

AUDIT COMMITTEE

MONDAY 8 FEBRUARY 2010
7.00 PM

Bourges/Viersen Room - Town Hall

THERE WILL BE A TRAINING SESSION FOR ALL AUDIT COMMITTEE MEMBERS PRIOR TO THE FORMAL MEETING. THIS WILL COMMENCE AT 18.30 AND WILL COVER INVESTIGATING FRAUD.

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

AGENDA

	Page No
1. Apologies for Absence	
2. Declarations of Interest and Whipping Declarations	
At this point Members must declare whether they have an interest, whether personal or prejudicial, in any of the items on the agenda. Members must also declare if they are subject to their party group whip in relation to any items under consideration.	
3. Minutes of the Meeting held on 2 November 2009	1 - 8
4. External Audit - Annual Audit and Inspection Letter 2008 / 2009	9 - 34
To receive the Annual Inspection Letter for 2008 / 2009 from the Audit Commission. (Note, this was also referred to Cabinet on 8 February 2010).	
5. External Audit - Audit and Inspection Plan 2009 / 2010	35 - 54
To receive and approve the Annual Audit Plan for 2009 / 2010.	
6. Audit Committee - Members Handbook	55 - 126
To receive and approve the revised members handbook for the Audit Committee.	
7. Internal Audit - Charter	127 - 148
To receive and approve the revised Internal Audit Charter.	
8. Internal Audit - Quarterly Report 2009 / 2010 (To 31 December 2009)	149 - 174
To receive an overview of the work undertaken by Internal Audit up to 31 December 2009.	

9. Feedback and Update Report

175 - 180

To receive standard feedback report on issues and actions requests made at past meetings of the Committee.

10. Audit Committee Work Programme 2009 / 2010 (Including Training Needs)

181 - 184

To agree the current work programme and propose any future training needs.



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 Gemma George on 01733 452268 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 M Dalton (Chairman), North (Vice Chairman), Gilbert, Kreling, Rush, Hussain and Goldspink

Substitutes: Councillors Collins, Khan and Murphy

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

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 2 NOVEMBER 2009**

Present: Councillors M Dalton (Chairman), Gilbert, Kreling, Rush, Goldspink and Khan.

Officers in attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Strategic Finance
Chris Hughes, PricewaterhouseCoopers
Claire Boyd, Lawyer
Israr Ahmed, Lawyer
Gemma George, Senior Governance Officer

1. Apologies for Absence

Apologies were received from Councillor North and Councillor Hussain. Councillor Khan attended as a substitute.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 7 September 2009

The minutes of the meeting held on 7 September 2009 were approved as an accurate and true record.

4. Minutes of the Meeting held on 28 September 2009

The minutes of the meeting held on 28 September 2009 were approved as an accurate and true record.

5. External Audit 2008 / 2009 – Interim Audit Report to Management

The Executive Director of Strategic Resources submitted a report to the Committee.

On a yearly basis the external auditors, PricewaterhouseCoopers (PwC), undertook a review of controls in place in the Council's key IT systems. This work underpinned the statutory audit process, including informing the external audit view on the Statement of Accounts that had been considered by the Audit Committee at its meeting of 28 September 2009.

The report outlined the matters which PwC considered should be brought to the attention of management. The report included those findings identified during PwC's review of the underlying Information Technology General Controls (ITGCs) which took place between May and June 2009, in order to support the statutory audit process. In addition, the report included those issues identified during PwC's interim audit work at Peterborough City Council.

The matters included in the report were those that came to PwC's attention as a result of their normal audit procedures.

Members were advised that each highlighted recommendation had been allocated a priority rating in order to reflect the degree of importance in the context of Peterborough City Council's internal controls. Members were further advised that the report was draft and did not constitute the final views which would be expressed by PwC in their final report.

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

- Members sought further clarity on why the "lack of periodic review of user access rights within Oracle Financials" as detailed in the Summary of Information Technology General Controls (ITGCs) findings, was highlighted as a high risk. Members were advised that controls should be in place to periodically review user access rights. A six month formal process was needed and it was deemed as a high priority.
- Members questioned when PricewaterhouseCoopers had last audited the Oracle Financials system. Members were informed that there had been no review undertaken in 2009, however, there was a regular working group which had been set up and key controls were in place.
- Members expressed concern at the limited reviews of the Oracle Financials System. Members were advised that the system had been reviewed with a specialist auditor when it was introduced as well as when needed based on risk.
- Members sought further clarity on the "review of payroll reconciliations which had identified a number of reconciling items which were several months/years old" as highlighted in the detailed internal control findings. Members were advised that there had been a number of problems during the audit with regards to reconciling Oracle and the pay system. These items totalled £37,000. Members were assured that steps had been put in to place to minimise future problems.
- Members questioned whether management had ensured that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 was continued through to completion" as highlighted in the detailed Information Technology General Controls findings. Members were advised that this point would be looked into and an answer would be provided at a later date.
- Members further questioned whether all of the actions highlighted for completion in 2009 had been undertaken. Members were advised that an update would be provided on all of the actions at a later date.

ACTION AGREED:

The Committee received the Interim Audit Report to Management from PricewaterhouseCoopers, the Council's External Auditors.

6. Use of Resources Scores

The Director of Strategic Resources submitted a report to the Committee in line with its terms of reference, which introduced the report from PricewaterhouseCoopers (PwC), the Council's external auditors, on the Council's use of resources scores.

The purpose of the report was to inform the Committee of the Council's initial thoughts on planning for the next assessment.

Use of Resources was an external inspection undertaken by the Council's auditors. The Audit Commission was responsible for designing and implementing the Use of Resources Assessment model, but the assessment was undertaken by their appointed auditors for Peterborough, PricewaterhouseCoopers.

The Council had improved its resource and financial management in recent years and this was reflected in the Use of Resources Assessment.

The previous assessment had focussed on financial management, governance and asset management. The new arrangements however were far broader in scope and encompassed areas such as commissioning, use of information and management of natural resources. Requirements were also far more stringent. Performance that would previously have received a score of 4 in the previous assessment would now only score a 3 in most areas.

Requirements for the new scores were as follows:

- 1) Score 1 – Failure to meet minimum requirements – inadequate performance
- 2) Score 2 – Meets only minimum requirements – performs adequately
- 3) Score 3 – exceeds minimum requirements – performs well
- 4) Score 4 – significantly exceeds minimum requirements – performs excellently

Members were requested to note that the expectation was that level 4 performance represented national best practice. The Use of Resource guidance did not provide any guidance on what level 4 might look like (unlike levels 2 and 3). The Audit Commission had stated that they expected far fewer councils to be at this level than before.

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

- Members requested for their gratitude to be noted to the finance team for delivering consistently improving scores over the past four years.
- Members questioned how “outcomes would be demonstrated” with regard to further engagement with local communities, specifically relating to the recently implemented Neighbourhood Panels, as highlighted in the Initial comments on Audit observations table. Members were advised that stakeholder consultation would be key with regard to the Neighbourhood Panels, this would help to identify what the stakeholders/local people wanted and how the Panels could be progressed forward in the future.

ACTION AGREED:

The Committee considered and endorsed the final reports produced by External Audit in relation to the Use of Resources scores.

7. Strategic Governance Board

The Committee received a report following initial work which had been undertaken by officers to create a Strategic Governance Board to coordinate governance activities within the Council.

The Committee was invited to consider the proposals that had been developed and to indicate any priorities that it would like the Board to include within its work programme.

The Committee was also invited to comment on the terms of reference for the Board as highlighted in the Committee report.

The Strategic Governance Board would provide a forum for senior officers of the Council to discuss and develop a coordinated approach to the following:

- Risk Management;
- Corporate Governance;
- Statutory and constitutional compliance;
- Decision-making and accountability;
- Audit, inspection and control systems; and
- Corporate policy and procedures

The focus of the Board would be upon the Council and also the partnership bodies on which it served as a member. The Board would comprise of several permanent members and there would be a standing invitation to the Cabinet Member for Resources and the Chief Executive to attend the meetings, other senior officers could be invited by the Chairman to become permanent members or to attend specific meetings as deemed appropriate by the Board. Representatives of partner bodies and elected Members could also be invited to the meetings in order to promote the widest engagement on governance issues.

The link between the Strategic Governance Board and the Audit Committee would be very important and it may be that items would be referred from the Committee to the Board from time to time to consider or to action.

The Strategic Governance Board would provide leadership and a coordinated approach to the promotion of governance throughout the Council. Initially the Board would meet for a two year period, after which time an evaluation would be undertaken into the costs and benefits of the Board.

Members were invited to comment on the report and proposals for the new Strategic Governance Board and the following issues and observations were highlighted:

- Members queried whether the Strategic Governance Board would replace the Corporate Programme Board. Members were advised that there were no links between the two Boards.

- Members questioned whether the Strategic Governance Board would be retrospectively reviewing the Neighbourhood Councils. Members were advised that a retrospective review of the Neighbourhood Councils would be included as a future agenda item.
- The Chairman of the Audit Committee requested confirmation of whether he would receive an invite to the Strategic Governance Board. He was advised that this request would be looked into and reported back directly to him.
- Members queried how many meetings of the Strategic Governance Board would happen per annum. Members were informed that three meetings would be held per annum.

ACTION AGREED:

The Committee endorsed the creation of a Strategic Governance Board and its terms of reference.

8. Assurance Framework / Annual Governance Statement – Six Month Refresh

The Committee received a report highlighting the Assurance Framework (AF) which was an initiative designed to further consolidate the Council's Risk Management Framework.

The Assurance Framework was laid out in sections according to the objectives / priorities specified in the Sustainable Community Strategy. It was also intrinsically linked with the Annual Governance Statement and the report highlighted progress which had been made by officers in addressing the governance issues which had been reported in the Council's Annual Governance Statement in June 2009.

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

- Members sought further clarity as to the reasons behind the red status (which indicated further work was required) of the credit crunch and estate utilisation, as highlighted in the Assurance Framework summary. Members were advised that due to the recession there had been an increased pull on services and there had been a potential increase in benefit levels. With regard to the sale of assets, the market was currently depressed, and regular monitoring was needed in order to identify the right time to progress these sales forward.
- Members questioned how the credit crunch had affected the Council's income. Members were advised that a full estimate on the effect of the credit crunch had been undertaken before the budget. Members were further advised that monitoring was in progress and would be reported back to the Committee at a later date.
- A query was raised regarding the commentary for "estate utilisation", it stated that the "impact on the capital programme would be re-evaluated should the recession continue longer than forecast". Members

questioned how long the Council's forecast for the recession currently was. Members were informed that the Medium Term Financial Strategy was in the process of being set and the recession was currently expected to last for at least two more years.

- Members questioned why a “refresh of policies in relation to CRB checks”, as highlighted in the Assurance Framework summary, was required. Members were advised that weaknesses in the current arrangements had been identified therefore a refresh was required.

ACTION AGREED:

The Committee:

- (1) Received, scrutinised and approved the revised Assurance Framework;
- (2) Noted the progress on the significant governance issues reported in the Annual Governance Statement 2008 / 2009; and
- (3) Considered whether additional areas of assurance were required.

9. Internal Audit – Quarterly Report 2009 / 2010 (To 30 September 2009)

The Committee received a report which highlighted Internal Audit performance and progress with regards to the 2009 / 2010 Audit Plan.

The report was comprised of a number of sections, including:

- Appendix A – Progress of Audit Plan 2009 / 2010 (To 30 September 2009)
- Appendix B – Audit Reports Issued in Quarter 2: Limited / No Assurance
- Appendix C – Revised Internal Audit Plan 2009/10

The Chief Internal Auditor provided the Committee with an overview to the report and highlighted the main points including the progress made against the plan, the responses to the audit reports, the status of recommendations, other performance matters and the revision of the 2009 / 2010 audit plan. Members were advised that due to resourcing issues relating to sickness the delivery of the audit plan was at risk, this was also impacted by a vacant Trainee Auditor post within the team and it was uncertain of when the recruitment process would commence. Therefore, in view of this and the continued requests by management for unplanned work the audit plan had been reviewed and was attached at Appendix C.

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

- Members sought further clarity as to why “inadequate resources were allocated to debt recovery within the Transactional Services Team”, as highlighted in Appendix B of the report. Members were advised that when the review was undertaken the team had been going through a re-structure. The issues were looking to be addressed and additional resources were to be brought in.

- Members queried when the vacant Trainee Auditor post, which was impacting on the delivery of the Audit Plan, would be filled. Members were informed that the post was looking to be filled around June 2010.
- In Appendix A, the Voyager School was highlighted as having numerous high level recommendations made against it. Members queried why the number of recommendations was so high. Members were advised that the main issues were around procurement controls, these had not been included in the original assessment. Members were further advised that a re-assessment of secondary schools was currently being undertaken.
- In Appendix A, Operations Directorate, the audit review of Jack Hunt Pool refurbishment was highlighted as also having a number of high level recommendations made. Members queried why this was and were informed that numerous actions had been highlighted for two departments to action and discussions were currently being undertaken.
- In Appendix A, City Services, Members further questioned the recommendations made for Budgetary Control. Members were advised that responses had been received from City Services but a meeting was needed to progress the responses forward. Members were further advised that an update on City Services would be provided at the next meeting of the Audit Committee within the Executive Summary due to the level of assurance identified.
- Members questioned the possibility of recognising when a school achieved full assurance to highlight to them the Council's appreciation of the work that they undertook. Members were advised that full assurance achievers would be too low as none of the schools were likely to achieve this. Members were further advised that a lot of work was currently being undertaken with the schools and regular bulletins were being produced by Children's Services.
- Members commented that if a school achieved a significant assurance level and no high recommendations, then this could be mentioned in the bulletins produced by Children's Services.

ACTION AGREED:

The Committee received the report and noted that:

- (1) The Chief Internal Auditor was of the opinion that based on the works conducted during the 6 months to 30 September 2009, internal control systems and governance arrangements remained generally sound;
- (2) The progress made against the plan and the overall performance of the section; and
- (3) The approval of the revised 2009 / 2010 Audit Plan.

10. Feedback and Update Report

The Chief Internal Auditor submitted the latest Update and Feedback Report for consideration.

Members were advised that the Audit Committee Handbook was nearly completed and would be reissued to all committee members.

Members were further advised on the processes in place for monitoring and managing staff sickness.

Members were advised that the legal department would report back at the next meeting on the Urban Regeneration Company.

There were no requests from the Committee for any further information to be provided on any other items.

ACTION AGREED:

The Committee noted the Feedback and Update Report.

11. Audit Committee Work Programme 2009 / 2010 (Including Any Training Needs)

The Chief Internal Auditor submitted the latest version of the draft Work Programme 2009/2010 for consideration and approval.

Members were advised that if they required any specific training needs they were to email the Chair of the Committee.

ACTION AGREED:

The Committee noted and approved the latest version of the Work Programme.

The meeting closed at 7.48 p.m.

AUDIT COMMITTEE	AGENDA ITEM No. 4
8 FEBRUARY 2010	PUBLIC REPORT

Committee Member(s) responsible:	Cllr Seaton, Resources portfolio holder	
Contact Officer(s):	John Harrison, Executive Director of Strategic Resources Steven Pilsworth, Head of Strategic Finance	☎ 452 398 ☎ 384 564

EXTERNAL AUDIT - ANNUAL AUDIT AND INSPECTION LETTER 2008 / 2009

R E C O M M E N D A T I O N S	
FROM : External Auditor and Audit Commission Relationship Manager	Deadline date : N/A
Audit Committee are asked that, subject to any comments they may wish to make, the Audit and Inspection Letter 2008/2009 is approved.	

1. ORIGIN OF REPORT

- 1.1 The report is presented to Audit Committee in accordance with its Terms of Reference No. 2.2.6: To consider the external auditors annual letter, relevant reports, and the report to those charged with governance.
- 1.2 This report was also submitted earlier today to Cabinet following a referral from the Council's External Auditor (PricewaterhouseCoopers) and the Audit Commission Relationship Manager. The report is for Cabinet to consider under its Terms of Reference No. 3.2.11: *To scrutinise auditor's reports and letters, to consider reports from the Council's external auditor and internal auditor, where appropriate, and determine appropriate responses.*

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to consider and respond to the Annual Audit and Inspection Letter for 2008/2009, prepared jointly by our external auditors PricewaterhouseCoopers (PwC) and the Audit Commission Relationship Manager.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. ANNUAL INSPECTION LETTER

- 4.1 Each year the External Auditor and the Audit Commission Relationship Manager produce an Audit and Inspection Letter reviewing the Council's arrangements and progress in relation to the Audit of the Accounts and the Use of Resources.
- 4.2 The letter is attached as **Appendix A** for the financial year 2008/2009 and representatives from PwC will be in attendance to present the key findings and comment generally on the Council's performance. Members can ask questions and make comment to the External Auditor on its contents and conclusions. The External Auditor may take on board responses received prior to its formal publication. However, the External Auditor is under a statutory duty to produce and arrange for the publication of the Annual Audit Letter as soon as reasonably practical. A number of work programmes are being deployed that directly address comments made in the Audit Letter.

5. CONSULTATION

- 5.1 The Audit and Inspection Letter has been shared with the Corporate Management Team. Once the External Auditor and Relationship Manager have reflected on any comments received the letters will be re-issued in final form and circulated to all Members of the Council.

6 ANTICIPATED OUTCOMES

- 6.1 Approval of the Annual Audit and Inspection Letter 2007 / 2008.

7 REASONS FOR RECOMMENDATIONS

- 7.1 The Council is required to consider the statutory Audit and Inspection Letter and make appropriate arrangements in response to recommendations.

8 ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The External Auditor may take on board responses received prior to its formal publication, though he has a duty to produce and arrange for the publication of the Annual Audit Letter as soon as reasonably practical. No specific alternative options are submitted to Audit Committee for consideration.

9 IMPLICATIONS

- 9.1 Specific implications associated with each of the main aspects of the Audit and Inspection Letter are addressed as part of the individual work programmes.

