

## **AUDIT COMMITTEE**

**MONDAY 6 SEPTEMBER 2010**

**7.00 PM**

**Bourges/Viersen Rooms - Town Hall**

***THERE WILL BE A TRAINING SESSION FOR AUDIT COMMITTEE MEMBERS PRIOR TO THE MEETING. THIS WILL COMMENCE AT 6.00 P.M. AND WILL COVER THE IMPLEMENTATION OF RISK MANAGEMENT ACROSS THE COUNCIL TOGETHER WITH PRACTICAL EXAMPLES OF THE EXISTING RISK PROFILES.***

***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 7 June 2010** **1 - 8**

**4. Minutes of the Meeting held on 28 June 2010** **9 - 16**

**5. Risk Management Update** **17 - 62**

To approve the annual review of the revised Risk Management Strategy.

**6. International Financial Reporting Standards** **63 - 70**

To receive an update on the development and implementation of revised accounting standards.

**7. Treasury Management** **71 - 80**

To provide an update on the performance in delivering the current Treasury Management Strategy.

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| <b>8.</b>  | <b>Regulation of Investigatory Powers Act (2000) Annual Report</b>   | <b>81 - 90</b>   |
|            | To receive the annual report on the use of RIPA across Peterborough City Council together with a review of the first quarter of 2010 / 2011. |                  |
| <b>9.</b>  | <b>Strategic Governance Board: Information Governance</b>  | <b>91 - 100</b>  |
|            | To receive a progress report on the introduction of robust policies and procedures in respect of information governance.                     |                  |
| <b>10.</b> | <b>Internal Audit Q1 Progress Report</b>   | <b>101 - 118</b> |
|            | To receive details of Internal Audit activity and performance in Quarter 1.  |                  |
| <b>11.</b> | <b>The Role of the Head of Internal Audit (CIPFA Consultation Document)</b>  | <b>119 - 188</b> |
|            | To receive an overview of the consultation document  |                  |
| <b>12.</b> | <b>Audit Commission Update</b>   | <b>189 - 192</b> |
|            | To receive an update on the status of the Audit Commission following announcements by central government.                                    |                  |
| <b>13.</b> | <b>Feedback Report</b>   | <b>193 - 196</b> |
|            | To receive standard feedback report on issues and actions requests made at past meetings of the Committee.                                   |                  |
| <b>14.</b> | <b>Work Programme 2010 / 2011</b>  | <b>197 - 200</b> |
|            | To review 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 Collins (Chairman), H Newton (Vice-Chairman), P Kreling, G Simons, J Stokes, D Harrington and S Goldspink

Substitutes: Councillors: P Nash, C W Swift and G Murphy

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

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 7 JUNE 2010**

Present: Councillors Collins (Chairman), Newton (Vice Chair), Kreling, Simons, Nash and Harrington

Officers in attendance: Steve Crabtree, Chief Internal Auditor  
Steven Pilsworth, Head of Strategic Finance  
Diane Baker, Compliance and Ethical Standards Manager  
Israr Ahmed, Lawyer  
Gemma George, Senior Governance Officer

**1. Apologies for Absence**

Apologies were received from Councillor Stokes and Councillor Goldspink.

Councillor Nash attended as substitute.

**2. Declarations of Interest and Whipping Declarations**

There were no declarations of interest.

**3. Minutes of the Meeting held on 29 March 2010**

As there were no Members of the meeting held on 29 March 2010 present, the Chair of the Audit Committee requested that the minutes be circulated electronically to the previous Audit Committee Members for their comments.

Members were advised that the minutes would then be brought back to the next meeting of the Audit Committee for final approval.

**4. Annual Audit Committee Report 2009 / 2010**

The Chief Internal Auditor presented the Annual Audit Committee Report 2009 / 2010. The report had been produced in consultation with the previous Chair of the Audit Committee and had been circulated to the new Chair in order to attach some ownership on the proposals to move forward in the year.

The Audit Committee had been in operation since Annual Council in May 2006, its first meeting being held in June 2006. The Committee had a wide ranging remit which underpinned the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including internal audit, anti-fraud and the financial reporting framework.

Best practice recommended by relevant professional bodies was that audit committees should produce an annual report which detailed the work of the committee for the municipal year and set out its plans for the future.

Members' attention was drawn to Appendix B of the report, which highlighted Member attendance at the Audit Committee meetings throughout 2009 / 2010. The Chair of the Audit Committee commented that the attendance figures were disappointing and Members were reminded that if they could not attend a meeting for whatever reason, a substitute member should be contacted and requested to attend in their stead.

**ACTION AGREED:**

The Committee approved the Annual Audit Committee Report 2009 / 2010.

**5. Fraud and Irregularity Annual Report 2009 / 2010**

The Compliance and Ethical Standards Manager presented a report to the Committee which provided an overview of the Council's approach to combating fraud and its delivery over the period April 2009 – March 2010.

The public was entitled to expect the Council to conduct its affairs with integrity, honesty and openness and to demand the highest standards of conduct from those working for it. The Council had shown its commitment to addressing this expectation by creating a dedicated investigation team, which had come to be known as the Compliance and Ethical Standards Team (CEST). The team was tasked with investigating all allegations of fraud, impropriety, breaches in codes of conduct and high level complaints. The team comprised corporate investigations, benefit fraud investigations and information management and had been in operation since 1 April 2007, with the information management stream joining in January 2008.

The Fraud and Irregularity Annual Report 2009 / 2010 demonstrated the success of the Investigation Team and provided an insight into how the service would continue to operate as a key operation within the Council.

Members were advised that fraud cost the UK around £30 billion every year, with benefit fraud costing £1.1 billion alone. The Council's highest type of investigation undertaken was around benefit fraud. This would always be the greatest risk faced by local authorities owing to the high volumes of payments and the complexities of legislation. The Compliance and Ethical Standards Team worked closely with the Benefits Service in order to reduce the incidents of fraud and error entering the system.

Members were further advised that an emerging issue was around Blue Badge fraud. A decision had been taken to move the entire Blue Badge service to the Compliance and Ethical Standards Team from 1 April 2010. This move would ensure that a robust approach was adopted not only at the enforcement stage of the process but also during the award stage of a Blue Badge, when fraud was often perpetrated.

The Committee was informed that training on fraud would be provided by both CEST and Internal Audit and further reports would be brought back to future meetings highlighting work undertaken.

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

- Members requested further insight into Blue Badge fraud and the effects of moving the service to the Compliance and Ethical Standards Team. Members were advised that moving the service had meant the implementation of another member of staff within the team, funded by the operations budget. Further figures would be provided to the Audit Committee highlighting how many Blue Badge applications were being dealt with on an annual basis.
- A query was raised regarding the number of incidents of fraud which had been investigated in comparison to the number of referrals which had been received. There appeared to be a substantial gap in the numbers. The Compliance and Ethical Standards Manager addressed the query and stated that all cases were subject to a risk assessment and could be referred to the department for work and pensions or the benefit team for example. All cases were taken on or referred apart from those where the information was so poor they could not be followed up.
- Members questioned what level of resources had been directed towards combating electoral fraud during the recent general election. Members were informed that a high percentage of resources had been directed to the election, this involved the Compliance and Ethical Standards Manager sitting on a working group and being responsible for postal voting and counting fraud. The team as a whole had been seconded for postal voting duties leading up to and during the election. Members were further advised that the team were not permitted to investigate electoral fraud allegations, these were dealt with directly by the police.
- Clarification was sought as to whether the Freedom of Information Requests that were submitted, were publically available. It was confirmed by the Compliance and Ethical Standards Manager that all requests were published on the Councils disclosure log, therefore all requests were available to be viewed by the public.
- Members questioned what the breakdown of the cost of the team was. Members were informed that a third of the team was funded through Central Government, with £138,000 having been received last year. Benefit fraud investigations were solely funded through Central Government. Income was also generated externally in order to fund the team.
- Members sought clarity as to what assurances could be offered during the local elections with regards to the anti-fraud initiative. Members were informed that a process had been adopted which would be carried forward for all elections in the future. The process had been broken down into projects and one of those projects was around anti-fraud. A meeting was due to take place with the police and the project was to be progressed forward in time for the local elections in May 2011.
- The Committee commented that the sentences issued to those people committing benefit fraud were too lenient.

#### **ACTION AGREED:**

The Committee received, considered and endorsed the annual report on the investigation of fraud and other issues for the year ended 31 March 2010.

#### **6. Internal Audit Annual Report 2009 / 2010**

The Chief Internal Auditor presented a report to the Committee which provided details of the performance of Internal Audit during 2009 / 2010 and the areas of

work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

Summaries of the work carried out by Internal Audit were documented within the opinion and it was considered that Internal Audit could place reasonable assurance on the controls environment. As a result, an unqualified opinion was provided. Where systems had fallen below expected standards, details of these had been documented separately within the report. Furthermore, ongoing internal performance indicators were monitored and their level of achievement, or otherwise, were included for information purposes.

The Committee was advised that 57 jobs had been undertaken in the year 2009 / 2010 compared to 62 jobs the previous year. The slight reduction was as a result of larger reviews being undertaken together with internal staffing issues within the Internal Audit Team.

There had been no significant control weaknesses identified for inclusion within the Annual Governance Statement, however there were five audit reviews where recommendations highlighted critical issues requiring immediate action. This was a slight reduction on the previous year. These recommendations related to the audit reviews of Energy Payments, City Services, Children's Services, Jack Hunt Pool Refurbishment and Purchasing Cards. A full summary highlighting the details of the weaknesses and what had been done to rectify them would be brought to a future meeting of the Audit Committee when the reviews were followed up.

The Chief Internal Auditor gave an overview of the additional Appendices attached to the report at Appendix A, these included:

- Appendix B – Audit reports issued: opinion of limited assurance or no assurance; and
- Appendix C – Performance indicators 2009 / 2010

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

- Members queried why the audit opinion for Energy Payments was 'No Assurance'. Members were advised that there had been a change in contractor; however the Council had been continually billed by the old contractor. This meant that a number of duplicate payments may have been made. Also, during the re-tender of the service, a request for a bulk billing system had not been included. As a result, bills had been received in each service area instead of one overall bill. Members were further advised that progress was being made on recovering payments however the supplier had stated that the Council still owed them money. Once the payments had been retrieved a credit would be shown.
- Members requested an update on the two members of staff that had been off long term sick within the Internal Audit Team. The Chief Internal Auditor stated that the members of staff had been managed through Occupational Health and had now returned to work. Because there were only eight people in the Internal Audit Team, two of those members being off long term sick had distorted the sickness figures for the previous year.

## **ACTION AGREED:**

The Committee:

- (1) Received, considered and endorsed the Chief Internal Auditor's Annual Report for the year ended 31 March 2010; and
- (2) Noted the report of the Internal Audit's Performance.

## **7. Annual Governance Statement 2009 / 2010**

The Chief Internal Auditor presented the Annual Governance Statement (AGS) to the Committee and highlighted that the production of the statement formed part of the annual close of accounts process. It was not a financial exercise, but represented a corporate overview of the processes and procedures adopted by the Council to manage its affairs.

The report provided details of the findings of the annual review of the internal control arrangements and sought approval of the draft Annual Governance Statement (AGS) prior to its incorporation in the Statement of Accounts.

The Accounts and Audit Regulations 2003 (amended 2006) required the Council to conduct annual reviews of the systems of internal control and to publish an AGS within its annual financial statements. The format of the AGS was required to be in accordance with CIPFA 'proper practice'. The CIPFA Finance Advisory Network had also issued detailed practical guidance on meeting the requirements of the Accounts and Audit Regulations 2003 (amended 2006). The guidance highlighted the links and overlaps between the production of the AGS and the annual governance review.

The supporting appendices were highlighted to the Committee and included:

- Appendix A – Peterborough City Council Framework for the Annual Governance Statement and the Timetable for its Production;
- Appendix B – Review of the Effectiveness of Internal Audit 2009 / 2010;
- Appendix C – External Audit Opinion;
- Appendix D – Executive Directors / Head of Service Assurance Statement;
- Appendix E – Members Assurance Questionnaire;
- Appendix F – Performance Management and Data Quality;
- Appendix G – Assurance Framework and Risk Management;
- Appendix H – Corporate Governance; and
- Appendix I - Partnerships

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

- Appendix B contained information on staffing training and continual professional development. Members commented that it was highlighted that previous arrangements had been in place which allowed for the temporary recruitment of specialists in areas such as IT Audit. Going forward, this was unlikely to continue due to budgetary issues. How would Internal Audit therefore ensure continued delivery? Members were advised that other ways of delivering were to be looked into. Two staff members were to receive IT auditing training. SERCO, the provider

of outsourced ICT contract, also had IT specialists that could be utilised if required.

- Appendix B contained information on reporting and Members questioned what action was being taken in order to ensure that managers were updating their risk registers. Members were informed that there was an officer in place under the Resilience Manager whose role was to work on that very point. Also, when audit reviews were undertaken a line would be incorporated into the review asking whether the register had been recently updated.
- Appendix G outlined the principal risks to the objectives of the Council, its Partners and Stakeholders. It was highlighted that estate utilisation was a high risk, Members queried why this was and what had been done to mitigate against the risk. The Committee was informed that where assets were no longer required and due to the credit crunch and the growth agenda the markets were depressed and the capital would not be gained back on any sales made.
- Appendix J highlighted significant governance issues, one of those being the collapse of the Icelandic banks and the loss of investment. Members queried whether any of the money invested in the banks had been recovered. The Committee was advised by the Head of Strategic Finance that it was a work in progress and two to three million was expected to be recovered.
- Another significant governance issue which had been highlighted was that of the credit crunch. It was stated that considerable work had been targeted at the impact the recession had had on the citizens of Peterborough. Members questioned what the considerable work had been. Members were informed that monitoring the impact of the credit crunch on residents and the Council financially was planned for the short term. Also, monitoring the stresses placed upon family units. Members were further informed that fewer people were coming into the city centre and parking and there were also fewer planning applications going in, which had a direct impact on the Council's income.
- Members commented that due to all of the empty retail units around city centre, non domestic rates or business rates were not being collected. Members were advised that there was no direct income from these funds in the first instance, as the funds were pooled in Central Government and then distributed out to Local Government.

#### **ACTION AGREED:**

The Committee:

- 1) Reviewed and commented on the supporting appendices (A – I) used to establish assurance on the governance arrangements within the Council;
- 2) Reviewed and commented on the Annual Governance Statement (Appendix J), including any areas which should be amended; and
- 3) Agreed and approved the draft statement for inclusion in the statement of accounts.

#### **8. Feedback Report**

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

Members were advised that there were no specific issues requiring action which had been highlighted at any of the previous meetings of the Audit Committee.

**ACTION AGREED:**

The Committee noted the Feedback Report.

**9. Work Programme 2010 / 2011**

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2010 / 2011 for consideration and approval.

Members were advised of additional items which had been added to the Work Programme since the last approval on 29 March 2010. CIPFA had produced a consultation document on the role of the Head of Internal Audit which highlighted how it saw this role within the public sector. The document was due to be internally reviewed and brought to Audit Committee in September for comment. This would be circulated to Members prior to this so that their views could be incorporated into any consultation response.

Members were further advised that a training session was proposed to take place prior to the next meeting of the Audit Committee in order to run through the Scrutiny of the Final Accounts. Members were requested to provide date and time suggestions for the training session and it was agreed that the session would be held on Monday 21 June, at 6.00pm.

Further training on the risk management process was also requested by the Committee and it was advised that a training session on this subject would be undertaken in September and there was also a chapter contained within the Audit Committee Handbook on the subject.

**ACTION AGREED:**

The Committee noted and approved the 2010 / 2011 Work Programme.

7.00pm - 8.05pm  
Chairman

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 28 JUNE 2010**

Present: Councillors Collins (Chairman), Kreling, Simons, Stokes, Harrington and Goldspink

Officers in Attendance: John Harrison, Executive Director – Strategic Resources  
Steve Crabtree, Chief Internal Auditor  
Steven Pilsworth, Head of Strategic Finance  
Kirsty Nutton, Financial Services Manager – Corporate Accounting  
Chris Hughes, PricewaterhouseCoopers  
Israr Ahmed, Lawyer  
Gemma George, Senior Governance Officer

Also in Attendance: Councillor Seaton, Cabinet Member for Resources

**1. Apologies for Absence**

Apologies were received from Councillor Newton.

**2. Declarations of Interest and Whipping Declarations**

There were no declarations of interest.

**3. Minutes of the Meeting held on 29 March 2010**

The minutes of the meeting held on 29 March 2010 had been circulated to the previous Audit Committee Members for their comments.

Councillor M Dalton, the previous Chair of the Committee and Councillor North, the previous Vice Chair of the Committee approved the minutes as a true and accurate record of the meeting.

The Committee agreed to vary the order of the agenda and to take item number 5, Budget Monitoring Report Final Outturn 2009 / 2010, first.

**5. Budget Monitoring Report Final Outturn 2009 / 2010**

The Head of Strategic Finance presented the Budget Monitoring Report Final Outturn 2009 / 2010. The report highlighted to Members the final financial performance for revenue and capital at 31 March 2010.

The report contained performance information on treasury management activities, the payment of creditors in service and collection performance for debtors, local taxation and benefit overpayments.

The financial year 2009 / 2010 had been a challenging financial year with an array of one off and emerging pressures' since Full Council approved the

revenue and capital budget requirement for 2009 / 2010 in February 2009. Early in the financial year, an analytical review concluded that high level risks and issues would require careful monitoring, review and appropriate management action to ensure that the financial position of the Council remained stable.

The Council had been able to manage the expectations as set out in the Medium Term Financial Strategy (MTFS) with no detrimental impact to services such as service cuts, remedial action had been taken where required to mitigate pressures including addressing ongoing pressures within setting the financial strategy for 2010 - 2015 and it had been ensured that the financial position of the Council remained stable.

The Council's overall revenue position was £364k under spent, against a budget of £151,273k, an improvement of £1,192k since the adopted outturn had been reported to Cabinet. This was in part due to the robust mechanisms put in place to mitigate the emerging pressures such as reduced income streams and demand led services, utilising the Council's reserves to meet one off costs as agreed during the setting of the MTFS 2010 – 2015 and also slowing down non-priority spend or delaying projects and initiatives with no detriment to the MTFS. Alongside these actions, Children's Services and Operations had successfully delivered their action plans. All risks had been corporately managed over the last quarter of the financial year.

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

- Members queried which capital projects had been deferred during the capital programme refresh. Members were advised that schemes such as the Waste Project, Hampton Secondary School and Affordable Housing, had been deferred. The feasibility of the schemes was a key consideration going forward and where practical, schemes would be scaled down so that more could be delivered.
- Appendix A to the report contained a table which highlighted a further breakdown of under and over spends (by service activity). Numerous queries were directed to the Executive Director – Strategic Resources and responses were given as follows:
  - i) Westcombe was included in the City Services total, Members queried what the future plans for Westcombe were. Members were advised that Westcombe had been brought back to be Council run until the best option for its future could be decided. This was expected to be in September 2010. The options were to retain it or to close it. If retention was accepted, then there would be the possibility of keeping Westcombe at no cost to the taxpayer. The situation was due to be kept under review and referred to Members.
  - ii) Members questioned why Cultural Services, as a non statutory service, was highlighted as having such a large overspend. Members were informed that Cultural Services had been transferred over to a trust in May 2010 and it had been agreed that a budget of £450k would be set aside for the year to assist in the transfer.
  - iii) Clarification was sought on the situation on the overspend situation in relation to Neighbourhoods. The Committee was advised that grant aid was being clawed back by central

- government on the Rural Development Fund in order to support Neighbourhoods.
- iv) Members questioned why Communications was so over budget. Members were advised that Communications had had a challenging saving target set at the start of the year. Planned income from marketing projects had also not hit targets. This had been taken into consideration for future years budgets.
  - v) ICT was also highlighted as being over budget, Members queried why this was. Members were informed that the outsourced ICT had come into effect in 2009 / 2010 and the budget for ICT sat centrally and across other departments, which would be rationalised.
  - vi) Members queried why there was such a difference in the Annual Budget figure and the Final Outturn Forecast for Procurement. Members were advised that Procurement had not hit the targets which had been expected. The targets had been challenging and talks would need to be had with suppliers going forward. Corporate savings made would also be removed from departmental budgets as and when they arose.
  - vii) Members sought clarification as to why Revenue and Benefits had been under spent. Members were informed that the under spend was down to the cost of the whole service, payments, collection of council tax and the council tax arrears due to the impact of the recession.
  - viii) Members questioned why Customer Services had been over budget. Members were advised that a project in Customer Services had yet to be finished, therefore the Council had been unable to take the money for the project until its completion, which was due to be in the current year 2010 / 2011.
  - ix) The Committee sought clarification as to the situation with regards to the collection of business rates. The Committee was informed that the collection of business rates, which is passed to central government for redistribution, was being affected by the continuing economic situation. Members were advised that comparisons with other authorities in the region highlighted that we were no different to them.

#### **ACTION AGREED:**

The Committee:

- 1) Noted the final outturn position (based on expenditure at the end of March 2010) on the Council's revenue and capital budget;
- 2) Noted the performance against the prudential indicators;
- 3) Noted the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit; and
- 4) Noted the financial uncertainty of local government financing in future years and how this could impact the Council.

#### **4. Statement of Accounts for Year Ended 31 March 2010**

The Head of Strategic Finance presented the Statement of Accounts for Year Ended 31 March 2010.

The Council had to consider and approve its accounts by 30 June 2010 at a meeting of either the Full Council or a committee of the Council. This was a requirement of the Accounts & Audit Regulations 2003 (amended 2006) and the Council's Constitution delegated this matter to the Audit Committee.

The Council Section 151 Officer (Executive Director – Strategic Resources), had responsibility for certifying that the Accounts presented fairly the financial position of the Council at 31 March 2010.

The Accounts for 2009 / 2010 conformed with the CIPFA (Chartered Institute of Public Finance & Accountancy) Best Vale Code of Practice for Local Authority Accounts and the new Statement of Recommended Practice (SORP). The individual financial statements, along with the notes that accompanied them, aimed to give a full and clear picture of the financial position of the Council.

The Head of Strategic Finance addressed the Committee and stated that since the submission of the papers to the Audit Committee, further work had been undertaken in preparation for the external audit. There were therefore amendments to two items these being:

- Within the Income and Expenditure Account, the gross expenditure and gross income for Children's and Education Services were overstated. The overstatement occurred within the service, therefore the net expenditure remained the same.
- There was a typographical error which gave the employer's pension contributions for Gillian Beasley, Chief Executive, as £19,875 for 2009 / 2010 and £18,454 for 2008 / 2009 instead of £27,909 for 2009 / 2010 and £26,037 for 2008 / 2009.

The Committee was advised that the accounts presented to it for sign off included these amendments. Once approved by the Audit Committee the Accounts would be passed to the Council's External Auditors, PricewaterhouseCoopers (PwC) for in depth scrutiny.

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

- Members questioned whether the error regarding the Chief Executive's pension contributions was only in one section of the report. Members were advised that the error was only present in one table, under Senior Employee's Remuneration, which highlighted the Senior Officers whose salary was £150,000 or more.
- A query was raised regarding the Balance Sheet which was contained in the Statement of Accounts 2009 / 2010. Pension fund liability had increased by 150%, and Members requested an explanation as to how was this funded. Members were advised that each year the actuary provided an estimation of the figure which was required to be put into the accounts. This figure did not accrue in one go, but over a number of decades and it required the employer to pay a pension contribution. The

actuary was due to report back on the situation later on in 2010. The Mid Term Financial Strategy going forward would reflect this, and provisions had been made for these increased costs. Members were further advised that a review of public and private sector pensions was due to be undertaken by the Government. Local Government pension schemes also had funding behind them and were generally healthier than other schemes.

- Members questioned what the rate of council tax collection was for the year 2007 / 2008. Members were informed that the rate was 96.85% for 2007 / 2008 and the figure had increased to 98.00% during 2008 / 2009.
- With regards to Government Grants, between £5 million and £10 million was taken off the Council each year and Members questioned what the claw back had been for the years 2008 / 2009 and 2009 / 2010. Members were advised that over the past five years the figure had fluctuated greatly. In 2006 / 2007 it had been £3.4 million, in 2007 / 2008 it had fallen to £2.9 million, in 2008 / 2009 the basis of how the grants were allocated had been changed and the figure had increased to £5.5 million, in 2009 / 2010 the figure was £4.5 million and 2010 / 2011 the figure was £3.8 million. A larger amount was expected in 2011 / 2012 due to a new spend review and grant system but this could not be confirmed at the time.
- Members commented on the decrease in the fund balance from £6 million to £3.7 million as highlighted in the Revenue Expenditure and queried whether PwC had any comment to make on the situation. The External Auditor from PwC addressed the Committee and stated that the decrease would be looked at as would the Council's plans for the coming year in the MTFS.
- The main elements of capital expenditure, compared with the revised March 2010 budget after slippage were highlighted in the report. Members commented that the Council was always behind on the capital programme and aspirations were never met, therefore why were lower sums not incorporated. Members were informed that the capital programme had been a challenge, but it had improved. Revenue savings had also been generated by the reigning back of some schemes.
- The number of buildings held by the Council were highlighted in the information on assets held, contained within the report. The Committee questioned why, when the Council was trying to cost save, there was no evidence of a reduction in the number held year on year. Members were informed that 6 social services area offices had been closed down and the programme was to be progressed, although the reality of losing buildings and offices was difficult to achieve and it was highlighted that the Council had obtained more properties throughout the year than it had lost.
- The amount of trade debt owed to the Council was highlighted in the report and Members sought clarification as to why the debts of over one year had almost doubled in the past year and what was being done to address these debts. Members were informed that £7 million of the overall debt highlighted was one debt alone and it had been paid in April 2010. The remainder of the core debts were related to strategic property and these were in the process of attempted recovery. Members were further informed that the payment of £7 million made at the end of April 2010 meant that the general debtors figure, highlighted in the debtors table in the report, had decreased by £7 million.

