

## PETERBOROUGH CITY COUNCIL

### INTERNAL AUDIT STRATEGY 2010 / 2011

#### 1 Introduction

1.1 This document sets out the Internal Audit strategy, as required by The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code). It is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council by:

- providing the Chief Executive, Section 151 Officer and Audit Committee with an overall opinion each year on the Council's control environment to support the Annual Governance Statement requirements;
- preparing audit plans that give suitable priority to the Council's objectives and key risks and concentrate resources on areas that have been identified as being the most vulnerable;
- providing suggested actions to line management at the conclusion of each piece of audit work that will assist in continuous service improvement and reduce the risks identified;
- identifying the audit resources required to deliver an audit service that meets required professional standards;
- providing regular reports to the Audit Committee; and
- complying with professional standards.

1.2 The strategy will be reviewed on an annual basis to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.

#### 2 Regulatory Framework

2.1 There are legislative requirements that relate to the provision of an internal audit within local authorities, namely:

- The Local Government Act 1972 (s151) requires that "*every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*". In Peterborough City Council the responsible financial officer is the Director of Strategic Resources and one of the ways he exercises his responsibility for financial administration is through the work of internal audit.
- The Accounts and Audit Regulations 2003 (s6, amended 2006), issued by the First Secretary of State under powers granted to him under Section 27 of the Audit Commission Act 1998, specify certain requirements for local authorities. In order to comply with these regulations the Council needs to maintain an adequate and effective system of internal control, in accordance with proper internal audit practices, these being set out in the CIPFA Code of Practice for Internal Audit in Local Government.

### **3 Professional Standards and Ethics**

#### **3.1 Chartered Institute of Public Finance and Accountancy (CIPFA)**

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the primary public sector accountancy body in the United Kingdom. In 2006, CIPFA published a revised Code of Practice for Internal Audit in Local Government (CIPFA Code).

The Chief Internal Auditor shall ensure that the standards contained within the Code are applied to the work of the Internal Audit service. Any standards that cannot be complied with in full shall be discussed with the s151 Officer and agreement reached as to the alternatives to be accepted. Substantial differences shall be reported to the Audit Committee.

External Audit conduct a full review on the effectiveness of internal audit every three years which is reported to Audit Committee. A periodic self-assessment will be conducted by Internal Audit during the intervening period to ensure continuing compliance with the Code.

The Audit Charter describes how Internal Audit complies with the Code provisions. It sets out Internal Audit's terms of reference, its scope of work, the standards and protocols by which it operates, and how it derives its authority and independence. The Audit Charter was updated in January 2010 and approved by Audit Committee in February 2010. This continues to be relevant to the operations of the team and will be reviewed each year to ensure it is still appropriate.

#### **3.2 Institute of Internal Auditors - UK (IIA - UK)**

The Institute of Internal Auditors is an international association dedicated to the continuing professional development of the individual internal auditor and the internal auditing profession. The Institute of Internal Auditors has produced Standards for the Professional Practice of Internal Auditing. These standards are a means by which the conduct of any individual auditor and the operations of any internal auditing organisation may be evaluated and measured.

#### **3.3 Ethics**

The CIPFA Code of Practice and the IIA International Code of Ethics for Internal Audit set out minimum ethical standards for the performance and conduct of internal auditors. All internal audit staff are required to understand and comply with these standards of ethics, in addition to those required by professional institutes of which they are members.

The principles that must be observed are:

- Integrity;
- Objectivity;
- Competence; and
- Confidentiality.

Peterborough Internal Audit Services adopted its own code of ethics (based on the standard) and this was approved by Audit Committee in March 2007.