10 BACKGROUND DOCUMENTS

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

Annual Audit and Inspection Letter 2008/2009

Annual Audit Letter

Peterborough City Council

Audit 2008/09

January 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from the 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 PricewaterhouseCoopers LLP ('PwC') has been appointed by the Audit Commission to carry out the audit of Peterborough City Council ('the Council'). PwC completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. PwC issued an unqualified audit opinion on the financial statements on 29 September 2009.
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Financial Statements

- 2 PwC was pleased with the quality of the draft accounts and the working papers provided to support them. This ensured that the audit process itself was efficient (paragraph 15).
 - 3 The Council recorded an under spend of £141k, which was transferred to reserves, against its net revised revenue budget for the year (net of Dedicated Schools Grant passed to schools) of £154.6m. As reported in the Statement of Accounts, the overall position was underpinned by net under spends in Strategic Resources of £2.0m, over spends of £0.7m in City Services and Environment and Community Services, and other over spends totalling £1.2m (paragraph 24).
 - 4 As in the prior year, the Council has continued its policy of operating with a General Fund balance of £6.0m, representing 3.9 per cent of the net 2008/09 budget (paragraph 26).
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Value for money and Use of resources

- 5 From April 2009, the Audit Commission has been implementing the comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA. The use of resources judgements in 2008/09 were input into the first results of CAA which the Audit Commission reported on in October 2009, as well as acting as the basis for PwC's value for money conclusion. PwC issued an unqualified value for money conclusion on 29 September 2009.
 - 6 PwC assessed the Council as performing well against the Use of Resources themes of 'Managing Finances' (paragraphs 45 to 48) and 'Governing the Business' (paragraphs 49 to 52), and as performing adequately against the theme of 'Managing Resources' (paragraphs 53 to 56).
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- 7 The Council has been assessed by the Audit Commission as performing adequately against the 'Managing Performance' element of the Comprehensive Area Assessment (paragraphs 59 to 65).
- 8 The overall Organisational Assessment for the Council is that it is performing adequately. The Council tackles issues that matter most to local people. In many areas performance is good. But services need to improve in some important areas (paragraphs 59 to 65).
- 9 The Council has many significant challenges in future years, including (paragraph 30):
- the impact of the global economic downturn on future grant settlement from Central Government is likely to require the Council to identify further efficiencies in the way services are delivered;
 - the Council's role on the Peterborough Delivery Partnership, and the funding mechanisms that are put in place for significant infrastructure projects, will be crucial in ensuring that the city's ambitious growth agenda is achieved;
 - improving performance in key areas; and
 - the adoption from 2010/11 of International Financial Reporting Standards (IFRS) in local government, with comparative data required for 2009/10.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	178,000	175,000	3,000
Value for money	98,500	110,000	(11,500)
Total audit fees	276,500	285,000	(8,500)
Non-audit work	0	0	0
Total	276,500	285,000	(8,500)

Actions

- 10 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 11 PwC confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Key messages

Recommendations	
R1	The Council should introduce procedures to ensure that user access rights to the ORACLE financials applications are reviewed at least annually (paragraph 17).
R2	The Council should address the issues for improvement noted in its Annual Governance Statement (paragraph 34).
R3	The Council should review the reason for qualifications in its grant claims, and take steps to ensure relevant matters are addressed in future years (paragraph 36).
R4	Further engagement with local communities is required with regard to determining strategic priorities and financial planning (paragraph 48).
R5	The Strategic Improvement Division should ensure that key data and performance information is reviewed and that action is taken to address weaknesses (paragraph 52).
R6	The Council needs to achieve clear reductions in its main resource use areas when measured using the same basis for calculation year-on-year (paragraph 56).

Financial statements and annual governance statement

Peterborough City Council's financial statements and annual governance statement are an important means by which Peterborough City Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 12** As your appointed auditor, PwC issued an unqualified opinion on the Council's accounts on 29 September 2008.

Formal communication of relevant audit matters to those charged with governance (ISA 260 Report).

- 13** PwC are required to comply with the International Standard on Auditing (ISA) 260 – 'Communication of audit matters to those charged with governance'. This requires PwC to communicate the following matters to those charged with governance who, in the case of the Council, are deemed to be the Audit and Accounts Committee:

- expected modifications to the auditors' report;
- unadjusted misstatements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- views about the qualitative aspects of the entity's accounting practices and financial reporting;
- matters specifically required by other auditing standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

- 14** PwC presented the ISA 260 report to Members of the Audit and Accounts Committee on 28 September 2009. PwC reported that the accounts contained no unadjusted misstatements. The report highlighted certain matters relating to accounting and control which are discussed in paragraphs 16 to 17 below.

- 15** The working papers provided by the Strategic Finance team were exemplary for the third successive year, ready on the first day of the audit and prepared on a CD with clear links to the Statement of Accounts. No material adjustments were made to the accounts.

Financial statements and annual governance statement

- 16** The ISA 260 report noted one significant matter relating to the Statement of Accounts.
- In October 2008 the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed. Their UK subsidiaries, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £1m invested in the Heritable Bank and £2m in Kaupthing Singer & Friedlander Ltd. The Council correctly applied CIPFA's Local Authority Accounting Panel ('LAAP') Bulletin 82 to account for an impairment of its investments of £1.5m based on the currently expected realisation value of these investments.
- 17** PwC also included detailed recommendations in the 'Report to Management 2008/09' which was issued to management in October 2009 and which focused on issues that arose during the interim and final audit of the accounts. The most significant recommendation was that:
- the Council should introduce procedures to ensure that user access rights to the ORACLE financials applications are reviewed at least annually.
- 18** The Council has agreed to take action in respect of the recommendations in the Report to Management; a detailed action plan has been prepared and is included within the report. PwC will consider progress in implementing these actions as part of the 2009/10 audit.
- 19** In the ISA 260 report PwC confirmed continuing independence of the Council within the requirements of ethical and auditing standards.

Liaison with the Council during the year

- 20** During the course of the year PwC have held regular meetings with the Chief Executive, Deputy Chief Executive, Executive Director of Strategic Resources, Monitoring Officer and the Head of Strategic Finance to discuss emerging issues and priorities facing the Council, together with matters arising from audit work. These meetings have been valuable in ensuring a shared understanding of key issues and priorities for the Council and have allowed for discussion of the significant matters arising from audit work.
- 21** PwC have also held quarterly meetings with the Council's internal audit service. These meetings have formed the basis of joint planning and cooperation designed to ensure that duplication is avoided and that PwC work effectively with the Council. There are a number of examples where PwC has been able to place reliance on the work of internal audit and also where PwC and internal audit have worked effectively together.

Material weaknesses in internal control

- 22** Based on the work PwC have undertaken, there are no significant weaknesses in your internal control arrangements that PwC wish to draw to your attention.

Financial Standing

23 This section comments upon the Council's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

Overall financial performance in 2008/09

24 As set out in the Explanatory Foreword to the 2008/09 Accounts, the Council's revised net revenue budget for the year was £154.6m (net of Dedicated Schools Grant passed to schools), against which actual spending totalled £154.5m. The Statement of Accounts highlighted that the overall position was underpinned by net under spends in Strategic Resources of £2.0m, over spends of £0.7m in City Services and Environment and Community Services and other over spends of £1.2m.

25 The key factors causing the under spend in Strategic Resources were £1.2m of additional VAT shelter income from Cross Keys Homes, a reduced Minimum Revenue Provision of £0.4m and reduction of interest paid of £0.4m.

26 At 31 March 2009, total reserves available for use (earmarked reserves and General Fund balances) stood at £22.9m. Of this, £11.4m was earmarked for specific purposes, with a further £5.6m under the control of locally managed schools and £4.5m held to cover insurance risks. General Fund balances of £6.0m represented 3.9 per cent of the net 2008/09 budget.

27 Outlook for 2009/10 and beyond

28 The Council approved the budget for 2009/10 on 25 February 2009, as part of the Medium Term Financial Plan. The budget requirement for 2009/10 was £133.6m (being £247.9m less Dedicated Schools Grant of £114.3m), a 4.0 per cent increase compared to the 2008/09 base budget. Funding for the capital programme for the year totalled £78.9m.

29 The latest financial position for 2009/10, as reported to Cabinet in October 2009, highlighted that overall the budget position is showing a forecast year-end under spend of £45,000.

30 There are a number of significant challenges facing Peterborough in future years. For example:

- the impact of the global economic downturn on future grant settlement from Central Government is likely to require the Council to identify further efficiencies in the way services are delivered;
- the Council's role on the Peterborough Delivery Partnership, and the funding mechanisms that are put in place for significant infrastructure projects, will be crucial in ensuring that the city's ambitious growth agenda is achieved;
- improving performance in key areas (see paragraphs 59 to 65); and
- the adoption from 2010/11 of International Financial Reporting Standards (IFRS) in local government, with comparative data required for 2009/10.

Financial statements and annual governance statement

- 31** The successful completion of these major initiatives and programmes of work will require effective operational and financial management, including the identification and management of risks relating to the schemes.

Accounting Practice and financial reporting

- 32** In 2010/11 the Council will need to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). The Council is already considering how this will affect the financial statements; it reports regularly to the Audit Committee and PwC undertook an impact assessment as part of the 2008/09 audit plan.

Annual Governance Statement

- 33** Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements. PwC reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to PwC from audit work undertaken. PwC found no areas of concern to report in this context.
- 34** The AGS sets out key elements of the systems and processes that comprise the Council's governance framework, and the arrangements for reviewing its effectiveness. From this review, the Council concluded that the framework provided satisfactory assurance on the effectiveness of its governance arrangements, but identified a number of areas for ongoing improvement, which the Council should continue to address, for example:
- the impact of credit crunch on Council income, the local community and the capital disposal programme;
 - the impact of the collapse of Icelandic Banks;
 - effective governance;
 - Single Status agreement;
 - external and internal audit recommendations;
 - sickness absence;
 - effective recruitment checks;
 - shared services; and
 - risk management.

Certification of grant claims

- 35** PwC worked with the Council to certify the relevant claims and returns required by grant paying bodies for 2008/09.

- 36** To date PwC has audited eight grant claims. Four have been qualified (two East of England Development Agency grants, the Housing and Council Tax Benefits grant and the Teachers' Pensions Return). The Council should review the reason for qualifications in these claims, and take steps to ensure relevant matters are addressed in future years. PwC continue to work with the Council to audit a number of outstanding European Regional Development Fund grant claims.
-

Whole of Government accounts

- 37** Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Council is required to submit a 'consolidation pack' to Communities and Local Government and PwC is required, as your auditor, to undertake a range of procedures and report on the pack.
- 38** PwC issued an unqualified opinion on the return stating that 'the consolidation pack is consistent with the statement of accounts for the year ended 31 March 2009 on which we have entered our opinion in accordance with section 9 of the Audit Commission Act 1998'.
-

Other work

- 39** In addition to PwC's audit under the Code, PwC has also undertaken other work for the Council during 2008/09.
- 40** PwC undertook an assessment of the impact of IFRS on the Council at the request of the Executive Director of Strategic Resources. In July 2009, PwC also completed a follow-up report of their Benefits Realisation Review, which was initially reported in July 2007. There are no matters PwC wish to draw to your attention in relation to this work.
- 41** No other work in addition to PwC's responsibilities under the Code has been undertaken during the 2008/09 financial year.

Value for money and use of resources

PwC considered how well Peterborough City Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

PwC also assessed whether Peterborough City Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 42** In forming the scored use of resources judgements, PwC used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 43** PwC also took into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 44** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in paragraphs 45 to 56 and presented in detail in Appendix 1.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2
Use of Resources score	3
Managing performance	2

Managing finances

- 45 Financial planning at the Council is timely and efficient. The Council uses a structured medium term approach to deliver savings and efficiencies, enabling it to shift resources to high priority areas.
- 46 Business and financial planning is integrated effectively. Financial planning has improved in Children's Services, an outcome of which was a move from a £3m over spend in 2007/08 to a balanced budget in 2008/09. A zero based budgeting exercise, which challenged budget managers to improve efficiency, contributed to this improvement.
- 47 The Council's excellent financial reporting arrangements were recently recognised in a case study in the Audit Commission publication 'Summing Up'. The Council was also shortlisted for Finance Team of the Year in the Local Government Chronicle awards.
- 48 Further engagement with local communities is required with regard to determining strategic priorities and financial planning. Neighbourhood Councils have been in place from October 2009; it will be important that the Council demonstrates the outcomes of this initiative.

Governing the business

- 49 The Sustainable Community Strategy and the Local Area Agreement drive the commissioning of services by identifying those things the community considers most important for the Council to address.
- 50 Counter fraud work for local elections has been excellent. The Council worked in partnership with the Police with the aim of restoring the confidence of the public in local elections and reducing fraud.
- 51 The Council's Strategic Procurement Unit has led to a number of improvements in procurement arrangements, for example, implementing a number of corporate contracts, designed to free up time, reduce administration processes and focus on front line service activity.
- 52 The Strategic Improvement Division should ensure that it undertakes a pro-active review programme of key data and performance information and takes appropriate action to identify and address weaknesses. Training for Members and Officers should continue to be provided where it is identified that there is a need to do so.

Managing resources

- 53 The Council has the ambition to become the Country's Environment Capital. This is embedded in the Sustainable Community Strategy; there is a separate 'Environment Capital Manifesto'.
- 54 The Council is taking steps to reduce its carbon footprint. It has entered a carbon trading scheme, with an aim to reduce carbon emissions from buildings and vehicle fleet by 5 per cent. However, the Council is not currently able to demonstrate a track record of reducing carbon emissions and resource usage.

Value for money and use of resources

- 55 The Council has a strategic approach to asset management and a 10 year corporate property strategy that shapes its property portfolio against future needs in the Sustainable Community Strategy. The Council can demonstrate it is improving the condition of its asset base and is actively working with partners to facilitate this.
- 56 The Council needs to achieve clear reductions in its main resource use areas when measured using the same basis for calculation year-on-year.

VFM Conclusion

- 57 PwC assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. Conclusions on each of the areas are set out in Appendix 1.
- 58 PwC issued an unqualified conclusion stating that Peterborough City Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing Performance

- 59 Peterborough faces many challenges to improve life for local people. Crime levels are high, the recession has hit delivery of growth in the city and some residents suffer poor health. While some recent improvements have been made some important services are not performing well enough.
- 60 In 2008 educational achievement was low; but improvements are being made. More children are passing examinations. But when compared to similar areas performance is below average. Most services for adults who need care meet their needs. People who need help now have more choice about the services they receive. This increases their independence. The Council has taken action to address concerns about the safeguarding of adults. A plan is in place with work underway to improve the safety and personal dignity and respect of vulnerable people.
- 61 But the Council performs well in other services. It takes a lead role in protecting the environment. Many more journeys are now made by bus and people are much more satisfied with services. Alternatives to car use are promoted well and CO2 emissions are reducing. Levels of recycling and composting are high and cleanliness is improving. The number of homes built that local people can afford is increasing.
- 62 Leadership in the Council is strong. Good plans are in place to improve services. Staff have the skills they need to do their jobs. New approaches are used to tackle poor performance. And investment is being made in new facilities.
- 63 The Council has clear financial plans to cope with the impact of the recession. Ofsted has rated the Council's children's services as performing adequately. Schools help children and young people develop healthy lifestyles. But children achieve low levels of educational achievement at all ages.

- 64** A recent unannounced visit to the Council looking at child protection highlighted much satisfactory and good practice. But as a result of long standing recruitment and retention issues the caseload of social workers is high.
- 65** The Care Quality Commission rated the Council's adult social care as performing adequately. The Council delivers adult social care with the primary care trust. This partnership knows what it needs to do and is committed to improve services for people who need care. People who use services and their carers are helped to choose how their care needs are met, increasing their independence. An inspection carried out in January 2009 judged safeguarding of adults as poor. But issues raised had already been identified by the partnership and action started to address these

Closing remarks

- 66** PwC has discussed and agreed this letter with the Chief Executive and the Executive Director of Strategic Resources. PwC will present this letter at the [Audit Committee] on [date] 2010 and will provide copies to all [board members/committee members].
- 67** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Peterborough City Council during the year.

Table 3

Report	Date issued
Audit Plan	June 2008
IFRS impact assessment report	August 2009
Report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Report on Use of Resources scores	October 2009
Report to management on the 2007/08 Statement of Accounts audit	October 2009
Annual audit letter	December 2009

-
- 68** Peterborough City Council has taken a positive and constructive approach to our audit. I wish to thank Peterborough City Council staff for their support and co-operation during the audit.

