2.1 Terms of Reference

- 2.2.1.1 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.
- 2.2.1.2 To consider summaries of specific internal audit reports as requested.
- 2.2.1.3 To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.1.4 To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- 2.2.1.5 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 2.2.1.6 To consider specific reports as agreed with the external auditor.
- 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.1.8 To liaise with the Audit Commission over the appointment of the council's external auditor.
- 2.2.1.9 To commission work from internal and external audit.
- 2.2.1.10 **Regulatory Framework**
- 2.2.1.11 To maintain an overview of the council's constitution in respect of contract procedure rules, and Financial Regulations.
- 2.2.1.12 To review any issue referred to it by the Chief Executive or a Director, or any council body.
- 2.2.1.13 To monitor the effective development and operation of risk management and corporate governance in the council.
- 2.2.1.14 To monitor council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the council's complaints process.
- 2.2.1.15 To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- 2.2.1.16 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- 2.2.1.17 **Accounts**
- 2.2.1.18 To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 2.2.1.19 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.
- 2.2.1.20 Promoting and maintaining high standards of conduct by Councillors and co-opted members
- 2.2.1.21 Assisting the Councillors and co-opted members to observe the Code of Conduct
- 2.2.1.22 Advising the Council on the adoption or revision of the Code of Conduct
- 2.2.1.23 Monitoring the operation of the Code of Conduct
- 2.2.1.24 Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct

² (Source: Constitution: Part 3, Delegations Section 2 - Regulatory Committee functions. Approved Annual Council)

2.2.2 Terms of Reference of the Hearing Panel (sub-committee to the Audit Committee).

The Hearings Panel is a sub-committee of the Audit Committee. The Panel has the following functions:

- 1** When matters are referred by the Monitoring Officer granting dispensations to Councillors and co-opted members allowing them to (A) participate in the debate and / or (b) vote on any matter in which they have a disclosable pecuniary interest;
- 2** On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated
- 3** Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure
- 4** The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

AUDIT COMMITTEE	AGENDA ITEM No. 8
24 MARCH 2014	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Kim Sawyer, Director of Governance Ben Stevenson, Compliance Manager (Governance)	☎ 452 361 ☎ 452 387

**REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) QUARTERLY REPORT
FOR 1ST JULY 2013 TO 30TH SEPTEMBER 2013**

RECOMMENDATIONS	
FROM : Kim Sawyer, Director of Governance	Deadline date : N/A
Audit Committee is asked to	
<ol style="list-style-type: none"> 1. Receive, consider and endorse this report on the use of RIPA for the three months from 1st October 2013 to 31st December 2013; and 2. Consider the recommendation and approve that the report is produced for the Audit Committee on a six monthly basis. 	

1. ORIGIN OF REPORT

This report is submitted to the Committee as a scheduled report on the Council's use of RIPA in accordance with the established Work Programme 2013 / 2014.

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to provide an overview of the Council's use of RIPA powers in the three months from 1 October 2013 to 31 December 2013. This report is to be considered in accordance with its Terms of Reference 2.2.1.14 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

3. BACKGROUND

- 3.1 The Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' (CHIS) e.g. undercover agents. It now also permits Public Authorities to compel telecommunications and postal companies to obtain and release communications data, in certain circumstances. It seeks to ensure that any interference with an individual's right under Article 8 is **necessary and**

proportionate. In doing so, RIPA seeks to ensure both the public interest and the human rights of individuals are suitably balanced.

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

3.3 The Council has established strong governance around the use of RIPA and provides assurance to the citizens of Peterborough that the powers are only used where necessary and proportionate and in accordance with the law. The Council will continue to fully investigate matters such as fly tipping with RIPA applications only made where necessary.

3.4 In terms of the Council's use of RIPA powers for this period, it can be reported that there have been no authorisations either for surveillance or access to communications data, such as the subscriber of telephone numbers, during October to December 2013.

3.5 The Interception of Communications Commissioner's Officer (IOCCO) inspected the Council in December 2013. The inspectors commented:

"Peterborough City Council emerged well from this inspection. The Inspectors were satisfied that the public authority is acquiring communications data for a correct statutory purpose and for investigations where they have a clear statutory duty and responsibility to conduct a criminal investigation. Overall the Council has a good level of compliance with the Act and Codes of Practice."

3.6 In 2011 we had been inspected and seven recommendations had been made, six of which had been implemented in the intervening period. The seventh recommendations was that we were more proactive by not just obtaining subscriber data but also obtaining details of usage. We have accepted that this is something we should consider in future application.

3.7 The Home Officer Code of Practice for covert surveillance state that elected Members should review the use of these powers at least once a year and should also consider internal reports on at least a quarterly basis. This code of practice is guidance and therefore it may be appropriate for the Committee to consider a six monthly report instead of quarterly.

4. **CONSULTATION**

4.1 Consultation has taken place between the following parties:

- Director of Governance; and
- Chief Internal Auditor.

5. **ANTICIPATED OUTCOMES**

5.1 That the Audit Committee continues to be informed of the necessary and proportionate use of RIPA across the Authority.

6. **REASONS FOR RECOMMENDATIONS**

6.1 Given the authority's responsible and low use of these powers, it may be more appropriate for the Audit Committee to receive reports on a six monthly basis.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 The option is not to present a regular report detailing the use of RIPA. This could result in a lack of assurance and a potential lack of support from the Audit Committee. Failure to report usage for Member review contravenes the RIPA Codes of Practice.

8. IMPLICATIONS

8.1 The implications of this report are that the Council will become more aware of RIPA and its value to the Council's many enforcement teams. The Council has already created a positive profile and has been congratulated on its adherence to the legislation by the Office of Surveillance Commissioners.

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 9
24 MARCH 2014	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

FEEDBACK REPORT

1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme.

2. PURPOSE AND REASON FOR REPORT

This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

3. APPENDICES

Appendix A - Feedback Responses

This page is intentionally left blank

APPENDIX A

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2013 - APRIL 2014

DATE ISSUE RAISED	AGENDA ITEM / ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE
3 February 2014	That the Director of Governance would review Whistleblowing policies of partner organisations in order to ensure that adequate provision was in place to deliver services on behalf of PCC.	Kim Sawyer	Enquires being conducted with PCC's primary partners, Skanska, Amey & Serco.	
3 February 2014	Forward Audit Committee's, recommendation of the Whistleblowing policy for approval to the Joint Consultation Forum and Employment Committee.	Kim Sawyer	T.B.A	
3 February 2014	Forward Audit Committee's, recommendation to the Cabinet Member for approval of the Anti-Bribery Policy.	Kim Sawyer	T.B.A	
3 February 2014	The Director of Governance confirmed that the recruitment arrangements for the interim Human Resources positions would be presented to Audit Committee in the near future.	Kim Sawyer	To Follow	

This page is intentionally left blank