- Members questioned whether the collection allowance for national non domestic rates, as highlighted in the report under the collection fund and notes, covered its costs. Members were advised that the cost to the Council was offset by monies received from the Government.
- A query was raised regarding the details of payments due to be made under private finance initiative (PFI), the report contained a table which highlighted the payments due to be made up until 2037 and Members questioned why the payments were due to increase so much. Members were advised that the payments were set out in an agreed payment schedule, therefore were set. Members were further advised that the payments were due to cease after 2041.

**ACTION AGREED:**

The Committee:

- 1) Scrutinised the Accounts for year ended 31 March 2010;
- 2) Approved transfers to / from Reserves, as set out in the Note 42 to the Core Financial Statements in the Accounts in accordance with the recommendations of the Executive Director – Strategic Resources; and
- 3) Approved the draft Accounts for the year ended 31 March 2010 as attached at Appendix 1 to the report, in accordance with Regulation 10 of the Accounts and Audit Regulations 2003 (as amended 2006)

**6. Feedback Report**

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

Members were advised that there was one issue which had been highlighted for follow up at the previous meeting of the Audit Committee, which was to provide further information on the number of Blue Badge applications being dealt with on a yearly basis. Members were further advised that during 2009 / 2010 there had been 3167 applications processed in total which included new applications, renewals and refusals.

**ACTION AGREED:**

The Committee noted the Feedback Report.

**7. Work Programme 2010 / 2011**

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2010 / 2011 for consideration and approval.

Members were advised that a training session was proposed to take place prior to the next meeting of the Audit Committee, commencing at 6.00 p.m. This session would cover Risk Management.

**ACTION AGREED:**

The Committee noted and approved the 2010 / 2011 Work Programme.

7.00pm - 8.02pm  
Chairman

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 5
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	Stuart Hamilton, Resilience Services Manager	☎ 207 207

## RISK MANAGEMENT UPDATE

RECOMMENDATIONS	
<b>FROM :</b> <i>Paul Phillipson, Executive Director of Operations</i>	<b>Deadline date :</b> N/A
<p>The Audit Committee is asked to:-</p> <ol style="list-style-type: none"> <li>1. Approve the Risk Management &amp; Business Continuity Policy</li> <li>2. Approve the Risk Management &amp; Business Continuity Strategy (No changes from last approval)</li> <li>3. Receive update on risk management review to date.</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to the Audit Committee as a routine planned report on risk management in accordance with the agreed committee work programme for 2010 / 2011.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to provide an update to the Committee on the council's risk management strategy.

### 3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	<b>N/A</b>
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### 4. RISK MANAGEMENT UPDATE

- 4.1 The responsibility for Risk Management moved to the Resilience Team from Finance in May 2009. A new Policy and Strategy was produced in September 2009 (incorporating Business Continuity Management) and is refreshed annually (**Appendix A and B**).
- 4.2 Risk management is being reviewed within the council, with the objectives outlined in the policy and strategy.

- 4.3 Directorates are working on a standard risk register (as set out in the guidelines) and these are to be reviewed every 3 months.
- 4.4 The Resilience Team has ownership of risk management in order to centrally coordinate all registers and risk activities.
- 4.5 A new Corporate Strategic Risk Register is currently being developed and will be presented to CMT during September 2010.

## **5. CONSULTATION**

- 5.1 The policy and strategy have been updated to reflect best practice.

## **6. ANTICIPATED OUTCOMES**

- 6.1 Audit Committee approval of the revised policy and strategy.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 Risk management is a key component of the council's corporate governance framework which will take time to review and embed effectively.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 No other options have been considered – all local authorities have a statutory duty to have business continuity plans in place and are expected to develop risk management arrangements.

## **9. IMPLICATIONS**

- 9.1 None.

## **10. BACKGROUND DOCUMENTS**

- Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985
- 10.1 None.



## Risk Management and Business Continuity Strategy

Version 1.2

Date of Next Review: January 2011

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 (currently under review for 2010).

## **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 A).
- 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

## **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

The model below shows the previous self-assessment (in red) and the current self-assessment (green). Reasons for improvement are:

- Roles and responsibilities have been identified within the strategy and signed off by senior managers and Audit Committee.
- Roles and responsibilities have been communicated to all staff, via the PCC website, Insite and through DMTs and workshops.
- An introductory workshop was held on November 5<sup>th</sup>
- A timetable of risk management workshops and a training programme has been drawn up.
- Risk management and business continuity training programmes are in the process of being added to the E-Learning system.

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.

	<b>Leadership &amp; Management</b>	<b>Strategy &amp; Policy</b>	<b>People</b>	<b>Partnership, Shared Risk &amp; resources Processes</b>	<b>Processes</b>	<b>Risk Handling &amp; Assurance</b>	<b>Outcomes &amp; Delivery</b>
<b>Level 5: RM is DRIVING the organisation</b>	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
<b>Level 4: RM is EMBEDDED &amp; INTEGRATED within the organisation</b>	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
<b>Level 3: RM is WORKING for the organisation</b>	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
<b>Level 2: RM is HAPPENING within the organisation</b>	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
<b>Level 1: RM is ENGAGING with the organisation</b>	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.

Likelihood	<b>E</b>					
	<b>D</b>					
	<b>C</b>					
	<b>B</b>					
	<b>A</b>					
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

Review yearly
Review quarterly
Action within 90 days
Action within 30 days

**Impact**

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

Likelihood	<b>5</b>					
	<b>4</b>					
	<b>3</b>					
	<b>2</b>					
	<b>1</b>					
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

Review 12 months
Review 6 months
Review 3 months

**Impact**

### Likelihood Descriptors:

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

*Impact Descriptors:*

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Descriptor</b>	<b>Negligible</b>	<b>Low</b>	<b>Moderate</b>	<b>Significant</b>	<b>Very High</b>
<b>Service/Business Interruption</b>	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
<b>Financial</b>	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
<b>Compliance</b>	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
<b>Objectives/Projects</b>	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
<b>Reputation/publicity</b>	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
<b>Environmental</b>	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 B.

As a minimum, the following reports will be provided:

<b>Recipient</b>	<b>Frequency</b>	<b>Format</b>
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 administering 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. Elements of the revision of the BCM programme to date have included:

- Provision of a generic Word template for all services to adapt.
- Maintenance of plans on Shadow Planner, including BIA, administered by the Resilience Team.
- Revision of BCM champions following the recent restructure, identifying key gaps. This will continue to be ongoing, to reflect structure and staff changes.
- A timeframe of service areas to work intensively on reviewing RM and BCM.

Further key elements of the BCM strategy are to:

- Identify lack of BCM as a strategic risk throughout all directorates and on the strategic risk register throughout 2010.
- 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 business 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 for risk management are:

### ***Elected Members:***

Role: Working through full Council, Cabinet and Committees, Members are responsible for overseeing the effective management of risk by the council's officers.

Responsibilities:

Full Council:

- Develop and maintain the level of awareness and knowledge of RM appropriate to their role.
- Receive assurance on the management of risk.
- Support the implementation of a strategic risk management process.
- Aim for continual improvement.
- Understand the most significant risks.
- Take an appropriate top-down approach, focusing on issues of corporate significance.

Cabinet:

- Support the strategic approach to risk management and the ongoing implementation of the processes.
- Agree on the member and officer structures for planning and monitoring RM across the authority.
- Consider the risk implications of poor decisions.
- View the process as a significant management exercise and acknowledge the right level of training and implementation is committed.

Committee and Scrutiny Chairs:

- Develop and maintain the level of awareness and knowledge of RM appropriate to their role, including the implication of significant risks.
- Ensure that relevant risk management processes are applied to their areas of responsibility.

Audit Committee:

- Receive reports and assurance on the management of risk.
- Validate the process for the identification of significant risks.
- Ensure that critical controls are correctly implemented.

### **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 design, development and delivery of risk management training to members/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 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.

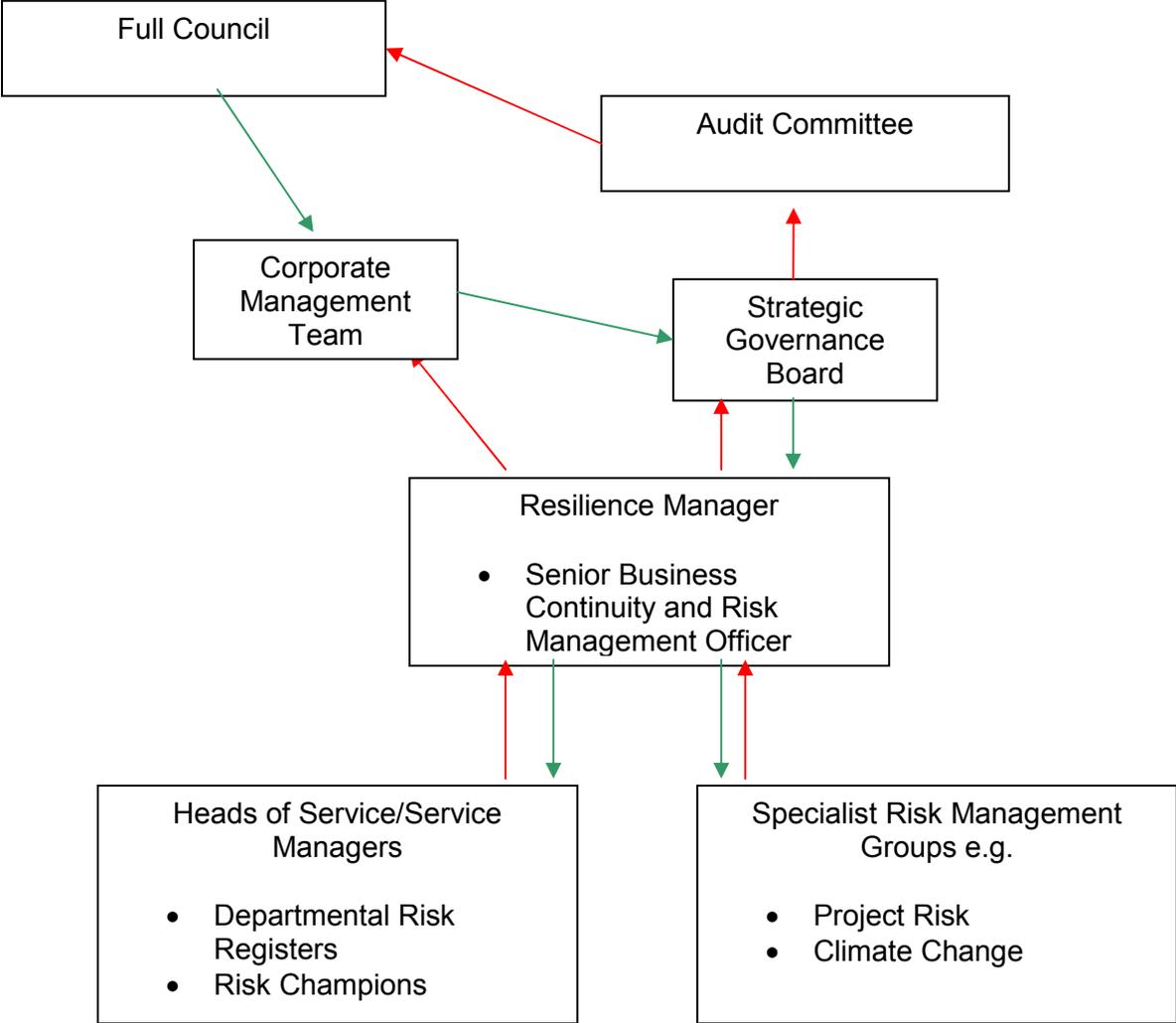
***All Staff:***

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



## 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.

**PETERBOROUGH**



**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 A).
- 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.

	<b>Leadership &amp; Management</b>	<b>Strategy &amp; Policy</b>	<b>People</b>	<b>Partnership, Shared Risk &amp; resources Processes</b>	<b>Processes</b>	<b>Risk Handling &amp; Assurance</b>	<b>Outcomes &amp; Delivery</b>
<b>Level 5: RM is DRIVING the organisation</b>	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
<b>Level 4: RM is EMBEDDED &amp; INTEGRATED within the organisation</b>	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
<b>Level 3: RM is WORKING for the organisation</b>	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
<b>Level 2: RM is HAPPENING within the organisation</b>	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
<b>Level 1: RM is ENGAGING with the organisation</b>	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.

Likelihood	E	Yellow	Orange	Red	Red	Red
	D	Green	Yellow	Orange	Red	Red
	C	Green	Yellow	Orange	Orange	Red
	B	Green	Green	Yellow	Yellow	Orange
	A	Green	Green	Green	Green	Yellow
		1	2	3	4	5
		Impact				

Review yearly
Review quarterly
Action within 90 days
Action within 30 days

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

Likelihood	5	Orange	Orange	Red	Red	Red
	4	Green	Orange	Orange	Red	Red
	3	Green	Orange	Orange	Orange	Red
	2	Green	Green	Orange	Orange	Orange
	1	Green	Green	Green	Green	Orange
		1	2	3	4	5
		Impact				

Review 12 months
Review 3 months
Review 1 month

### Likelihood Descriptors:

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

*Impact Descriptors:*

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Descriptor</b>	<b>Negligible</b>	<b>Low</b>	<b>Moderate</b>	<b>Significant</b>	<b>Very High</b>
<b>Service/Business Interruption</b>	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
<b>Financial</b>	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
<b>Compliance</b>	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
<b>Objectives/Projects</b>	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
<b>Reputation/publicity</b>	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
<b>Environmental</b>	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 B.

As a minimum, the following reports will be provided:

<b>Recipient</b>	<b>Frequency</b>	<b>Format</b>
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 administering 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, administered 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.

## **APPENDIX A**

### **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

- 20 -

***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.

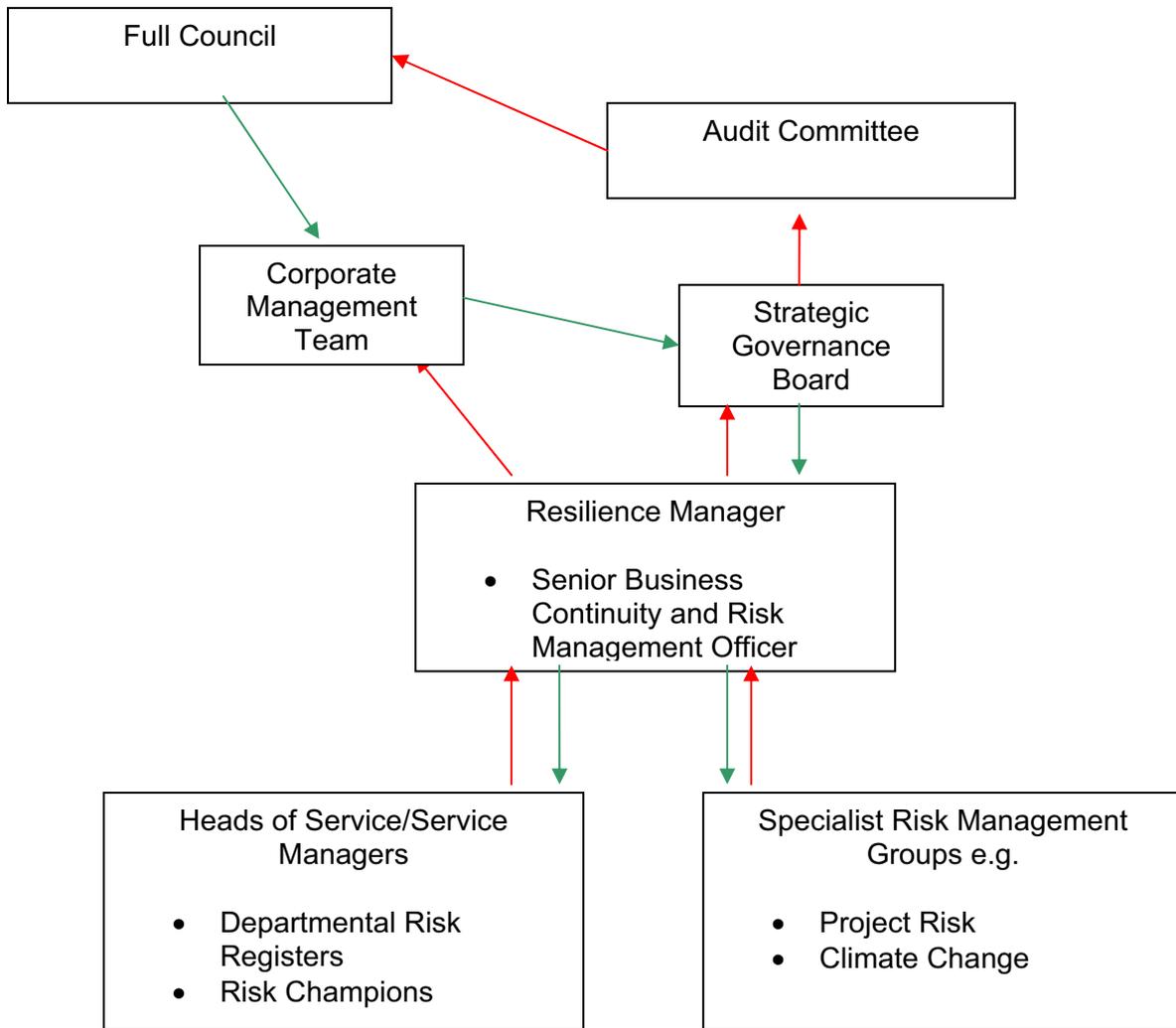
***All Staff:***

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.

**Appendix B  
Reporting Structure**



Key:  
 Reports on RM activities  
 Monitors and instructs

## APPENDIX C

### 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

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 6
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Portfolio Holder for Resources, Cllr Seaton		
Contact Officer(s):	John Harrison, Executive Director Strategic Resources	☎ 452398	
	Steven Pilsworth, Head of Corporate Services	☎ 384569	

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): UPDATE / IMPLICATIONS**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director of Strategic Resources	<b>Deadline date :</b> N/A
<p>Audit Committee is asked to</p> <ol style="list-style-type: none"> <li>1. To note the accounting changes required.</li> <li>2. To review the progress made so far in this transition.</li> <li>3. To support the transition to IFRS based accounts.</li> </ol>	

**1. ORIGIN OF REPORT**

- 1.1. This report follows on from consideration of the report brought to this Committee on 2<sup>nd</sup> February 2009, the overview training provided on the 2<sup>nd</sup> November 2009 and provides an update on the progress being made by the Council in its International Financial Reporting Standards (IFRS) transition.
- 1.2. The Chancellor's 2008 Budget announced that the Annual Financial Statement of the Government Departments and other entities within the Public Sector will be prepared using IFRS.
- 1.3. The move to IFRS is extremely complex and will have wide reaching implications that are not limited to the Council's finance function alone but throughout the Council's business activities.
- 1.4. In accordance with the report to the Audit Committee on 2<sup>nd</sup> February 2009, recommendation 5, it was agreed to report back to the Committee periodically on the progress of IFRS implementation.

**2. PURPOSE AND REASON FOR REPORT**

- 2.1. The purpose of this report is to brief the Committee on the IFRS transition, significant changes this is likely to bring to the Council's accounts, and the resource demand of this transitional task.
- 2.2. This report is for the Committee to consider under its Terms of Reference 2.8.1.5 (which forms part of the delegations for regulatory committee functions under Part 3, Section 2)

**3. TIMESCALE**

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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#### 4. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

##### BACKGROUND

- 4.1. Since the last update on this topic in November 2009 the Council has progressed with the work required for the production of the Statement of Accounts in 2010/11 on an IFRS basis. It should be noted that during this period the 2009/10 Statement of Accounts has also been produced, which has meant resources have been managed between these two tasks.

##### HIGH LEVEL TIMETABLE

- 4.2. The high level timetable the Council is following is below and was reported to the Audit Committee on 2<sup>nd</sup> November 2009. It can be confirmed that the critical deadlines for the Restated 2009/10 accounts at the end of Quarter 1 2011 are on track for completion and this progress is outlined in the following paragraphs.

IFRS Action Plan	2009				2010				2011	
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2
Project Management Team	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Involvement of those charged with governance	◆			◆		◆		◆		◆
Liaise with auditors about IFRS transition	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Address employee benefit issues	◆	◆	◆	◆	◆	◆				
Review fixed asset accounting	◆			◆	◆	◆				
Address issues with segmental reporting, leases and contracts	◆	◆	◆	◆	◆	◆				
Draft IFRS pro forma accounts								◆		
Restate 2009/10 accounts								◆	◆	
Audit of restated 2009/10									◆	◆
Embed accounting on an IFRS basis (2010/11)								◆	◆	◆

- 4.3. The major milestone approaching is the restatement of the 2009/10 accounts on an IFRS basis as they were required to be produced in 2009/10 under UK GAAP. This is scheduled to be completed by the end of December 2010. PwC will then audit the restated accounts by 31<sup>st</sup> March 2010.

- 4.4. The major areas of work currently being undertaken by the Council are:

- Transition accounting for the Council's fixed assets
- Implementation of a new asset management system
- Accounting for the infrastructure assets of the Council
- Review and re-working the accounting transactions for all leasing arrangements
- Accounting for capital grants
- Calculating and accounting for holiday and flexi leave
- Segmental reporting
- Continuing development of officers knowledge

These areas are considered in further detail in the remainder of this report.

## **FIXED ASSET ACCOUNTING**

- 4.5. The current valuation policies of the Council's fixed assets have been reviewed and meetings have taken place between finance and property officers to discuss the requirements of the new IFRS Code.
- 4.6. Instructions have been given to the Council's appointed valuers and a report is expected from them at the end of November 2010, providing updated valuations of the Council's properties using the new basis of assessment. These changes encompass the re-definition of investment assets, the new requirements regarding donated assets and the new requirement of component accounting. Component accounting is where assets are split into their major constituent parts and depreciated according to their individual life, for example where Town Hall would have been classed as one asset, under component accounting the it will now be split between the shell, its roof, and the windows, and each part depreciated according to its relevant life.
- 4.7. Once the report has been received the asset values will be restated in the Council's Balance Sheet in accordance with the IFRS code by the end of December.

## **NEW ASSET MANAGEMENT SYSTEM**

- 4.8. A new asset management system which integrates all of the Council's property information into a single data source has been purchased from Technology Forge.
- 4.9. The asset management system will be the Council's fixed asset register and will replace the spreadsheet system currently in use. This had become necessary due to the complexity of the accounting requirements under the IFRS code and is in line with PwC Audit Recommendations made in the 2008/09 Governance Statement as reported to the Audit Committee previously.
- 4.10. The Property Department are currently entering the base asset information into the new system. In September the Corporate Accounting Capital Team are to undertake comprehensive training from the software provider to establish the financial information held on the database.

## **INFRASTRUCTURE ASSETS**

- 4.11. For the time being the IFRS code will require local authorities to report infrastructure assets (highways, footways, cycle-ways, structures and lighting) on a historical cost basis, which is the cost of purchase or construction less depreciation charged to date. However, HM Treasury has set a timetable for a gradual transition to reporting on a Direct Replacement Cost basis starting with the Whole Government Accounts return in 2011/12.
- 4.12. The intention is for each local authority to develop a single set of financial management information about transport related assets that is robust and supports future infrastructure investment decisions that are taken both nationally and locally.
- 4.13. Council Officers from the Corporate Accounting Teams and the Operations Planning Transport and Engineering Team have set up a working group to ensure the necessary work is being undertaken to comply with the new requirements, starting with the Whole Government Accounts return in 2011/12 and building to the withdrawal of historic cost-based reporting from 2012/13.

## LEASING ARRANGEMENTS

- 4.14. All leasing arrangements, both property and plant and equipment, have been or are in the process of being reviewed as to whether they are deemed operating or finance leases under IFRS, as the classification of lease may switch from that used under UKGAAP.
- 4.15. A summary of the impact of this switch between operating and finance lease is shown in the table below. This review is due to be completed by the end of October.