Nigel Smith
CAAL
January 2010

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score	3
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
<p>Financial planning at the Council is timely and efficient. The Council uses a structured medium term approach to deliver savings and efficiencies, enabling it to shift resources to high priority areas. Business and financial planning is integrated effectively. Financial planning has improved in Children's Services, an outcome of which was a move from a £3m overspend in 2007/08 to a balanced budget in 2008/09. A zero based budgeting exercise, which challenged budget managers to improve efficiency, contributed to this improvement.</p> <p>Significant improvements in financial management enabled the Council to act quickly in response to the credit crunch. The impact of the economic downturn was highlighted early in the year and action was taken to address it.</p> <p>Demonstrating how the Council has managed its finances during the recession will be a crucial element of the assessment against this KLOE in 2010.</p> <p>Further engagement with local communities is required with regard to determining strategic priorities and financial planning. We understand that Neighbourhood Panels will be in place from October 2009; it will be important that the Council demonstrates the outcomes of this initiative.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>The Business Transformation programme has enabled the Council to manage its spending within available resources. It is also integral to the business planning process, which identifies areas where the Business Transformation team can work with services to improve efficiency. Over the last two years, the Business Transformation programme has delivered the outcome of over £10m of savings for PCC, and the Council is on track to exceed the 2008/9 target of £3.68m.</p> <p>The ‘Manor Drive’ project launched in October 2008, considered whole life costs and the first phase, completed in March 2009, delivered £900k in cashable savings through streamlined Council back office structures.</p> <p>Service improvements are addressed with partners as well, through the introduction of an innovative ‘Solution Centre’. Where performance is poor for priority areas, targeted actions are agreed to improve performance, for example addressing high numbers of teenage pregnancies. By understanding costs and performance for both Council and partner activities, potential resource gaps and duplication can be identified so that resources can be aligned across organisational boundaries.</p> <p>In relation to the Business Transformation Programme, resources are required to establish how data can be captured centrally (eg to capture productivity and efficiency information) to enable non-cashable benefits to be effectively monitored</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>A detailed closedown plan is managed by Strategic Finance, with proactive discussions on accounting issues with external audit, clear planning for the impact of International Financial Reporting Standards and an established track record of preparing excellent draft accounts.</p> <p>The Council’s excellent financial reporting arrangements were recently recognised in a case study in the Audit Commission publication ‘Summing Up’. The Council was also shortlisted for Finance Team of the Year in the Local Government Chronicle awards.</p> <p>During a period of organisational change (for example the Manor Drive programme and the managed IT service), the Council will need to ensure that the quality of its internal and external financial reporting arrangements is not compromised.</p>	

Governing the business

Theme score	3
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes
<p>The Sustainable Community Strategy and the Local Area Agreement drive the commissioning of services by identifying those things the community considers most important for the Council to address. This is exemplified by the Children and Young People’s Plan, which was underpinned by extensive consultation with children and young people, and the Children’s Trust.</p> <p>Business process re-engineering techniques were used to improve assessment processes for vulnerable children, an approach that has led to improved performance and reduced costs.</p> <p>The Council’s Strategic Procurement Unit has led to a number of improvements in procurement arrangements, for example, implementing a number of corporate contracts, designed to free up time, reduce administration processes and focus on front line service activity.</p> <p>Procurement savings need to continue to be achieved across the Council.</p>	

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Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>A data quality strategy and policy has been created and communicated through a development group and departmental performance contacts. The data quality policy and the Council's overall approach is monitored by the Strategic Improvement Division with a Strategic Director responsible for data quality issues.</p> <p>These also underpin the Council's approach to performance information across the Greater Peterborough Partnership, where information from partners is brought together in a Performance Hub. This brings together performance specialists and analytical capacity across partners to provide collective analysis of performance data and wider delivery intelligence.</p> <p>Processes are in place and are embedded. Whilst there is an emphasis on highlighting areas of risk and 'management by exception', further work is to be undertaken to reinforce arrangements over the coming year.</p> <p>The Council must ensure that it retains complete audit trails to support National Indicators.</p> <p>The Strategic Improvement Division should ensure that it undertakes a pro-active review programme of key data and performance information and takes appropriate action to identify and address weaknesses. Training for Members and Officers should continue to be provided where it is identified that there is a need to do so.</p>	

29

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Counter fraud work for local elections has been excellent. The Council worked in partnership with the Police with the aim of restoring the confidence of the public in local elections and reducing fraud. Engaging with communities as part of the process also helped identify health and safety issues prevalent in private sector housing in the city. The partnership involved a co-ordinated effort from the start to ensure the prevention of fraud.</p> <p>The Chief Executive completed a senior management review during the year to ensure that the senior management team has the appropriate structure and post holders to drive and deliver the priorities in the Sustainable Community Strategy. A Performance Management Forum and Senior Management Training Programme are also focused on the Sustainable Community Strategy and the Local Area Agreement. This enables the Council to use its position on the Greater Peterborough Partnership to promote good governance.</p> <p>Officer training has been undertaken regarding decision making, ensuring less ‘call in’ of decisions. A ‘Member Induction Toolkit’ (that covers, for example, Freedom of Information and Data Protection) emphasises the accessibility of the Monitoring Officer. The Council also utilises the ‘Modern Councillor’ training package.</p> <p>The establishment of the Children’s Trust in April 2008, with formal arrangements and principles of operation, is a prime example of a review of effectiveness of how the Council was working across the Greater Peterborough Partnership led to improvements in governance arrangements. Outcomes have been achieved in Social Care, Educational Attainment, Attendance, the performance of the Youth Offending Service and the drive to reduce those not in education, employment or training.</p> <p>Demonstrating appropriate governance arrangements in respect of the growth agenda and organisational change will be a crucial element of the assessment against this KLOE in 2010 and 2011.</p>	

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Appendix 1 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control) Score VFM criterion met	3 Yes
<p>The Risk Management Strategy provides a clear framework for managing strategic and operational risks. These are discussed and addressed at the Corporate Management Team, Departmental Management Teams and by Members as appropriate. The Council has explicitly used its Assurance Framework to inform the Corporate Risk Register refresh in 2008/09. Internal Audit has an Audit Plan that is aligned to the risk register and reports to the Audit Committee quarterly on its work.</p> <p>Business continuity arrangements have improved considerably in the last 18 months and are focused on ensuring services continue to deliver. This was highlighted in the inclement weather earlier in 2009, where a number of services needed to implement their planned business continuity arrangements. Despite significantly reduced staff levels, the customer contact centre was kept open for normal working hours, recognising it would be (and was) a focal point for public queries about the impact of the weather on other services.</p>	

31

Managing resources

Theme score	2
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
<p>The Council has a Climate Change strategy and intends to refresh this with input from across the Greater Peterborough Partnership. The Council also has the ambition to become the Country’s Environment Capital. This is embedded in the Sustainable Community Strategy; there is a separate ‘Environment Capital Manifesto’.</p> <p>The Council is taking steps to reduce its carbon footprint. It has entered a carbon trading scheme, with an aim to reduce carbon emissions from buildings and vehicle fleet by 5%. However, the Council is not currently able to demonstrate a track record of reducing carbon emissions and resource usage.</p> <p>The Council commissioned a Green Fleet Review in 2008/09 that delivered practical actions that are intended to help it reduce its transport emissions and lower running costs whilst maintaining the operational requirements of the fleet. It also provided baseline data for fleet carbon emissions. Other data is available for natural resource usage at Council buildings.</p> <p>The Council needs to achieve clear reductions in its main resource use areas when measured using the same basis for calculation year-on-year.</p> <p>The Council needs to work with partners to help reduce the Council's impact on the environment. Reductions in resource usage need to be quantifiable.</p>	

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Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 3.2 (strategic asset management)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>The Council has a strategic approach to asset management and a 10 year corporate property strategy that shapes its property portfolio against future needs in the Sustainable Community Strategy. The corporate asset management plan determines how property assets will be managed, including a backlog maintenance programme.</p> <p>The Council can demonstrate it is improving the condition of its asset base and is actively working with partners to facilitate this. Working with the Homes and Communities Agency ('HCA'), the Corn Exchange, a strategic site, was purchased with grant funding, to demolish it as part of the plan to redevelop the city centre. The Carbon Challenge Project is intended to provide 350 Carbon Neutral homes, including 105 affordable units, on the River Nene.</p> <p>'Bayard Place' has been re-designed to act as the main customer contact centre in the centre of the city, with back office services migrating to the outskirts at Manor Drive. A review of planning services indicated that there were a number of issues that needed to be addressed to improve the level of service to the customer. Bridge House, where the majority of planning services were previously delivered, was old, in need of refurbishment and remote from the Strategic Planning function and Opportunity Peterborough. Alternative suitable accommodation was sought and found in Stuart House, an office block that offered a modern working environment. This 'one stop shop' for the Growth agenda will allow the Council to market itself to the investor community.</p> <p>Demonstrating how it manages its capital programme to ensure strategic priorities are achieved, in the context of an economic downturn, will be an important element of the assessment against this KLOE in 2010.</p>	

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The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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AUDIT COMMITTEE	AGENDA ITEM No. 5
8 FEBRUARY 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor M Dalton, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Director of Strategic Resources	☎ 452398

EXTERNAL AUDIT - AUDIT AND INSPECTION PLAN 2009 / 2010

RECOMMENDATIONS	
FROM : External Auditor and Audit Commission Relationship Manager	Deadline date : N/A
The Audit Committee are asked to consider the Audit and Inspection Plan for 2009 / 2010 and provide comment on any amendments necessary	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee in accordance with the agreed work plan.

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to consider and respond to the Audit and Inspection Plan for 2009 / 2010, prepared jointly by our external auditors, PricewaterhouseCoopers, and the Audit Commission.

3. TIMESCALE

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

4.1 The Audit and Inspection Plan has been prepared to inform the Council about the responsibilities of our external auditors and how those responsibilities will be discharged. It includes the inspection and other work that will be performed by the Relationship Manager during 2009 / 2010. The Plan has been discussed and agreed jointly by Council representatives, External Audit and the Audit Commission.

4.2 The Plan 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. The Plan (**Appendix A**) includes a number of follow ups and updates to previous reviews and also new risks which have been identified. These include:

- Growth Agenda;
- Childrens Services;
- Managed IT Services;
- Accounting for PFI;
- City Services and the Waste Management solution;
- International Financing Reporting Standards;
- Use of Resources;
- Data Quality.

5. CONSULTATION

The Plan has been circulated to Corporate Management Team for comment. Comments received from the s.151 officer have been incorporated into the latest version.

6 ANTICIPATED OUTCOMES

Approval of the External Audit Plan 2009 / 2010.

7 REASONS FOR RECOMMENDATIONS

The Plan provides a summary of the Auditor's proposed work for 2009 / 2010. Members can ask questions and make comments to the External Auditor on its contents and coverage.

8 ALTERNATIVE OPTIONS CONSIDERED

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

9 IMPLICATIONS

There are no direct implications arising from this plan for PricewaterhouseCoopers. Fees identified are commensurate with previous years. There is a slight reduction identified of £5,500 following improvements in the processes and statements across the Council during 2008 / 2009. There is also a further potential reduction of £15,000 relating to value for money studies. Overall, the Council is seen as a medium risk.

10 BACKGROUND DOCUMENTS

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

Audit and Inspection Plan 2009 / 2010

Government and Public Sector

January 2010

Peterborough City Council 2009/10 Audit Plan

The Members
Peterborough City Council
Town Hall
Bridge Street
PETERBOROUGH
PE1 1HG

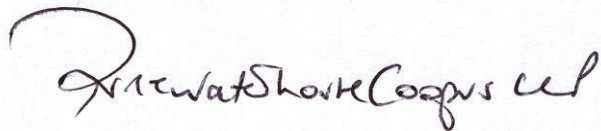
January 2010

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Peterborough City Council.

We would like to thank Members and officers of the Council for their help in putting together this Plan. If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Julian Rickett or Chris Hughes.

Yours faithfully,



PricewaterhouseCoopers LLP

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Audit budget and fees..... 13

Appendix A: Other engagement information 16

In April 2008 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.

Introduction

The purpose of this plan

Our Audit Plan has been prepared to inform the officers and Members of Peterborough City Council (“the Council”) about our responsibilities as your external auditors and how we plan to discharge them.

We issued our audit fee letter on 22 April 2009 in accordance with Audit Commission requirements, which set out our indicative fees for 2009/10. This plan sets out in more detail our proposed audit approach for the year.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. Our principle objective is to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank officers of the Council for their help in putting together this Plan.

Period covered by this plan

This Plan outlines our audit approach for the period 1 April 2009 to 31 March 2010, including the 2009/10 final accounts audit which we will undertake in

summer 2010.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission’s Code of Audit Practice (the Code) which was last updated in July 2008. This is supported by the Statement of responsibilities of auditors and of audited bodies (the Statement) which was updated in April 2008. Both documents are available from the Chief Executive.

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 audit letters follow the Statement and are in line with the Code. Although Annual Audit Letters and reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Risk assessment

Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be risks relevant to our audit responsibilities and our response to those risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

2010/11 – the first year of reporting under IFRS

The implementation of IFRS in the local government sector will occur in 2010/11. Therefore, the 2010/11 financial statements will be prepared in accordance with IFRS.

The 2009/10 financial statements will continue to be prepared in accordance with UK GAAP, however balances and transactions appearing in them will need to be restated under IFRS as comparatives in the 2010/11 financial statements. In order for this to happen, opening balances as at 1 April 2009 will need to be restated. Preparation for conversion is already be underway at the Council, as recommended in CIPFA's LAAP Bulletin 80, published in March 2009.

As the implementation of IFRS requires the financial statements to be prepared in accordance with a new set of financial standards, there is an increased risk that the accounts could be misstated. We will therefore work closely with the Council to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues on a timely basis.

Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

Risks	Audit approach
<p>Growth Agenda</p> <p>The recent global economic downturn places the timetable of the city's ambitious growth and regeneration programme at risk. The Council has numerous initiatives in place to allow it to pursue the growth agenda, including:</p> <ul style="list-style-type: none"> • considering whether existing priorities are appropriate; • investigating innovative procurement strategies and methods of delivery; and • re-configuring Opportunity Peterborough to focus on economic development and the Peterborough 'brand'. <p>These initiatives will require effective project management, including the identification and management of risks and appropriate governance arrangements.</p>	<p>We will continue to discuss the wider growth agenda with the Chief Executive, Monitoring Officer and the Executive Director of Strategic Resources, and consider the impact on our approach where appropriate</p>
<p>Children's Services</p> <p>The Council's transformation programme has made a significant investment in Children's Services. Key areas of focus for this programme included embedding a new structure, removing waste, improving procurement practices, bringing the performance management system in line with the corporate model, improving budgetary control and integrating the commissioning of services.</p> <p>Significant improvements have been made in Children's Services. It is important that effective governance arrangements remain in place to ensure the delivery of the Council's continued improvement plans for the service.</p>	<p>We will meet at least twice a year with the Director of Children's Services to discuss progress in this area and will review the work of Inspectors to inform our Value for Money opinion on the Council's Use of Resources.</p>
<p>City Services and Waste Management Solution</p> <p>The Council is currently running a procurement process to determine which elements of City Services will be sold. The Council will need to determine which are the most appropriate elements of the service to be sold, and which should remain "in-house".</p> <p>The Council will need to consider the impact on the accounts, both in terms of group accounts, the treatment of the pension liability in relation to those staff that transfer from the Council and the ongoing treatment of any 'dividends' due to the Council.</p>	<p>We will continue to discuss progress with City Services and the Waste Management Solution with management and understand the governance arrangements that the Council has put in place to deliver the waste management solution.</p>

<p>Managed IT service</p> <p>In October 2009 the Council entered into a managed IT service contract with SERCO. Common risks in outsourcing arrangements such as a managed IT service include environmental risks (will the contract be able to adapt to changing circumstances), asset risks (in relation to the capacity, condition and performance of assets that are managed by the contractor) and data risks (will existing data be maintained appropriately).</p> <p>Contracts of this nature are successful when Councils:</p> <ul style="list-style-type: none"> • provide for sufficient client-side management capacity and performance management; • create incentives for partnership working; • operate effective governance arrangements; • encourage partnership behaviours. 	<p>We will carry out audit procedures on the Council's general IT controls as part of our 2009/10 audit of the statement of accounts. We will consider the impact of the managed IT service on control arrangements and discuss with management how the contract is being managed.</p>
<p>Accounting for the Private Finance Initiative ("PFI")</p> <p>The 2009 CIPFA Statement of Recommended Practice ("SORP") requires that Local Authorities assess PFI schemes under the new accounting standard IFRIC 12. It is likely that the application of this standard will lead to the Council's PFI scheme falling to be accounted for as "on balance sheet". Accounting for a PFI scheme as "on balance sheet" is complex and will have a significant impact on the accounts.</p>	<p>We will carry out audit procedures on the Council's workings in relation to its PFI scheme as part of our audit of the 2009/10 statement of accounts.</p>
<p>International Financial Reporting Standards ("IFRS")</p> <p>IFRS will be adopted by Local Government in full in 2010/11 and will represent a significant change for the way the Council prepares its statement of accounts. Significant work will be required by the Council to gather and analyse the information required for first-time adoption of the new accounting standards. The risk of non-compliance is a modified or qualified audit opinion.</p>	<p>We will discuss the Council's progress in preparing for the conversion to IFRS in regular meetings with the Head of Strategic Finance.</p>

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- The arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources (Value for Money Conclusion)

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the

accounts into components. We assess the risk characteristics of each component to determine the audit work required.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, where we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit.

Value for Money Conclusion

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources (the Value for Money Conclusion).

This conclusion is based on relevant criteria, covering particular areas of the Council's arrangements which the Audit Commission have specified under the Code. The criteria cover three themes, Managing Finances, Governing the Business and Managing Resources, and are set out in Key Lines of Enquiry. The applicable criteria are specified by the Audit Commission each year, but where a 'no' judgement is made in one year, that criterion automatically applies in the following year, whether or not it is specified.

When forming our opinion we will seek to rely on:

- Any self assessment you have performed against the criteria;
- Your internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

As noted above, our conclusion will be issued as part of the audit opinion on your 2009/10 financial statements.

Mandatory work for 2009/10

Use of Resources Assessment

From April 2009, the Audit Commission implemented comprehensive area assessment (CAA), jointly with the other public service inspectorates.

The audit year 2009/10 will therefore be the first full year of CAA. As part of the transition to CAA the scope of the use of resources assessment was broadened to reflect 'new' areas such as commissioning. It also now encompasses a wider definition of resources, covering natural resources, people and information technology.

Our use of resources judgements in 2009/10 will therefore serve two purposes: as a basis for Value for Money conclusions and as an input into the results of CAA which will be reported in autumn 2010.

Data Quality work

We will be required to undertake audit work in relation to data quality to support our Use of Resources Assessment.

Our team and independence

Audit Team	Responsibilities
<p>Engagement Partner <i>Julian Rickett – 3rd year on the audit</i> Tel: 01603 883332 E-mail: <i>julian.rickett@uk.pwc.com</i></p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, approving the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Engagement Manger <i>Chris Hughes – 7th year on the audit</i> Tel: 020 7804 3392 E-mail: <i>chris.hughes@uk.pwc.com</i></p>	<p>Senior 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, Audit Memorandum and Annual Audit Letter.</p>
<p>Audit Manager: Accounts <i>Jacqui Short – 1st year on the audit</i> Tel: (01223) 55 2340 E-mail: <i>jacqui.a.short@uk.pwc.com</i></p>	<p>Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.</p>

Audit Team	Responsibilities
<p>Audit Senior Manager: Use of Resources <i>Howard Burton – 8th year on the audit</i> Tel: 01603 883253 E-mail: <i>howard.burton@uk.pwc.com</i></p>	<p>Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports.</p>

Our team members

It is our intention that, wherever possible, staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

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.