## **4 Provision of the Internal Audit Service**

- 4.1 In considering the options for the provision of internal audit the Council currently delivers its service from an in-house team of staff. The team's establishment is 8.1 with an audit profile of the Chief Internal Auditor, Group Auditors (1.3fte), Principal Auditor (1), Senior Auditors (2.8) and Trainee Auditors (2). The recruitment process for the Trainee Auditor was due to commence during 2009 / 2010 but was delayed. This was initially due to establishing whether the post could be recruited to internally by employees detailed on the 'at risk' register and more latterly due to budget pressures. It remains unclear whether the team will be able to appoint to this post during 2010 / 2011. However, the Chief Internal Auditor will endeavour to recruit an additional team member when it is confirmed that funding is available.
- 4.2 Internal Audit also undertake the 'External Assessor' function for the Financial Management Standard in Schools (FMSiS) accreditation, which is a mandatory requirement for all schools to achieve in accordance with the Department for Childrens Schools and Families (DCSF) and supports the s.151 officers' financial responsibilities of the Local Authority. As part of the '*Manor Drive Initiative*' Internal Audit has submitted a tender document to be included on the DCSF Approved FMSiS External Assessor's list. This may result in the generation of external work from other local authorities in addition to the Peterborough Schools currently undertaken.
- 4.3 The Council complies with the above requirements (statutory framework, professional standards and role) through the operation and work of Internal Audit Services.

## **5 Role of Internal Audit**

- 5.1 The roles and responsibilities of Internal Audit are set out in the services Audit Charter which was approved by Audit Committee in February 2010. This document is reviewed each year to ensure that it is in accordance with the CIPFA Code of Practice.

## **6 Internal Audit Manual**

- 6.1 In order to deliver its role effectively, the IAS continues to review its Audit Manual. The manual sets out the processes for planning, implementing, checking and reviewing the way in which audit services are delivered and sets out the methods by which IAS will ensure continuous improvement of the manual.
- 6.2 The objectives of the manual are to:
- State clearly the Charter, Mission and Role of Internal Audit Services;
  - Describe the organisational, managerial and planning arrangements in place;
  - Explain clearly the standard procedures to be followed and documentation to be completed, to include the Internal Audit Automated system PAWS;
  - Consolidate all relevant information concerning the work of the service in order that a consistent approach can be achieved within a flexible framework;
  - Prescribe how Internal Audit will manage its resources;
  - Prescribe the means by which Internal Audit will look for continuous improvement; and
  - Provide a basis for the training and development of staff.
- 6.3 The Audit Manual has been produced after consideration of the guidelines recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors - UK (IIA-UK).

## **7 Planning and Resources**

- 7.1 It is important that the service keeps under review the resources required in order for it to fulfil its role in the medium to longer term. As such, an "Audit Universe" is maintained which predicts the likely areas for audit activity over the medium to longer term and compares this with the existing resources available.
- 7.2 In developing the Strategy and the Risk Profile it is important that audit resources are directed in line with the priorities of the Council taking into account an assessment of risk. In order to achieve this, a systematic risk assessment and planning methodology is used, as follows:
- A list of auditable areas, known as the Audit Universe is maintained on an ongoing basis. This is based on the audit activity undertaken during the year and the overall opinion of the control environment within the audited area.
  - In addition to the above, during January / February of each year a further review of the auditable areas is conducted based upon:
    - Consultation with Chief Officers and other senior managers, to identify key issues facing the council to ensure that key risks are prioritised;
    - A review of the Corporate Plan;
    - Review and consideration of new council initiatives, government initiatives and legislation;
    - Review and consideration of strategic risks as identified in the Corporate Risk Profile;
    - Review and consideration of the assurance framework; and
    - Financial and Budgetary information.
  - The Audit Universe is then updated to reflect changes in the Council and methods of service delivery. To determine the priorities for the annual Audit Plan the following are reviewed:
    - The need to be able to provide an annual audit opinion of the Council's key financial and non financial systems;
    - Risk assessments which are maintained on an ongoing basis for all areas on the audit universe;
    - The assurance framework;
    - Specific client requests; and
    - The existing operational plan
- 7.3 The above methodology results in a plan that is supportive of Directors in delivering the strategic priorities and corporate improvement priorities of the Council and provides an overall view of the internal control environment, a key part of good Corporate Governance.
- 7.4 The proposed 2010 / 2011 Annual Plan has been compiled using the criteria detailed above along with a consideration of available resources. The plan shows the minimum amount of work that IAS has assessed should be undertaken to provide assurance to the organisation.
- 7.5 Internal Audit continues to explore how additional funding / resources can be obtained to support the plan. As stated in 4.2, one aspect of the IAS coverage includes the 'External Assessor' role in ensuring schools within the LEA meet the Financial Management in Schools FMSiS accreditation. During 2010 / 11 the review cycle will continue with the reaccreditation of schools with some reliance being placed on the work undertaken by the Children's Services Finance