	Operating Lease	Finance Lease
<b>Impact on Income and Expenditure Account</b>		
<b>Income</b>	received in Service	capital receipt
<b>Expenditure</b>	charged to Service	attracts capital charges, interest, MRP*, depreciation and impairment
<b>Impact on Balance Sheet</b>		
<b>Asset</b>	no impact	appears as a Council asset thus affects the Capital Financing Requirement
<b>Liability</b>	no impact	appears as an liability for future payment

\* MRP – Minimum Revenue Provision

- 4.16. All property leases, where the Council is lessee and/or lessor have been referred to the Council's appointed valuers for review. The review will determine whether the leases will remain as operating leases or will become finance leases under the new IFRS code. The report is expected back by the end of November. The indications from a preliminary review undertaken earlier this year are that the majority of the property leases will remain as operating leases and so will not require to be accounted for differently.
- 4.17. The existing vehicle and equipment leasing arrangements have been reviewed, including the contract hire vehicles held by City Services. The outcome of this review is that the majority of the leases will change from existing operating lease status to become finance leases. The effect of this reclassification will mean that the vehicles will appear on the Council's Balance Sheet as an asset along with the corresponding liability for the commitment made under the lease agreement.
- 4.18. The new IFRS code requires the consideration of arrangements the Council has with third parties that do not take the legal form of a lease but conveys the right to use an asset. The arrangements that the Council have with Danwood for the Print and Design contract and the Multifunctional Devices are currently under consideration, as is the arrangement with the IT provider Serco. Although the contracts themselves will not change, the way in which the Council accounts for the different parts of the contract may. This review is to be completed by the end of September 2010.

## CAPITAL GRANTS

- 4.19. The way in which grants and contributions for capital purposes are recognised in the accounts of the Council is to change. Under IFRS the grants are recognised in the Income and Expenditure Account once any condition of the grant has been satisfied. The SORP treated the grant as deferred income and then recognised this income in the Income and Expenditure Account over the life of the asset for which the grant or contribution was received.
- 4.20. All capital grants are being reviewed and this work is due to be completed by the end of September 2010.

## HOLIDAY AND FLEXI LEAVE PAY

- 4.21. The new IFRS code requires local government bodies to accrue for the costs of staff holiday entitlements and flexi leave that has not been taken in the year and is carried forward to the next financial year.
- 4.22. As part of the 2009/10 accounts closure, this data was captured and the following table shows this calculation.

Directorate	Flexi-time / TOIL* £000	Holidays Carry Forward £000	Total £000
Chief Executive/ACE	17	27	44
Children's Services**	33	84	117
City Services	4	65	69
Operations	38	36	74
Strategic Resources	11	48	59
Schools		6,443	6,443
<b>Total</b>	<b>103</b>	<b>6,703</b>	<b>6,806</b>

\* TOIL - Time Off In Lieu

\*\* Children's Services figure excludes schools related data which is show separately

The schools figure is based on a calculation provided by CIPFA which accounts for the way that teachers earn holiday on a term by term basis (school year) rather than on an annual basis (financial year).

Number of Employees FTE	3,257
Working Year Days	261
Average Annual Salary	£24,587
Number of Days to Accrue	21
Value of Accrual	<b>£6,443,207</b>

## SEGMENTAL REPORTING

- 4.23. IFRS 8 requires the reporting of income and expenditure and assets to be reported in the segments that are reported to the 'Chief Operating Decision Maker'.
- 4.24. The overall aim is to enable the reader of the accounts to see the 'business' through the eyes of management. Appendix 1 provides an illustration as to what this may look like.
- 4.25. The 2009/10 accounts are currently being reviewed for the change in the way this is to be reported and the work is scheduled to be completed by October 2010.

## SKILLS AND KNOWLEDGE OF OFFICERS

- 4.26. Members of the Corporate Accounting teams have been, and have arranged to go on a number of IFRS focused training sessions. These have primarily been provided by PwC, the Audit Commission or CIPFA through their associated training arm or through their Financial Advisory Network (CIPFA FAN) to which the Council subscribes.
- 4.27. These sessions have provided useful hints and tips and the CIPFA FAN sessions facilitate the sharing of ideas and knowledge between similar authorities.
- 4.28. Members of the team who have attended such sessions then disseminate this knowledge to the wider finance community and inform suggested approaches with pieces of work eg the holiday pay accrual trial run.

## 5. CONSULTATION

- 5.1. No consultations are being considered for this item as this is a statutory change.

## **6. ANTICIPATED OUTCOMES**

- 6.1. As set out in the report.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1. This report and update is given to the Committee to advise of the progress of the transition to IFRS highlighting the work completed to date, and ensure involvement of the Committee in this process.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1. The Statement of Accounts will be required to be prepared in accordance with the IFRS by 2010/11, and this report sets out the progress made to date to ensure the satisfactory production of these Accounts. The options are therefore limited in order for the accounts to be prepared to the regulatory deadline and specification.

## **9. IMPLICATIONS**

- 9.1. The implications arising from this report are to consider the changes required in the transition to IFRS based accounts.
- 9.2. To provide the Committee the opportunity to consider the role and requirements of the Council to meet the transition to IFRS based accounts.

## **10. BACKGROUND DOCUMENTS**

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

The IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom 2010/11

Peterborough City Council, IFRS Conversion – Phase 1 Preliminary Study, August 2009.

FAN Briefing on the Code of Practice – Transport Infrastructure Assets.

## Illustration of a possible approach to segmental reporting for a Note to the new 'Comprehensive Income and Expenditure Statement'

	Deputy Chief Executive £000	Children's Services £000	Strategic Resources £000	City Services £000	Operations £000	Adult Social Care £000	Total £000
Fees, Charges & Other Service Income	(9,965)	(22,839)	(49,999)	(30,255)	(14,319)	(4,203)	(131,580)
Government Grants	(15,291)	(154,972)	(60,602)	0	(2,042)	(1,208)	(234,115)
<b>Total Income</b>	<b>(25,256)</b>	<b>(177,811)</b>	<b>(110,601)</b>	<b>(30,255)</b>	<b>(16,361)</b>	<b>(5,411)</b>	<b>(365,695)</b>
Employee Expenses	9,684	134,878	12,579	13,815	14,958	645	186,559
Other Operating Expenses	21,418	82,008	106,788	27,944	20,144	43,295	301,597
Support Service Recharges	7,789	11,755	7,525	1,193	5,548	0	33,810
Depreciation, Amortisation & Impairment	2,042	9,875	18,244	3,420	6,298	277	40,156
<b>Total Operating Expenses</b>	<b>40,933</b>	<b>238,516</b>	<b>145,136</b>	<b>46,372</b>	<b>46,948</b>	<b>44,217</b>	<b>562,122</b>
<b>Cost of Services</b>	<b>15,677</b>	<b>60,705</b>	<b>34,535</b>	<b>16,117</b>	<b>30,587</b>	<b>38,806</b>	<b>196,427</b>

## Reconciliation to Net Cost of Services in Comprehensive Income &amp; Expenditure Statement

	£000
Cost of Services in Service Analysis	196,427
Add services not included in main analysis	-13,861
Add amounts not reported to management	-538
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-5,505
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>176,523</b>

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 7
<b>6 SEPTEMBER 2010</b>	PUBLIC REPORT

Committee Member(s) responsible:	Resources portfolio holder, Cllr Seaton		
Contact Officer(s):	John Harrison, Executive Director Strategic Resources	☎ 452398	
	Steven Pilsworth, Head of Strategic Finance	☎ 384569	

## TREASURY MANAGEMENT PERFORMANCE

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director Strategic Resources	<b>Deadline date :</b> N/A
<p>Audit Committee is asked to</p> <ol style="list-style-type: none"> <li>1. To review current performance against the Treasury Management Strategy set in the Medium Term Financial Strategy (MTFS)</li> <li>2. To approve the revised Prudential Indicators included in the Prudential Code and Treasury Management Strategy 2010 for the change in the PFI accounting policy based on the International Financial Reporting Standards (IFRS)</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 The Treasury Management in the Public Services: Code of Practice 2009 recommends that members receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.2 The annual strategy is approved by Council as part of the Medium Term Financial Strategy (MTFS) and the final performance against the strategy is reported to Audit Committee in June alongside the Statement of Accounts. This report is the mid-year review.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 To report current performance and the forecast outturn position against the strategy.
- 2.2 The change in the accounting treatment for Private Finance Initiative (PFI) has resulted in the Prudential Indicators, included in the Prudential Code and Treasury Management Strategy 2010-15, to be revised. This report sets out these amendments.

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS

- 4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

- a) capital investment plans are affordable
- b) all external borrowing and other long term liabilities are within prudent and sustainable levels, and
- c) treasury management decisions are taken in accordance with professional good advice

- 4.2 For the 2009/10 financial year, all Councils were required to amend the accounting treatment for their PFI agreements. A year ahead of the general switch to IFRS-based accounting standards the decision was taken to recognise PFI, and similar contracts, as an asset(s) of the local authority. At the same time a related liability was also recognised.
- 4.3 Where PFI contracts have come 'on to Balance Sheet' as a result of the IFRS based approach, there is a requirement to adjust the Capital Financing Requirement and the Council will therefore need to ensure their authorised limits and operational boundaries are set accordingly.
- 4.4 The Council has revised the 2010 -11 Prudential Indicators to include the PFI financing requirements since the Full Council approval of the Medium Term Financial plan on 8th February 2010 which needs to be approved by the Audit Committee.
- 4.5 The revised Prudential Indicators are attached at Appendix A
- 4.6 The Council had a total of £3m invested in two Icelandic owned banks which went into administration in October 2008. To date the Council has received £425k in dividends from Heritable Bank and received £927k in dividends from Kaupthing Singer & Friedlander Ltd to date. Expected recovery rates are 79p to 85p in the pound and 65p to 78p in the pound respectively, which could result in the total loss being as little as £590k. The Council continues to work with the Local Government Association, undertaking negotiations with the relevant Icelandic banks, to secure as much money as possible.

## **5. CONSULTATION**

- 6.1 As 'The Prudential Code and Treasury Management Strategy 2010-15' forms part of the annual MTFs, it has undergone full consultation and been through the scrutiny process.
- 6.2 The Council continues to liaise with its treasury advisors, Sector Treasury Services Ltd, and specifically in relation to its deposits in the UK subsidiaries of the Icelandic banks, with Administrators, the Local Government Association, City Council Members, Members of Parliament and the Press.

## **6. ANTICIPATED OUTCOMES**

- 6.1 As set out in the report.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 This report and update is given to the Committee to review performance against the Treasury Management Strategy set in the MTFs, and approve the revised Prudential Indicators.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 The 'The Prudential Code and Treasury Management Strategy 2010-15' is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2009. This report sets out the performance against the associated indicators. The options are therefore limited.

## **9. IMPLICATIONS**

- 9.1 The implications arising from this report are to approve the revised Prudential Indicators
- 9.2 To provide the Committee the opportunity to review current performance against the revised Prudential Indicators.

## **10. BACKGROUND DOCUMENTS**

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

The Prudential Code for Capital Finance in Local Authorities – Fully revised second edition 2009, CIPFA

Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes - Fully revised second edition 2009, CIPFA

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## Appendix A

### Treasury Management Strategy - Prudential Indicators - Forecast Outturn as at August 2010

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

- (a) capital expenditure plans are affordable,
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy. The forecast outturn for the Prudential Indicators for the financial year to date are detailed below .

The 2009 Statement of Recommended Practice (SoRP) introduced a new accounting policy based on International Financial Reporting Standards (IFRS) with regards to how Private Finance Initiative (PFI) arrangements are accounted for. The new accounting policy results in PFI related assets being brought on to the Council's Balance Sheet. This involves three of the Council's secondary schools, which in turn impacts on the Council's capital financing.

The IFRS adjustment has no impact on the total expenditure of the Council, it instead changes the way this expenditure is accounted for and shown in the Council's accounts, which in turn impacts on Prudential Indicators.

The 2010-11 Prudential Indicators shown below have been revised to show the impact of the PFI adjustments and the Council's performance to date against them. All performance is within the limits.

#### 1. Indicator One: Adoption of the CIPFA Code of Treasury Management in the Public Services

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002, and the revised code in 2009. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

#### 2. Indicator Two: Estimates and actual Capital Expenditure 2010/11

	2010-11 Indicator	2010-11 Forecast Outturn
Capital Expenditure	£106.3m	£104.2m

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

**3. Indicator Three: Estimates of actual capital financing requirements and net borrowing**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	<b>2010-11 Indicator £m</b>	<b>PFI £m</b>	<b>2010-11 Revised Indicator £m</b>	<b>2010-11 Forecast Outturn £m</b>
CFR	216.2	48.7	264.9	253.7

**4. Indicator Four: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream**

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

	<b>2010/11 Indicator %</b>	<b>PFI %</b>	<b>2010/11 Revised Indicator %</b>	<b>2010-11 Forecast Outturn %</b>
Financing costs to revenue stream	5.3	1.8	7.1	6.8

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure. The difference between the indicator and the forecast outturn is because the CFR (as above) is lower.

**5. Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on the Council Tax**

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done on the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year:

	<b>2010-11 Indicator £</b>	<b>PFI £</b>	<b>2010/11 Revised Indicator £</b>	<b>2010-11 Forecast Outturn £</b>
Incremental impact on Council Tax	(27.97)	-	(27.97)	(37.31)

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure. The difference between the indicator and the forecast outturn is because the CFR (as above) is lower.

## 6. Indicators Six: External Debt Prudential Indicators

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is “prudent”.

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council’s cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

	<b>2010-11 Indicator £m</b>	<b>PFI £m</b>	<b>2010/11 Revised Indicator £m</b>	<b>2010-11 Forecast Outturn £m</b>
<b>Authorised Limit for external debt -</b>				
borrowing	311.9		311.9	
other long term liabilities	4.0	48.7	52.7	
<b>Total</b>	<b>315.9</b>		<b>364.6</b>	
<b>Operational Boundary for external debt-</b>				
borrowing	226.2		226.2	205.0
other long term liabilities	3.0	48.7	51.7	58.7
<b>Total</b>	<b>229.2</b>		<b>277.9</b>	<b>263.7</b>

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

“Other long term liabilities” include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases would be included, and now the PFI agreement.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

The following indicators take into consideration the capital programme over the life of the MTFs and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure. The forecast outturn does not represent the actual debt position at year end.

**7. Indicator Seven: Variable interest rate exposure**

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

	<b>2010/11 Indicator £m</b>	<b>2010-11 Forecast Outturn £m</b>
Upper limit for variable rate exposure	54.0	51.3

**8. Indicator Eight: Fixed Interest rate exposures**

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

	<b>2010/11 Indicator £m</b>	<b>2010-11 Forecast Outturn £m</b>
Upper limit for fixed rate exposure	311.9	306.0

**9. Indicator Nine: Prudential limits for the maturity structure of borrowing**

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

<b>Period</b>	<b>Upper Limit Estimate</b>	<b>Lower Limit Estimate</b>	<b>Actual Borrowing</b>
Under 12 months	30%	0%	14%
1 - 2 years	30%	0%	0%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	86%

**10. Indicator Ten: Total Investments for periods longer than 364 days**

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

The Executive Director - Strategic Resources has therefore sought the advice of Sector Treasury Services Ltd, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25 million. Consequently it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25 million for 2010/11 and later years.

The Council currently has no investments of more than 364 days.

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<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 8</b>
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	Diane Baker, Compliance and Ethical Standards Manager	☎ 452 559

**REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) ANNUAL REPORT 2009/2010**

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> Helen Edwards, Solicitor to the Council	<b>Deadline date :</b> N/A
Audit Committee is asked to	
1. Receive, consider and endorse the attached annual report on the use of RIPA for the year ended 31 March 2010 and quarterly review period ended 30 June 2010.	

**1. ORIGIN OF REPORT**

1.1 This report is submitted to the Committee as a scheduled report on the Council's use of RIPA in accordance with the established Work Programme 2010/2011.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The main purpose of this report is to provide an overview of the Council's approach to RIPA and its use of these powers over the period April 2009 - March 2010 and first quarter of 2010/2011. This report is to be considered in accordance with its Terms of Reference 2.2.15 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

**3. BACKGROUND**

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

3.2 Council officers and external agencies working on behalf of Peterborough City Council must comply with RIPA and any work carried out must be properly authorised by one of the Council's Authorising Officers. Authorising Officers are those whose posts appear in Appendix 1 to this report. The powers contained within the Act can only be used for the purpose of preventing or detecting crime or preventing disorder.<sup>1</sup>

<sup>1</sup> Detecting crime is defined in section 81(5) of the 2000 Act. Preventing or detecting crime goes beyond the prosecution of offenders and includes actions taken to avert, end or disrupt the commission of criminal offences.

- 3.3 The attached report (**Appendix A**) demonstrates the success of the Council in establishing strong governance around the use of RIPA and provides assurance to the citizens of Peterborough that the powers are only used where necessary and proportionate and in accordance with the law.

#### **4. CONSULTATION**

- 4.1 Consultation has taken place between the following parties:
- Solicitor to the Council;
  - Executive Director of Operations (as the Senior Officer with oversight for RIPA); and
  - Chief Internal Auditor

#### **5. ANTICIPATED OUTCOMES**

- 5.1 That the Audit Committee is informed of the proactive measures taken across the organisation to govern the use of RIPA and incorporate good practice into established procedures. Furthermore, this will assist in the development of future policies and procedures and allow the Committee to support this important function.

#### **6. REASONS FOR RECOMMENDATIONS**

- 6.1 There are no recommendations contained within this report.

#### **7. ALTERNATIVE OPTIONS CONSIDERED**

- 7.1 The option is not to present a comprehensive report, which addresses the use of RIPA and identifies areas for improvement. This could result in a lack of awareness and a potential lack of support from the Audit Committee. Failure to present a report also contravenes the RIPA Codes of Practice.

#### **8. IMPLICATIONS**

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

#### **9. BACKGROUND DOCUMENTS**

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

- 9.1 Office of Surveillance Commissioners website  
<http://www.surveillancecommissioners.gov.uk/>



**Regulation of Investigatory  
Powers Act 2000**

**Annual Report  
2009/2010**

## 1 Introduction

The Human Rights Act 1998 requires Peterborough City Council, and organisations working on its behalf, pursuant to Article 8 of the European Convention, to respect the private and family life of citizens, their home and their correspondence.

This is not, however, an absolute right, but a qualified right. Accordingly, in certain circumstances, the Council may interfere in the citizen's right if such interference is:

- In accordance with the law;
- Necessary; and
- Proportionate

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

Covert surveillance<sup>1</sup> is carried out in a manner calculated to ensure that the person subject to the surveillance is unaware of it taking place. It cannot, however, be 'necessary' if there is a reasonably available overt means of establishing the information required. Therefore this method of investigation should only be used as a last resort.

Council officers and external agencies working on behalf of Peterborough City Council must comply with RIPA and any work carried out must be properly authorised by one of the Council's Authorising Officers. Authorising Officers are those whose posts appear in Appendix 1 to this report. The powers contained within the Act can only be used for the purpose of preventing or detecting crime or preventing disorder.<sup>2</sup>

If the correct procedures are not followed when considering the use of RIPA evidence may be disallowed in court. A complaint of maladministration could also be made to the Council and such action would not promote the good reputation of the Council. Disciplinary action would also be considered in

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<sup>1</sup> Surveillance, for the purpose of the 2000 Act, includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained.

<sup>2</sup> Detecting crime is defined in section 81(5) of the 2000 Act. Preventing or detecting crime goes beyond the prosecution of offenders and includes actions taken to avert, end or disrupt the commission of criminal offences.

certain circumstances. **It is essential, therefore, that all involved with RIPA comply with the Council's procedures and seek advice from the Authorising Officers at all times.**

## **2 Governance Arrangements at Peterborough City Council**

A centrally retrievable record of all authorisations should be held by each public authority and regularly updated whenever an authorisation is granted, renewed or cancelled. Peterborough City Council's records are reviewed and maintained by the Compliance and Ethical Standards Manager.

A team of RIPA specialists has been established to oversee all RIPA activity and to ensure that the relevant governance arrangements are in place such as policy review and training for practitioners, authorising officers and Councillors. The group also incorporates good practice into operational procedures such as the introduction of a toolkit, which contains RIPA guidance. Membership of the group includes:

- Executive Director of Operations;
- The Compliance and Ethical Standards Manager;
- Business Regulation Strategic Manager;
- Senior Lawyer; and
- Resilience Service Manager.

The group meet frequently to consider the strategic and operational aspects of RIPA.

## **3 Changes to Legislation and Codes of Practice from April 2010**

A thorough review of RIPA was undertaken by the Home Office during 2009. As a result of that review, certain legislative changes have been made and new Codes of Practice for Covert Surveillance and CHIS's have been published. In summary, the legislative changes that affect Peterborough City Council are:

- The level of Authorising Officer for covert surveillance activities has been reviewed. All Authorising Officers should now be Service Manager, Head of Service or Director (or equivalent). This also applies to the acquisition and disclosure of communications data and the Designated Person (Authorising Officer) level.

The revised Codes of Practice provide more guidance on key RIPA concepts such as necessity and proportionality. The Codes also place the following responsibilities on public authorities:

- Senior Responsible Officer – it is considered good practice for this post to be made responsible for -
  - a) The integrity of the process in place within the public authority for the management of CHIS's and surveillance;
  - b) Compliance with Part 2 of the Act and with the Codes;

## *Regulation of Investigatory Powers Act 2000*

- c) Oversight of the reporting of errors to the relevant oversight Commissioner;
- d) Engagement with the Office of Surveillance Commissioner inspectors when they conduct their inspections; and
- e) Oversight of the implementation of post-inspection plans approved by the relevant Commissioner

The Senior Responsible Officer should be a member of the corporate leadership team. The Executive Director of Operations will assume this role at Peterborough City Council.

- Councillors' Roles – Councillors in a local authority should review the authority's use of RIPA and set the policy at least once a year. They should also consider internal reports on the use of RIPA at least on a quarterly basis to ensure that it is being used consistently with the Council's policy and that the policy remains fit for purpose. They should not, however, be involved in making decisions on specific authorisations.

Peterborough City Council's Audit Committee will receive an annual report on the use of RIPA and quarterly updates throughout the year to ensure a consistent approach is maintained. The RIPA policy will also be presented to the Committee for approval on an annual basis.

### **4 RIPA Activity 2009-2010**

Although Peterborough City Council is a unitary authority with many enforcement functions, the use of RIPA has always been minimal. This is attributable to the excellent level of training and awareness available to all staff, the use of less intrusive methods to obtain required information and to the robust governance arrangements in place to ensure the Council's integrity is maintained. Test Purchasing<sup>3</sup> activity is shown to have increased during 2010. Following the Office of Surveillance Commissioner's inspection of 2009, a decision was taken to authorise Test Purchasing activity under RIPA as it is considered good practice to do so.

During 2009/2010, surveillance was authorised as follows:

<b>Date of Authorisation</b>	<b>Reason</b>
May 2009	Corporate Fraud
December 2009	Test Purchasing
January 2009	Test Purchasing
March 2009	Test Purchasing
March 2009	Test Purchasing

<sup>3</sup> Test Purchasing is the testing of age restricted goods such as alcohol, tobacco and fireworks, at premises throughout the City.

## *Regulation of Investigatory Powers Act 2000*

During April to June 2010, surveillance was authorised as follows:

<b>Date of Authorisation</b>	<b>Reason</b>	<b>Level of Authorising Officer</b>
May 2010	Test Purchasing x 2	Service Manager
June 2010	Trading Standards	Service Manager

During 2009/2010, access to communications data was acquired as follows:

<b>Date of Authorisation</b>	<b>Reason</b>
December 2009	Trading Standards

During April to June 2010, access to communications data was acquired as follows:

<b>Date of Authorisation</b>	<b>Reason</b>	<b>Level of Authorising Officer</b>
April 2010	Trading Standards x 3	

### **5 Future Considerations**

Peterborough City Council has a rolling three year training programme, which addresses the needs of practitioners, Authorising Officers and Councillors. It has been agreed that annual training will be delivered to each group over a three year period; the training will be provided in partnership with Cambridgeshire Constabulary. This collaborative approach is seen as an example of good practice by the Office of Surveillance Commissioners.

It has been reported in the media that the Coalition Government is keen to address the use of RIPA powers by Local Authorities. No decision has been made regarding changes to existing practices but Local Authorities are involved in consultation exercises.

### **6 Conclusions**

Peterborough City Council was last inspected by the Office of Surveillance Commissioners in 2009. The inspection report was extremely positive and congratulated all involved in the administration of RIPA. Although recognising that the Council is an infrequent user of the powers, good practice was identified in the introduction of a RIPA toolkit and RIPA group and the Council's overall approach to RIPA was deemed to be professional, with

## *Regulation of Investigatory Powers Act 2000*

leadership from the top, clear systems and processes and the appropriate investment in training.

Peterborough City Council will continue to build on this success to ensure that any use of RIPA continues to be lawful, proportionate and necessary, and used only as a last resort in circumstances where less intrusive methods are indisputably inappropriate.

**REGULATION OF INVESTIGATORY POWERS ACT 2000 –  
PETERBOROUGH CITY COUNCIL AUTHORISED OFFICERS**

- **Chief Executive**
- **Executive Director of Operations**
- **Compliance and Ethical Standards Manager**
- **Chief Internal Auditor**
- **Business Regulation Strategic Manager (Operations)**
- **Resilience Services Manager**

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<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 9</b>
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557
	Diane Baker, Compliance and Ethical Standards Manager	☎ 452 559

### STRATEGIC GOVERNANCE BOARD: INFORMATION GOVERNANCE

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director (Strategic Resources)	<b>Deadline date :</b> N/A
To consider the progress made to date in respect of improving the Information Governance arrangements in the City Council.	

#### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee in line with the agreed Work Programme for the Municipal Year 2010 / 2011.

#### 2. PURPOSE AND REASON FOR REPORT

- 1.2 To update the Committee on progress to instil sound principles across the organisation in relation to the information governance.

#### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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#### 4. GOVERNANCE BOARD

##### 4.1 Background

- 4.1.1 Members were informed of the creation of the Strategic Governance Board on 2 November 2009. This was created to provide a forum for senior officers and Members of the Council to discuss and develop a coordinated approach to:

- Risk management;
- Corporate governance;
- Statutory and constitutional compliance;
- Decision-making and accountability;
- Audit, inspection and control systems; and
- Corporate policies and procedures.

#### 4.1.2 Board membership comprises of:

- Solicitor to the Council (Chair);
- Head of Human Resources;
- Head of Corporate Services;
- Head of Legal (x 2);
- Chief Internal Auditor;
- Head of Business Support;
- Compliance and Ethical Standards Manager;
- Resilience Services Manager;
- Principal Democratic Services Manager.

4.1.3 There is also standing invitations to the Cabinet Member for Resources, Chair of Audit Committee, together with the Chief Executive. Other representatives are invited on specific issues.

#### 4.2 Information Governance Workstream

4.2.1 The Council is committed to developing a comprehensive and effective policy framework covering all aspects of Information Governance. High profile personal or sensitive data losses have been incurred by the HRMC, the Ministry of Defence, the NHS and the Police. All data breaches have to be reported to the Information Commissioners Office and they have reported that there has been a rise in these incidents.

4.2.2 The Council is therefore developing an Information Governance Framework which incorporates the core measures identified in the Governments Data Handling review and the HMG Security Framework.

4.2.3 For practical purposes, Information Governance can be categorised into five main strands as follows:

- **Information Governance Framework.** This addresses the overall management and development of Information Governance arrangements at a corporate, managerial and operational level across the Council.
- **Information Security.** This considers the adequacy of the arrangements in place for protecting personal and sensitive data in accordance with the principles of the Data Protection Act 1998 and guidance issued by the Information Commissioners Office.
- **Compliance.** This considers the legal framework, constitutional arrangements and operational standards that need to be established to ensure that data and information management through PCC is conducted within the relevant legislative parameters (e.g. Data Protection, Freedom of Information).
- **Information Quality.** The requirement covers the need to ensure quality, accuracy, currency of data etc.
- **Record Management.** The process for creating, using, storing, archiving and disposing of records according to pre-defined set of standards.

4.2.4 Attached at **Appendix A** is the progress to date. Membership of the group includes Councillors Seaton, Peach, Lane and Fower.

4.2.5 Priorities for the next six months include the presentation of the overall Information Governance Policy, Strategy and associated roll out plan to Audit Committee and Corporate Management Team for consideration, together with the continued production of necessary policy and guidance documentation.

**5. CONSULTATION**

5.1 The report has been prepared in conjunction with the Information Governance workstream.

**6. ANTICIPATED OUTCOMES**

6.1 That the Audit Committee is informed of the proactive measures taken across the organisation in relation to Information Governance.

**7. REASONS FOR RECOMMENDATIONS**

7.1 There are no recommendations contained within this report.

**8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 To not comply with best practice in relation to information governance. This was rejected as it could leave the authority open to criticism, reputational damage and potential fines if there was a breach or loss of data.

**9. IMPLICATIONS**

9.1 This report does not have any implications effecting legal, human rights act or human resource issues.

**10. BACKGROUND DOCUMENTS**

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

None

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**Peterborough City Council**  
**Strategic Governance Board**



**Information Governance**

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0.2	Minor amendments to first draft

# Information Governance

## Corporate Information Governance Group (CIGG)

### Update to Strategic Governance Board - 02/06/10

#### **TERMS OF REFERENCE**

The draft Terms of Reference for the Corporate Information Governance Group are submitted to the Strategic Governance Board for approval as set out below:

- To ensure that the Council has effective policies and management arrangements covering all aspects of Information Governance in line with the Council's overarching Information Governance Policy, i.e.
  - Openness
  - Legal Compliance
  - Information Risk
  - Information Quality Assurance
- To ensure that the Council undertakes or commissions annual assessments and audits of its Information Governance policies and arrangements.
- To establish an annual Information Governance Improvement Plan, secure the necessary implementation resources, and monitor the implementation of that plan.
- To ensure that the necessary mechanisms are put in place to handle reports into breaches of confidentiality and security and where appropriate undertake or recommend remedial action.
- To report to the Strategic Governance Board on Information Governance issues.
- To liaise with other Council committees, working groups and programme boards in order to promote Information Governance issues.
- The Group will meet a minimum of four times a year.

#### **PROGRESS UPDATE**

##### **1. Where we are now**

###### **Policy work**

An initial review of the existing policies relating to Information Governance has been conducted and, whilst we have found some excellent policies, we have also found some policies that:

- are out of date (e.g. email policy dated 1999);
- exist only in draft (ICT policy);
- contain factual inaccuracies (Records Management);
- have never been fully implemented (Data Quality).

This policy work is continuing and is a priority area for the group and in this context links have been made by the group to the:

- Strategy to Policy Project (Concept to Publish);
- Green Shoots Programme.

New policies have been drafted in relation to:

- Corporate Information Governance;
- Protective Marking;
- Email - use, retention and disposal;

Peer review of these policies is underway at the moment and these will be submitted to the full CIGG for review and sign-off prior to presentation to the relevant committees.

## Committees and Standing Invitations

The group will be putting the new policies to the Audit Committee for approval and will also be extending a standing invitation to Councillor Seaton, as the Cabinet Member for Resources.

## 2. Where we want to be

In line with the recommendations originally made to the Strategic Governance Board:

- the Group is working towards the publication of a Peterborough Information Charter
- the decision made by Internal Audit to use the Information Assurance Maturity Model Framework has guided the group to use that Model and to:
  - achieve Level 1 of the Model by Apr 2011
  - aspire to achieve Level 2 of the Model by Apr 2012

## Information Assurance Maturity Model Level 1

- **Description** : Initial awareness of the criticality of Information Assurance to the Business and its Legal Requirements
- **Requirement** : Main Board recognition that information is a vital business asset and that Information Assurance is an integral part of corporate governance. Board commitment to effective Information Assurance is promulgated in a top level policy statement. Appointment of a Senior Risk Owner on the Main Board and Information Asset Managers throughout the organisation, taking responsibility for their assets. Publication of an Information Charter

## 3. How we are going to get there

An outline timetable of activities and the initial approach to be taken has been developed and is attached at Annex 1.

## 4. What the benefits are

The introduction of Corporate Information Governance will contribute to the Council's performance in the following areas:

- **Governing the business**
  - i. Does the organisation produce relevant and reliable data and information to support decision making and manage performance
  - ii. Does the organisation promote and demonstrate the principles and values of good governance
  - iii. Does the organisation manage its risks and maintain a sound system of internal control
- **Managing resources**
  - i. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs

## 5. How we will know we have got there

Internal Audit has adopted the Information Assurance Assessment framework as the tool to measure the Council's progress.

## Information Assurance Maturity Model

Level 1 – Initial Awareness of the Criticality of IA to the Business and Legal Requirements			
<i>Embedding Information Risk Management (IRM) Culture Within organisation</i>			
1. Process : Leadership & Governance	Due date	Progress	Status
1.1 Main Board recognition that information is a vital business asset and that IA is an integral requirement of corporate governance	Jul-10	g	Strategic Governance Board have set-up a sub-group to progress Corporate Information Governance
1.2 Board commitment to effective IA is promulgated in a top-level policy statement	Jul-10	a	Information Governance Policy now in draft form and currently out for peer review before wider consultation
1.3 Appointment of a Senior Information Risk Owner at CMT level	Aug-10	r	Likely to be part of an existing post - recommendation to be made by CIGG and approval to be given by CMT
1.4 Appointment of Information Asset Owners throughout the organisation taking responsibility for their assets.	Jul-10	r	Likely to be a new network appointed by CMT
1.5 Publication of an Information Charter	Aug-10	g	Work on this has started and is progressing
2. Process : Training, Education & Awareness			
2.1 A programme of annual information risk awareness training is instituted for all who have access to personal data within the organisation its delivery partners and 3rd party suppliers.	Sep-10	r	Corporate policies will be reviewed to ensure that they cover Information Risk. Necessary changes will be made and the new policies will be published on In-Site. Information Risk is likely to become a specific item within the Council's overall approach to corporate Risk Management. The CIGG will work with HR, Comms, the Risk Manager and individual Service areas to ensure that policies are aligned and induction and ongoing training is available in relation to Information Risk.
2.2 A organisational cultural change plan is implemented	TBA	r	Requirement to be assessed. This could be approached through Business Transformation and the roll-out of projects such as EDRM and the Digital mailroom

<b>3. Process : Information Risk Management</b>				
3.1	A comprehensive information risk policy is in place. The organisation's information risk appetite is clearly articulated	Jan-11	r	Not yet started
3.2	Information risks with appropriate owners and managers are identified within risk registers at the strategic level.	Jan-11	a	Existing Risk Register needs to be considered as a potential mechanism for this.
3.3	All new IS are subject to an effective accreditation process, where appropriate Privacy Impact Assessments are used and effective contract mechanisms are used to apply IA through life.	Apr-11	a	This is partial at the moment but a policy is planned
3.4	The organisation's approach to addressing information risks is agreed with the organisation's external stakeholders, where applicable	Apr-11	r	Yes in principal once the Council has formed an initial position then this will be shared and agreed with partners and stakeholders. Information Sharing Protocols are to be developed - Green Shoots is an example of where this requirement is pressing.
<b>Implementing Best Practice IA Measures</b>				
<b>4. Process : Through-Life IA Measures</b>				
4.1	The requirement for taking a coordinated and systematic approach to through-life IA measures is understood and plans exist to determine the status of existing IS.	Apr-11	r	IS Information Risk policy to be developed
4.2	All new IS are subject to through-life IA measures to deal with the full range of vulnerabilities and threats to information, including those arising from	Apr-11	g	IS Information Risk policy to be developed
☐	personnel behaviour,	Sep-10	a	Policy to be developed
☐	business process,	Sep-10	a	Policy to be developed
☐	natural disaster,	Nov-10	a	Policy to be developed
☐	malicious intent and	Nov-10	a	Policy to be developed
☐	obsolescence.	Nov-10	a	Policy to be developed

4.3	The organisation has a Forensic Readiness Policy.	TBA	r	Requirement to be assessed
4.4	Implementing Best Practice IA Measures	Dec-10	r	To be defined
<b>5. Process : Assured Information Sharing</b>				
5.1	The requirements for sharing information across the organisation's boundaries are identified and arrangements are in place to work with external stakeholders to achieve shared IA objectives.	Aug-10	g	This work has commenced
5.2	The need to understand and control how IS interact with one another both internally and externally is acknowledged and work to implement IA control mechanisms is implemented.	Aug-10	g	This work has commenced
<b>Effective Compliance</b>				
<b>6. Process : Compliance</b>				
6.1	A compliance regime is established to confirm the effectiveness of IRM against mandated minimum standards.	Sep-10	g	Currently being developed by Internal Audit
6.2	The Board's Audit Committee ensures that it receives comprehensive assurance on IRM and challenges assurance, where required.	Sep-10	g	Currently being developed by Internal Audit
6.3	The organisation reports annually on IA issues.	Apr-11	r	To be achieved as a part of the Council's overall approach to Risk Management

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 10
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

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

### INTERNAL AUDIT - QUARTERLY REPORT 2010 / 2011 (TO 30 JUNE 2010)

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Director of Strategic Resources	<b>Deadline date :</b> N/A
Audit Committee are asked that :	
<p>1. The Internal Audit Update Report to 30 June 2010 be received and the Committee note in particular:</p> <p>(a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 30 June 2010, internal control systems and governance arrangements remain generally sound;</p> <p>(b) Progress made against the plan and the overall performance of the section; and</p> <p>(c) The future review and where appropriate revision of the 2010/2011 Audit Plan.</p>	

#### 1. ORIGIN OF REPORT

- 1.1 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 2010 / 2011 Audit Plan (Audit Committee approval: 29 March 2010).

#### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2010 / 2011 as at 30 June 2010.

#### 3. TIMESCALE

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

- 4.1 This report outlines the work undertaken by Internal Audit up to 30 June 2010, 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. **THREE** 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 2010 / 2011 (to 30 June 2010), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 100% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 97%).

## 6. AUDIT PLAN 2010 / 2011

### 6.1 Progress against Plan

- 6.1.1 **Appendix A** shows the Operational Plan that was agreed by the Audit Committee on 29<sup>th</sup> March 2010. The plan details the audits that are due to be performed during 2010/2011 and the status of the reviews. The Appendix also includes reviews brought forward from the previous year that have either been finalised during 2010 / 2011 or details their current status. Audits that were not planned at the time of the Annual Audit Plan being approved are also included within the Appendix and are identified as unplanned reviews. Some contingency time for unplanned reviews is incorporated into the plan when it is produced, however it will not be apparent whether the time included is sufficient to meet the organisations needs until the year progresses. 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.
- 6.1.2 Progress against the 2010 / 2011 plan is 26.1% (compared with 29% to the 3 month period June 2009). Whilst the progress against the plan is slightly less than the previous year it is slightly above the teams quarter 1 target of 25%.
- 6.1.3 To date, 10 audit projects for 2009 / 2010 have been finalised together with a further 8 for 2010 / 2011. There are also 29 reviews that are in various stages of review along with the 24 schools subject to Financial Management Standards in Schools reassessment.

### 6.2 Other Performance Matters

- 6.2.1 An average of 2.6 days sickness per person was lost during the 3 months to 30 June 2010, compared to a target of 1.5 days. This is a major reduction on last year where sickness was 10 days per person as at 30 June 2009. However the majority of the sickness taken during Qtr1 was during June and it is known that the sickness relating to one individual will continue until at least October (Qtr3). This will have a major impact on the delivery of the Audit Plan for the remainder of the year and processes are in place to revise the Audit Plan accordingly (see 7.1). Where appropriate, sickness is being actively managed in accordance with the Council's Attendance Policy and through Occupational Health if appropriate.

## 7. REVISION OF THE 2010 / 2011 AUDIT PLAN

- 7.1 As detailed within section 6.2 of this report, it is known that the delivery of the audit plan is at risk due to resourcing issues relating to sickness. This is also further impacted by a

vacant Auditor post within the team where it is uncertain when the recruitment process will commence.

7.2 In view of the above, the audit plan will be reviewed and amended if appropriate to ensure that business needs can be achieved. Reviews identified with an asterix (\*) within **Appendix A** were originally scheduled for the vacant post referred to in 7.1. Any revisions to the plan will include which audits cannot be undertaken due to resource limitations based on the organisations needs. This may result in audits identified for the vacant post being reallocated to other auditors and the removal of other audits from the plan. Where funding is permitted the possibility of additional resources will also be explored. Any revisions to the Audit Plan will be presented to the Audit Committee for approval.

7.3 The Internal Audit Strategy for 2010/11 which was approved by the Audit Committee on 29 March 2010, detailed that ***'Internal Audit has been charged with selling Audit Services to other areas of the Public Sector in the region, as part of the Manor Drive initiative.'*** Internal Audit have been in discussion with a number of authorities in relation to this initiative and further information will be provided to Audit Committee, as appropriate, during the year.

## **8. CONSULTATION**

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

## **9. ANTICIPATED OUTCOMES**

9.1 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.

## **10. REASONS FOR RECOMMENDATIONS**

10.1 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.

## **11. ALTERNATIVE OPTIONS CONSIDERED**

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

## **12. IMPLICATIONS**

### **12.1 Corporate Strategy (relevance to):**

12.1.1 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.

12.1.2 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 2010 / 2011 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.

- 12.1.3 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.

**13. 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 2010 / 2011  
Internal Audit Annual Plan 2010 / 2011

**14. APPENDICES:**

Appendix A – Progress of Audit Plan 2010/2011 (to 30 June 2010)  
Appendix B – Audit Reports Issued in Quarter 1: Limited / No Assurance

SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.											
Main Accounting / Financial Accounting	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr4
Accounts Payable	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Sundry Billing	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr2
Debt Recovery	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr2
Housing and Council Tax Benefits	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr4
Council Tax	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Business Rates	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Cash / Banking	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Budgetary Control (Capital)	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Treasury Management	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr3
Payroll	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr2
Fixed Asset Accounting	Strategic Resources					-	-	-	-	-	-	Due to commence Qtr4

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Unplanned reviews 2010/11</b>											
Youth Offending Service – Imprest Account	Strategic Resources		x			3	-	-	-	-	Final Memo
<b>SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Rolled forward from 2009/10</b>	<b>To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.</b>										
Retrospective Orders	Chi Services					-	-	-	-	-	At review stage
Benefits 2009	Strategic Resources		x			1	2	-	-	3	Draft
Cash and Banking 2009/10	Strategic Resources					-	-	-	-	-	Draft review stage
Main Accounting System	Strategic Resources					-	-	-	-	-	Draft review stage
Accounts Payable – Central Controls	Strategic Resources					-	-	-	-	-	Draft review stage

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.										
Arrangements for production of AGS 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Assurance Framework	All					-	-	-	-	-	Due to commence Qtr2
Annual Audit Opinion 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Anti Fraud Culture	All										Reviews to reported individually throughout the year
Internal Audit Effectiveness	All					-	-	-	-	-	Due to commence Qtr3
Follow-UP Reviews											
Follow-Up Reviews	All										Individual reviews to be detailed throughout the year
CAA / UoR Support	All					-	-	-	-	-	No longer required in current form - Work requirements to be reviewed in line with Government initiatives

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK – Rolled forward from 2009/10											
Follow-UP Reviews											
Discovery FMSiS 2008/09	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
John Clare FMSiS 2008/09	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Nene Valley FMSiS 2008/09	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Wittering FMSiS 2008/09	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Bishop Creighton FMSiS 2008/09	Chi Services					-	-	-	-	-	In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>OTHER GOVERNANCE ARRANGEMENTS</b>	<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.</b>										
Performance Management	All/ City Services					-	-	-	-	-	Due to commence Qtr2 *
Risk Management	All/ Operations					-	-	-	-	-	Due to commence Qtr2
Information Governance	All					-	-	-	-	-	Due to commence Qtr2 + Qtr4 *
Business Continuity	All/ Operations					-	-	-	-	-	Due to commence Qtr2
Partnerships	All					-	-	-	-	-	Reviews to reported individually throughout the year *
<b>OTHER GOVERNANCE ARRANGEMENTS Rolled forward from 2009/10</b>	<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.</b>										
Information Governance - Contact Point Accreditation	Chi Services	N/A	Final Certification								

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

STRATEGIC AND OPERATIONAL RISKS	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Regeneration / Sustainability	Asst Chief Executive					-	-	-	-	-	Due to commence Qtr3
Health & Safety	Operations					-	-	-	-	-	In Progress
Arms Length Management Organisation (ALMO) for City Services	City Services					-	-	-	-	-	Due to commence Qtr2 *
Environmental Management	Operations					-	-	-	-	-	Due to commence Qtr2
Safeguarding Children	Chi Services					-	-	-	-	-	Due to commence Qtr1
Property Asset Management	Strategic Resources					-	-	-	-	-	Due to commence Qtr3
Highways	Operations					-	-	-	-	-	Due to commence Qtr4 *
Agile Working Scheme	Strategic Resources					-	-	-	-	-	At review stage
Travel & Subsistence	All					-	-	-	-	-	Due to commence Qtr4
Attendance Management	All					-	-	-	-	-	Due to commence Qtr2
Concessionary Fares	Operations					-	-	-	-	-	Due to commence Qtr3 *
Asylum and Immigration Act	Strategic Resources					-	-	-	-	-	In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
Children in Care	Chi Services					-	-	-	-	-	Due to commence Qtr3 *
Financial Controls within Children's Services	Chi Services					-	-	-	-	-	Due to commence Qtr2 *
Procurement											
Purchasing Cards	All					-	-	-	-	-	In progress
<b>STRATEGIC AND OPERATIONAL RISKS – Unplanned Reviews</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
Spend Cards	Chi Services					-	-	-	-	-	At review stage
Interim Utility Billing Process	Strategic Resources		x			2	-	-	-	-	Memo
SI (Chi2120-02)	Chi Services				x	1	5	7	4	17	Draft
<b>STRATEGIC AND OPERATIONAL RISKS – Rolled Forward from 2009/10</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
SI (Chi2084-05)	Chi Services			x		-	1	2	-	3	Draft

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>CONTRACTS AND PROJECTS</b>	Dependent on risk, we review a sample of projects contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money.										
Project Management											
Capital Gateway Processes	All					-	-	-	-	-	In progress
Projects											
CIA Consultancy – E-Payment Project Board	All					-	-	-	-	-	In progress
CIA Consultancy – Internet Project	All					-	-	-	-	-	In progress
Contracts											
CIA Consultancy – Green Waste	City Services					-	-	-	-	-	In progress
<b>CONTRACTS AND PROJECTS – Rolled forward from 2009/10</b>											
Property Design and Maintenance Contracts	City Services					-	-	-	-	-	At review stage
SI (Con3195-03)	City Services				x	-	-	1	2	3	Final report deferred from 2009/10. The report will be issued to Audit Committee following the completion of a number of internal procedures.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.											
Grant Claim Certification (on behalf of PwC)												
Teachers Pensions (TPA) TR17	Strategic Resources					-	-	-	-	-	-	In progress
Jack Hunt TPA	Chi Services					-	-	-	-	-	-	In progress
Hampton College TPA	Chi Services					-	-	-	-	-	-	In progress
Orton Longueville School	Chi Services					-	-	-	-	-	-	In progress
FMSiS Section52 Outturn Return	Strategic Resources					n/a	n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
FMSiS Inventories Summary	Chi Services					n/a	n/a	n/a	n/a	n/a	n/a	Final memo
GAF Opportunity Peterborough Grant 2009/10	Strategic Resources					n/a	n/a	n/a	n/a	n/a	n/a	Final Memo
GAF3 Grant 2009/10	Strategic Resources					n/a	n/a	n/a	n/a	n/a	n/a	Final memo
Stroke Care Grant 2009/10	Strategic Resources					-	-	-	-	-	-	In progress
Economic Participation Programme	Chief Exec					-	-	-	-	-	-	In progress
FMSiS: 23 Primary Schools and 1 Secondary School to be reassessed												
Southfields Junior 2010/11	Chi Services					-	-	-	-	-	-	In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

Leisure Trust											
	N/A					-	-	-	-	-	Reviews to commence during Qtr2
<b>EXTERNAL WORK - Rolled Forward from 2009/10</b>	<b>Work resulting income or a reduction in fees paid to other organisations.</b>										
The Voyager FMSiS	Chi Services		x			3	2	1	-	6	Draft
Barnack Primary FMSiS	Chi Services		x			1	5	-	-	6	Final
Dogsthorpe Infants FMSiS	Chi Services		x			3	5	-	-	8	Draft
Hampton Vale FMSiS	Chi Services			x		1	4	3	-	8	Final – Exec Summary to AC 06/09/2010
Southfields Infants FMSiS	Chi Services		x			1	2	-	-	3	Draft
The Beeches FMSiS	Chi Services			x		1	6	-	-	7	Draft
Welbourne Primary FMSiS	Chi Services			x			5	1	-	6	Final – Exec Summary to AC 06/09/2010
Winyates Primary FMSiS	Chi Services			x		1	2	3	-	6	Draft
Heltwate FMSiS	Chi Services			x		2	5	4	-	11	Final – Exec Summary to AC 06/09/2010
NeneGate FMSiS	Chi Services			x		1	3	3	-	7	Draft

Note: reviews identified with an asterisk (\*) are currently allocated to a vacant post.

**AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

<b>LIMITED ASSURANCE</b>		<b>Date To Audit Committee</b>
Chi2118-03	Hampton Vale	06 September 2010
Chi2149-02	Welbourne Primary	06 September 2010
Chi2180-01	Heltwate School	06 September 2010

## **FMSiS: Standard 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.

**Chi2118-03: Conclusion**

The School Business Manager worked hard to complete the self-assessment and provide supporting evidence prior to the external assessment visit. The self-assessment answers provided were full and contained comprehensive information to facilitate the assessment process. The School Business Manager was committed to passing the Standard and responded promptly to the request for additional information. This resulted in Hampton Vale Primary School passing the FMSiS before the target date of 31<sup>st</sup> March 2010. However the resulting high recommendations from the review relating to contracts, document security and the Statement of Internal Control has contributed to an audit opinion of 'Limited Assurance.'

**Chi2149-02: Conclusion**

The school's re-submission of their G4 FMSiS Self Assessment was completed sufficiently to allow an External Assessment visit in the Autumn term. The visit to the school resulted in a short action plan which was addressed by the School Business Manager. This has resulted in Welbourne Primary School meeting the requirements of the FMSiS before the March 2010 deadline. The review of the school's inventory system has resulted in a high graded recommendation in the report which is reflected in the audit opinion of 'Limited Assurance.'

**Chi2180-01: Conclusion**

The Business Manager has worked hard to complete the self assessment which was submitted according to Internal Audit's requirements. The Internal Audit visit to the school was well received and productive. Outstanding items of evidence were submitted as requested and this resulted in Heltwate School passing the FMSiS before the required deadline of 31<sup>st</sup> March 2010. However the resulting high recommendations from the review relating to payroll and budgeting, has contributed to an audit opinion of 'Limited Assurance.'