Independence conclusion

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

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Fee letter	April 2009
	Audit Plan	December 2009
Audit findings	Use of resources and preliminary conclusion for discussion	April 2010
	Internal control issues and recommendations for improvement	June 2010
Audit reports	Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&I) 260), including: <ul style="list-style-type: none"> • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about the qualitative aspects of your accounting practices and financial reporting • Any other relevant matters of governance interest and • Summary of findings from our use of resources audit work to support our value for money conclusion. 	September 2010
	Opinion on the Financial Statements including Value for Money Conclusion	September 2010
	Auditor Use of Resources Assessment	October 2010
Other public reports	Annual Audit Letter	December 2010

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2009/10 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale for audit for the Council is £264,500. This can be decreased to £185,150 or increased to £343,850, depending on our risk assessment of the Council. In setting the fee at the level below, we have allowed for work required to:

- audit PFI schemes as “on balance sheet”, as per the suggested requirement of the draft CIPFA Statement of Recommended Practice; and
- monitor initiatives at the Council (for example the Business Transformation programme, Children’s Services, the proposed ALMO in City Services and the Growth Agenda).

We have also included within the proposed fee of £271,000 a budget of £15,000 for Value for Money studies. If none are undertaken, the total fee will be £256,000, a decrease of £20,500 compared to 2008/09.

We categorise the Council as medium risk. In our audit fee letter dated 22 April 2009 we therefore agreed an audit fee of £271,000, which is broken down as follows:

	2009/10	2008/09
Accounts	175,000	178,000
Use of Resources	96,000	98,500
Total	271,000	276,500

Our fee for accounts work includes the following:

- Audit of the financial statements for 2009/10
- Work on whole of government accounts for 2009/10

Our fee for use of resources work includes the following:

- Use of Resources assessment, supporting the Comprehensive Area Assessment (CAA)
- Value for Money Conclusion
- Targeted value for money studies; and
- Follow up of previous work.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our Value for Money conclusion:
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2010; 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 in advance with you.

Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Director of Finance and his team.

Local Government Electors

Our fee does not include any work considering and responding to matters raised with us by Local Government Electors.

Appendix A: 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.

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 Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, 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.

Freedom of Information Act

In the event that, pursuant to a request which the audited body 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. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body 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.

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AUDIT COMMITTEE	AGENDA ITEM No. 6
8 FEBRUARY 2010	PUBLIC REPORT

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

AUDIT COMMITTEE - MEMBERS HANDBOOK

RECOMMENDATIONS	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
The Audit Committee are asked to:	
1. Approve the adoption of the Audit Handbook (2 nd Edition) by this committee.	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as part of its overall work programme for 2009 / 2010.

2. PURPOSE AND REASON FOR REPORT

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

3. TIMESCALE

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

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

5. CONSULTATION

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

6 ANTICIPATED OUTCOMES

Formal adoption of the Audit Committee Handbook (2nd Edition).

7 REASONS FOR RECOMMENDATIONS

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

8 ALTERNATIVE OPTIONS CONSIDERED

None.

9 IMPLICATIONS

None.

10 BACKGROUND DOCUMENTS

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

Audit Committee Handbook



AUDIT COMMITTEE HANDBOOK

December 2009

Edition 2.0

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- A Assurance Framework
- B Review Questions
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- E Additional best practice
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- G Measures to improve effectiveness
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- J Key Contacts

EDITION

- 1 January 2008. Approved June 2008.
- 2 Revised December 2009

PRINCIPLES

1. WHY DOES AN AUDIT COMMITTEE EXIST IN PETERBOROUGH?

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

2. WHAT DOES THE AUDIT COMMITTEE DO?

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

3. WHAT ARE THE BENEFITS OF AN AUDIT COMMITTEE?

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

4. WHERE SHOULD THE AUDIT COMMITTEE BEGIN ITS WORK?

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

5. WHAT AREAS OF WORK ARE TO BE CONSIDERED?

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

Internal Control and Corporate Governance

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

Internal Audit

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

External Audit

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

Contract Regulations and Financial Regulations

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

Corporate Fraud

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

Final Accounts

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

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

6. WHAT IS INTERNAL CONTROL?

6.1 An internal control system is defined as being:

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

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

Responsibility for Internal Controls

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

Control Environment

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

Risk Management

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

Control Activities

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

Monitoring Internal Control

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

Annual Governance Statement

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

7. WHO ARE THE MEMBERS OF THE AUDIT COMMITTEE?

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

8. WHAT AUTHORITY DOES THE COMMITTEE HAVE?

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

9. HOW FREQUENTLY SHOULD THE AUDIT COMMITTEE MEET?

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

10. WHO SHOULD ATTEND THE COMMITTEE MEETINGS?

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

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

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

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

11.4 External Audit

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

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

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

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

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

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

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

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

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

The main mandatory reports will be:

- Report to those charged with governance (incorporating the report required under ISA (UK&I) 260) that sets out the main matters arising from the audit of the financial statements and use of resources work.
- Statutory report and opinion on the accounts and conclusion on whether the Council has put in place proper arrangements to secure, economy, efficiency and effectiveness in the use of resources.
- Annual audit letter In addition to these reports, the External Auditor may issue a Public Interest Report or referral to the Secretary of State, if significant issues or breaches occur.

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

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

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

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

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

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

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

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

14. WHAT OTHER ASSURANCES SHOULD BE SOUGHT?

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

15. WHAT ADMINISTRATIVE SUPPORT SHOULD THE COMMITTEE EXPECT?

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

16. SHOULD THE COMMITTEE PRODUCE AN ANNUAL REPORT?

16.1 The Audit Committee, for embedding best practice and demonstrating the impact of its work, should prepare a report to Full Council that sets out how the Committee has met its Terms of Reference. The report should include, as a minimum:-

- A specific statement confirming that the draft Annual Governance Statement is consistent with the view of the Committee on PCC's system of internal control and that it supports the Director of Strategic Resources approval of the Statement, subject to any reasonable limitations that the Committee may draw attention to.
- That the system of risk management in PCC is adequate in identifying risks and allowing Full Council to understand the appropriate management of those risks. **Appendix I** outlines PCC's risk management policy and strategy.
- That the Committee has reviewed and used the Assurance Framework, and believes that it is fit for purpose.
- That there are no areas of significant duplication or omission in the systems of governance in PCC that have come to the Committee's attention and not been adequately resolved.

16.2 In addition, the report should highlight to Full Council the main areas that the Committee has reviewed and any particular concerns or issues that it has addressed. These could include:

- Any major break-down in internal control that has led to a significant loss in one form or another; or
- Any major weakness in the governance systems that has exposed, or continues to expose, PCC to an unacceptable risk.

ROLES & RESPONSIBILITIES OF KEY OFFICERS

17. KEY OFFICERS

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

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

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

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

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

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

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

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

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

Duties as deemed above for Executive Director.

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

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

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

17.6 Role of the Chief Internal Auditor

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

APPENDICES

ASSURANCE FRAMEWORK

INTRODUCTION

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

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

This can be expanded:

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

LINKAGES

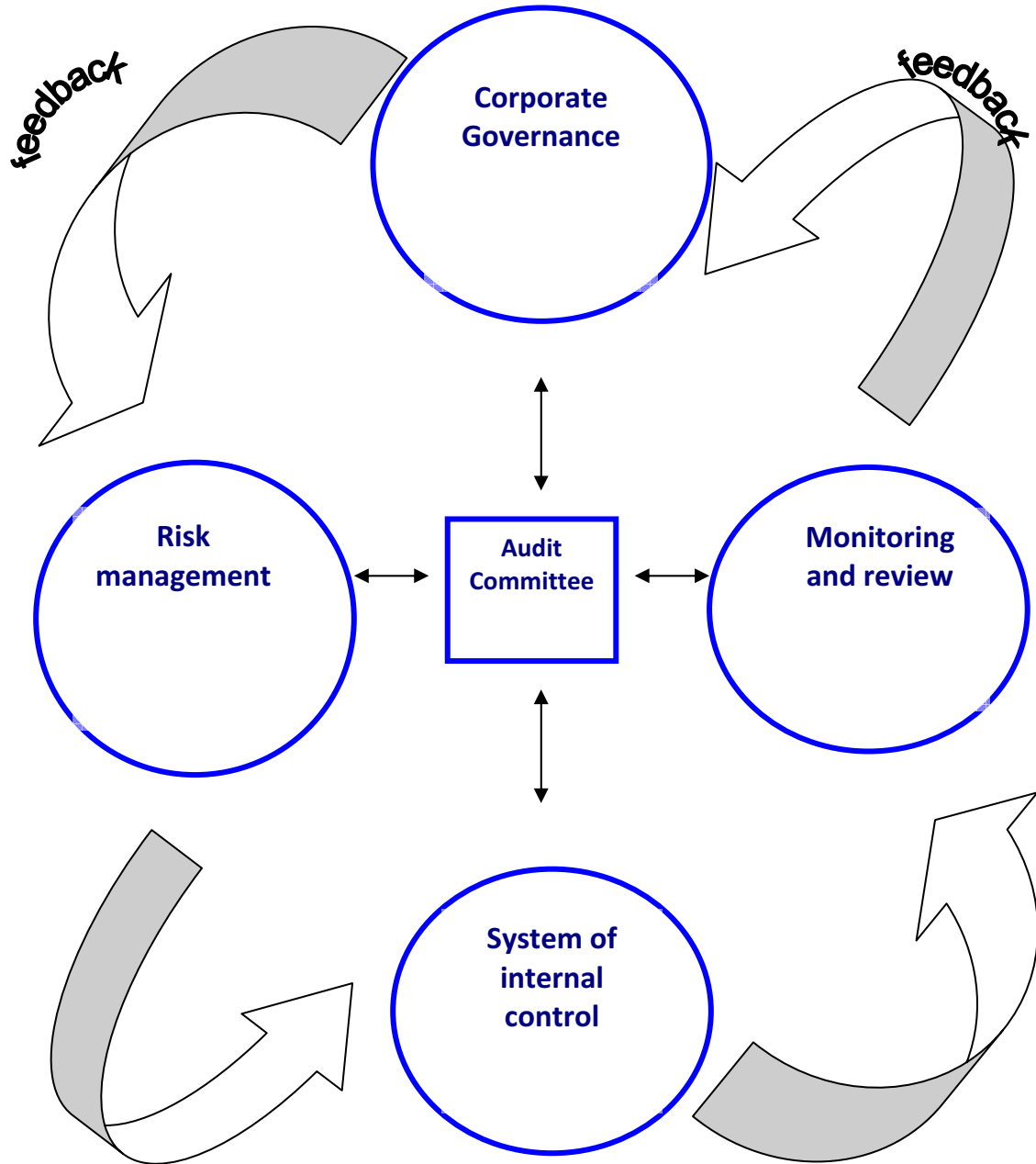
We believe an Assurance Framework should conceptually link various key themes together including:-

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

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

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

Delivery of objectives



CORPORATE GOVERNANCE

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

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

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

RISK MANAGEMENT

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

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

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

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

The position for Local Authorities has also evolved along these lines and there is a requirement for Authorities to develop their risk management arrangements and to report in their annual accounts. Set against this background, in October 2004 Cabinet agreed the Authority's risk management policy and outline strategy. This has subsequently been revised and updated through the Audit Committee on an annual basis, the last being in September 2009 (**Appendix I**).

Strategic Risk Register

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

Embedding Risk Management

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

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

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

SYSTEM OF INTERNAL CONTROL

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

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

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

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

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

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

MONITORING AND REVIEW

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

Performance Monitoring

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

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

Review and Challenge

Internal Audit

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

External Inspection

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

External Audit

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

THE AUDIT COMMITTEE

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

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

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

CONSOLIDATION

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

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

These are highlighted in the diagram overleaf.

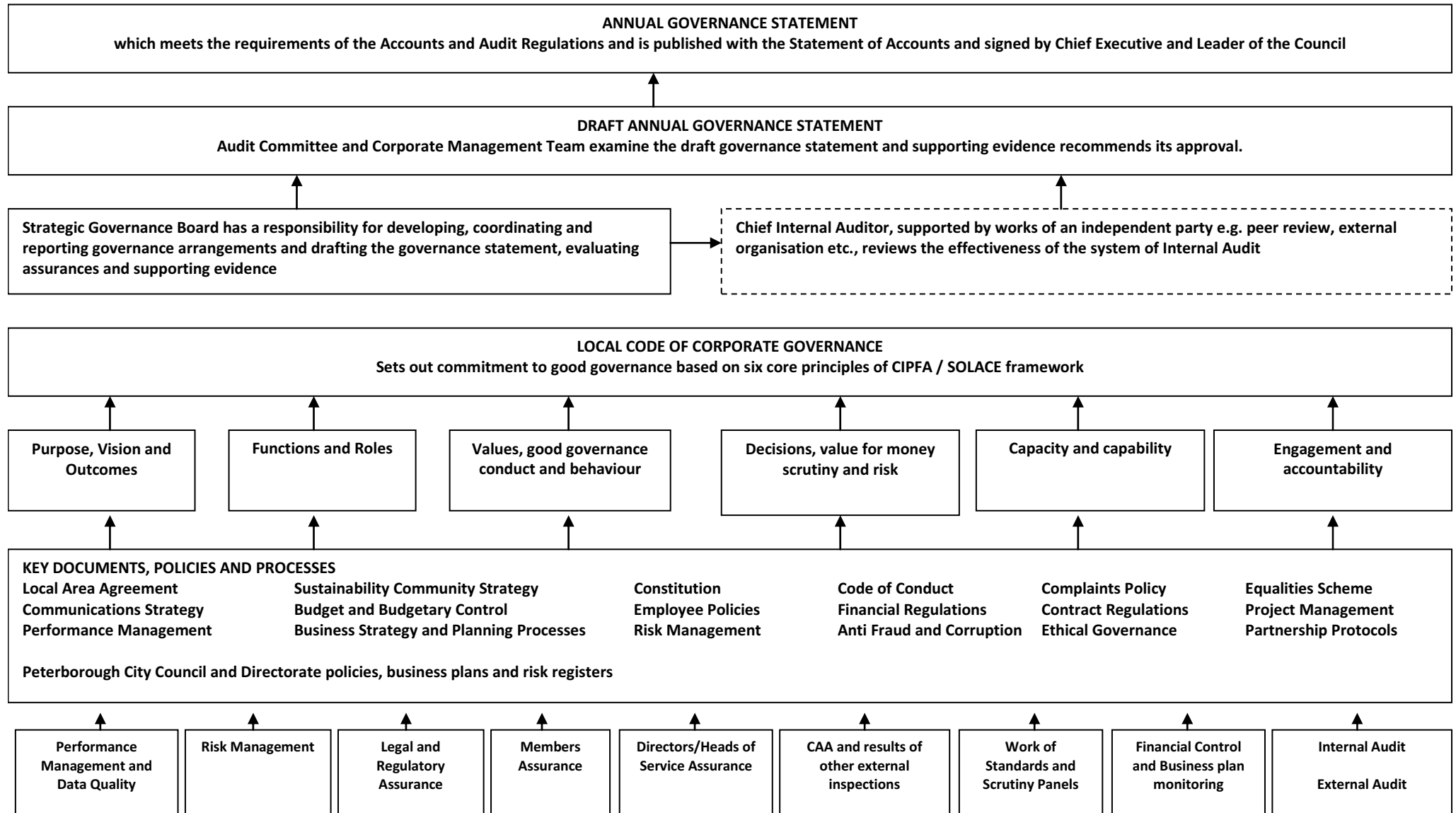
Audit Committee thus analyses, co-ordinates and implements corrective action to ensure that the Council has an effective and cohesive assurance framework in place, and that gaps or failings are addressed.