Team. As in previous years it is hoped that a contribution from the DSG Grant will be received to support the additional workload for IAS in undertaking this role which is currently more cost effective for the organisation than appointing other external assessors.

- 7.6 Internal Audit has also been charged with 'selling Audit Services to other areas of the Public Sector in the region' as part of the Manor Drive initiative and the Shared Transactional Services Delivery Plan for 2010 / 11. If IAS is successfully included on the DCSF Approved FMSiS External Assessor's list, additional work and income may be generated for this type of audit activity. Consideration regarding the potential impact on resources has been given for any requests of this type and days have been incorporated in the Audit Plan for such an eventuality.

IAS is also due to undertake audit services on behalf the Peterborough Culture and Leisure Trust (PCLT) that is due to be operational from 1 April 2010. A Service Level Agreement has been produced covering a two year period, indicating that 30 audit days will be delivered in each financial year. The PCLT will be charged for the audit activities undertaken based on a benchmarked day rate.

In addition to the above, the authority is rolling out the DECATS programme within the organisation to include Internal Audit. The programme commenced in January and is due to conclude in April 2010. Internal Audit has provided the required data and the outcome of the review may include recommendations for joint working with other organisations. The review findings and the potential impact on resources will become clearer during 2010/11 and Internal Audit will respond to the recommendations of the review and requirements accordingly. Audit Committee will be advised of any impact on the delivery of the audit plan through routine progress reporting throughout the year.

## **8 Marketing of Internal Audit**

- 8.1 To further develop the profile and saleability of audit services in line with current initiatives, IAS will develop an overarching Marketing Strategy during 2010 / 11. Areas for consideration will include:

- The organisation to be reissued with the recently revised Audit Charter and associated documents and / or advised where the revised Audit Charter is located on Insite;
- Develop the Internal Audit website to include services that may be provided under the Manor Drive initiative as well as items such as testimonials and successes;
- Inclusion and advertising services on the DSCF website subject to being included on the accredited providers listing for FMSiS external assessments; and
- Survey public service organisations to establish IAS requirements and further develop the potential for providing internal audit services to external bodies.

## **9 Performance Indicators**

- 9.1 A range of performance indicators are maintained internally to monitor IAS performance. These cover areas such as Cost and Efficiency, Quality, Customer Satisfaction and Continuous Improvement. Performance against these areas will be reported to the Audit Committee on a quarterly basis.
- 9.2 Traditionally, IAS has undertaken CIPFA benchmarking, which compares IAS with other local authorities. During 2010 / 11 IAS intend to widen the scope for benchmarking by exploring comparisons with both private and public sector organisations. This will hopefully highlight any improvements that can be made to service delivery that have not been previously considered and will assist adopted marketing strategies.

- 9.3 IAS will continue to liaise with PricewaterhouseCoopers, the authority's external auditor by sharing best practice to enhance performance and efficiency throughout the year.

## **10 Training Strategy**

- 10.1 Alongside the authority's introduction of the Performance and Development Review process to be implemented in April 2010, IAS will review the current training strategy and produce a training needs assessment for future service requirements.

## **11 Reporting**

- 11.1 Quarterly reporting will be prepared in order to give assurance (or otherwise) to Members that they can rely on the work of IAS and the internal control framework in place which will contribute to the Annual Governance Statement.