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.11
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

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

## CIPFA CONSULTATION: ROLE OF HEAD OF INTERNAL AUDIT

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director (Strategic Resources)	<b>Deadline date :</b> N/A
<p>The Committee is asked to consider whether they support the suggested responses to the consultation questions posed by CIPFA, and whether there are any other comments they wish to be included in the feedback.</p>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee in line with the agreed Work Programme for the Municipal Year 2010 / 2011.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 To update the Committee on CIPFA's consultation on the draft statement re: the role of the Head of Internal Audit in public sector organisations.

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. OVERVIEW OF THE STATEMENT

#### 4.1 Background

- 4.1.1 The Council is required by the Accounts and Audit Regulations 2006 (as amended) to maintain an adequate and effective internal audit service. CIPFA is the key professional body responsible for providing guidance on the adequacy and effectiveness of internal audit in local authorities.

- 4.1.2 On 19th May CIPFA published its consultation on its Statement on the role of the Head of Internal Audit (HIA) in public service organisations (**Appendix A**). The statement sets out best practice for HIAs to aspire to and for Audit Committees and others to measure internal audit against.

- 4.1.3 The statement sets out an overarching principles-based framework which is intended to apply to all HIAs in the UK. The Statement draws on the best practice and regulatory requirements in public services, as well as the requirements of CIPFA, other professional accountancy bodies' and the Institute of Internal Auditors' codes of ethics and professional

standards. As well as articulating the core responsibilities of the HIA, the statement also identifies the personal and professional skills needed.

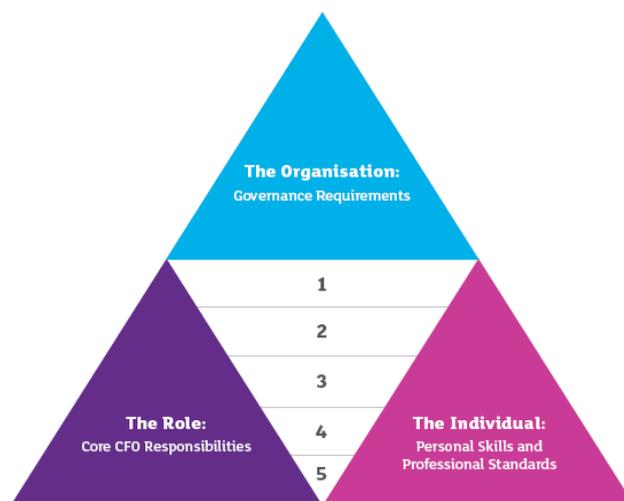
4.1.4 CIPFA is now inviting consultation responses on the draft statement on the role of the Head of Internal Audit. A briefing note was prepared, and issued to Audit Committee members in early July 2010. The deadline for responses is 10 September 2010. In particular, they have indicated that they would be interested in views on 4 particular questions.

#### 4.2 Key Principles

4.2.1 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

4.2.2 The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the "Leadership Team" of a public service organisation to benchmark its existing arrangements against a defined framework. CIPFA recommends that organisations should report publically on compliance to demonstrate their commitment to good practice.

4.2.3 The framework, shown in diagram 1 below, follows that used previously in the CIPFA Statement on the Role of the Chief Financial Officer (**Appendix B**).



4.2.4 The statement recognises that the Head of Internal Audit will play a critical role in delivering the organisation's strategic objectives by:

- championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

4.2.5 To perform this role the Head of Internal Audit:

- must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- must lead and direct an internal audit service that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

4.2.6 A detailed review against the requirements of the statement will be completed when it is finalised after the consultation closes. However, an initial assessment would indicate that the role of the Chief Internal Auditor at Peterborough City Council already meets the underlying aims of the five principles set out above.

#### 4.3 Consultation

4.3.1 CIPFA is seeking views on the Statement before finalising it. In particular they are seeking views on the following questions:

1. Do the five principles cover the right ground? If not, how might they be amended or augmented?
2. Are there any aspects of the Statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.
3. Do you support CIPFA's proposal that organisations should confirm compliance with the statement in their annual governance reports?
4. How should CIPFA follow up the Statement to help HIAs, Audit Committees and others make best use of audit resources and maximise the impact that they make?

4.3.2 Comments and views are contained within **Appendix C**.

### 5. **CONSULTATION**

5.1 The consultation document has been circulated to officers within the Council (Chief Executive, Executive Director of Resources, Solicitor to the Council and Head of Corporate Services), and to councillors (Audit Committee Members and the Cabinet Member for Resources).

### 6. **ANTICIPATED OUTCOMES**

6.1 A coordinated response is provided to CIPFA on the consultation document.

### 7. **REASONS FOR RECOMMENDATIONS**

7.1 To enable the Council to engage and assist in the development of good governance best practice.

### 8. **ALTERNATIVE OPTIONS CONSIDERED**

8.1 To not consult with Members.

### 9. **IMPLICATIONS**

9.1 This report does not have any implications effecting legal, human rights act or human resource issues.

### 10. **BACKGROUND DOCUMENTS**

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

10.1 CIPFA - Consultation Draft: The role of the Head of Internal Audit in public service organisations

10.2 CIPFA: The role of the Chief Financial Officer in Local Government

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# the role of the head of internal audit

in public service organisations

Consultant draft  
May 2010

## **CIPFA Statement on the role of the Head of Internal Audit in public service organisations**

### **The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:**

- championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

### **To perform this role the Head of Internal Audit:**

- must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- must lead and direct an internal audit service that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

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# \ foreword

The Head of Internal Audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to clarify the role of the HIA in public service organisations and to raise its profile.

Organisations need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIAs have a unique role to play here. They are senior managers whose business is assessing these arrangements and the risks that organisations face objectively, and giving appropriate assurances. HIAs must also provide leadership, promoting and helping organisations achieve good governance and address future challenges.

HIAs need to review the whole system of control, both financial and non-financial, and to focus on the areas where assurance is most needed. In most public service organisations the HIA has to give an annual opinion on the organisation's governance arrangements which is used by Chief Executives as a primary source of evidence for their annual governance report.

HIAs must also be able to show that they can meet the needs of stakeholders such as Chief

Executives and Audit Committees by adding value and helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors.

The Statement is principles based and should be relevant for all public service organisations and their HIAs. It is intended to be helpful to a wide audience including Leadership Teams, including Chief Executives, Audit Committees, other stakeholders as well as HIAs themselves.

We believe organisations should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.

We also commend the Statement to individual internal audit professionals. It articulates the core responsibilities of the HIA, as well as the personal and professional skills that they need.

## **Mike More**

Chair  
CIPFA Steering Group on the role of the Head of Internal Audit in public service organisations

## **Steve Freer**

Chief Executive  
CIPFA

# definitions used throughout the document

The public services have a variety of organisational structures and governance arrangements. The following terms are used throughout the Statement in a generic sense and terms in use in different parts of the public services in the UK can be substituted for the generic terms used here. The terms used here are consistent with the definitions used in CIPFA's Statement on the role of the chief financial officer in public service organisations and with CIPFA's Code of Practice for internal audit in local government. There are some differences between that Code and the definitions used by the Institute for Internal Auditors, but they are broadly similar and any differences should not hinder the application of the Statement.

## **Head of Internal Audit (HIA)**

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others.

## **Leadership Team**

Comprises the Board and Management Team.

## **Board**

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## **Management Team**

The group of executive staff comprising the senior management charged with the execution of strategy.

## **Chief Executive**

The most senior executive role in the organisation.

## **Chief Financial Officer**

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

## **Governance<sup>1</sup>**

The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

## **Control environment**

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management,

## **Risk management**

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks

<sup>1</sup> The Good Governance Standard for Public Services (Independent Commission chaired by Sir Alan Langlands, 2004)

associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

### **Risk based audit**

An audit that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks
- identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- determines an appropriate strategy to test the effectiveness of controls ie through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

### **Audit Committee**

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

### **Internal audit**

An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's 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.

### **Consultancy**

Advisory and related client services which are carried out to improve services and to add value.

### **Annual governance report**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

### **Public service organisation**

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned and receive public and/or charitable funding.

### **Assurance**

A confident assertion, based on evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance may be set out and it may be qualified if full comfort cannot be given.

Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.

### **Head of Internal Audit Opinion**

The opinion issued each year by the HIA on the adequacy of the organisation's internal control arrangements and which is used by the Chief Executive in some public service organisations as a key source in drafting the annual governance report.

# introducing the CIPFA statement

## **The public service context**

Citizen, service user and taxpayer: all of us occupy one or other of these roles at different times. We all have different priorities and needs, but our common ground is that we expect high standards of service within affordable tax levels. And we demand exemplary standards of behaviour where public money is spent.

Public services also face frequent structural changes and changing models of service delivery and partnerships. Expectations of contestability and competition as drivers of value for money are also blurring the boundaries between the public and private sectors. This has increased the variety of governance arrangements, even among similar types of bodies.

## **Good governance**

The changing political environment within which decisions are taken and services delivered creates a range of stakeholders whose interests and influences must be acknowledged, understood, managed and balanced.

The demand for better public services within a complex environment has strengthened the need for effective governance. Good governance in a public service organisation requires a focus on the organisation's purpose and its intended outcomes. It also carries a specific obligation in relation to citizens, taxpayers and service users to make best use of resources and ensure value for money.

## **The key role played by the HIA**

Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of their organisation's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.

The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when organisations are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on.

It is these expectations, combined with the professional, personal and leadership skills needed for them to be met, that have shaped the CIPFA Statement on the role of the HIA in public service organisations.

# using the CIPFA statement

## Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- the organisation;
- the role; and
- the individual.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA.

Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

## Demonstrating compliance

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the Leadership Team of a public service organisation, whether executive, non-executive or elected, to benchmark its existing arrangements against a defined framework.

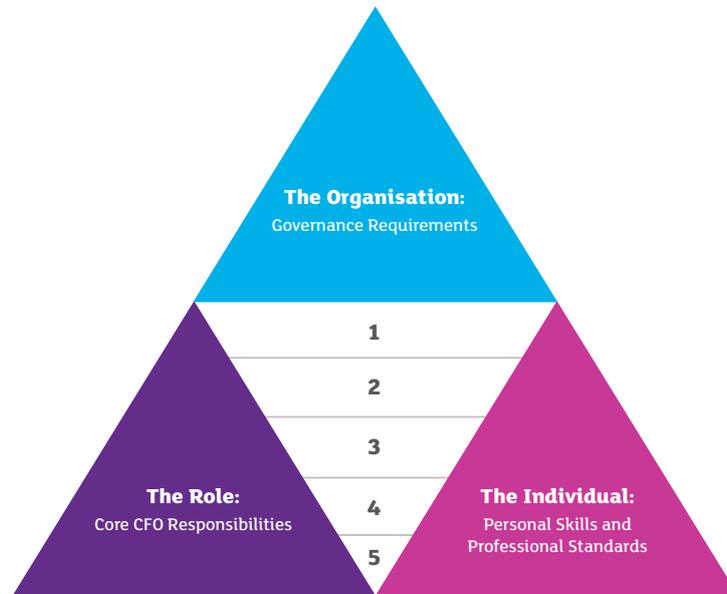
Public service organisations operate within a variety of legal and regulatory structures, and there is a huge range in size and scope of services delivered. The Statement therefore focuses on the principles that capture the essential characteristics of the HIA role in any public service organisation.

CIPFA recommends that organisations should use the Statement as the framework to assess their existing arrangements, and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that organisations should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reason for this, and how they achieve the same impact.

## Status of the Statement

The Statement sets out what CIPFA considers to be best practice for HIAs. It does not have the status of a CIPFA code, nor does it replace the sector-specific guidance or the codes and professional standards that underpin accountancy and internal audit bodies' competency and disciplinary frameworks. The aim is that standard setters and regulators across public services should draw on the Statement when reviewing their own guidance.

The Statement should also help guide both current and aspiring HIAs, by providing a summary of the core responsibilities entailed in the role as well as the personal skills and professional standards necessary to succeed. It should therefore provide a focus for audit professionals' own personal development at all stages of their careers.



### **CIPFA Statement on the role of the Head of Internal Audit (HIA) in public service organisations**

**The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation’s strategic objectives by:**

- 1** championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- 2** giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

### **To perform this role the Head of Internal Audit:**

- 3** must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- 4** must lead and direct an internal audit service that is resourced to be fit for purpose; and
- 5** must be professionally qualified and suitably experienced.

# \ principle 1



The HIA in a public service organisation champions best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.

## **Promoting good governance**

Good governance is fundamental to establishing confidence in public services. All managers have a responsibility for good governance but the HIA has a role in promoting this and spreading good practice. The internal audit strategy must set out how the HIA will fulfil this role.

The Leadership Team collectively needs to set the tone that good governance is core to achieving strategic aims and in demonstrating that public money is used well. Responsibilities for good governance will vary across different organisations but the HIA must do more than report on the current arrangements. The concern should be to raise standards and this can be done by promoting the benefits of good governance as well as simply reporting on system failures. There are also benefits for the HIA in taking such an approach as this helps staff and others see the wider purpose of internal audit's work and the support that they can provide.

There are many ways to champion good governance across the organisation. The HIA needs to assess the state of the organisation's governance and what others with an interest are doing. They then need to clarify their role in promoting good governance and how they can make most impact. Benchmarking with other organisations can be helpful and case studies from similar organisations can be useful. The aim should be to show the benefits of good governance for staff and others and using training and guidance to do this. The role of champion also extends to the significant partnerships that the organisation is part of.

## **Assessing governance and management of existing risks**

HIAs must review and make a judgement on the whole range of controls including those relating to achieving value for money and the prevention and detection of fraud and corruption. In reaching the judgement the HIA might want to look at corporate arrangements, for example those regarding data quality and performance management arrangements. They may also want to test how these arrangements work by examining specific topics, for example major projects, decision making and implementation of programmes. Overall, internal audit's objectives must be aligned to the organisation's and should help improve the effectiveness of public service delivery.

There can often be many agencies reviewing controls within organisations. Internally there may be management consultants reviewing operational management. Externally there is a range of inspectors and other review agencies and service delivery partners. The HIA must understand the governance arrangements and assess the strengths of each of the parts. They then need to set out what reliance has been placed on the different elements and why they believe the reliance to be well placed. The resultant 'map' can also help in explaining to others how internal audit fits into the wider governance picture.

## **Advising on proposed developments**

HIAs must be asked to advise on the impact of proposed policy initiatives, programmes and

projects as well as responses to emerging risks. HIAs must give their views on major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. They also need to review how the proposals fit with the organisation's strategic objectives. The HIA must be involved at the outset to ensure his/her advice can be actioned. Giving advice over proposed developments is inevitably a less precise business than giving assurances on existing systems. Managers and the HIA must therefore be clear on the scope of any internal audit work here and of the kind of advice that is given.

Internal audit sometimes act as consultants, providing assurance on current or proposed arrangements. This is an important role – it makes good use of internal audit's analytical skills and brings value to the organisation. But for consultancy to work well the HIA must ensure that staff carrying out the work have suitable skills and that internal audit's objectivity is not compromised. The HIA must also ensure that there are sufficient resources to do the work and that other work and the HIA annual opinion is not compromised.



## Governance requirements

### Principle 1

- Ensure that the HIA's role and internal audit objectives include promoting good governance.
- Ensure that the importance of good governance is stressed to all in the organisation, through policies, procedures and training.
- Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.



## Core HIA responsibilities

### Principle 1

- Promoting the benefits of good governance throughout the organisation.
- Working with others in the organisation who have a responsibility for promoting good governance.
- Offering consultancy advice where it supports the HIA in forming their annual opinion and report; drawing up clear terms of reference for such assignments.
- Comparing the organisation's governance arrangements with others and making recommendations for improvement.
- Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality.
- Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.
- Reviewing the arrangements relating to proposed major projects and programmes and major policy initiatives.



## Personal skills and professional standards

### Principle 1

- Demonstrate the benefits of good governance for effective public service delivery and how the HIA can help.
- Provide leadership by giving practical examples of good governance that will inspire others.
- Deploy effective facilitating and negotiating skills.
- Build and demonstrate commitment to continuous improvement.
- Demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating.
- Maintain an appropriate balance between the core aspects of the HIA role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.

# \ principle 2



The HIA in a public service organisation gives an objective and evidence based opinion on all aspects of governance, risk management and internal control.

## **Objectivity**

The Leadership Team is responsible for the organisation achieving its objectives and for underlying good governance, risk management and internal control. Managers are responsible for this in the areas for which they have responsibility. The HIA's role is to provide assurance and guidance on these arrangements and so it is important that the HIA is independent of operational management and is seen to provide objective views and opinions.

Ideally, to enable the HIA to be objective, he/ she should have no operational responsibilities. In cases where the HIA does have operational responsibilities then alternative assurance arrangements must be made. In particular, audit planning and reporting arrangements for these areas must be explicitly agreed by the HIA's line manager.

The HIA must understand the organisation and develop strong and constructive working relationships with managers and non-executive directors/elected representatives, creating mutual respect and effective communication. Providing objective information and advice to non-executive directors, elected representatives and others requires an understanding of ethics and the wider public interest as well as diplomacy.

## **Evidence based assurance**

The HIA's assurance must be well founded if it is to give proper comfort to those who ask for it, and to improve governance arrangements. This means that internal audit planning must be well focused. Individual audits must be carried out in a logical and systematic way, based on sufficient,

relevant and reliable evidence and with the work being subject to proper supervision and review. HIAs must also ensure that their reports are balanced, focusing on key risks and issues and making practical recommendations

Sometimes the HIA will be asked to give assurances to partners on the organisation's own arrangements. In other cases the HIA will look to partners for assurance. They might also look to assurances from others, such as inspectors and internal consultants. Where the HIA is giving external assurance it is important that the terms of reference for the work are clear at the outset, together with any scope restrictions. The basis of the assurance, including the work that has been carried out should then be clear. Where the HIA is receiving assurance from others he/ she must understand the basis for the assurance and its adequacy, and therefore whether the HIA needs to carry out any additional review work. In both circumstances the scope and purpose of assurances given and received should be agreed by the Audit Committee and set out in internal audit's terms of reference. A summary of assurances given and received should also be included in the HIA's annual report.

One of the HIA's key relationships must be with the external auditor. The roles of internal and external audit are different but both are concerned with the organisation's control environment and both use an objective, risk based approach in coming to their conclusions. The HIA must liaise closely with external audit in drawing up strategies and plans and understand where and how the external auditor will be relying on the HIA. This should help ensure that audit resources are used most effectively.

## Whole range of controls

The Leadership Team need regular assurance that the organisation has good governance arrangements. The framework that provides this will have a number of sources including line management, external inspectors and agencies and external auditors, but the main objective source is the HIA.

The HIA needs to give the organisation a range of assurances, including reports on specific systems or work areas, new or developing systems (and the risks in areas being considered), partnerships and the overall annual opinion.

The annual HIA opinion is the most important output from the HIA. This is one of the main sources of assurance that Chief Executives have for their annual governance report. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. Audit coverage must be comprehensive and cover the whole system of control, so that the opinion is based on a picture of the whole organisation. The focus should be on drawing attention to significant concerns and what needs to be done. But the HIA must not avoid expressing concerns where they exist.

## Develop and implement a risk based audit strategy

Risk management is key to the effective delivery of public services. Organisations are taking a more positive view of risk and are becoming more mature in how they identify, measure, and manage risks.

The HIA must ensure that the internal audit strategy reflects risk management best practice. The starting point is to review the organisation's

strategic objectives and how it plans to achieve these. The risks to not achieving these must be considered and the HIA needs to review how the risks are captured in risk registers and the action plans that are in place. The HIA will draw on the organisation's risk register when drawing up the internal audit strategy and plans. The extent to which he or she does this will depend on how mature the organisation is at identifying key risks and taking appropriate action to militate against them and mitigate their effects.

The audit strategy must identify the priorities for internal audit based on an assessment of the key risks to the organisation and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it. The responsibility for effective governance arrangements (including risk management) remains with managers; the HIA cannot be expected to prevent or detect all weaknesses or failures in internal control nor can the internal audit strategy cover all areas of risk across the organisation.



## Governance requirements

## Principle 2

- Set out the responsibilities of the HIA, which should not include the management of operational areas.
- Where the HIA does have operational responsibilities the HIA's line manager should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.
- Establish clear lines of responsibility for those with an interest in governance (eg Chief Executive, Chief Legal Officer, Chief Financial Officer, Audit Committee, non-executive directors/elected representatives). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.
- Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has significant concerns.
- Agree the terms of reference for internal audit with the HIA and the Audit Committee as well as with the Leadership Team.
- Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.
- Ensure that comprehensive governance arrangements are in place, with supporting documents covering eg risk management, corporate planning, anti fraud and corruption and whistleblowing.
- Ensure that the annual governance report is reviewed but not prepared by the HIA.
- Ensure that the annual internal audit opinion and report are issued in the name of the HIA.
- Ensure that the views of the HIA are sought and taken into account when major projects and changes are being considered.
- Include awareness of governance and internal audit in the competencies required by members of the Leadership Team.
- Set out the framework of assurance that supports the annual governance report and identify internal audit's role within it.
- Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.



## Core HIA responsibilities

## Principle 2

- Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.
- Reviewing the adequacy of key corporate arrangements including eg risk strategy, risk register, anti fraud and corruption strategy, corporate plan.
- Producing an evidence based annual internal audit opinion on the organisation's control environment.
- Identifying both strengths and areas for improvement.
- Producing clear reports with focused recommendations with clear responsibilities assigned.
- Monitoring internal audit recommendations and following up where action is not taken.
- Working closely with others to ensure that all sources of evidence are used. Where relying on others, clarifying the degree and basis for the reliance.
- Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the organisation's interests. Assessing whether lines of responsibility and assurance are clear.
- Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.
- Producing an internal audit strategy that fits with and supports the organisation's objectives.
- Reviewing the organisation's risk maturity (including the organisation's own assessment) and reflecting this in the strategy.
- Consulting stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy.
- Setting out how the HIA plans to rely on others for assurance on the organisation's controls and risks and taking account of any limitations in assurance given by others.
- Liaising with external inspectors and review agencies and taking account of their work when drawing up the internal audit strategy.
- Liaising with the external auditor on the internal audit strategy, but not being driven by external audit's own priorities.



## Personal skills and professional standards

## Principle 2

- Give clear, professional and objective advice.
- Report as find, without fear or favour.
- Demonstrate integrity to staff and others in the organisation.
- Exercise sound judgement in identifying weaknesses in the organisation's control environment and a balanced view on how significant these are.
- Work well with others with specific responsibilities for internal control, risk management and governance including (as appropriate to the sector) Chief Executive, Chief Legal Officer, Chief Financial Officer, Audit Committee, non-executive directors/elected representatives.
- Be concerned for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.
- Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.

# \ principle 3



The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.

## Senior manager

HIAs face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. The HIA must be at the heart of the organisation, challenging and supporting the Leadership Team with authority and credibility. He or she should also be seen as a leader, promoting improvement and good governance. To do this effectively, making an impact and adding value, the HIA position must be a senior manager.

There is a range of guidance concerning line management responsibility for the HIA<sup>2</sup>. What is paramount is that the reporting line must leave the HIA free from interference in setting the scope of internal audit's work, in coming to conclusions and in reporting the results. They must also have unfettered access across the organisation, especially to the Chief Executive, Board and Audit Committee Chair. In practice this is most likely to be achieved by the HIA reporting to the Chief Executive or to the Chief Financial Officer.

The HIA role must be filled by a nominated individual so that all are clear about lines of responsibility. Where the service is provided in-house this should be straightforward. Where the service is contracted out or shared with others then the organisation must decide whether the HIA should come from within the organisation or from the supplier of the audit service. In the latter case the relationship between the HIA and the client manager and others, including the Audit Committee, must be clearly set out as part of the organisation's governance framework. In

practice it is likely that the HIA should be the person who is responsible for drawing up the internal audit strategy and plan and for issuing the HIA annual internal audit opinion.

## Engagement with the Leadership Team

The Leadership Team in public service organisations takes many forms, with different mixes of executive and non-executive members, as well as elected representatives. Collectively the Leadership Team is responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. The HIA must also have a right of access to individual members of the Leadership Team. Whilst it is not appropriate for the HIA to be a member of the Leadership Team it is vital that the HIA can attend key meetings where they consider it necessary. Examples of this might include presenting the internal audit strategy or the annual internal audit opinion or taking part in discussions about the annual governance report or planned major policies, projects or system changes.

## Engagement with the Audit Committee

The HIA's relationship with the Audit Committee and especially the Chair is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The HIA must work closely with the Audit Committee Chair so that they are clear about their respective roles and make best use of the available resources.

<sup>2</sup> For example, in central government and the NHS, internal audit standards state that the HIA should report to the Chief Executive. In local government CIPFA's Code of Practice for internal audit states that the HIA should report to a member of the Management Team.



## Governance requirements

## Principle 3

- Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement.
- Ensure that where the HIA is an employee that they are sufficiently senior within the organisation's structure to allow them to carry out their role effectively.
- Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract or agreement with the internal audit supplier.
- Establish an Audit Committee in line with guidance and good practice.
- Set out the HIA's relationship with the Audit Committee and its Chair.
- Ensure that the organisation's governance arrangements allow the HIA:
  - to bring influence to bear on material decisions reflecting governance;
  - direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit; and
  - to attend meetings of the Leadership Team where the HIA considers this to be appropriate.
- Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.
- Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.