CONCLUSION

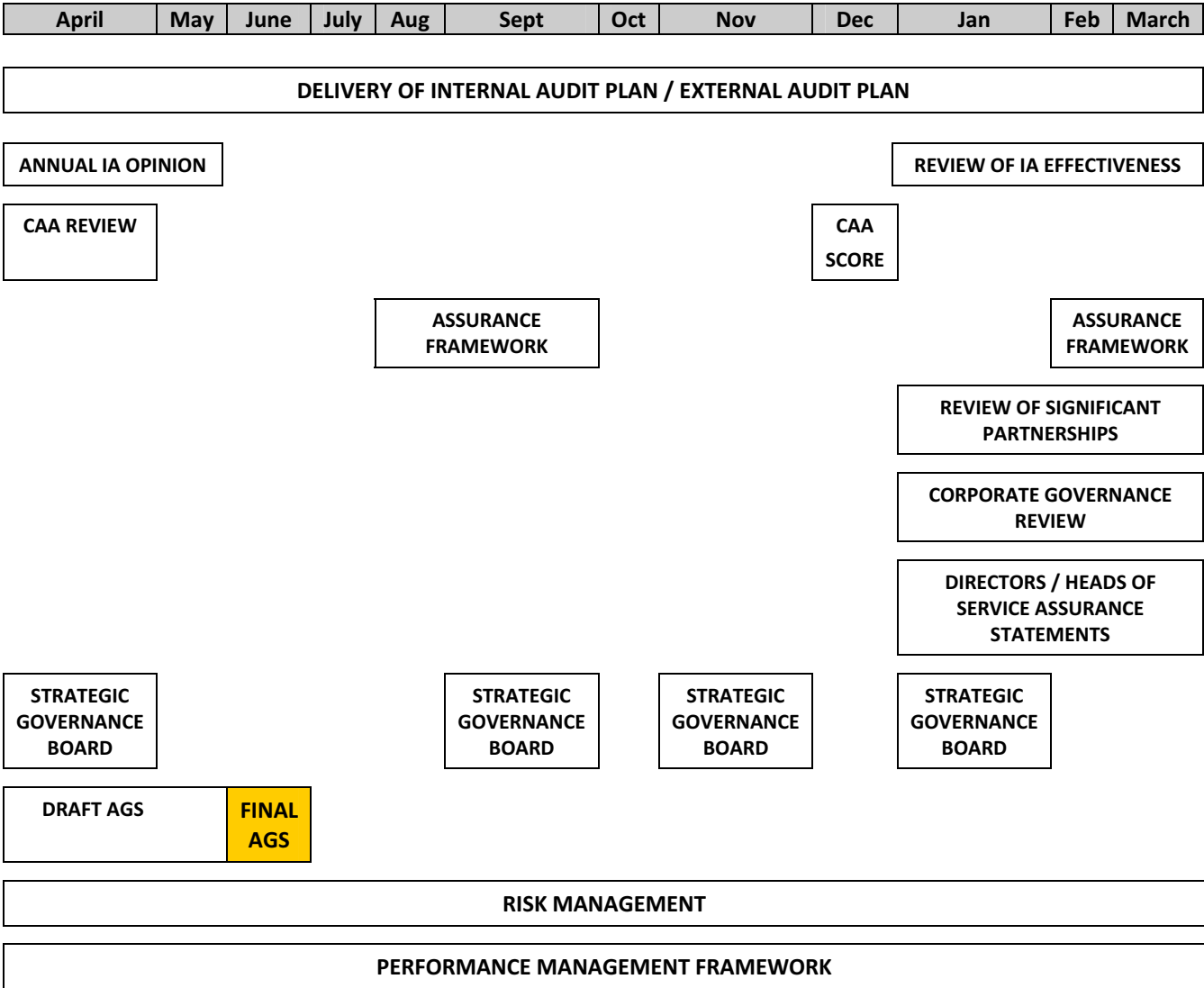
The Council in recent years has built on its internal assurance systems and processes and further enhanced them. The sound performance the Council has achieved on financial and risk management etc is a direct result of the processes we have put in place.

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

PETERBOROUGH CITY COUNCIL FRAMEWORK FOR THE ANNUAL GOVERNANCE STATEMENT



TIMETABLE FOR THE PRODUCTION OF THE ANNUAL GOVERNANCE STATEMENT



KEY QUESTIONS WHICH THE AUDIT COMMITTEE MAY ASK

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

ON THE STRATEGIC PROCESSES FOR RISK, CONTROL AND GOVERNANCE:

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

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

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

ON RELEVANT POLICIES OF PCC:

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

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

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

ON ASSURANCES RELATING TO THE CORPORATE GOVERNANCE REQUIREMENTS FOR PCC:

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

ON THE WORK OF THE AUDIT COMMITTEE ITSELF:

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

EXAMPLES OF INTERNAL CONTROL

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

Organisation

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

Segregation of Duties

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

Physical

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

Authorisation and Approval

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

Arithmetical and Accounting

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

Personnel

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

Management

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

AUDIT COMMITTEE: TERMS OF REFERENCE

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

2.2. AUDIT COMMITTEE

2.2.1 Terms of Reference

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

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

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

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

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

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

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

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

2.2.10 To commission work from internal and external audit.

2.2.11 Regulatory Framework

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

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

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

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

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

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

2.2.18 Accounts

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

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

ADDITIONAL BEST PRACTICE**INTERNAL AUDIT: CONSIDERATIONS**

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

REVIEW OF INTERNAL AUDIT: CONSIDERATIONS

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

EXTERNAL AUDIT: CONSIDERATIONS

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

REVIEW OF EXTERNAL AUDIT: CONSIDERATIONS

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

PRIVATE DISCUSSIONS WITH BOTH INTERNAL AND EXTERNAL AUDIT

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

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

ANNUAL REPORT OF THE COMMITTEE: CONSIDERATIONS

- The report should not be long and may be drafted by the Governance Support Officer under the direction of the Chair of the Audit Committee.
- The Chair should take overall responsibility for its preparation and share drafts of the report with members of the Committee.
- The final draft report should be shared with the Internal and External auditors, to ensure that it is consistent with their understanding, and with any other regular attendees to the Committee, such as the Director of Strategic Resources. However the final ownership of the report should be with the committee members.
- The report should go to the Audit Committee in advance of the meeting to agree the Annual Report and Accounts.
- If the report includes any significant issues, the Audit Committee Chairman should discuss this with the relevant CMT and / or Cabinet member.

USING THE ASSURANCE FRAMEWORK: CONSIDERATIONS

The Assurance Framework (included at **Appendix A**) is the key source of evidence that links strategic objectives to risks and assurances, and the main tool that CMT should use in discharging its overall responsibility for internal control.

The work of the Audit Committee, with regard to the Assurance Framework, should be to:

- Review the Assurance Framework to ensure that there is an appropriate spread of strategic objectives and that the main inherent / residual risks have been identified, as well as any that are newly arising. This is to ensure that there is no major omission. ***This review should be done once a year.***
- Assure itself that the process that has been undertaken by management to populate the Assurance Framework is appropriate, in that the necessary directors and managers have been involved and take responsibility for their entries, and that there are no major omissions from the list of controls.
- Monitor the implementation of action plans that have been drawn up to cover gaps in controls, assurances and reports to management. **This should be through reports from management, but may be supplemented by independent follow-up from auditors.**
- Consider, in particular, the “audit needs” of PCC in terms of the sources of assurance, both independent and from line management, and ensure that there is a plan for these assurances to be received. **This should be done at the very start of the audit planning process and involve a detailed review of the current sources of assurance and the prioritisation process.**
- Review the results of assurances, either in whole or specific to a risk or objective, and the implications that these have on the achievement of objectives. **In looking at the results of assurance work, the Committee should concentrate on assessing whether the overall objective is being met, that the main controls are operating as expected and that agreed actions for improvement are being implemented.**

The work of the Audit Committee is **NOT** to manage the process of populating the Assurance Framework or getting involved in the operational development of risk management processes, either at an overall level or individual risks. These are operational issues that the Committee should satisfy itself are being carried out by line management.

MAINTAINING THE FINANCIAL FOCUS: CONSIDERATIONS

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

SELF ASSESSMENT: CONSIDERATIONS

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

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

POTENTIAL AGENDA ITEMS

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

MEASURES TO IMPROVE EFFECTIVENESS

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

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

Features of Audit Committees¹

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

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

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

AUDIT COMMITTEE: SELF ASSESSMENT CHECKLIST

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

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

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

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

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

RISK MANAGEMENT POLICY AND STRATEGY

Risk Management Policy Statement / Strategy

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



Risk Management and Business Continuity Policy

2009-10

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

Scope

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

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

Context

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

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

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

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

Civil Contingencies Act 2004

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

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

Enterprise Risk Management

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

BS25999

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

Risk Management and Business Continuity Objectives

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

Responsibilities

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

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

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

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

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

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

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

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



Risk Management and Business Continuity Strategy

2009-10

Version 1.1

Date of Next Review: January 2010

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

Scope

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

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

Objectives

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

A timetable of events is outlined in Appendix D.

Definitions

Risk

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

Risk Appetite

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

Risk Management (RM)

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

Enterprise Risk Management (ERM)

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

Business Continuity Management (BCM)

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

Business Impact Analysis (BIA)

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

Stakeholder

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

Context

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

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

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

Risk Aware Culture

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

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

Key indicators of a risk-aware culture are:

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

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

Targets:

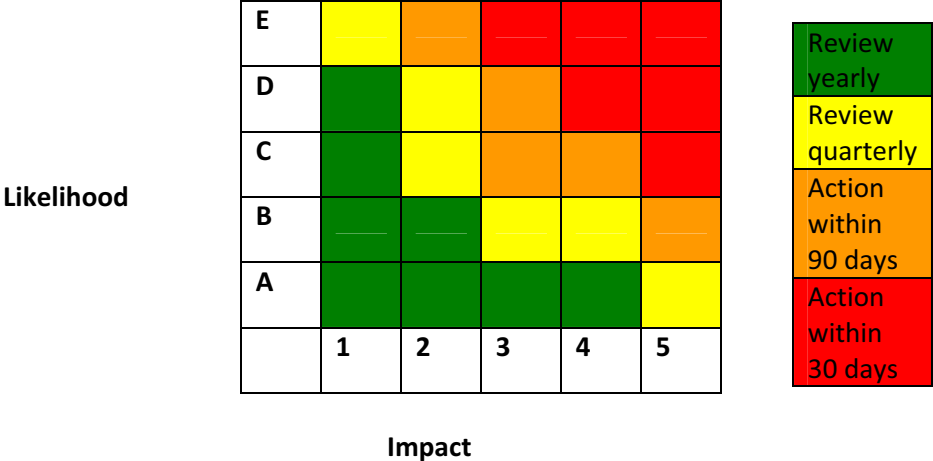
- To be a Level 2 on all capabilities by the end of 2009.
- To be a Level 3 on all capabilities by the end of 2010.

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

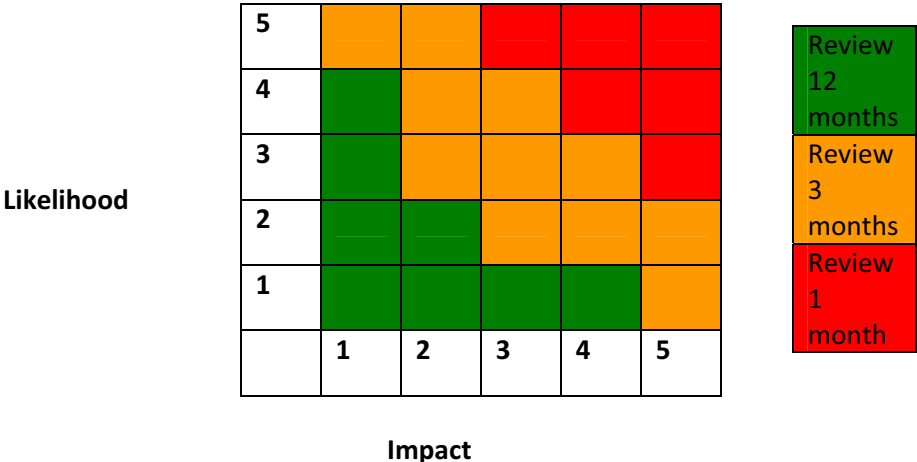
	Leadership & Management	Strategy & Policy	People	Partnership, Shared Risk & resources Processes	Processes	Risk Handling & Assurance	Outcomes & Delivery
Level 5: RM is DRIVING the organisation	Senior management uses consideration of risk to drive excellence through the business, with strong support and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

Risk Appetite

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



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



Likelihood Descriptors:

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

Impact Descriptors:

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

Classification System (risk definitions)

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

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

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

- Project risks
- Governance etc

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

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

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

Financial: events which could have a financial impact.

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

Environmental: events which could have an environmental impact.

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

Enterprise Risk Management

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

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

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

Strategic Objectives

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

Risk Assessment

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

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

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

Risk Evaluation

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

Risk Reporting

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

A reporting structure is attached at Appendix 2.

As a minimum, the following reports will be provided:

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

Decision

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

Risk Response

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

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

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

Residual Reporting

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

Monitoring

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

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

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

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

Training, Information and Communication

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

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

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

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

Business Continuity Management

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

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

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

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

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

Resources

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

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

Conclusion

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

Roles and Responsibilities

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

Full Council:

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

Leader/Cabinet:

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

Committee and Scrutiny Chairs:

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

Audit Committee:

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

Responsibilities:

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

Chief Executive:

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

Responsibilities:

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

Corporate Management Team:

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

Responsibilities:

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

Strategic Governance Board

The Terms of Reference are to be confirmed.

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

Responsibilities:

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

Resilience Services Manager:

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

Responsibilities:

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

Chief Internal Auditor:

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

Responsibilities:

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

Heads of Service/Service Managers:

Role: To manage operational risk effectively in each area.

Responsibilities:

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

Risk Champions:

Role: To facilitate effective departmental risk management.

Responsibilities:

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

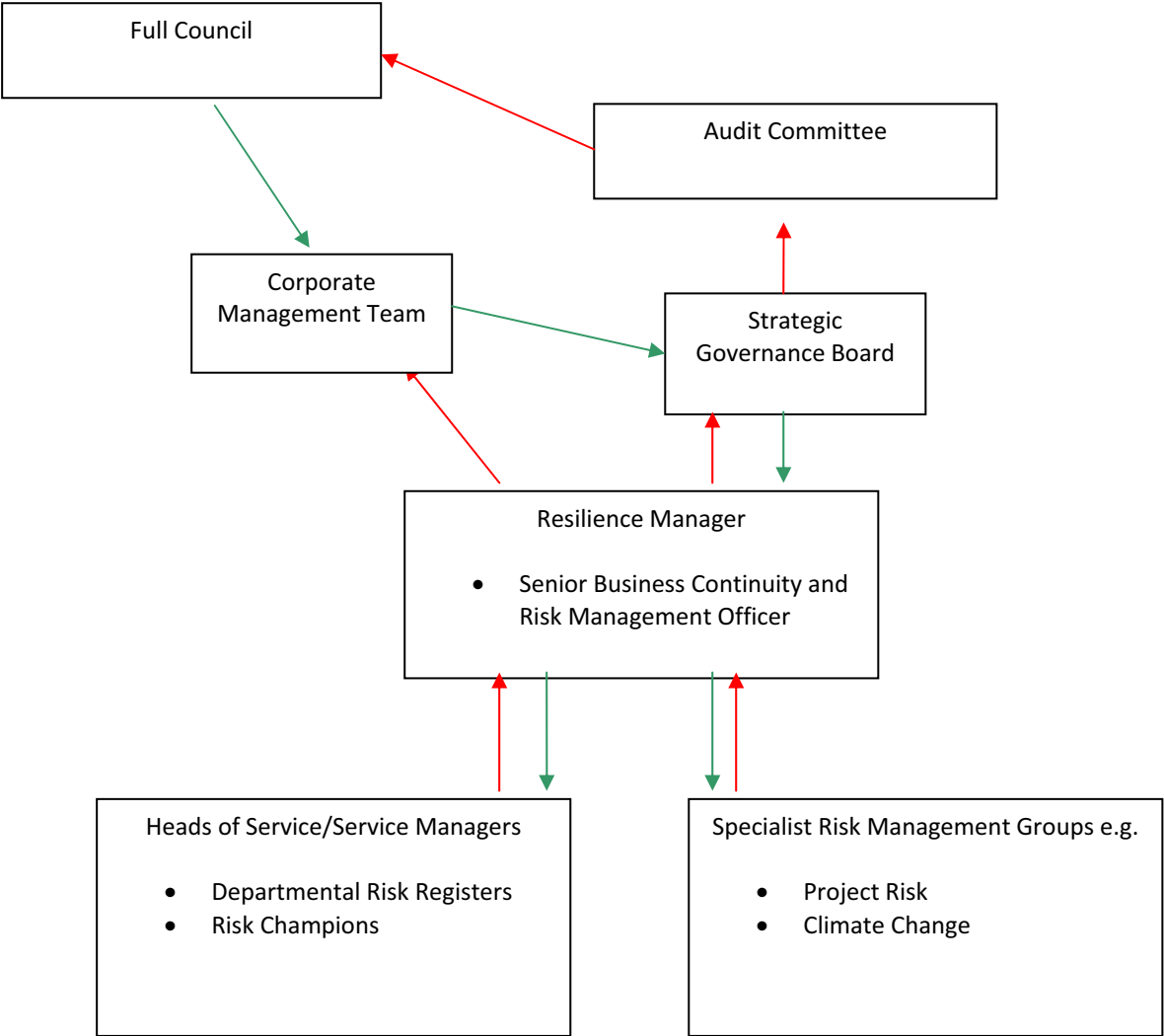
All Staff:

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

Responsibilities:

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

Reporting Structure



Key:
Reports on RM activities
Monitors and instructs

Risk Definitions Previously in Use

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

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

KEY OFFICER CONTACTS: AUDIT COMMITTEE

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

KEY OFFICER CONTACTS: GOVERNANCE AREAS

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

AUDIT COMMITTEE	AGENDA ITEM No. 7
8 FEBRUARY 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor M Dalton, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384557

INTERNAL AUDIT - CHARTER

RECOMMENDATIONS	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
The Audit Committee is asked to:- 1. To approve the terms of reference document for Internal Audit, known as the Internal Audit Charter.	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee following a recent update of the Internal Audit Charter.

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to gain approval to, and consider any comments that the Audit Committee may have on, the Internal Audit Charter.

3. TIMESCALE

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

4.1 An audit charter is a written statement of the purpose, authority, role, scope and principal responsibilities of an Internal Audit section. It is required because of the unique way in which such a section functions. Internal Audit needs authority to act outside its own departmental boundaries, in all parts of the Council, so as to provide those charged with governance independent assurance over the control environment. This requirement cuts across other hierarchical reporting lines.

4.2 This CIPFA Code of Practice specifies the need for an Internal Audit Charter approved by those charged with governance. Of particular importance is the need for Internal Audit to be independent. It should have no operational responsibilities, and the Head of Internal Audit should have direct access and freedom to report in his own name, without fear or favour, to all officers and members and particularly those charged with governance. The status of the Internal Audit section, in terms of its reporting lines and the seniority of the Head of Internal Audit is a fundamental aspect of independence.

4.3 It is also important that the scope of Internal Audit is not unduly limited. It should cover the whole control environment comprising risk management, internal control and governance.

It should include all the Council's operations, systems, projects, resources, services and responsibilities in relation to other bodies.

4.4 As well as covering the above points, the Internal Audit Charter describes certain audit protocols, so that management understand their responsibilities in the audit process and are made aware of what they can expect from Internal Audit.

4.5 The Internal Audit Charter has recently been refreshed to reflect best practice and is attached at **Appendix A**. Once approved, it will be distributed widely across the Council.

5 ANTICIPATED OUTCOMES

Approval of the Internal Audit Charter.

6 REASONS FOR RECOMMENDATIONS

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. This code specifies the need for an Internal Audit Charter approved by those charged with governance.

7 ALTERNATIVE OPTIONS CONSIDERED

The lack of an approved Internal Audit Charter is not an option, given the implications outlined below.

8 IMPLICATIONS

There would be a legal implication if an Internal Audit service was not provided for effectively, 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.

9 BACKGROUND DOCUMENTS

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

CIPFA Code of Practice for Internal Audit in Local Government in the UK
Accounts and Audit Regulations
Local Government Act 1972

Peterborough City Council

Internal Audit Service

Internal Audit Charter

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

Introduction

Definition of Internal Audit

Vision / Mission Statement

Purpose and Objectives

Scope and Authority

Independence

Responsibilities

External Relationships

Quality Assurance

Audit Protocols

Appendices

1 Audit Activities

2 Audit Reports: Audit Opinion and Classification of Issues

3 Reporting Arrangements

4 Audit Reports: Planning and Frequency

Version Control	5.0	Date Updated	January 2010
Approval at Audit Committee	February 2010	Date For Review	January 2011

INTRODUCTION

This Charter documents the terms of reference for Peterborough City Council's Internal Audit Section. It describes the section's purpose, authority, role, scope and principal responsibilities. It also outlines the relationship between Internal Audit and management, in terms of what can be expected from Internal Audit, and what Internal Audit expects from managers.

The Charter is reviewed annually and approved by the Audit Committee.

DEFINITION OF AUDIT

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities "*make arrangements for the proper administration of their affairs*". The Accounts and Audit Regulations 2003 (SI 2003 / 533), regulation 6, more specifically require that a "*relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices*". The provision of internal audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director of Resources.

The **CIPFA Code of Practice for Internal Audit in Local Government** (2006) defines Internal Audit as:

"an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The **Institute of Internal Auditors** defines Internal Audit 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."

These definitions are not mutually exclusive and jointly describe a modern and effective Internal Audit service. The Council fully supports the above definitions of Internal Audit and through this Charter (and other formal policies of the Council) formally recognises that Internal Audit represents an essential service to help deliver the principles of good corporate governance as

defined within the CIPFA / SOLACE Keystone in Community Governance standards.

VISION / MISSION STATEMENT

Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly controlled and risks effectively managed. Where assurance is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken.

Internal Audit aims to provide a high quality and effective audit service that is responsive to the needs of departments. Internal Audit aims to add value to the Council systems by identifying areas for improvement and offering advice and assistance to clients, in order to ensure effective systems of internal control.

PURPOSE AND OBJECTIVES

As described above, statute requires that the Council put in place arrangements for the systematic review and evaluation of the internal control environment and governance arrangements, including its policies, procedures and operations. As an independent function, Internal Audit fulfils this requirement by examining and evaluating the activities of the Council and by contributing advice at an early stage in the implementation of any developments or amendments to processes.

A key objective of Internal Audit is to provide the Council with assurance of the adequacy of the internal control environment together with supporting the Executive Director of Strategic Resources to discharge duties as the S151 Officer.

Internal Audit is **NOT** responsible for control systems. Responsibility for effective internal control rests with the management of the Council.

SCOPE AND AUTHORITY

Internal Audit's role applies to all functions and services for which the Council is responsible. Internal Audit has unrestricted coverage of the Council's activities and unrestricted access to all records and assets which is necessary for Internal Audit to effectively fulfil its responsibilities, however and wherever these are held. This includes Council information which is held or managed by third parties on the Council's behalf.

The Chief Internal Auditor has direct access, as appropriate, to:

- The Executive Director of Strategic Resources;
- All levels of management, including the Chief Executive and Monitoring Officer;
- All elected members, including the Leader and the Chair of the Audit Committee;

- Employees of the Council;
- Agents of the Council.

The Chief Internal Auditor reports also to the Audit Committee, attending all meetings, which are held on a periodic basis throughout the municipal year.

Internal Audit's authority is defined within the Council's Constitution - these include Financial Regulations, Conditions of Service, Scheme of Delegation and Code of Conduct. The authority for the production and execution of the Audit Plan and subsequent audit activities rests with the Chief Internal Auditor. The annual audit plan is agreed in consultation with the Council's Corporate Management Team and approved by the Council's Audit Committee.

INDEPENDENCE

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Such independence is achieved by ensuring that:

- Internal auditors have **NO** operational responsibilities;
- Auditors declare any interests they may have and audit work is allocated to avoid the risk of conflicts. A separate conflicts register is maintained by the Chief Internal Auditor and reviewed on a six-monthly basis;
- Audit responsibilities are rotated. If an auditor is seconded out of the section, or is involved on any specific project, their independence is maintained by preventing them from auditing that particular activity for a specific time period;
- Internal Audit is involved in the determination of its priorities in consultation with the Audit Committee;
- The Chief Internal Auditor has direct access and freedom to report in his own name and without fear or favour to all officers and members and particularly to those charged with governance (the Chair of the Audit Committee, the s.151 Officer, the Chief Executive, the Monitoring Officer and the Leader of the Council); and
- Resources are made available to enable Internal Audit to fulfil their role and to provide assurance for the Annual Governance Statement.

RESPONSIBILITIES

For Internal Audit

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the adequacy of the Council's system of internal control, risk management and governance;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;

- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties;
- Producing an annual plan that provides adequate audit coverage of the Council's control environment within an agreed assurance framework;
- Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
- Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
- Providing an overall opinion on the control environment comprising risk management, control and governance.

In meeting its responsibilities, Internal Audit activities will be conducted in accordance with established Council policies and procedures. Internal Audit staff shall also maintain professional standards required by their respective professional body.

For Management

Managers are responsible for ensuring that control arrangements are sufficient to mitigate / address the risks facing their services to an adequate degree. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems. All managers can assist the process of internal audit by:

- Providing access at all reasonable times to premises, personnel, documents and assets that the internal auditors consider necessary for the purpose of their work;
- Giving information and explanations that are sought by the internal auditors in the course of their work;
- Providing input to both the audit plan and the Terms of Reference for each review, to ensure attention is focussed on areas of greatest risk;
- Early notification to Internal Audit of plans for change, including new operational systems and processes;
- Implementing agreed actions arising from audit recommendations in a timely and effective manner;
- Ensuring that where key systems are managed by an external organisation that contractual documentation identifies, in consultation with the Chief Internal Auditor, the internal audit arrangements for those key systems; and
- Notifying suspicions of fraud, theft or other irregularity, in accordance with the Council's Anti-Fraud and Corruption Strategy.

EXTERNAL RELATIONSHIPS

External Auditors

Internal Audit's role and function is distinct from external auditors. The council's external auditors, appointed by the Audit Commission (currently PricewaterhouseCoopers), have a Code of Practice and specific statutory responsibility for the review of the Comprehensive Area Assessment (CAA), the audit of the Financial Aspects of Corporate Governance and the audit of financial statements.

External and Internal Audit co-operate to provide assurance to the Council in respect of the internal control environment. External Audit is given the opportunity to input and review Internal Audit plans and activities to assess its effectiveness and to obtain part of the audit assurance they require in relation to their audit of the financial statements. Additionally, Internal Audit carry out specific work on behalf of External Audit, including the audit of teachers' pension payments and certain grant claims.

Audit Groups

Internal Audit meets regularly with audit groups comprising Head's of Internal Audit from other councils (districts, counties and unitary authorities within Cambridgeshire, Bedfordshire and Northamptonshire and also the London Audit Group) to discuss best practice and developments in the audit profession, as well as exploring partnership working.

It also liaises with a larger network of local authority auditors, as well as other public and private sector auditors through national forums such as the CIPFA Benchmarking club and the Better Governance Forum to share and develop best practice.

Inspection Bodies

Internal Audit liaises with a variety of inspection bodies, where appropriate, to assist in formulation of our Audit Plan and to ensure that there are no gaps or duplications in the assurance provided to those charged with governance.

Third Parties

Internal Audit liaises with third party service providers to determine the level of assurance they are providing to the Council and the Partnership.

Similarly, Internal Audit may be required to provide assurance to other outside parties, for example, East of England Development Agency. Where required, audit reports will be provided to respective Audit Committees.

QUALITY ASSURANCE

The work of Internal Audit is controlled to ensure an effective level of performance, compliant with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, is maintained. All auditors are responsible for conducting audits with reference to due professional care and ethical standards, but the Chief Internal Auditor ensures that quality and performance are achieved by the following means:

- An Audit Manual describes policies and procedures for the guidance of staff. This builds upon the CIPFA Audit Manual;
- Assignments are allocated according to the experience and skills of individual auditors;
- Internal review of work standards is undertaken through a system of management review involving senior audit staff. This incorporates review of all audit documentation and reports prior to release;
- Quality questionnaires are issued at the end of each audit review. Completed questionnaires are recorded and monitored against performance indicators. If standards have slipped, quality issues are discussed with senior management across the Council;
- A self assessment of compliance with the CIPFA Code of Practice is carried out periodically (whether by internal assessment or peer review) and other external quality reviews are commissioned as appropriate. These include reviews by the External Auditor and the use of benchmarking to compare with other Councils.

Quality also depends on appropriate staffing, in terms of numbers, grades, qualifications and experience. The Chief Internal Auditor is CIPFA qualified. Other auditors are professionally qualified within the field of accountancy or internal audit, or are in the process of becoming qualified. Training needs are assessed as part of the appraisal process and time and financial resources (subject to availability) are made available to all staff to undertake continuing professional development.

AUDIT PROTOCOLS

Strategy and Annual Planning

Internal Audit review the Audit Strategy on an annual basis which is agreed through the Audit Committee. This document sets out the commitment to continue to develop the audit role and activity, principally as an internal function to Peterborough, but also to seize any opportunities to develop into other areas.

Internal Audit will prepare a risk based audit plan designed to implement the audit strategy, taking into account of the Council's risk management process and the Assurance Framework. Any difference between the plan and the resources available will be identified and reported to the Audit Committee. The risk based 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 **Appendix 1**.

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 Divisional Management Team prior to their formal approval.

Notification of an Audit

The Director, Head of Service, service manager and other relevant managers will be given sufficient notice prior to the start of each audit assignment. After discussion with relevant managers, an Audit Brief, detailing the objectives and timings of the audit, will be issued to the Head of Service, service manager and other relevant managers. However, this arrangement does not preclude Internal Audit from making unannounced or short-notice visits.

Conduct of Audit

Significant issues arising during the course of the audit will be discussed with the service manager during the course of the audit. At the end of an audit, findings will be discussed with the service manager at his choice of an exit meeting (at the conclusion of fieldwork) or a draft report meeting.

Reporting

Reports contain an opinion on the control environment of the area under review, and a table of recommendations for improvement, prioritised according to the level of risk. **Appendix 2** provides information on the criteria used to determine the opinion and risk classification, while **Appendix 3** and **Appendix 4** sets out the current reporting processes.

Follow-up

The implementation of agreed recommendations will be subject to self-assessment by management within 6 months of the final report. Internal Audit will provide the service manager with a template containing the agreed action plan, which should be updated with progress and returned within 15 working days.

Internal Audit will check the implementation status by further audit review and testing as appropriate and will issue a follow-up report.

Continuing significant weaknesses will be reported to the Audit Committee.

AUDIT ACTIVITIES

Audit Type	Brief Description
Key Financial Systems	System or risk based audits of all financial reporting systems.
Corporate / Strategic	Reviews cutting across services, business streams or schools. These include policies, higher level controls, business culture, management's attitude to risk and control weaknesses or breakdowns identified. For example, reviews of corporate governance framework, risk management and counter-fraud initiatives.
Service Areas	Evaluation of risk management procedures and the controls in place to mitigate risks and ensure objectives are achieved.
Contracts and Projects	Covering the various stages of revenue and capital contracting and project management. Predominantly looking at compliance with policies.
Schools	Covering significant financial and operational control aspects of primary, secondary and special schools. To provide assurance in respect of Financial Management Standard in Schools (FMSiS).
ICT	System or risk based audits of the risks and controls within the ICT environment.
Value for Money	Major issues of efficiency, economy and effectiveness will be considered within each audit. Specific VFM reviews will be undertaken where a need is identified.
Environmental studies	Major issues of sustainability and links to assist the authority in its vision for environmental capital.
Internal Consultancy	Expert advice on risks and controls, particularly when systems or procedures change. Training of staff or Members. Ad-hoc reviews by specific management instruction and subject to resource availability.
External Support	By management instruction, subject to resource availability. (This may include areas such as assistance in year-end audit procedures or grant claim verification).
Fraud and Irregularity Investigations	A joint working arrangement between Internal Audit and Corporate Fraud 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. All referrals are received by Internal Audit, and fraud investigation is carried out by the Corporate Fraud Team, 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.

Fee Paying Audit work	<p>Work for external organisations / local authorities. Requirements are determined annually.</p> <p>Internal Audit is an assessor for providing assurance in respect of the Financial Management Standard in Schools. This will be marketed to other authorities.</p>
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AUDIT REPORTS: AUDIT OPINION AND CLASSIFICATION OF ISSUES

In order to assist management in using our reports:

- a) We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls:

Opinion	Description	Guide For Awarding
FULL assurance	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.	Only LOW recommendations.
SIGNIFICANT assurance	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.	Predominantly LOW and MEDIUM recommendations or a significant number of LOW recommendations.
LIMITED assurance	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.	Predominantly MEDIUM and HIGH recommendations, or a significant number of LOW and MEDIUM recommendations.
NO assurance	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.	One CRITICAL or a significant proportion of HIGH recommendations.

- b) We categorise our **recommendations** according to their level of risk and priority for implementation:

CRITICAL	Extreme control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

REPORTING ARRANGEMENTS

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	<p>Produced within 15 working days of completion of fieldwork / exit meeting.</p> <p>Head of Service / Line Manager to formally respond within 15 days, including acceptance (or not) of recommendations together with timescale proposals to implement.</p>
Final Report	<p>Internal Audit incorporates all management comments within the report and re-issue as a final within 10 days of receiving the response.</p> <p>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.</p> <p>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</p>
Non Responses	<p>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. The reminder will be endorsed by the Audit Committee Chair as to it the importance of responding to audit reports.</p> <p>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.</p>
Final Report	<p>Internal Audit incorporates all management comments within the report and re-issue as a final within 10 days of receiving the response.</p> <p>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.</p> <p>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</p>

	the report
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AUDIT REPORTS: PLANNING & FREQUENCY

Reports	To	At	Content
Audit Assignment Report	Service Manager (or Head teacher) Director (or Chair of Governors)	The end of each audit assignment as the main recipient	Executive Summary Audit Opinion Detailed risk issues Agreed improvement plan
	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	Executive Summary Audit Opinion Detailed risk issues Agreed improvement plan
Quarterly Reports	Audit Committee	The end of each quarter	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	Audit Committee Corporate Management Team s.151 Officer Monitoring Officer External Audit	The end of each year	Annual assurance report giving Chief Internal Auditor's opinion on the control environment. Achievement of the annual plan and performance data.

<p>Annual Audit Plan and Strategy</p>	<p>Audit Committee Corporate Management Team s.151 Officer External Audit</p>	<p>Beginning of every year</p>	<p>Audit area. Audit risk assessment. Budgeted days. Time-table. The strategy describes how Internal Audit will meet its responsibilities and comply with CIPFA standards.</p>
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AUDIT COMMITTEE	AGENDA ITEM No. 8
8 FEBRUARY 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor M Dalton, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Executive Director - Strategic Resources Steve Crabtree, Chief Internal Auditor	☎ 452 398 ☎ 384 557

INTERNAL AUDIT - QUARTERLY REPORT 2009 / 2010 (TO 31 DECEMBER 2009)

RECOMMENDATIONS	
FROM : John Harrison, Executive Director - Strategic Resources	Deadline date : N/A
Audit Committee are asked that :	
1. The Internal Audit Update Report to 31 December 2009 be received and the Committee note in particular: <ul style="list-style-type: none"> (a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 9 months to 31 December 2009, internal control systems and governance arrangements remain generally sound; and (b) Progress made against the plan and the overall performance of the section. 	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as a routine planned report within the work programme of the Committee. It sets out Internal Audit performance and progress with regards to the 2009 / 2010 Audit Plan (Audit Committee approval: 30 March 2009).

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2009 / 2010 as at 31 December 2009.

3. TIMESCALE

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

This report outlines the work undertaken by Internal Audit up to 31 December 2009, progress against our plan and other issues of interest.

5. ASSURANCE OPINION

5.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **FULL**; **SIGNIFICANT**; **LIMITED**; and **NO ASSURANCE**. Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews will be included in an appendix to this report, once the audit review has been agreed and finalised. **NINE** reports fall into this category for the quarter, details of which are included in **Appendix B**.

5.2 Based on the work carried out and finalised during the 2009 / 2010 (to 31 December 2009), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 95.2% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 97%).

6. AUDIT PLAN 2009 / 2010

6.1 Progress against Plan

6.1.1 **Appendix A** shows all audits underway or completed in the first 6 months, with the exception of the Financial Management Standard in Schools (FMSiS) for 2009 / 2010 where reviews are at preliminary stages. The Appendix also includes reviews brought forward from the previous year that have been finalised during 2009 / 2010. In addition to the reviews detailed, other activities of control advice have been provided by Internal Audit which may not have resulted in the production of a report. Audits that were not planned at the time of the Annual Audit Plan being approved are also included within the Appendix and are identified with an asterisk (*).

6.1.2 Progress against the revised 2009 / 2010 plan is 74.48% (compared with 63.7% to the 9 month period December 2009). In accordance with the revised plan the scope of some programmed reviews will be reduced where possible but will still provide appropriate assurance on the control environment.

6.1.3 The percentage of direct days delivered to 31 December is 98.5% against a target of 100%. Despite figures being calculated to include the original plan for the six months to 30 September and the revised audit plan for quarter 3, performance is higher than would be expected, given that a significant number of days have been lost due to sickness. This is due to the introduction of annualised hours and a reduction in indirect activities.