## Core HIA responsibilities

## Principle 3

- Escalating any concerns through the line manager, Chief Executive, Audit Committee and Leadership Team, legal officers, external auditor as appropriate.
- Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.
- Consulting stakeholders, including senior managers and non-executive directors/elected representatives on the internal audit strategy.



## Personal skills and professional standards

## Principle 3

- Network effectively to raise the profile and status of internal audit.
- Adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate.
- Build productive relationships both internally and externally.
- Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.
- Be seen to be objective and independent but also pragmatic where appropriate.

# \ principle 4



The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.

## **Meeting the needs of the business**

Effective governance is critical in public service organisations and internal audit needs to play its part. The HIA must have a clear but wide ranging brief. This includes reviewing the key underlying systems and controls, reviewing arrangements for preventing fraud and corruption and also the arrangements for achieving value for money.

The HIA must have a firm grasp and understanding of the organisation's business as well as its control environment. This will allow HIAs to give an opinion to the Leadership Team on how well these arrangements are working. The HIA must ensure that there is sufficient depth of internal audit expertise and experience to do this well, so that he/she is able to engage effectively with managers and others and challenge where appropriate.

The internal audit resources available must be proportionate to the size, complexity and risk profile of the organisation and must be enough for the HIA to give a reliable opinion on the organisation's control environment. Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation. The HIA must ensure that the Audit Committee has a clear understanding of the requirement for internal audit to review the whole system of internal control. The HIA must set out the minimum level of audit coverage and audit resources needed to give a sound, evidence based annual audit opinion. The HIA must advise the Audit Committee and the Leadership Team where the available resources are inadequate and the consequences for the level of assurance that the HIA is able to give.

## **Appropriately developed internal audit skills**

A great deal of reliance is placed on the work of internal audit and the HIA must ensure that

all the work, including planning and individual assignments, is consistently of a high quality and in line with professional standards. The HIA must also ensure that all staff demonstrate the highest ethical standards. The HIA therefore has a responsibility to ensure that internal audit staff have appropriate knowledge, skills and competencies and are continuously developed. The HIA must assess the staffing needed to make sound judgements on the whole range of the organisation's governance arrangements.

The HIA needs well developed, motivated staff to make an impact at senior levels in the organisation. This may include staff who are career internal auditors and staff who spend two or three years in internal audit then move to another job within the organisation and those who move in and out of internal audit. There may also be a need to buy in specialist skills which are not frequently used eg in HR or procurement. The challenge for the HIA is to have the right mix and for the service to operate as a team, with staff being effective ambassadors for internal audit. The HIA has a particular responsibility to promote internal audit as a good career development opportunity and to be able to demonstrate this to others, so that staff's subsequent career progressions encourage 'high flyers' to spend time in internal audit.

The HIA must provide clear guidance for internal audit staff with appropriate quality assurance for internal audit as a whole and for each audit assignment. The HIA has a duty to see that their staff comply with the relevant internal audit standards and must have systems to verify this. More widely the HIA should work with colleague HIAs and others to ensure that they and the team are up to date on current issues affecting their organisation and on internal audit techniques and developments.



## Governance requirements

## Principle 4

- Provide the HIA with the resources, expertise and systems necessary to perform their role effectively.
- Set out the role of the Chair of the Audit Committee in the appointment of the HIA.
- Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.
- Ensure that there is a periodic (at least every five years) external review of internal audit quality.
- Ensure that where internal audit is provided by a firm that the same firm does not also provide the external audit service.



## Core HIA responsibilities

## Principle 4

- Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the organisation and external stakeholders.
- Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.
- Informing the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.
- Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.
- Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.
- Developing succession plans and helping staff with their career progression.
- Establishing a quality assurance and improvement programme that includes:
  - Ensuring that professional internal audit standards are complied with.
  - Reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders.
  - Providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievement against target.
  - Putting in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality.
  - Ensuring that any internal auditors declare any interests that they have.
  - Seeking continuous improvement in the internal audit service.
- Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIAs and learning from them, implementing improvements where appropriate.
- Demonstrating how internal audit adds value to the organisation.

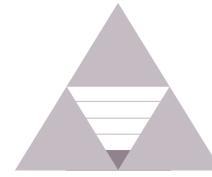


## Personal skills and professional standards

## Principle 4

- Demonstrate leadership and be an ambassador for internal audit.
- Create, communicate and implement a vision for the internal audit service.
- Create a customer focused internal audit service.
- Establish an open culture, built on effective coaching and a 'no blame' approach.
- Promote effective communication within internal audit, across the broader organisation and with external stakeholders.
- Set and monitor meaningful performance objectives for staff.
- Manage and coach staff effectively.
- Comply with professional standards and ethics.
- Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of interest and act appropriately.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the internal audit service.
- Promote discussion on current governance and professional issues and their implications.

# \ principle 5



The HIA in a public service organisation must be professionally qualified and suitably experienced

## **Demonstrating professional and interpersonal skills**

The HIA must be able to demonstrate his/her own professional credibility to exercise influence throughout the organisation. The HIA must be professionally qualified. In the UK, for example, this means holding a full Consultative Committee of Accountancy Bodies (CCAB) qualification or being a chartered member of the Chartered Institute of Internal Auditors (CMIIA). As a member of a professional body, the HIA's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The HIA must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency, confidentiality, competence and reliability and promote these throughout the internal audit service.

The HIA must communicate complex information in a clear and credible way. He/she must be able to operate effectively in different modes including directing, influencing, evaluating and informing. The HIA must be able to give objective opinions and advice even if this may be unwelcome, and be sufficiently forceful to intervene with authority if governance or ethical principles need to be asserted or defended. The HIA must work in partnership with a wide range of people and organisations and winning their confidence is key. He/she must be able to challenge the status quo and be a catalyst for change, achieving results through influence, without direct authority.

The HIA must be sensitive to the complexities and pressures facing organisations. He/she must build effective working relationships with the Audit Committee without damaging relationships with the Leadership Team. This requires tact and diplomacy.

## **Applying business and professional experience**

The HIA must have an understanding and commitment to the organisation's wider business and its delivery objectives, to inspire respect, confidence and trust amongst colleagues, with the Leadership Team, the Audit Committee and other stakeholders.

The HIA must have a good understanding of business processes and governance including strategic planning and performance, and financial and risk management. He/she must also be aware of current issues facing organisations and internal auditors. The HIA should be seen as a catalyst in improving governance and internal control and also supporting the organisation in its wider business objectives. To do this the HIA needs to look forward as well as at the organisation as it currently operates. The HIA must demonstrate leadership by personally setting a tone for the organisation that good governance, risk management and internal control matter to everyone in the organisation.



## Governance requirements

## Principle 5

- Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.
- Ensure that the HIA has the skills, knowledge, experience and resources to perform effectively in his or her role.



## Personal skills and professional standards

## Principle 5

- Be a full member of an appropriate professional body and have an active programme for personal professional development.
- Adhere to professional internal auditing (and where appropriate accounting and auditing) standards.
- Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.
- Have prior experience of working in internal audit.
- Understand and have experience of strategic objective setting and management.
- Understand the public services internal audit and regulatory environment applicable to public service organisations.
- Demonstrate a comprehensive understanding of governance, risk management and internal control.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the organisation's activities and processes.

# \ appendix

## **Membership of the CIPFA Steering Group on the Role of the Head of Internal Audit in public service organisations**

<b>Mike More (Chair)</b>	Westminster City Council
<b>Anthony Barrett</b>	Wales Audit Office
<b>Chris Bowring</b>	NHS Fife
<b>Jackie Cain</b>	Institute of Internal Auditors
<b>Ian Carruthers</b>	CIPFA
<b>Mike Clarkson</b>	Deloitte
<b>Tim Crowley</b>	Mersey Internal Audit Agency
<b>Colin Langford</b>	CIPFA
<b>Paul Manning</b>	Department for International Development
<b>Justin Martin</b>	PricewaterhouseCoopers LLP
<b>Stephanie Mason</b>	Baker Tilly
<b>Jon Pittam</b>	Hampshire County Council
<b>Tim Pouncey</b>	Leeds City Council
<b>Duncan Savage</b>	East Sussex County Council
<b>Philip Winter</b>	Tenant Services Authority
<b>Chris Wobschall</b>	HM Treasury
<b>Clive Darracott (Secretary)</b>	CIPFA
<b>Diana Melville (Technical support)</b>	CIPFA

CIPFA is grateful to all the members of the Steering Group for their invaluable contributions. The statement was widely circulated for comment during its drafting and many individuals and organisations responded giving us additional insights into how the HIA operates in practice across the public services







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INVESTOR IN PEOPLE



# the role of the chief financial officer

In Local Government

## CIPFA Statement on the role of the Chief Financial Officer in Local Government

### The Chief Financial Officer in a public service organisation:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

### To deliver these responsibilities the Chief Financial Officer:

- must lead and direct a finance function that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

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# \ foreword

This Statement on the Role of the CFO in Local Government describes the role and responsibilities of CFOs in Local Government. It builds heavily on CIPFA's Statement on the Role of The CFO in Public Services<sup>1</sup> and applies the principles and roles set out in that document to Local Government.

The CFO occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. While the global financial crisis and economic downturn have made these tasks even more challenging, they have also underlined the fundamental importance of the role. Achieving value for money and securing stewardship are key components of the CFO's role in public service organisations, a duty enshrined in legislation for the CFO in local government.

In order to support CFOs in the fulfilment of their duties and to ensure that local authorities have access to effective financial advice at the highest level, CIPFA is introducing a 'comply or explain' requirement in the annual statement of accounts.

## Jon Pittam

Chair

CIPFA Role of the Public Services Director of Finance Panel

## Steve Freer

Chief Executive

CIPFA

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1 [http://www.cipfa.org.uk/panels/finance\\_director/download/Role\\_CFO.pdf](http://www.cipfa.org.uk/panels/finance_director/download/Role_CFO.pdf)

# definitions used throughout the document

The public services have a variety of organisational structures and governance arrangements. Some include elected representatives, while others are wholly appointed. The following terms are used throughout the Statement in a generic sense. The Statement and the supporting guideline and requirements need to be read in the context of these. Terms in use in different parts of the public services can be substituted for the generic terms used here.

## **Chief Financial Officer (CFO)**

The organisation's most senior executive role charged with leading and directing financial strategy and operations.

## **Leadership Team**

Comprises the Board and Management Team.

## **Board**

The group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

## **Management Team**

The group of executive staff comprising the senior management charged with the execution of strategy.

## **Chief Executive**

The most senior executive role in the organisation.

## **Managers**

The staff responsible for the achievement of the organisation's purpose through services/ businesses and delivery to its clients/customers.

## **Finance Function**

The staff with a prime responsibility for financial matters, located either in a central department or within business/service areas. Some functions may be outsourced.

## **Governance<sup>1</sup>**

The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner.

## **Financial Management<sup>2</sup>**

The system by which the financial aspects of a public service organisation's business are directed, controlled and influenced, to support the delivery of the organisation's goals.

## **Audit Committee**

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## **Internal Audit**

An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives.

## **Head of Profession**

The leading professionally qualified accountant charged with promoting professional standards within the organisation.

## **Annual Governance Report**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Public Service Organisation**

One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned, and receive public and/or charitable funding.

<sup>1</sup> *The Good Governance Standard for Public Services 2004*

<sup>2</sup> *CIPFA FM Model 2009*

# introducing the CIPFA Statement

This Statement on the role of the Chief Financial Officer (CFO) in Local Government aims to give detailed advice on how to apply the overarching public services Statement within local government. The CFO in local government is not only bound by professional standards but also by specific legislative responsibilities. The role and responsibilities of the 'Treasurer' were developed by case law in England and Wales. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. Section 151 of the Local Government Act 1972<sup>2</sup> requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements

Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires local authorities to make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and for those arrangements to be carried out under the supervision the chief financial officer.

This Statement sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role. The Statement is not intended to be exhaustive and does not negate the personal responsibility of finance professionals to ensure that they comply with all professional standards and legislative requirements. It is intended to codify the key responsibilities of the CFO in local government and assist those carrying out that role in ensuring that they meet the key personal duties of the role. The Statement refers to CIPFA's Statement of Professional Practice with which all CIPFA members are required to comply. For members of other accountancy bodies this represents best practice within the public sector. All professional accountants should also have regard to their own body's Code of Ethics as well as that produced by International Ethics Standards Board for Accountants (IESBA) on behalf of the International Federation of Accountants (IFAC).

Contained with the appendices for completeness is a description of the legislative framework.

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<sup>2</sup> for the Greater London Authority and its four functional bodies (Transport for London, the London Development Agency, the Metropolitan Police Authority and London Fire and Emergency Planning Authority.) the chief finance officer is not a s151 officer but a s127 officer (GLA Act 1999). For the City of London the chief finance officer the 1989 Local Government and Housing Act that places the Chamberlain in the same relationship to the Court of Common Council as applies to local authority Chief Financial Officers to their councils

# using the CIPFA Statement

## Statement approach and structure

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- The Organisation;
- The Role: and
- The Individual.

For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the CFO as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.

## Cipfa Statement on the role of the Chief Financial Officer (CFO) in public service organisations

### The CFO in a public service organisation:

- 1 is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- 2 must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
- 3 must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

### To deliver these responsibilities the CFO:

- 4 must lead and direct a finance function that is resourced to be fit for purpose; and
- 5 must be professionally qualified and suitably experienced.



# \ principle 1



The Chief Financial Officer in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

## Key member of the Leadership Team

The Leadership Team in public services organisations takes many forms, with different mixes of executive and non-executive members and elected representatives. Collectively the Leadership Team are responsible for setting the strategic direction for the organisation, its implementation and the delivery of public services. In recognition of the centrality of financial issues to organisational success it is UK government policy that all government departments should have a professional CFO reporting directly to the permanent secretary with a seat on the departmental board, with a status equivalent to other Board members. HM Treasury recommends 'It is good practice for all other public sector organisations to do the same, and to operate the same standards'. CIPFA fully supports the Treasury's recommendation.

Local authorities operate a number of different democratic models. In local authorities, therefore, the concept of the leadership team will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. The CFO should play a key role within these leadership teams whilst balancing their responsibility to advise all members.

Local authorities are required to have a suitably qualified CFO with certain defined responsibilities and powers. The governance requirements in the Statement are that the CFO should be professionally qualified, report directly to the Chief Executive and be a member of the Leadership Team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's Annual Governance Report, together with how these deliver the same impact.

## Developing and implementing organisational strategy

All local authorities face competition for limited public funds and have to balance expenditure needs against the burden of local taxation. Many will have allocated cash limits, while others have tax raising powers. All will be concerned to examine opportunities, with suitable assessment of legal powers and risk, for building income streams, whether through attracting external grants, charging for services, or commercial activity. Strategic planning needs to be based on an understanding of the external political landscape, the authority's demand and cost drivers, and the need to manage and fund longer term commitments on a sustainable basis. Finance translates ambitions and goals across the authority into a common language, so the CFO must share in the strategy development and implementation responsibilities of the Leadership Team. These include supporting elected representatives under the proper governance arrangements and the CFO must be in a position to provide unfettered advice to elected representatives to inform their decision making. The CFO must also ensure the members of the Leadership Team have the financial capabilities necessary to perform their own roles effectively.

The CFO must encourage continuous improvement and development to enable the authority to deliver at the highest levels. As well as having the fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focussed on outcomes, and help to resource the authority's plans for change and development in the public services it provides. As a key member of the Leadership Team, the CFO must also behave in ways that are consistent with the authority's agreed values and objectives.

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<sup>3</sup> HM Treasury 'Managing Public Money' Annex 4.1. 2007

<sup>4</sup> The officer appointed as the CFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body<sup>13</sup>. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.

<sup>5</sup> The Annual Governance Statement is currently voluntary in Scotland.

<sup>6</sup> Under s.114 of the 1988 Local Government Act, applying to England and Wales

## Helping resource and deliver organisational objectives

There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, authorities must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the CFO can result in poor financial outcomes for the authority. Setting out the core CFO responsibilities in this Statement is intended to allow local authorities and their CFOs to assess their job descriptions to ensure that their core finance responsibilities can be properly performed.

Local authorities also need to engage with partners through a range of collaborative or commissioned relationships in order to realise their goals. Partnership working and the focus on community outcomes mean that the CFO needs to understand the financial risks and potential liabilities that may impact on the authority and have appropriate involvement in partnerships' business decisions. The CFO must therefore work to develop strong and constructive working relationships with key decision makers in partner organisations.

## Delivering the authority's strategic objectives sustainably and in the public interest

Local authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term. Maximising public value involves an appreciation of user needs, expectations and preferences, and the planning process must allow for their involvement and influence. The internal process to determine priorities often then needs to grapple with service rationing and difficult trade-offs between different groups of service users, as well as between present and future benefits. The overarching long term need to match financial resources to the authority's purposes and policies, within constraints of affordability, taken with the responsibility to citizens and taxpayers for financial stewardship, mean that the CFO must contribute actively to cross organisational issues and to corporate decision making to match resources to the authority's objectives.

Public finance is complex and highly regulated, and the CFO must contribute expert technical

advice and interpretation. CFOs must act in the public interest, even if necessary against a perceived organisational interest. In some types of public service organisation, including local authorities, this professional obligation is given statutory backing, and a fiduciary duty is established in case law. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. This remains applicable to the CFO.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities. In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires that "A council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its CFO."

The CFO's duties in England and Wales were significantly extended by section 114 of the 1988 Act which requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service<sup>15</sup>, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

As holders of the 'red card'<sup>16</sup>, the CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health. To ensure that the necessary corrective action is implemented, the CFO must have direct access to the Chief Executive, other Leadership Team members, the Audit Committee and also to external audit.



## Governance requirements

## Principle 1

- Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.
- Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.
- If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.
- Ensure that authority's governance arrangements allow the CFO:
  - to bring influence to bear on all material business decisions; and
  - direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.
- Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.
- Assess the financial skills required by members of the Leadership Team and commit to develop those skills to enable their roles to be carried out effectively.



## Core CFO responsibilities

## Principle 1

- Contributing to the effective leadership of the authority, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the authority, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the authority through development of
  - corporate governance arrangements, risk management and reporting framework; and
  - corporate decision making arrangements.
- Leading or promoting change programmes within the authority.
- Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

<sup>7</sup> CIPFA LAAP Bulletin on Local Authority Reserves



## Personal skills and professional standards

## Principle 1

- Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.
- Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Build robust relationships both internally and externally.
- Work effectively with other Leadership Team members with political awareness and sensitivity.
- Support collective ownership of strategy, risks and delivery.
- Address and deal effectively with difficult situations.
- Demonstrate best practice in change management and leadership.
- Balance conflicting pressures and needs, including short and longer term trade-offs.
- Demonstrate strong commitment to innovation and performance improvement.
- Manage a broad portfolio of services to meet the needs of diverse communities.
- Maintain an appropriate balance between the technical financial aspects of the CFO role and broader focus on the environment and stakeholder expectations and needs.
- Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by virtue of their professional status as a member of CIPFA or another accountancy institute. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.

# \ principle 2



The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

## **Responsibility for financial strategy**

No organisation can achieve its goals effectively without proper structures for allocating and optimising the use of resources. The centrality of finance means the CFO must play the lead role in advising and supporting the leadership team in turning policy aspirations into reality by aligning financial planning with the vision and strategic objectives for the authority.

Within the overall corporate governance and management structure, the CFO has direct responsibility for leading development and implementation of the financial strategy necessary to deliver the authority's strategic objectives sustainably. The CFO must therefore work closely with decision makers to establish a medium to long term strategy that ensures the financial sustainability of the authority.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and appropriately addressed. Models must encompass capital investment programmes and annual operations, as well as financial targets and benchmarks. They must also take into account future commitments, resources available and the desirable levels of reserves, to ensure that the authority's finances remain sustainable.

The statutory guidance<sup>8</sup> issued by the Secretary of State under the 2000 Local Government Act (England and Wales) advises that local authorities will need to ensure that the CFO and the monitoring officer have access as necessary to meetings and papers and that members must consult with him/her regularly<sup>9</sup>. The advice

continues that the finance director will have an important role in the management of the local authority in particular by

- contributing to corporate management in particular to the provision of professional financial advice
- maintaining financial administration and stewardship
- supporting and advising all members and officers in their respective roles
- providing financial information to the media, members of the public and the community.

There is no equivalent legislative requirement in Scotland or Northern Ireland, but the guidance is equally relevant.

## **Influencing decision making**

Local authorities must be rigorous in their decision making, be explicit about the reasons for their decisions and record the supporting information and expected impact. This requires the CFO to be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken.

The CFO must be able to advise the Leadership Team directly, including elected representatives, in order to discharge responsibilities in relation to the authority's financial health and long term viability. The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others, and influence material business decisions. The CFO's advice and reports to the Leadership Team must be clear, concise, relevant and timely, highlighting issues that the team needs to be aware of, and options for action.

<sup>8</sup> New Council Constitutions, Local Government Act 2000 – guidance to English local authorities, chapter 8 – officers' roles under executive arrangements, DETR, October 2000

<sup>9</sup> In Wales the statutory guidance does not include this reference but implies that this should be the case.

The CFO must also work to develop strong and constructive working relationships with both the executive and non executive members of the authority's leadership, creating mutual respect and effective communication. Providing information and advice to elected officials as a public servant will call on an understanding of ethics, the wider public interest, and diplomacy.

The Local Government Act 2003 and Local Government Scotland Act 2003 emphasise the importance of sound and effective financial management. In relation to capital financing there is a statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. Advice on fulfilling this responsibility is set out in CIPFA's Prudential Code<sup>10</sup>.

In England and Wales there is also a statutory duty on the CFO to report to the authority, at the time the budget is considered and the council tax set, on the robustness of the budget estimates and the adequacy of financial reserves. This is a public report. In addition, the Secretary of State in England or the National Assembly for Wales have reserve powers to specify in regulations a statutory minimum level of reserves that will be used if authorities fail to remedy deficiencies or run down reserves against the advice of the CFO. There is no equivalent specific legislation in Scotland or Northern Ireland.

The CFO also has a key role to play in fulfilling the requirements of the statutory duty<sup>11</sup> to keep the authority's finances under review during the year and take action if there is evidence that financial pressures will result in a budget overspend or if there is a shortfall in income.

### **Financial information for decision makers**

At all levels in the authority those taking decisions must be presented with relevant, objective and reliable financial analysis and advice, clearly setting out the financial implications and risks.

The CFO has an important role in ensuring necessary financial information and advice is provided to the Leadership Team and decision makers at all levels across the authority. Meaningful financial analysis and robust and impartial interpretation is a key component in performance management, asset management, investment appraisal, risk management and control.

Although not a specific responsibility of CFOs alone, they – along with the monitoring officer and chief legal officer – should be alert to the 'Wednesbury' rules<sup>12</sup> which emphasise the importance of ensuring that when developing policy all relevant matters are properly considered. The judgement in the case stated that an authority's action in exercise of a statutory discretion would only be regarded unreasonable, in excess of the powers given by Parliament and therefore invalid if

- in making its decision it took into account matters which it ought not to take into account, or
- it did not take into account matters which it should have taken into account, or
- even if the two previous conditions were satisfied the conclusion was so unreasonable that no reasonable authority could ever come to it.

These principles apply regardless of whether decisions on policy are taken by individual members or collectively. In order to demonstrate that these principles have been observed it is important that policy decisions and the associated advice are – as a matter of routine – well and clearly documented. The 'Wednesbury' rules do not apply specifically in Scotland or Northern Ireland, but adherence to these will demonstrate good governance and proper decision making.

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10 The Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition 2009)

11 Section 28, Local Government Act 2003

12 Associated Provincial Picture Houses v Wednesbury Corporation (1948).



## Governance requirements

## Principle 2

- Establish a medium term business and financial planning process to deliver the authority's strategic objectives, including:
  - a medium term financial strategy to ensure sustainable finances;
  - a robust annual budget process that ensures financial balance; and
  - a monitoring process that enables this to be delivered.
- Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used.
- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance.
- Ensure that those making decisions are provided with information that is fit for purpose –relevant, timely and giving clear explanations of financial issues and their implications.
- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.
- Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary.
- Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance
- Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.
- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnerships arrangements, outsourcing or where the authority is acting in an enabling role.
- Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority.

<sup>13</sup>LAAP 77 - Local Authority Reserves and Balances, <http://www.cipfa.org.uk/pt/download/laap77.pdf>

**Responsibility for financial strategy**

- Agreeing the financial framework with sponsoring organisations and planning delivery against the defined strategic and operational criteria.
- Maintaining a long term financial strategy to underpin the authority's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Leading on asset and balance sheet management.
- Co-ordinating the planning and budgeting processes.

**Influencing decision making**

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.
- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/ budget.
- Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.
- Ensuring that the authority's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

**Financial information for decision makers**

- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.