6.1.4 To date, 20 audit projects for 2008 / 2009 have been finalised together with a further 39 for 2009 / 2010. 11 other pieces of work have been completed where either no audit report was necessary, or a committee report was produced. There are also 16 reviews that are in various stages of progress along with the 23 schools subject to Financial Management Standards in Schools reassessment of which 3 are in draft.

6.2 Responses to Audit Reports

Internal Audit continues to produce reminders in accordance with their Audit Charter (revised Audit Charter presented for approval elsewhere on this meeting's agenda) to finalise reports in a timely manner. Audit Committee will be advised during the year where significant delays occur.

6.3 Status of Recommendations

6.3.1 Our current policy, as defined in our Audit Charter, is to follow up the implementation of recommendations 6 months after the reports have been finalised. To date 80% of high/critical recommendations have been followed up against an annual target of 80%. Where services receive an annual review, e.g. very high risk areas or key financial systems such as benefits and national non-domestic rates, recommendations are reassessed during this review.

6.4 Other Performance Matters

6.4.1 Our productive time (chargeable days) target is 80%. Performance up to December 2009 remains at 71%. Whilst this is lower than target (due to the effect of long term sickness) the impact has been partially mitigated by the reduction of indirect time during the period.

6.4.2 Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score to date is 4.5 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports.

6.4.3 An average of 31.5 days sickness per person was lost during the 9 months to 31 December 2009, compared to an annual target of 5 days per person. This is a major increase on last year where sickness was 8.0 days per person as at 31 December 2008. This is due to long term sickness and the impact on average figures as the team has reduced to 7.1 FTE from 9.3 FTE in 2008 / 2009. Absence levels excluding long term sickness are 5.25 days per person which is less than the previous years figure detailed above. The member of staff reported as long term sick during the year to date is due to commence a phased return to work during Q4 and will continue to be monitored by Occupational Health during this transitional period.

6.4.4 An average of 6.5 days training has been provided to each auditor so far this year (annual target of not less than 5 days per auditor). This includes 'on the job' training, internal corporate training, training for professional qualifications and audit technical update seminars. Corporate initiatives introduced during 2008 / 2009 in relation to the Learning Academy (Cohort 2010), will continue during 2009 / 2010 along with other training activities.

6.4.5 The length of time from completion of field work to issue of a draft report is currently on line with target days.

7. CONSULTATION

This report and the accompanying appendices have been issued to the Section 151 Officer for consideration.

8. ANTICIPATED OUTCOMES

That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

9. REASONS FOR RECOMMENDATIONS

The Council is subject to the Accounts and Audit (amendment) Regulations 2006 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. This report and associated papers demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

10. ALTERNATIVE OPTIONS CONSIDERED

The alternative of not providing an Internal Audit service is not an option.

11. IMPLICATIONS

12.1 Corporate Strategy (relevance to):

Internal Audit, through its central monitoring role, has an essential part to play in the application of sound financial management and corporate governance principles throughout the organisation. In addition it endeavours to promote quality systems and to ensure that there is an effective, efficient and economical use of all resources available to the Council.

Internal Audit reviews the risk management process that is integral in the setting of priorities within the Council and ultimately the Corporate Strategy. A corporate risk management process is now in place and work continues to be undertaken to embed further a risk management culture throughout the Council. Corporate risk registers were first introduced in October 2003 and these are continuing to evolve. These registers should reflect the risks associated with the key priorities identified in the Corporate Strategy. The Internal Audit plan for 2009 / 2010 has been produced with reference to the Corporate Risk Register to ensure, where possible and appropriate, Internal Audit review those areas considered to be of most risk. The annual audit plan will continue to be reviewed to ensure it is in line with the risk registers, and as a consequence that the audit programme is closely linked to the Corporate Strategy.

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.

BACKGROUND DOCUMENTS

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

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
Accounts and Audit (amendment) (England) Regulations 2006
Internal Audit Business Plan 2009 / 2010
Internal Audit Annual Plan 2009 / 2010

APPENDICES:

Appendix A	Progress of Audit Plan 2009 / 2010 (To 31 December 2009)
Appendix B	Audit Reports Issued in Quarter 3: Limited / No Assurance

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 31 DECEMBER 2009

The table below provides a summary of the assurances assigned to each of the reviews and the status of the recommendations made.

(*) denotes additional works to the original audit plan.

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHIEF EXECUTIVES DEPARTMENT										
Economic Participation Programme Review			*		-	4	4	-	8	Final
Economic Participation Programme 2007 / 2008 Follow Up					n/a	n/a	n/a	n/a	n/a	Final
SI (Cex1006-08) *					n/a	n/a	n/a	n/a	n/a	Final
Mayoral Allowances *					n/a	n/a	n/a	n/a	n/a	Memo
Private Sector Housing Grants *					n/a	n/a	n/a	n/a	n/a	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS 2009 / 2010										
FMSiS Arrangements (to be identified individually throughout year as work progresses). 23 Schools comprising <ul style="list-style-type: none"> • 9 Secondary Schools, • 12 Primary Schools; and • 2 Special Schools 					-	-	-	-	-	
AMVC		x			-	-	3	3	6	Draft
Orton St Johns Primary		x			-	-	7	-	7	Draft
Castor Primary	x				-	-	-	2	2	Final
CHILDRENS SERVICES: OTHER ACTIVITIES										
Bushfield School Closure		x			-	1	-	-	1	Final
The Voyager			x		-	11	4	4	19	Final
SI (Chi2325-02) *			x		-	-	3	-	3	Final
SI (Chi2154-02)				x	-	13	3	3	19	Final
Heltwate Financial Controls*					n/a	n/a	n/a	n/a	n/a	Final memo
Building Schools for the Future*		x			-	-	1	-	1	Final
CRB policy in schools *					n/a	n/a	n/a	n/a	n/a	Final
Contact Point					-	-	-	-	-	In progress
PCAE			x		-	10	9	1	20	Draft. Extension granted.

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FOLLOW UPS										
Abbotsmede FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Eyrescroft FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Gladstone FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Matley FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
West Town FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Bushfield School Closure					n/a	n/a	n/a	n/a	n/a	Final
Orton Longueville – Cashless System					n/a	n/a	n/a	n/a	n/a	Final
Education Psychology					-	-	-	-	-	In progress
St John Fisher					-	-	-	-	-	In progress
Old Fletton FMSiS					n/a	n/a	n/a	n/a	n/a	Final
Oakdale FMSiS					n/a	n/a	n/a	n/a	n/a	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS										
Rolled Forward from 2008 / 2009										
Bishop Creighton			x		-	2	6	6	14	Final
Discovery			x		-	2	7	2	11	Final
John Clare			x		-	1	6	4	11	Final
Longthorpe Primary		x			-	1	2	2	5	Final
Middleton			x		-	3	3	2	8	Final
Nene Valley		x			-	-	3	2	5	Final
Newark Hill		x			-	1	3	2	6	Final
Northborough			x		-	3	1	1	5	Final
Norwood		x			-	3	2	1	6	Final
Parnwell Primary		x			-	-	2	2	4	Final
Peakirk-cum-Glinton			x		-	1	8	2	11	Final
Sacred Heart RC Primary			x		-	5	5	-	10	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS Rolled Forward from 2008 / 2009										
Stanground St Johns			x		-	2	4	-	6	Final
St Thomas More		x			-	-	1	4	5	Final
The Phoenix			x		-	3	5	2	10	Final
Wittering			x		-	2	7	2	11	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CITY SERVICES										
Procurement *					-	-	-	-	-	In progress
Energy Payments *					-	-	-	-	-	In progress
SI (Con3195-03) *				*	2	1	-	-	3	Final. Deferral - pending internal procedures.
Property Design and Maintenance Contracts					-	-	-	-	-	In progress
CITY SERVICES Rolled forward 2008 / 2009										
Budgetary Control			*		-	4	6	2	12	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
OPERATIONS										
Central Library Follow Up					n/a	n/a	n/a	n/a	n/a	Final
SI (Env4396-01) *			x		-	7	-	-	7	Final
Blue Badges *			x		-	3	3	-	6	Final
Key Theatre		x			-	2	6	9	17	Final
Climate Change			x		-	6	4	2	12	Draft
SI (Con3325-01) *			x		-	-	2	2	4	Draft
Walton Community Association *					n/a	n/a	n/a	n/a	n/a	n/a
Leisure Trust Creation *					-	-	-	-	-	In progress
Museum Follow up					n/a	n/a	n/a	n/a	n/a	Final
Street Lighting Follow Up					n/a	n/a	n/a	n/a	n/a	Final
OPERATIONS Rolled Forward 2008 / 2009										
Jack Hunt Pool Refurbishment *				x	1	12	9	2	24	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
STRATEGIC RESOURCES										
LSVT VAT Shelter Usage *		x			-	-	2	-	2	Final
Invoice Fraud -Insurance Claim Recovery *					n/a	n/a	n/a	n/a	n/a	NFA anticipated
Teachers Pensions Arrangements 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
National Fraud Initiative					n/a	n/a	n/a	n/a	n/a	Final – Results provided to Audit Commission via online portal
CIPFA Benchmarking 2009					n/a	n/a	n/a	n/a	n/a	Analysis to be used to develop Audit Strategy 2010
SI (Con3325-01) *			x		-	1	-	-	1	Draft memo
Benefits 2009/10					-	-	-	-	-	In progress
Main Accounting System 2009/10					-	-	-	-	-	In progress
Treasury 2009/10					-	-	-	-	-	In progress
SI (Str5470-19) *					n/a	n/a	n/a	n/a	n/a	Final memo
SI (Str5470-20) *					n/a	n/a	n/a	n/a	n/a	Final memo
BACS Processing - Payroll*			x		-	2	4	-	6	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
STRATEGIC RESOURCES (Continued)										
Taxation Systems - Bailiff Interface*					n/a	n/a	n/a	n/a	n/a	Draft
Bank Imprest F/Up					n/a	n/a	n/a	n/a	n/a	Final memo
Creditor Payments*					n/a	n/a	n/a	n/a	n/a	Final memo
Purchasing Card Procedures					-	-	-	-	-	Ongoing
Central Security *					n/a	n/a	n/a	n/a	n/a	n/a
Rolled Forward 2008 / 2009										
Payroll					-	-	16	6	22	Final
Purchasing Cards				*	1	3	9	4	17	Final
Debtors			*		-	3	6	1	10	Final
ICT										
ECAF (Children's Services IT systems) *					-	-	-	-	-	In progress
ICT Managed Service – CIA consultancy					n/a	n/a	n/a	n/a	n/a	n/a

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CORPORATE ACTIVITY / CROSS CUTTING REVIEWS										
Assurance Framework					n/a	n/a	n/a	n/a	n/a	Committee Report
Audit Charter					n/a	n/a	n/a	n/a	n/a	Committee Report
Recruitment / CRB			x		-	8	1	1	10	Final
Grants:										
DoH Stroke Care	x				n/a	n/a	n/a	n/a	n/a	Final
GAF 2008 / 2009	x				n/a	n/a	n/a	n/a	n/a	Final
Final Account Statements 2008 / 2009:										
Annual Governance Statement 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final - committee report
CAA / Use of Resources					n/a	n/a	n/a	n/a	n/a	CIA strategic co-ordination of data collection together with liaison with PwC
Audit Opinion 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final - committee report June 2009

TOTAL RECOMMENDATIONS MADE

4	122	165	76	367
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FULL YEAR 2008 / 2009

8	129	189	116	442
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AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE			Date To Audit Committee
1	Con3006-03	Jack Hunt Pool Refurbishment	08 February 2010
2	Chi2154-02	SI – Procurement Review	08 February 2010
3	Con3325-01	Flare – Access Rights and Data Quality	08 February 2010

LIMITED ASSURANCE			Date To Audit Committee
4	Chi2085-01	The Voyager	08 February 2010
5	Str5460-03	Recruitment / CRB Policies	08 February 2010
6	Str5470-18	BACS Processing	08 February 2010
7	Con3166-03	Budgetary Control	08 February 2010
8	Chi2105-01	Bishop Creighton FMSiS 2008/09	08 February 2010
9	Chi2158-01	Discovery FMSiS 2008/09	08 February 2010

Report 1: Executive Summary

The Head of Strategic Finance requested a review of the Jack Hunt Pool refurbishment processes, as there were concerns around the governance process. The Client (Cultural Services), and the Client Agent (Property Design and Maintenance) have clear roles within the contract process, however these were not adhered to. The Client has responsibility for ensuring that all contracts follow contract regulations; however this was not the case as outlined below. The Client Agent in its advisory capacity should have ensured that the contract met with all Council regulations, this was not done. All the officers involved in this process were experienced officers, who were aware of contract regulations, having carried out a number of similar projects. It is of concern that these errors were allowed to happen, and management should consider what action should be taken in relation to the officers involved.

Investigation of the contract processes, revealed fundamental errors, which has resulted in key contract regulations not being followed for example:

- This Contract was not included on the forward plan, despite the estimate being over the £500,000 threshold;
- A Cabinet Member Decision Notice (CMDN) had not been prepared, despite the contract estimate being over the £500,000 threshold;
- Budget was not available for the full estimate, prior to going out to tender;
- Planning was undertaken at a late stage, and a decision was made to close the pool prior to going out to tender, and approving the budget. The lowest tender bid was found to be £73,000 higher than officers originally estimated. A review undertaken by the Head of Asset Management indicated the estimate had not included, or had under estimated contingency, preliminary and day works; and
- It has not been clear where the funding for the professional fees is being provided from. Although this is an internal charge, it is still a cost to the project, and the appropriate budget will need to be made available to support the expenditure.

It was also identified that the budget originally identified for the funding of the programme was no longer available. This was despite the closure of the pool in anticipation of the refurbishment taking place. The work was agreed to go ahead, due to the commitment of the Council to the public and the reputational risk for not doing so. The audit identified a number of elementary errors that resulted from poor budgetary control. Understanding of the new Oracle system at the time of close-down coupled with the lack of communication and reporting in City Services finance resulted in the error. This was further exacerbated by local records being held for monitoring purposes that were not routinely reconciled to Oracle.

The pool closed on 12th December 2008. As at 19th February 2009, works had not commenced resulting in the re-opening of the pool being delayed.

Conclusion

There has been a catalogue of errors regarding this project, the outcome resulting in the significant delay to the re-opening of the pool, additional loss of income during this period and the risk of adverse publicity to the Council. A number of officers were involved in the process, and it is disappointing to find the issues were not identified at the earliest opportunity.

Audit Opinion

This audit was conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government that requires compliance with relevant auditing standards. The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion.

The audit opinion is **NO ASSURANCE**.

Report 2: Executive Summary

The review highlighted a number of control issues at the primary school relating to:-

- Procurement and Payments
- Budget Submission and Budgetary Control
- Governance
- Assets and Cash Security; and
- School Funds (School Private Funds)

The School should have been subject to a FMSiS review in 2008 / 2009 but this was not undertaken due to Ofsted issues and the view that the school would not meet the standard at that time. The School have been re-scheduled for review during 2009/ 2010. Based on the audit findings Internal Audit will assess the School's progress against the observations and recommendations made and as a result, will assess whether the External Assessment process may go ahead.

The audit opinion is **NO ASSURANCE**

Report 3: Executive Summary

During a review of the Flare system Internal Audit observed that text and action diary entries within Flare are editable and that Flare audit log entries do not record the exact changes that have been made to Flare records. This presents a risk that information may be lost from Flare, which may have an impact on customer service.

Internal Audit recommended that:

- the Flare access rights of all current users are reviewed so that users are only given access to those records that are appropriate.
- evidence is kept in all cases to support the deletion of Flare Records, perhaps by asking for all deletion requests to be made by e-mail.
- while Flare remains in place, password changes are forced on a periodic basis.

The audit opinion is **NO ASSURANCE**

Report 4: Executive Summary

The school has reported a significant budget deficit of £304,549 at the closure of the 2008/09 financial year. However, the school's current prediction is that by March 2011 they will be reporting a surplus balance in the region of £25,082.

The staffing structure is under review, as the current structure is a result of encompassing the two closing schools rather than meeting the actual needs of the school, which the re-structure will address. This will result in significant financial savings which is integral to the school's ability to recover from their current budget deficit situation. Governors and staff have recognised the difficult budget position and instigated actions to address the situation in order to maintain effective financial control and reduce costs to live within budget constraints. This has been demonstrated by an increased frequency of finance committee meetings.

The school is confident of the accuracy of the multi year budget information produced, now that historic budget information is available and processes are becoming more established, as procedures evolve. It is important that budget predictions and outcomes are continued to be monitored closely in order to identify any issues arising at the earliest opportunity that may have an impact on achieving future targets.

Conclusion

The Finance Manager has worked hard on a five year budget plan and commented that estimates made are realistic.

The school has acknowledged their budget deficit and actions to resolve the situation have been instigated to improve budget monitoring and control, procedures and processes and also to reduce costs.

Governors continue to be involved in ensuring the school is operating effectively and are currently meeting on a monthly basis to ensure close scrutiny of the budget.

Observations and recommendations for improvement of financial management have been included within Appendix 1 of this report.

Audit Opinion

The audit opinion is **Limited Assurance**.

Report 5: Executive Summary

There is currently no recruitment and selection policy, as the document with this title that can be found in the Employee Information area of Insite is a procedural document, entitled 'Recruitment and Selection Procedure'. However, there is a draft policy that has not yet been adopted because the formal procedures for approving the policy have not yet taken place. With no official policy in place, the perceived recruitment policy anomalies identified during the review are ambiguous because there is nothing to measure compliance against.

The Recruitment and Selection Procedure was approved in 2004 and cannot be relied upon to reflect current procedures because there have been a number of changes made during the last five years.

Although it states quite clearly in a number of places within the Recruitment and Selection Procedure that all those involved in the recruitment process must have successfully completed the City Council's Fair and Effective Recruitment training course, it was found that this course has not been available for a considerable period, although it was not possible to determine when it was last offered. In the current draft policy, this is no longer a mandatory requirement. Training will be based on individual needs but all managers will need to be familiar with the policy and have the necessary skills to work within it.