## Personal skills and professional standards

## Principle 2

- Take all reasonable steps to ensure that:
  - budgets are planned as an integral part of the strategic and operational management of the authority and are aligned with its structure of managerial responsibilities.
  - budgets are constructed on the basis of reliable data of past performance and rigorous assessments of future resources and commitments, and that policies and priorities are evaluated in an open, consistent and thorough manner.
  - responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs.
  - the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
- Implement other appropriate management, business and strategic planning techniques.
- Link financial strategy and overall strategy.
- Demonstrate a willingness to take and stick to difficult decisions – even under pressure.
- Take ownership of relevant financial and business risks.
- Network effectively within the authority to ensure awareness of all material business decisions to which CFO input may be necessary.
- Role model persuasive and concise communication with a wide range of audiences internally and externally.
- Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.
- Apply relevant statutory, regulatory and professional standards both personal and organisational.
- Demonstrate a strong desire to innovate and add value.
- Challenge effectively, and give and receive constructive feedback.
- Operate with sensitivity in a political environment.

# \ principle 3



The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

## **Promotion and delivery of good financial management**

Good financial management is fundamental to establishing confidence in the public services and good relationships with the taxpayer and other funders. The Leadership Team collectively needs to set the tone that financial management is core to achieving strategic aims, and to demonstrate that public money is used well. Nevertheless it is the CFO who must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The CFO will be instrumental in assessing the existing organisational style of financial management and the improvements needed to ensure it aligns with the authority's strategic direction.

Financial management is the business of the whole authority. When the Leadership Team, managers and the finance function all fulfil their financial management responsibilities successfully, they collectively create the financially literate and adept authority. The CFO must actively promote financial literacy throughout the authority, so that the Leadership Team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

## **Best Value and Value for money**

The CFO has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the local authority.

With the foundations in place, good financial management will focus on stretching limited resources to maximise value for the public service. Value for money (economy, efficiency

and effectiveness) should be the concern of all managers, but the CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. This will involve approaches and techniques such as

- Enabling the authority to measure value for money, and making sure that it has the information to review value for money and performance effectively;
- Advising on appropriate strategies for managing assets and stretching utilisation, and the productive use of other resources;
- Providing leadership in using and developing efficiency tools and techniques, including benchmarking, IT, shared services, process analysis and cost management, collaborating with others where this is more efficient, effective or economical; and
- Ensuring the rigorous financial appraisal and oversight of change programmes, income generation proposals and investment projects.

## **Safeguarding public money**

The CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources. At the most fundamental level this means ensuring robust systems of risk management and internal control, that financial control is exercised consistently, and that the authority implements appropriate measures to protect its assets from fraud and loss.

The CFO also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial

<sup>14</sup> Since July 2001 in England and Wales the Monitoring Officer cannot also be the Head of Paid Service or the Chief Financial Officer – see schedule 5, Para 24 of the Local Government Act 2000 which inserts a new subsection 1A in section 5 of the Local Government and Housing Act 1989. In Scotland section 5(1) para b of the Local Government and Housing Act 1989 makes it each Council's duty to appoint a monitoring officer (MO) – the MO may be the head of paid service but shall not be the authority's CFO.

accountabilities and reporting. In addition to the finance director's responsibilities to the authority, a wider role also exists in relation to the general public. The local authority is regarded as the trustee of local citizens' money, and the finance director has the prime obligation and duty to them to manage the authority's resources prudently on their behalf as established in the 1906 de Winton case.

In effect this means that the finance director has a personal responsibility for the stewardship and safeguarding of public money and for demonstrating that high standards of probity exist. Strong financial management, accurate financial reporting and effective financial controls are therefore central to the finance director's role in local government. This role was strengthened by the Local Government Finance Act 1988 (in England and Wales), which requires the finance director to report inappropriate financial management as well as wrongdoing.

Section 114 of the 1988 Act requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is or is likely to be unlawful expenditure or an unbalanced budget. Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972. Further guidance recommending courses of action to be followed when a report under s114 may be required is attached at appendix C to this Statement. Although section 114 does not apply to Scotland or Northern Ireland the principles that underlie it and the actions proposed in appendix C are recommended to finance directors as a means of discharging their overall responsibility for sound financial management.

Consistency of standards and transparency in financial activities are essential. In this context, CIPFA's view is that the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest.

### **Assurance and scrutiny**

Accountability for public expenditure is a core requirement for local authorities. They are held accountable by intermediary stakeholders, such

as scrutiny groups, service inspectorates and external auditors, and by primary stakeholders: the citizens, service users, funders and taxpayers.

Managing information flows is a key component of the CFO's role as an ambassador for the authority on financial matters and in building relationships with stakeholders. The CFO must also provide information and advice to those who officially scrutinise and review the authority; funders, regulators, and external audit, and any group which exercises scrutiny internally. The community, taxpayers and the press also expect information.

Internal audit is an important independent internal scrutiny activity. The CFO must support the authority's internal audit arrangements and ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Public service providers face a variety of regulatory requirements and standards for external financial reporting, while measures of value are expressed both as financial and as non-financial performance targets. The role of the CFO in external reporting is to meet the reporting requirements relevant to the authority and to apply professional good practice, conscious of the needs of users. External financial reporting must be of good quality, supported by analysis and documentation and should receive an unqualified audit opinion. This will be facilitated if the CFO maintains a constructive professional relationship with external auditors and inspectors.

The Accounts and Audit Regulations 2003 (England and Wales), in Scotland, the Local Authority Accounts (Scotland) Regulations 1985 and in Northern Ireland the Local Government (Account and Audit) regulations (Northern Ireland) 2006 impose responsibilities on the finance director relating to accounting records and supporting information, control systems and the statement of accounts.

A key feature of the Regulations in England and Wales is the requirement for internal audit. Regulation 6 requires that a 'relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control'. Similar references exist for Northern Ireland in regulation 3a of the Local Government (Account and Audit) regulations (Northern Ireland) 2006. Although there is no specific reference to internal audit for Scotland the successful discharge of the finance director's responsibilities depends in part on effective internal audit.



## Governance requirements

## Principle 3

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Ensure that the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes. Ensuring that these controls are an integral part of the authority's underlying framework of corporate governance and that they are reflected in its local code.
- Address the authority's arrangements for financial and internal control and for managing risk in Annual Governance Reports.
- Publish annual accounts on a timely basis to communicate the authority's activities and achievements, its financial position and performance.
- Ensure an effective internal audit function is resourced and maintained.
- Develop and maintain an effective Audit Committee.
- Ensure that the authority makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.
- Ensure that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.

**Promotion of financial management**

- Assessing the authority's financial management style and the improvements needed to ensure it aligns with the authority's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.

**Value for money**

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.
- Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.
- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long term commercial contract value.

**Safeguarding public money**

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice.
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.

## Assurance and scrutiny

- Reporting performance of both the authority and its partnerships to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, service plans, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the Audit Committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.
- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in the Code of Practice on Local Authority Accounting in the United Kingdom developed by the CIPFA/LASAAC Joint Committee.
- Certifying the annual statement of accounts.
- Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes
- Liaising with the external auditor.



- CFOs should take all reasonable steps to ensure that:
  - effective systems and procedures operate to monitor progress against budgets and their objectives at regular intervals, and that appropriate reporting mechanisms are in place.
  - that payments, including benefits and taxation, are made on time, accurately and in accordance with legal requirements.
  - Cash is handled with special care to avoid loss, particularly loss through theft and secure arrangements are in place to deal with the handling of electronic or other cash-less transactions.
  - the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the authority's financial transactions.
  - all financial reports are relevant, reliable and consistent, are compatible with the authority's accounting and financial information systems available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
  - Within the specific legislative framework for each authority, systems exist to secure the efficient and effective management of taxes, in particular to ensure that tax liabilities and obligations are properly reported and accounted for and to prevent any tax losses.
  - Treasury management is carried out in accordance with CIPFA's treasury management code and that effective treasury management arrangements are in place.
- Generate 'buy-in' to, and support delivery of, good financial management across the authority.
- Develop and sustain partnerships, and engage effectively in collaboration.
- Deploy effective facilitation and meeting skills.
- Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.
- Place stewardship and probity as the bedrock for management of the authority's finances.

# \ principle 4



The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.

## **Meeting the finance needs of the business**

The organisation of finance functions is changing rapidly. Traditionally they have been centralised services, but increasingly they include devolved finance teams in business areas. Arrangements may also now include outsourced functions, or services shared between organisations.

Whatever the structure, a strong customer focus both externally and internally must be a key feature of the way the finance function does business. It must support the authority's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The finance function must also have a firm grasp of the authority's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and challenge those responsible for the authority's activities to account for their financial performance. The resources available must be proportionate to the complexity of the financial environment.

Section 114(7) of the Local Government Finance Act 1988 requires authorities in England and Wales to provide their CFO (CFO) with 'such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section (ie s114) to be performed'. There is no equivalent requirement in Scotland or Northern Ireland.

## **Appropriately developed finance skills**

The CFO must promote financial literacy throughout the authority, including championing training and development of relevant skills at all levels. However the CFO has a particular responsibility for learning and development amongst finance staff in order to ensure that both current and likely future finance skill needs are addressed. This will include identifying the competencies needed by the finance function, including specialist skills, and ensuring it can access the skills and experience to exercise stewardship of public finances, develop financial performance and contribute effectively to new organisational directions and innovation.

The CFO must ensure that the Head of Profession role for accountants and finance specialists authority-wide is properly discharged in order to ensure compliance with regulatory and professional standards. Exercising leadership on financial matters in a devolved environment will require a documented line of professional accountability to the CFO, where this is not a direct line management relationship.



## Governance requirements

## Principle 4

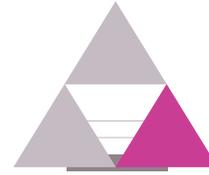
- Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure there is a line of professional accountability to the CFO for finance staff throughout the authority..



## Core CFO responsibilities

## Principle 4

- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Identifying and equipping finance staff, managers and the Leadership Team with the financial competencies and expertise needed to manage the business both currently and in the future.
- Ensuring that the Head of Profession role for all finance staff in the authority is properly discharged.
- Acting as the final arbiter on application of professional standards.



## Personal skills and professional standards

## Principle 4

- Create, communicate and implement a vision for the finance function.
- Role model a customer focussed culture within the finance function.
- Establish an open culture, built on effective coaching and a “no blame” approach.
- Promote effective communication within the finance department, across the broader authority and with external stakeholders.
- Apply strong project planning and process management skills.
- Set and monitor meaningful performance objectives for the finance team.
- Role model effective staff performance management.
- Coach and support staff in both technical and personal development.
- Promote high standards of ethical behaviour, probity, integrity and honesty.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the finance function.
- Promote discussion on current financial and professional issues and their implications.

# \ principle 5



The CFO in a local authority must be professionally qualified and suitably experienced.

## **Demonstrating professional and interpersonal skills**

The CFO must be able to demonstrate their own professional standing to exercise financial leadership throughout the authority. As a member of a professional body, the CFO's skills, knowledge and expertise will have been tested by examination and must be continuously developed in a structured and monitored context. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function.

The CFO must communicate complex financial information in a clear and credible way. They should be able to operate effectively in different modes including directing, influencing, evaluating and informing. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene with authority if financial or ethical principles need to be asserted or defended.

The officer appointed as the CFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice.

The statutory role must be performed by an 'officer' of the authority. Although 'officer' is not defined the legal view is that the terms 'staff' and 'officer' in the Local Government Act 1972 and elsewhere are intended to embrace all employees of local authorities<sup>14</sup>. It is permissible for an authority to procure non-statutory financial management services from an individual on the basis of a service contract.

## **Applying business and professional experience**

The CFO must have an understanding and commitment to the wider business, looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders. In practice this means being creative and constructive in strategic roles and effective in management responsibilities, with a sound grasp of approaches such as performance management and project leadership.

The CFO must understand how and when to apply the tools and techniques of financial analysis in support of business decisions in order to evaluate proposals and to offer well founded and expert advice. Such techniques include strategic analysis, review of sector best practice, benchmarking, option appraisal, performance measurement, and risk assessment. However data is not always clear cut and the CFO must also be able to apply judgement to imperfect information.

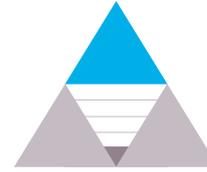
The CFO must have a good understanding of public sector finance and its regulatory environment and comply with standards formulated through rigorous due process in support of the public interest to support the Leadership Team effectively. The CFO must also have a good understanding of the principles of financial management, and personally set a tone for the authority that finance matters and is a key part of everyone's job throughout the authority.

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<sup>15</sup> IFAC: Code of Ethics, 2005

<sup>16</sup> Defined to mean a qualified member of one of the six bodies comprising the Consultative Committee of Accountancy Bodies (CCAB) in the UK and Ireland, that is

- Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants of Scotland
- The Institute of Chartered Accountants in Ireland
- Chartered Institute of Management Accountants
- The Association of Chartered Certified Accountants.



## Governance requirements

## Principle 5

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the authority.
- Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.



## Personal skills and professional standards

## Principle 5

- Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.
- Adhere to international standards set by IFAC on:
  - ethics
  - Continuing Professional Development.Demonstrate IT literacy.
- Have relevant prior experience of financial management in the public services.
- Understand public service finance and its regulatory environment.
- Apply the principles of public financial management.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.

### Legislative Requirements

#### Section 151 of the Local Government Act 1972 – England And Wales

This section requires that every local authority in England and Wales should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

The words “proper administration” are not statutorily defined nor have they received judicial consideration. Section 58 of the Local Government Act 1958 had somewhat narrower wording requiring authorities to make “safe and efficient” arrangements for the receipt and payment of money.

- “proper administration” requires a somewhat wider consideration of all aspects of local authority financial management and should include:
- compliance with the statutory requirements for accounting and internal audit
- ensuring the Authority’s (and ultimately its members’) responsibility for securing proper administration of its financial affairs (Lloyd v McMahon (1982) AC 625)
- proper exercise of a wide range of delegated powers both formal and informal (Provident Mutual Life Assurance Association v Derby City Council (1981) 1 WCR 173)
- responsibility for managing the financial affairs of the local authority in all its dealings
- recognition of the fiduciary responsibility owed to local taxpayers (Attorney General v De Winton (1906) 2 CH 106).

This view is strengthened by Section 113 of the Local Government Finance Act 1988 which requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body.

#### Section 95 of the Local Government (Scotland) Act 1973 - Scotland

Section 95 states that: -

“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.”

The same considerations as to the meaning of ‘proper administration’ as set out above apply in Scotland. There is no equivalent statutory requirement to Section 113, Local Government Finance Act 1988, requiring the CFO to be a member of a specified accountancy body, in Scotland although in both cases, this is widely acknowledged to be good practice.

#### Section 54 of the Local Government Act (Northern Ireland) 1972 – Northern Ireland

Section 54 requires that “A council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its CFO.”

The Northern Ireland Act uses the more narrow wording previously used under the 1958 Local Government Act. There is no equivalent statutory requirement to Section 113, Local Government Finance Act 1988, requiring the CFO to be a member of a specified accountancy body, in Northern Ireland although in both cases, this is widely acknowledged to be good practice.

# Appendix A

## **Section 114 of the Local Government Finance Act 1988 – England And Wales**

The responsible officer under Section 151 of the 1972 Act had his or her duties significantly extended by Section 114 of the 1988 Act which requires a report to all the Authority's members to be made by that officer, in consultation with the Council's Monitoring Officer, if there is, or is likely to be unlawful expenditure or an unbalanced budget.

### **Introduction**

Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Chief Finance Officer (CFO) as defined in that subsection to report certain matters to the authority. Serious consequences could follow making such a report and this note recommends sound procedures and consultation particularly with the authority's Chief Legal Officer (CLO)<sup>17</sup> if that person is not the Monitoring Officer (in addition to consultation with the Head of Paid Service and the Monitoring Officer as required by law) prior to making the report.

The duty of the CFO to report is triggered if s(he) believes that a decision involves (or would involve) unlawful expenditure a course of action is unlawful and is likely to cause a loss or deficiency an entry of account is unlawful.

In those circumstances the CFO is required to make a report to the authority and send a copy to every member and the external auditor. The course of conduct which led to the report must not be pursued until the full council has considered the report. The council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take.

Likewise the CFO must report to the authority where s(he) believes that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the council has considered the report.

Regulations under the Local Government Act 2000 have amended section 114 for those authorities in England operating executive arrangements. In those cases such reports are submitted to full council in respect of non-executive functions and to the executive for executive functions.

Under the new sections 114A and 115B, the CFO's report about unlawful expenditure must be submitted to the executive, where it relates to actions taken by the executive. Copies must be sent also to all members of the authority and the external auditor (and the council manager if there is one).

All action in respect of such a report must be suspended until the executive has considered the report. The executive must provide a report to the authority, the CFO and the external auditor, explaining what action, if any, is to be taken and the reasons.

This guidance note is intended to assist in the provision of sound legal (and financial) advice to members of the authority but in the last analysis the duty to make a part VIII report is placed on the CFO and nothing in this note derogates from that responsibility.

The legislation raises issues that could place the CFO in conflict with his or her employers. The consequences of submitting a part VIII report are unlikely to be in the long term interests of the

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<sup>17</sup> reference is made to consulting the Chief Legal Officer (CLO). The statutory duty, however, is to consult the Head of Paid Service and Monitoring Officer (MO). The MO is often the CLO. Where s(he) is not, both should be consulted. (The reference to CLO may have originated from the practice in some authorities for the Chief Executive to also be the Monitoring Officer. Since 28 July 2001 the Monitoring Officer cannot also be the Chief Executive (Head of paid service). The Monitoring Officer cannot also be the Chief Financial Officer.)

# Appendix A

authority, its officers (or even local government generally) if many have to be made. The need to issue a number of s114 reports would also indicate that there are underlying problems with the overall performance of the authority. Every action should be taken to avoid conflict by providing timely advice to elected members and where possible offering alternative lawful solutions on financial matters. However, at the end of the day section 114 imposes a statutory duty on the CFO.

## **Preliminary matters**

The origin of information giving rise to consideration of the need for a part VIII report could be the CFO's staff, an officer, a member of the authority, a member of the public or the auditor. The attention of all elected members and all officers should be drawn to the duty of the CFO and to his or her responsibility for signalling possible subjects for investigation which may lead to a formal report. This could in part be achieved by including details of the CFO's statutory duty in the member/officers' protocol in the local authority's written constitution which must be prepared and maintained under section 37 of the 2000 Act. The topic should also be included in members' training programmes.

Making a report under sections 114 (2) and 114A(2) requires the CFO to make a decision that an act or omission is or could be unlawful; this decision should only be taken after full consultation with the Head of Paid Service, the authority's Monitoring Officer (MO) (and Chief Legal Officer (CLO) where the CLO is not the MO) whereas a report under section 114 (3) requires a financial judgement on (essentially) the budget which the CFO could take alone. Even in a section 114(3) report the CFO is required by statute to

consult the Head of Paid Service (chief executive) and the MO because other corporate and legal issues may well flow from the report and because there may be overlaps with the MO's duty to report to the authority about unlawfulness under the Local Government and Housing Act 1989 section 5.

MOs have a reciprocal duty to issue reports under section 5 of the 1989 Act and to consult the Head of Paid Service (chief executive) and CFO on their reports.

Circumstances of a developing situation (for example, shortage of budget resources or a prospective unlawful act) should be distinguished from the imminent or actual situation. Timing of a part VIII report will need careful thought and decision.

There may well be occasions when the chief executive (CE), the MO, the CLO or the CFO will be asked for a view on matters which the authority has under consideration but which if developed might lead to a part VIII report. A mere preliminary enquiry or request should not lead to a formal report under the Act. If the situation develops the need to report must be reviewed.

It is not considered that the provisions of sections 114 (2) and 114A (2) relate to cases of discovered fraud (which could be the subject of criminal prosecution) – these should normally be dealt with under the authority's financial regulations.

A decision will be needed whether to report or not on items which could be regarded as outside sections 114 (2) and 114 A (2) such as trivial expenditure or loss of income although there may be circumstances in which such a report may be justified.

# Appendix A

In the case of action under section 114 (3) the need for a report arises only where an authority's total resources fall short of likely expenditure. It does not apply where, say, a committee's budget is overspent – this might be the subject of a report outside the provisions of part VIII although this could in some circumstances amount to a loss or deficiency under section 114 (2) (b) or 114 A (2) (b).

This note assumes that within the authority the CE, MO/CLO and CFO are three separate posts; they may not always be so, although there is now a statutory bar on the CE or CFO being the authority's MO. The authority's MO may also be the CLO. Where (s)he is not, both should be consulted.

## Recommended Procedures

Having regard to the circumstances and the preliminary matters mentioned above the procedure for a report under section 114 (2) or 114 A (2) – an unlawful act or omission – is suggested as follows

- consult with the MO/CLO on the issue of unlawfulness
- consult the CE on the matter (s114(3A) and s114 A (3))
- if there is disagreement or doubt the CFO should ask the MO/CLO to obtain Opinion of Counsel
- if there is still disagreement after Counsel's Opinion, the CFO and MO/CLO refer the matter to the CE for assistance on procedures but CEs should not substitute their own advice, even where legally or financially qualified.

Under section 114 (3) where the matter is an unbalanced budget – real or potential – the CFO is in a better position to come to a decision unaided. However it is recommended

- an informal indication is given by the CFO at a very early stage and an attempt made to get immediate remedial action
- the likelihood of a report under section 114 (3) should be made known to the CE at an early opportunity
- the CFO should consider informal consultation with the internal and external auditor
- at this point the CFO has to decide the course of action. If it is decided to proceed, go to next stage.
- Where the CFO decides there is a case for a part VIII report
- if the action or expenditure is potential the CFO should draft a report stating the facts and reasons and discuss with the MO, the CE and relevant chief officers how to obviate the need for the report by remedial action. If successful the matter will rest
- where action as above is not successful, or where the act or expenditure has already happened, the CFO should draft a report as above in consultation with CE and MO. The report should clearly state that it is made under the relevant sub-section of section 114 or section 114 (A) of the Local Government Finance Act 1988 and the consequences. The CFO then 'makes' the report by signing it personally
- the statutory duty to make a part VIII report and send a copy to each member of the authority and the external auditor rests on the CFO. The Act does not say when a report is to be sent but implies it should be sent as soon as reasonably practicable

# Appendix A

- where an authority in England or Wales is operating executive arrangements under the Local Government Act 2000 the report must be to the full council and sent to each member of the council and to the auditor, if it relates to non-executive functions or the likelihood of an unbalanced budget
- where the local authority is operating executive arrangements, and the executive (or a person on their behalf) is about to make or has made a decision involving unlawful expenditure, a loss or deficiency or an unlawful item of account, the CFO must make the report to the executive, and send copies to every member, the auditor and (in the case of a mayor and council manager) the council manager
- the duty to make and send the report rests with the CFO and that starts the 21 day 'prohibition period' and in normal circumstances the timing of sending it needs to be carefully considered in consultation with the 'Proper Officer' for calling meetings (and the CE if not that officer)
- part VIII reports are likely to be made in highly contentious circumstances and as such could be the target for legal challenge. They must therefore be subject to most careful drafting, rehearsing all relevant matters and arguments besides clearly advising as to the options or decisions sought.

Whatever the decision, the CFO must have taken all steps necessary to arrive at and justify that decision. The CFO should ensure that there is a proper record of the considerations leading to the decision.

The executive must then meet within 21 days to consider the CFO's report and until it does so it must take no action on the decision which is the subject of the report. After considering the report, the executive must prepare a report which specifies what action (if any) the executive has taken in response, what action the executive

proposes to take in response and when it proposes to take that action and the reasons for taking the action. A copy of that report must be sent to the external auditor, every member of the council and the CFO.

## **Liaison With Proper Officer Responsible For Calling Meetings: (Schedule 12 Local Government Act 1972)**

It is for the Proper Officer to advise on procedure for considering the report but by agreement such information could be included in the CFO's report or accompany it.

The report could be sent to each member of the authority as a separate document. However, in the case of reports to the full council, it would be advisable to send the report with the council summons to the meeting which will consider it. In the case of reports to the executive, the report could be sent with the agenda for the meeting which will consider it, but in addition copies will have to be sent direct to the remaining members of the council and the council manager (if any). In both cases copies of the report must be sent to the auditor.

The statutory duty to send the report is the CFO's but it is recommended that normally the authority's usual procedure for sending reports to all members be followed. However, proof of the sending of the report to individual addresses may subsequently be needed, so special arrangements for delivery may be required.

## **Other Matters**

Once the CFO has sent the report addressed to each member of the authority (or to each member of the council, the executive and council manager (if any) where executive arrangements are operating) and to the external auditor, his/her reporting duty under part VIII has been completed<sup>18</sup>. In the case of authorities with

<sup>18</sup> If inadequate action is agreed in response to a s114(3) report the CFO may need to consider – in conjunction with the CE, MO and (if necessary) take legal advice – whether or not a further report is required to address the situation that then exists.

# Appendix A

executive arrangements, the executive must then issue its report in response. The CFO, under his/her section 151 responsibilities may then have to advise full council on the outcome. If the authority (or the executive) acts positively on the s114 (114A) report, well and good; if not, any further formal action is to be taken by the external auditor pursuant to section 6 of the Audit Commission Act 1998 or by the issue of an 'advisory notice' under section 19A or by applying to the Court for a declaration under section 17 of the 1998 Act.

The authority's standing orders and financial regulations should be compatible with the part VIII procedures.

In the light of these provisions it is clearly essential that all reports to committees or to the executive, an executive committee or an individual executive member containing financial matters should be cleared with the CFO. The CFO should also have access to all decision records, minutes and forward plans of executive key decisions.