The current Criminal Records and Employment of Ex-Offenders Policy was issued in 2008, but there is a draft policy going through the approval process that incorporates necessary updates e.g. the introduction of the Vetting and Barring Scheme. It will also be important to have assurance that all posts requiring a Criminal Records Bureau check are identified in the establishment list.

There needs to be a tightening up of the procedures in respect of Asylum and Immigration Act checks to ensure that the Council fully complies with this legislation when staff are recruited. There is a further issue about the Council having to comply with the Act in relation to all staff employed after 27 January 1997 that must also be addressed.

Conclusion

Although a **limited assurance** rating was given, this is based on the length of time that inadequate policies and procedures have been in place for recruitment. The need to review, revise/rewrite policies and procedures had already been recognised before this audit commenced but progress has been slower than anticipated due to other major projects that have impacted heavily on available time (i.e. job evaluation and redundancies).

Responsibility for HR policies in general now lies within the remit of the HR Manager (Improvement Projects), who inherited the previous policies that were large and not particularly user friendly documents. A new approach has been introduced whereby the 9 departmental HR Business Partners are involved in the process with the 2.5 fte policy development staff to ensure that current issues are adequately addressed

and the documentation is reduced to a minimum. It is expected that the new recruitment policies and procedures will be in place by the end of February 2010, which will resolve the documentation issues raised in the main body of the report.

Exception reporting is used within audit reports, so areas where good practices have been identified are excluded. During this audit it has been noted that:

- The system currently in operation relies on the calibre of the staff in the HR Transactions team and the appropriate advice that they provide to recruitment panels about procedures that have changed but have not been updated in the corporate documentation.
- Matters relating to criminal records bureau checking have been kept up to date.

Audit Opinion

The audit opinion is **Limited assurance**.

Report 6: Executive Summary

The Council's payroll service sits within Shared Transactional Services as part of the Manor Drive initiative for Strategic Resources. There are currently seven payrolls run each month - 6 monthly and 1 weekly - which are all generated through the Bankers Automated Clearing Services (BACS) process. Payroll runs are staggered throughout the month to ensure an even flow of information/workload.

At the end of October 2009, the pay date for PCC employees (28th unless a weekend or bank holiday and then reverts to the previous working day) was missed by the BACS transfer, resulting in all employees being paid one day late. Steps were introduced by management to ensure that any hardship cases or bank charges incurred would be honoured.

As a result of the delay, the Executive Director of Strategic Resources requested a review of the processes in place and to recommend any changes required to prevent this happening in future.

Conclusions

The key observations of the investigation are:

- Incorrect processing date entered onto email template forwarded to ICT;
- Checking of information not thorough enough and failed to identify the incorrect processing date, by both parties involved. However this is not implicitly spelt out in the procedures;
- Automated BACS file not queried before being released as approved;
- Limited approvers within ICT following staff leaving, which could impact on future deadline completions;
- No notification / awareness of changes made to BACS file;
- BACS contacts not readily available to make emergency changes; and
- Payroll have now identified how the processes can be simplified and this is recommended to be adopted, subject to software requirements being met.

If the system is correctly preset with pay dates, the payroll would have gone through by default as no one checked dates.

This audit was conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government that requires compliance with relevant auditing standards. The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion. The audit opinion is **LIMITED ASSURANCE**. However, if the new procedures are adopted, significant assurance can be warranted.

Report 7: Executive Summary

City Services is primarily the trading arm of Peterborough City Council (PCC) but the Cost Centres for each contract do not include apportioned overheads to identify if a contract is making a profit or loss. Budgets are not split out between contracts, again making it difficult for budget holders to evaluate performance of contracts. The loss of some contracts for example the Cross Keys Homes Maintenance contract will result in a noticeable reduction in contribution towards overhead costs.

Conclusion

The Finance team are hard working and conscientious. They are aware of their environment, and tailor their service to budget holders' needs. Part of Oracle re-implementation was to revise the coding structure of PCC. This has enhanced the reporting facilities through Oracle. However, there are issues relating to the information contained in the reports for Budget Managers:

- a) Budgets are not loaded for individual contracts.
- b) Overheads are not allocated within individual contracts.
- c) Oracle reports are altered, after being run.
- d) Reports to budget holders are issued three weeks after month end due to c above.
- e) Budget monitoring returns are not completed by Budget Holders due to delays at c and d.

The current processes have been put in place to meet budget holders needs, and because of time constraints; however with the re-implementation of Oracle, all financial information should be held on the system.

There was a large debt relating to invoices not being raised for schools, spanning a number of years. Once this was identified, the Finance team worked with Property Services to rectify this. At the time of this review, the debt had reduced significantly to approximately £8k. By introducing some recommended controls, this should limit the risk of a similar situation occurring.

Audit Opinion

This audit was conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government that requires compliance with relevant auditing standards. The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion.

The audit opinion is **Limited Assurance**.

Report 8, 9: Standard Schools Executive Summary

The Financial Management Standard in Schools (FMSiS) process has been embedded into the Internal Audit programme and following external assessment the school has met the requirements of the Standard. The school submitted evidence required in order to support stated procedures and processes in meeting the Standard.

Appendix G4 details the areas within the school and evidence assessed that are satisfactory. Appendix G4 also highlights areas that are unsatisfactory and issues for improvement that have not warranted failure of the Standard are detailed within Appendix 2.

The school should continue to meet the requirements of the standard, and undertake the self assessment process regularly in order to demonstrate sound financial management and value for money are achieved.

The 'Guide to Further Best Practice in Financial Management' (G3B) details the non essential elements of the Standard, and the school should now monitor their progress against these criteria.

Recommendations made will be assessed against progress during September 2009, as part of a follow up review process.

Scope and Objectives

Year 2 primary schools are expected to comply with the Standard by March 2009.

The purpose of the audit was to obtain reasonable assurance that adequate controls and procedures are in place to meet the requirements of the DCSF FMSiS, and make observations and recommendations for improvement.

FMSiS comprises five subject elements which are:- Leadership & Governance; People Management; Policy & Strategy; Partnerships & Resources and Processes

Methodology

The school submitted a self assessment for review. An external assessment was conducted by examining the responses to the assessment and evidence submitted. A visit to the school was also undertaken.

Discussions were held with the following personnel:- Headteacher; Finance Manager; Education Finance, Peterborough City Council and Governors Services, Peterborough City Council

Audit Opinion

This audit was conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government that requires compliance with relevant auditing standards. The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion. The audit opinion is LIMITED ASSURANCE.

Report 8 Conclusion

The school was categorised as a 'conditional pass' on 31st March 2009 as items of evidence were outstanding. The Finance Officer ensured those remaining items were received on the penultimate day before the 20 day extension period elapsed. Bishop Creighton Primary School has now met the requirements of the Standard.

The review found responsibilities delegated by the Governing Body as an area of weakness, with a lack of evidence that the Governing Body had approved powers assumed by the Resources Committee. This has prompted a number of recommendations, of which two were rated as high priority. This is reflected in the audit opinion of '**Limited Assurance.**'

Report 9 Conclusion

The school was categorised as a 'conditional pass' on 31st March 2009, as there were outstanding queries. However the school submitted the required evidence in advance of the 20 day extension deadline. Discovery Primary School has now met the standard.

During the external assessment it was noted that there were widespread inconsistencies in stated limits of authority for the Finance Committee and Headteacher for expenditure and virements, which have resulted in a two high priority recommendations in the report. This is reflected in the audit opinion of '**Limited Assurance.**'

AUDIT COMMITTEE	AGENDA ITEM No. 9
8 FEBRUARY 2010	PUBLIC REPORT

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

FEEDBACK AND UPDATE 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. FEEDBACK RESPONSES

Appendix A sets out the outstanding feedback items. Following approval by Committee the identified actions will be transferred to the record of Actions completed for the municipal year.

AUDIT COMMITTEE: RECORD OF ACTION TAKEN (FEEDBACK REPORT)

MUNICIPAL YEAR: MAY 2009 - APRIL 2010

DATE ISSUE RAISED	SUBJECT / ITEM	AUDIT COMMITTEE COMMENTS	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE
1 June 2009	Agenda Item: 5 Internal Audit Annual Report 2008/2009	<p>Follow discussions on follow up arrangements and the levels of implementation, or otherwise, of audit recommendations, it was agreed to provide all Audit Committee Members with a copy of the current Audit Charter. This will be reviewed by the Chief Internal Auditor to :</p> <p>(1) Reflect any changes / improvements now reflected in the performance indicators;</p> <p>(2) Highlight improved protocols to follow up late responses to draft Audit Reports which will include a separate letter of endorsement from the Chief Internal Auditor and Chair of the Audit Committee; and</p> <p>(3) Reiterate the importance of responses by inviting officers to attend future Audit Committees to explain their performance in implementing audit recommendations and the controls in their systems / departments</p>	<p>Steve Crabtree</p> <p>Clr M Dalton</p>	<p>The original Audit Charter, approved by Audit Committee on 9 November 2006, has been circulated to Members for information on 16 June 2009.</p> <p>The Audit Committee Handbook has now been reviewed and a number of sections have been updated.</p> <p>The Committee Handbook and revised Audit Charter is enclosed within the committee papers for the 8 February 2010 for formal approval.</p>	
1 June 2009	Agenda Item: 8 Audit Committee Work Programme	Request for the Head of Strategic Finance to provide an appropriate training session before the next Audit Committee meeting on the scrutiny of the final accounts.	John Blair	Scheduled on agenda for 6.00 p.m.	29 June 2009
29 June 2009		THERE WERE NO NEW REQUESTS FROM THIS MEETING			

7 Sept 2009	Agenda Item: 5 Internal Audit Quarterly Report 2009/2010 (to 30 June 2009)	Members sought clarification on the sickness management processes, including an overview of the involvement of Occupational Health in long term sickness cases.	Steve Crabtree	<p>Staff sickness was originally part of the remit of the Business Efficiency Scrutiny Panel and a full report was presented at its meeting on 9 April 2009. Following the Panels' demise, this now falls under the remit of the Sustainable Growth Scrutiny Committee. Members can access the full report on the Council website. Although summarised below are the key points from the report:</p> <p>What are the council doing to address the issues?</p> <p><u>Sickness Management</u> Return-to-work interviews are rated as the most effective approach to managing short-term absence, followed by trigger mechanisms for reviewing attendance and the use of disciplinary procedures. The top three most highly rated approaches to managing long-term absence are occupational health support, the provision of rehabilitation programmes and flexible working. These processes are all used within Peterborough City Council and are being rigorously applied.</p> <p>Since the adoption of the Business Partner model in the last HR restructure considerable effort has gone into developing a closer working relationship with line managers, coaching them to take more ownership of OH issues, and supporting them in the management of agreed action plans working towards satisfactory case conclusion. Some areas report sickness figures started to increase initially when this approach was introduced, but closer working is now resulting in greater ownership and more effective management of sickness.</p> <p>HR Business Partners are reporting to Departmental Management Teams on sickness progress raising the profile of health management issues. Business Partners discuss with managers every long term absence to ensure the appropriate action \ referrals are in hand. They have identified managers with high levels of sickness in their team and provided coaching sessions on sickness management. There are regular monthly reviews between Business Partners and Occupational Health on progress.</p> <p>A more robust referral process has been introduced.</p> <p><u>Health Referral</u></p>	
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				<p>During the year the council has been using the services of AXA to obtain more specialist advice in long term sickness cases replacing its previous use of a general practitioner. The aim has been to improve timely, professional advice on long term sickness cases. This is currently being evaluated by the OH Nurse Manager. One concern is ensuring the best possible turn around time on advice.</p> <p><u>Consideration of future Occupational Health provision</u> There has been significant investment of officers' time over the last 12 months in investigating attendance management and preparing a range of responses in order to maximise business efficiency and reduce sickness absence. The work has involved a comprehensive review of the existing Occupational Health provision as well as setting out proposals for formally incorporating wellbeing as part of the strategy to attract and retain the best candidates to deliver our services.</p> <p>The provision of occupational health and wellbeing services and strategies are increasingly recognised as important factors in achieving business effectiveness and supporting an environment where employees feel valued and respected.</p>	
28 Sept 2009	Agenda Item: 4 Statement of Accounts and Summary Accounts 2008 / 2009	Members requested information on the arrangements in place for assets between Peterborough City Council and the Peterborough Urban Regeneration Company (Opportunity Peterborough) as highlighted in the report on page 35.	Claire Boyd	<p>Statement in Audit Committee papers dated 28 September 2009 that "In the event of the Company being wound up, the Council's liability is limited to £1 and the Council has no rights to any share of its assets." A query was raised by Councillor Dalton as to whether this was correct.</p> <p><u>Response</u></p> <p>The starting position with regard to the distribution of the Company's assets on a winding up, is that pursuant to the Memorandum of Association, the Council, in its capacity as member of the Company, is not entitled to receive any net assets following the winding up of the Company. Any net assets are to be transferred to an institution with the same or similar objects, as determined by the members. It is correct that the Council's liability for debts and liabilities of the Company on a winding up is limited to £1.</p> <p>However, the Council is also a funder of the Company and in the event of the Company being wound up the Council would rank as an unsecured creditor in recovering</p>	

				any funding it had provided to the Company, and may not therefore recover all or any of the funding provided.	
2 November 2009	Agenda Item:5 External Audit 2008 / 2009 - Interim Report to Management	Members requested whether or not management had ensured that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 was continued through to completion" as highlighted in the detailed Information Technology General Controls findings.	Steven Pilsworth	A formal response will be provided at the next meeting.	
2 November 2009	Agenda Item:5 External Audit 2008 / 2009 - Interim Report to Management	Members requested an update on all actions highlighted for completion in 2009 and whether or not these had been undertaken.	Steven Pilsworth	A formal response will be provided at the next meeting.	
2 November 2009	Agenda Item: 9 Internal Audit - Quarterly Report 2009 / 2010 (To September 2009)	Members requested further details in relation to the recommendations made on Budgetary Control within City Services.	Steve Crabtree	The Executive Summary is included in the Q3 report to Committee on 8 February 2010	

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AUDIT COMMITTEE	AGENDA ITEM No. 10
8 FEBRUARY 2010	PUBLIC REPORT

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

AUDIT COMMITTEE WORK PROGRAMME 2009 / 2010 (INCLUDING TRAINING NEEDS)

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 summarises the proposed Work Programme for the Municipal Year 2009 / 2010 together any training needs identified. Any specific training is normally provided prior to each committee meeting - either starting at 18.00 or 18.30, dependent on the nature and depth of the subject area.

The Work Programme is refreshed at every Audit Committee meeting.

APPENDIX A

Last Updated: 20 January 2010

Activity Area	Responsible Officer	1 June 2009	29 June 2009	7 Sept 2009	28 Sept 2009	2 Nov 2009	8 Feb 2010	29 March 2010
REGULAR AGENDA ITEMS								
Member Training		-	✓ Final A/cs (John Blair)	✓ Risk Mgmt (Stuart Hamilton)	-	✓ Financial Issues (Steven Pilsworth)	✓ Investigative Issues (Diane Baker)	X
Update and Feedback Report		✓	✓	✓	✓	✓	✓	X
Audit Committee Work Programme		✓	✓	✓	✓	✓	✓	X

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Activity Area	Responsible Officer	1 June 2009	29 June 2009	7 Sept 2009	28 Sept 2009	2 Nov 2009	8 Feb 2010	29 March 2010
ACCOUNTS								
Statement of Accounts / Summary Accounts 2008 / 2009 (incorporating Annual Governance Statement)	John Blair	-	✓	-	-	-	-	-
Audit of Statement of Accounts	PwC Steven Pilsworth	-	-	-	✓	-	-	-
International Financial Reporting Standards	Steven Pilsworth	-	✓	-	-	✓ No report - details included in the training session	-	-

Activity Area	Responsible Officer	1 June 2009	29 June 2009	7 Sept 2009	28 Sept 2009	2 Nov 2009	8 Feb 2010	29 March 2010
INTERNAL AUDIT / EXTERNAL AUDIT ACTIVITY								
Internal Audit - Annual Report 2008 / 2009	Steve Crabtree	✓	-	-	-	-	-	-
Internal Audit - Progress Report: Quarterly	Steve Crabtree	-	-	✓	-	✓	✓	X
Internal Audit - Strategy and Plan 2010 / 2011	Steve Crabtree	-	-	-	-	-	-	X
Internal Audit - Miscellaneous Reports	Steve Crabtree	-	-	-	-	-	✓	-
External Audit - Reports (subject to availability)	PwC Steve Crabtree Steven Pilsworth	-	-	-	-	✓	✓	X
External Audit - Joint Audit and Inspection Plan	PwC Steve Crabtree Steven Pilsworth	-	-	-	-	-	✓	X
Annual Audit Committee Report	Steve Crabtree	✓	-	-	-	-	-	-

APPENDIX A

Activity Area	Responsible Officer	1 June 2009	29 June 2009	7 Sept 2009	28 Sept 2009	2 Nov 2009	8 Feb 2010	29 March 2010
REGULATORY FRAMEWORK								
Draft Annual Governance Statement	Steve Crabtree	✓	-	-	-	-	-	-
Assurance Framework	Steven Crabtree	-	-	-	-	-	-	X
Assurance Framework & Annual Governance Statement: 6 Month Refresh	Steve Crabtree	-	-	-	-	✓	-	-
Fraud and Irregularity Annual Report 2008 / 2009 (Originally scheduled for 1 June 2009)	Diane Baker	-	✓	-	-	-	-	-
Risk Management	Stuart Hamilton	-	-	✓	-	-	-	-
Use of Resources	Steven Pilsworth	-	-	-	-	✓	-	X
Comprehensive Area Assessment	Steven Pilsworth	-	-	-	-	-	-	X
NEW ITEM: Strategic Governance Board	David Blackburn	-	-	-	-	✓	-	-