The 1988 Act requires the authority to provide the CFO with sufficient resources to carry out his/her duties under part VIII. These would include the cost of obtaining advice and resources outside the authority if required.

The CFO's duties under part VIII must be carried out by him or her personally and it is recommended that (s)he nominates a person to act in his/her absence or when (s)he is ill under section 114(6).

The activities of companies set up by authorities appear to be outside the present legislation for section 114/114A reports.

Where a report has been made under section 114(3), arrangements need to be made to inform all persons, including school staff, who have

delegated authority to enter commitments, that such powers are suspended during the prohibition period.

## **Section 114 Equivalent In Scotland And Northern Ireland**

Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

# Appendix B

## Legal Opinion from Eversheds To CIPFA on the Definition of Officer

Section 151 of the Local Government Act 1972, requires every Authority to “secure that one of their officers has responsibility for the administration of those (financial) affairs”. There is no definition of “officer”. It is thought that the term “staff” and “officer” in the Local Government Act 1972 and elsewhere, are intended to embrace all employees of local authorities. For example, the Local Government (Staff Transfer Schemes) Order 1973, defines “officer” for the purposes of the order as “the holder of any office or employment under that council”.

There has been an employment case: Johnson-v-Ryan and Others (Employment Appeal Tribunal 2000), which held that on the facts of that case, a rent officer was also an employee of the District Council concerned. The case made the distinction between three categories of office holder:

- 1** An office-holder whose rights and duties are defined by the office they hold and not by any contract, such as police officer;
- 2** Those who retain the title “office-holder” but are in reality employees with a contract of service; and
- 3** Employees who are both office holders and employees, such as company directors.

The case also made a reference to the role of local authorities’ Chief Finance Officers and suggests that a Chief Finance Officer is an office-holder and an employee, because his/her duties are an integral part of the functions of the local authority.

On this basis, the safest course of action is for the Section 151 Officer to be an employee of the council, although it is permissible for a local authority to procure non statutory financial management services from an individual on the basis of a contract for services.

The statutory Chief Finance Officer role may be capable of being performed in a proportion of the time that an individual works for an authority. In some cases, it may therefore be appropriate to apportion part of the time of the individual between the statutory functions and the non-statutory functions. In other words, for example, a Chief Finance Officer could be directly employed for, say, 20% of their role and engaged on a Service Contract for 80% of their role. Clearly, the circumstances will vary depending upon the particular circumstances of the authority.

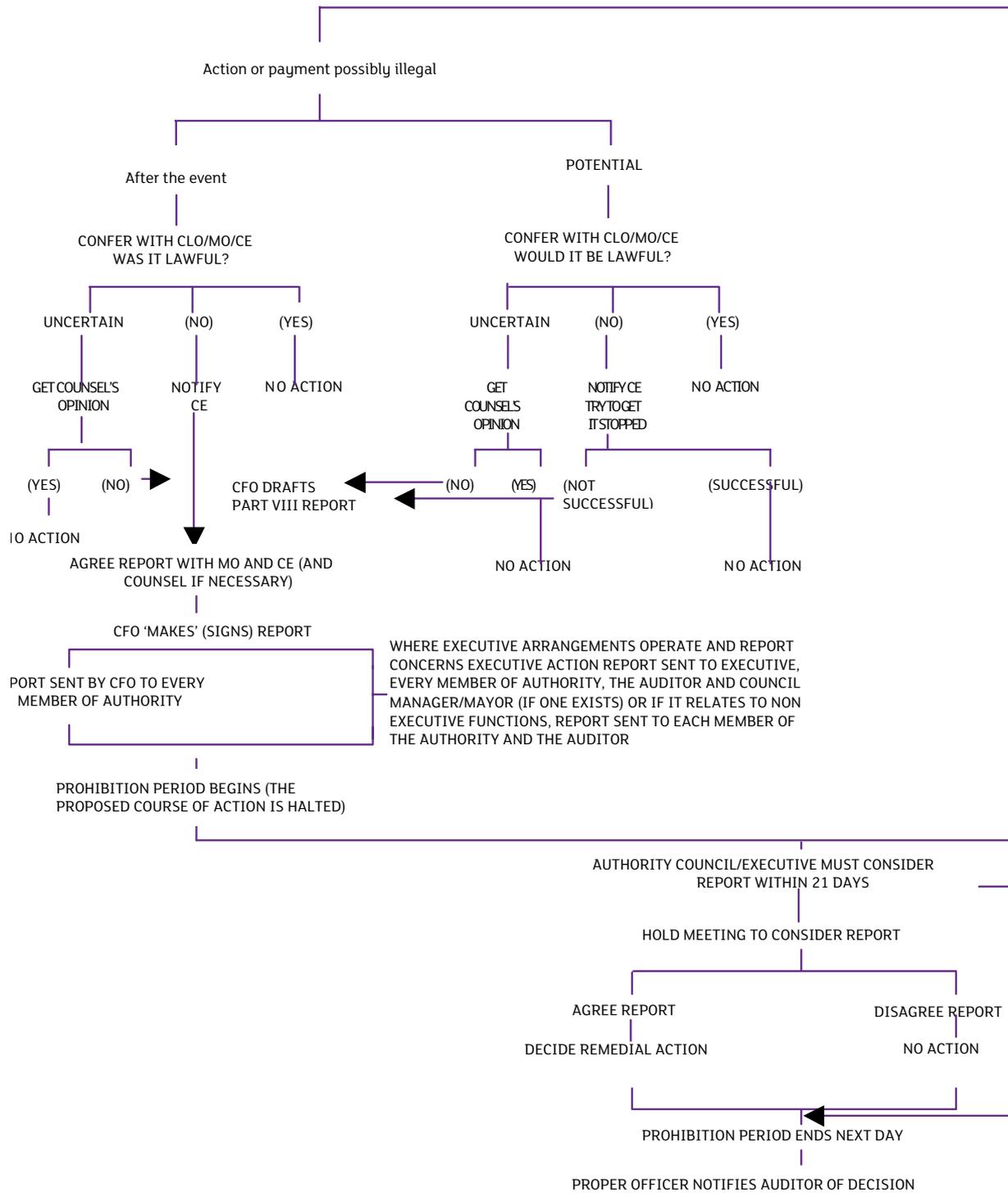
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Eversheds

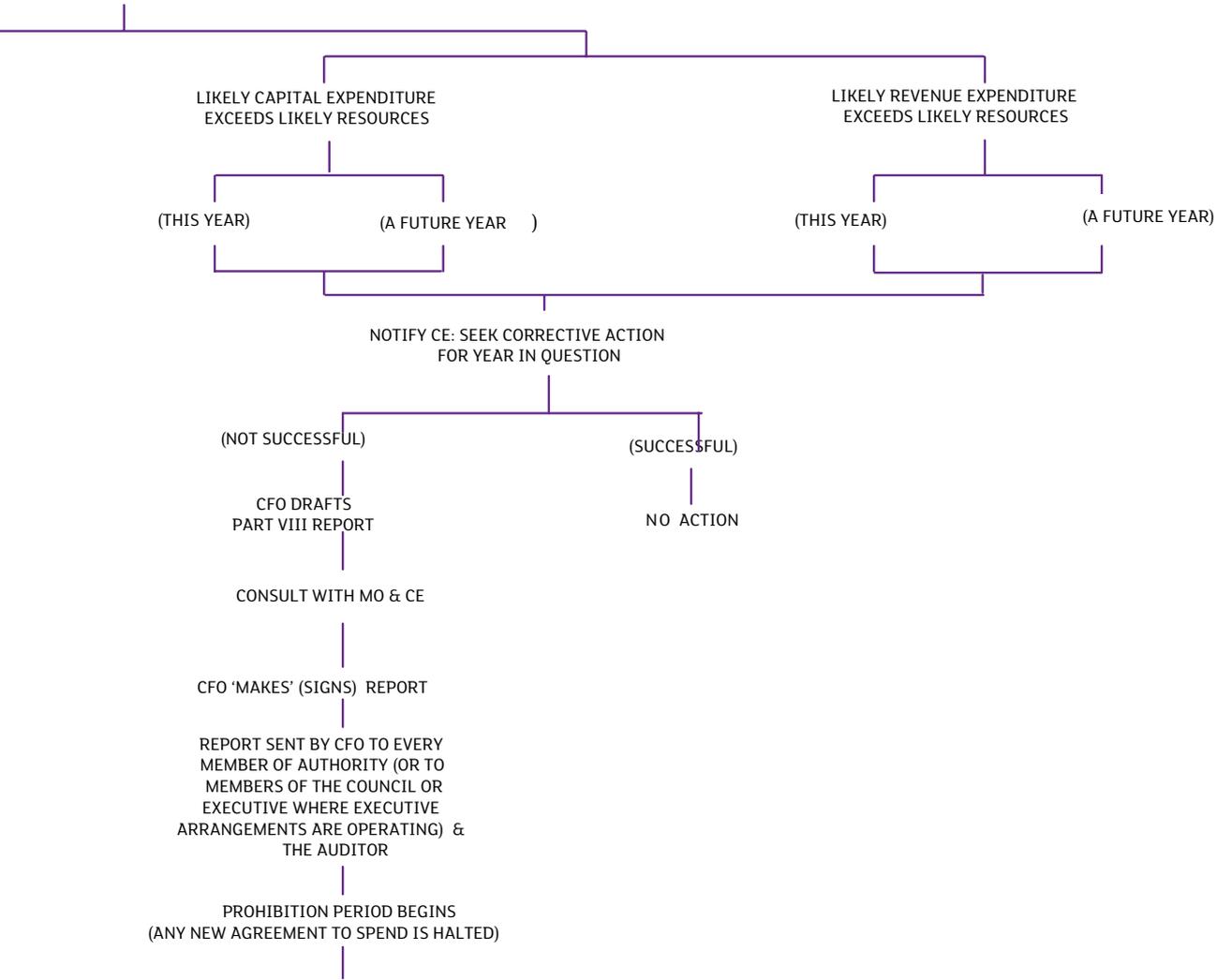
February 2010

## Flow chart for Section 114 Local Government Finance Act 1988 (England and Wales) Procedures

Matter



Comes to the Attention Of The CFO



PROPER OFFICER NOTIFIES AUDITOR OF DATE TIME AND PLACE OF MEETING

WHERE EXECUTIVE ARRANGEMENTS OPERATE, EXECUTIVE MUST REPORT ON ACTIONS (IF ANY) TAKEN IN RESPONSE, TIMING AND REASONS TO THE AUTHORITY, CFO AND AUDITOR



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## SUGGESTED RESPONSE FROM THE AUDIT COMMITTEE

The Peterborough City Council Audit Committee welcomes the opportunity to consider and to comment on the draft Statement, and believes that this is an opportune time to re-emphasise the importance of the role of the HIA in providing assurance to those charged with governance in public sector organisations.

### **1. Do the five principles cover the right ground? If not, how might they be amended or augmented?**

- The Committee considers that the five principles do cover the right ground.

### **2. Are there any aspects of the Statement that would reduce its relevance, or prevent it being applied in any areas of the public services? Please explain any potential issues and suggest appropriate alternatives.**

- Whilst generally supporting the requirements outlined in the Statement, the Committee believes that it could be more clearly recognised that some public sector bodies, due to the size, may find it more difficult to comply fully with the suggested principles of independence for the role of the HIA.
- A particular case will be in respect of the production of the annual statement of governance, where there is a requirement that “*the annual governance report is reviewed but not prepared by the Head of Internal Audit*”. HIAs in smaller organisations may by necessity have a greater involvement in the actual drafting and production of the document, rather than just being responsible for reviewing it.

### **3. Do you support CIPFA’s proposal that organisations should confirm compliance with the Statement in their annual governance reports?**

- The Committee supports the proposal that organisations should review and report on compliance with the Statement in their annual governance reports.
- However, the Committee is also aware that there are other similar statements and guidance documents that could equally require formal confirmation of compliance in annual governance reports, such as the Statement on the role of the chief financial officer and the Code of Practice for Internal Audit in Local Government, and that these compliance requirements may vary between different types of organisations in the public sector. It is therefore suggested that CIPFA may also wish to consider and identify other relevant compliance confirmation requirements for inclusion in annual governance reports, perhaps on a sector specific basis. It may be beneficial for CIPFA to produce a self-assessment checklist on an organisational specific basis to aid the review of compliance and provide a framework to attach supporting evidence to.

### **4. How should CIPFA follow up the Statement to help HIAs, Audit Committees and others make best use of audit resources and maximise the impact that they make?**

- The Committee believes that the role of CIPFA’s Audit Panel is key to supporting HIAs, Audit Committees and all those charged with governance in public sector bodies. The Audit Panel should continue to seek to raise the profile of internal audit in the public sector, and to lead on and coordinate the provision of relevant training opportunities, publications and professional guidance.
- A training programme for Audit Committee members, delivered regionally to assist in minimising travel requirements, would be particularly useful.
- Further, it would be beneficial for CIPFA to work with government to ease burdens on local authorities that can have an impact on Internal Audit resources. An example would be the number of grants that now require sign off by both the Chief Internal Auditor and the Section 151 Officer.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 12
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

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

## AUDIT COMMISSION UPDATE

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director (Strategic Resources)	<b>Deadline date :</b> N/A
To advise Members of changes from central government which will impact on the workings of the Council and in particular the Audit Committee.	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee following changes made by central government. It is not part of the originally agreed Work Programme for the Municipal Year 2010 / 2011.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 To update the Committee on changes proposed by central government in relation to the Audit Commission and the impact on public sector organisations.

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. BACKGROUND

- 4.1 Following the change in government in May 2010, there have been a number of proposals released which impact on local government and in particular on the council's Audit Committee. Subsequently, on 20 May 2010 it was announced that the Comprehensive Area Assessment would be abolished. Furthermore, on 13 August 2010, the Communities and Local Government Secretary announced plans to disband the Audit Commission (press release documented in **Appendix A**).
- 4.2 Both impact on the workings of the council, whether in terms of the collation of best practice for review and subsequent benchmarking against other authorities, and also the overall audit of the council and any reduction in the level of audit requirement and cost.
- 4.3 The Audit Commission's responsibilities for overseeing and delivering local audit will end and audit functions will be moved to the private sector, with the Audit Commission's in-house audit practice transferred out of public ownership. Local authorities will be free to appoint their own independent external auditors, and there will be a new audit framework for local health bodies. The NAO will provide the oversight role for the audit of local government and health. A new decentralised audit regime will be established. Communities

and Local Government will work with the Audit Commission, the accountancy profession, and the local government and health sectors to develop the detailed design of the new systems. The aim is for such a system to be in place from the 2012 / 2013 financial year, with the necessary legislation being sought in this Parliamentary session.

4.4 For local government these changes are part of the government's wider focus on transparency and its focus on helping local people hold councils and local public bodies to account for spending decisions.

4.5 As the government evolves its plans and policies over time, further updates will be brought to this Committee.

## **5. ANTICIPATED OUTCOMES**

5.1 Audit Committee to note and comment on the changes to be made.

## **6. REASONS FOR RECOMMENDATIONS**

6.1 To update members on central changes which impact on local government.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

7.1 None.

## **8. IMPLICATIONS**

8.1 This cannot be quantified until the full proposals are published.

## **9. BACKGROUND DOCUMENTS**

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

Communities and Local Government Web Site: [www.communities.gov.uk](http://www.communities.gov.uk)

(Extract from Communities and Local Government Web Site: [www.communities.gov.uk](http://www.communities.gov.uk))

Published: 13 August 2010

### **Eric Pickles to disband Audit Commission in new era of town hall transparency**

Communities and Local Government Secretary Eric Pickles has today announced plans to disband the Audit Commission and refocus audit on helping local people hold councils and local public bodies to account for local spending decisions. The changes will pass power down to people, replace bureaucratic accountability with democratic accountability and save the taxpayer £50 million a year.

The new Government will set in train measures to radically scale back centrally imposed, bureaucratic and costly inspection and auditing, saving council taxpayers money. The audit expertise of the Commission will be moved into the private sector.

The Audit Commission's responsibilities for overseeing and delivering local audit and inspections will stop; the Commission's research activities will end; audit functions will be moved to the private sector; councils will be free to appoint their own independent external auditors from a more competitive and open market; and there will be a new audit framework for local health bodies. This will save council taxpayers' money and decentralise power.

Ministers believe that the work of the Commission has increasingly become less focused on accountability to citizens and more on reporting upwards to Government, judging services largely against top down Government imposed targets.

As a result of the changes, the Audit Commission's in-house audit practice, which is the fifth largest audit practice in the country, will be transferred out of public ownership. A range of options will be developed for converting the audit practice into a business independent of Government which could be sold or otherwise transferred into the private sector.

A new decentralised audit regime will be established, replacing the Audit Commission and providing genuine support for local democratic accountability. This new decentralised approach, applicable to local government, police, and local health bodies, will:

- Shift power from Westminster to people: Local people, not Whitehall, will now be the audience for the assurances audit gives on local spending decisions. The Government is committed to promoting decentralisation and democratic engagement and ending the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals. This needs to be underpinned by audit reporting not upwards to Whitehall departments but to local people.
- Citizens' rights: The powers of the separate Local Government Ombudsman will be strengthened, to give residents greater rights when local services go wrong.
- Save the taxpayer over £50 million a year: This will include saving the central and corporate costs of the Audit Commission, currently paid for by the Commission's fees including a surcharge on audits, including those by private firms. In addition, councils will be able to appoint their own independent external auditors from a more competitive and open market among audit firms, reducing costs.
- Maintain auditing standards: Councils and local health bodies will still be subject to robust auditing. Protections will be developed to ensure independence, competence and quality, including audit quality regulated within a statutory framework, overseen by the National Audit Office and profession. The Commission's research activities would stop; ending duplication with others and strengthening the National Audit Office's role in this area.
- Protecting children and the vulnerable: Inspection and intervention will remain for the most vulnerable to protect public welfare, including children's services and adult social care.

Secretary of State for Communities and Local Government Eric Pickles said:

"The corporate centre of the Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state.

"We need to redress this balance. Audit should remain to ensure taxpayers' money is properly spent, but this can be done in a competitive environment, drawing on professional audit expertise across the country. I want to see the Commission's auditing function become independent of Government, competing for future audit business from the public and private sector.

"These proposed changes go hand in hand with plans to create an army of armchair auditors - local people able to hold local bodies to account for the way their tax pounds are spent and what that money is delivering."

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#### Notes to editors

1. For local government these changes are part of the Government's wider focus on transparency that will bring about a revolution in town hall openness and accountability. Local people will now be the audience for assurances that their council is spending money wisely, that they are well governed, their council is financially robust, achieving value for money and providing accurate information and data.
2. This will complement plans to strengthen individual citizens' rights of redress should they receive poor council services by enhancing the role of the Local Government Ombudsman through making his findings legally enforceable.
3. District auditors will retain a duty for reporting issues in the public interest. They will be able to undertake special investigations where they, the local government sector or any continuing inspectorates such as Ofsted in the case of children's services, or Care Quality Commission on adult social care, raise concerns about a council. Following any such investigations auditors will report locally and be able to make recommendations to the council, the sector, inspectorates, and if necessary to Government.
4. For the NHS, plans are being developed to establish a new audit framework for local health bodies. Audit changes in health will be consistent with vision set out in Equity and Excellence: Liberating the NHS designed to provide assurances that support the democratic accountability now proposed, and the accountability and responsibilities of the new NHS Commissioning Board and Monitor as economic regulator. The new framework will not compromise the Department for Health requirement to report to Parliament. The expectation is that greater use will be made of competitive open market auditor appointments, with appropriate protections to ensure quality and independence.
5. For the police these changes will ensure there continues to be robust arrangements for audit, the detail of which is being developed as proposals for directly elected Police and Crime Commissioners are taken forward. These audit arrangements will complement the responsibilities of Her Majesty's Inspectorate of Constabulary, which will continue to oversee the police.
6. Communities and Local Government will now be working closely with the Audit Commission, the accountancy profession, and the local government and health sectors to develop the detailed design of the new systems. We intend to seek the necessary legislation in this Parliamentary session.
7. The aim is for such a system to be in place from the 2012/13 financial year, with the necessary legislation being sought in this Parliamentary session.
8. The NAO is independent of government and the auditor of central government bodies. The NAO is therefore well placed to provide the oversight role for the audit of local government and health and would need to be able to rely on the work of local auditors when forming its audit opinion on the adequacy of assurance provided by departments. Combined with its existing functions, the oversight role would enable the NAO to report to Parliament on the quality of audit across the local government and health sectors, and on the economy, efficiency, effectiveness, and productivity of these sectors.

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.13
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

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

## FEEDBACK REPORT

### 1. ORIGIN OF REPORT

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

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 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

- 3.1 **Appendix A** sets out the feedback items - items shaded have been actioned and agreed at subsequent Audit Committee meetings.

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**APPENDIX A**

**AUDIT COMMITTEE: RECORD OF ACTION TAKEN (FEEDBACK REPORT)**

**MUNICIPAL YEAR: MAY 2010 - APRIL 2011**

<b>DATE ISSUE RAISED</b>	<b>SUBJECT / ITEM</b>	<b>AUDIT COMMITTEE COMMENTS</b>	<b>OFFICER RESPONSIBLE</b>	<b>ACTION TAKEN</b>	<b>SIGN OFF DATE</b>																		
7 June 2010	Agenda Item 5: Fraud & Irregularity Annual Report 2009 / 2010	To provide figures of how many blue badge applications were being dealt with on a yearly basis.	Diane Baker	Blue badge statistics show that for the last full year, and the first 2 months of the new year: <table border="1" data-bbox="1294 598 1962 863"> <thead> <tr> <th></th> <th>2009 / 2010</th> <th>Apr'10-May'10</th> </tr> </thead> <tbody> <tr> <td>New Applications</td> <td>968</td> <td>121</td> </tr> <tr> <td>Renewals</td> <td>2,131</td> <td>325</td> </tr> <tr> <td><b>ISSUED</b></td> <td><b>3,099</b></td> <td><b>446</b></td> </tr> <tr> <td>Refused</td> <td>68</td> <td>4</td> </tr> <tr> <td><b>Total Applications</b></td> <td><b>3,167</b></td> <td><b>450</b></td> </tr> </tbody> </table>		2009 / 2010	Apr'10-May'10	New Applications	968	121	Renewals	2,131	325	<b>ISSUED</b>	<b>3,099</b>	<b>446</b>	Refused	68	4	<b>Total Applications</b>	<b>3,167</b>	<b>450</b>	28 June 2010
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28 June 2010	<b>THERE WERE NO REQUESTS FOR FURTHER INFORMATION FOLLOWING THIS MEETING</b>				6 Sept 2010																		

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.14
<b>6 SEPTEMBER 2010</b>	<b>PUBLIC REPORT</b>

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

## **WORK PROGRAMME 2010 / 2011**

### **1. ORIGIN OF REPORT**

- 1.1 This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report summarises the proposed Work Programme for the Municipal Year 2010 / 2011 together any training needs identified.

### **2. UPDATE**

#### **2.1 Training**

Any specific training is normally provided prior to each committee meeting - at the request of the Chair it is proposed that this starts at 18.00.

There are no training proposals for the next meeting – 27 September 2010 – as the meeting is set aside to discuss / scrutinise the final accounts following their review by the External Auditors.

#### **2.2 Work Programme**

The Work Programme was endorsed at the last meeting (28 June 2010), and is refreshed at every Audit Committee meeting.

Last Updated: 16 August 2010

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>REGULAR AGENDA ITEMS</b>								
<b>Member Training</b> (Future needs to be determined prior to each meeting)		Audit Cttee overview	Final Accounts	✓	✓	✓	✓	✓
<b>Feedback Report</b>		✓	✓	✓	✓	✓	✓	✓
<b>Audit Committee: Work Programme</b>		✓	✓	✓	✓	✓	✓	✓

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>ACCOUNTS</b>								
<b>Statement of Accounts / Summary Accounts 2009 / 2010</b> (incorporating Annual Governance Statement)	Steven Pilsworth	-	✓	-	-	-	-	-
<b>Audit of Statement of Accounts</b>	PwC Steven Pilsworth	-	-	-	✓	-	-	-
<b>International Financial Reporting Standards</b>	Steven Pilsworth	-	-	✓	-	-	✓	-

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>INTERNAL AUDIT / EXTERNAL AUDIT ACTIVITY</b>								
<b>Internal Audit: Annual Report 2009 / 2010</b>	Steve Crabtree	✓	Meeting set aside to scrutinise the Councils draft accounts	-	Meeting set aside to scrutinise the Councils final accounts following External Audit review	-	-	-
<b>Internal Audit: Progress Report: Quarterly</b>	Steve Crabtree	-		✓		✓	✓	-
<b>Internal Audit: Strategy and Plan 2011 / 2012</b>	Steve Crabtree	-		-		-	-	✓
<b>Internal Audit: Miscellaneous Commissioned Reports</b> (Additional works outside agreed Audit Plan)	Steve Crabtree	-		✓		✓	✓	-
<b>External Audit: Reports</b> (subject to availability)	PwC Steve Crabtree Steven Pilsworth	-		✓		✓	✓	✓
<b>External Audit: Joint Audit and Inspection Plan</b>	PwC Steve Crabtree Steven Pilsworth	-		-		-	✓	-
<b>NEW ITEM:</b> <b>CIFPA Consultation Document: The Role of the Head of Internal Audit</b>	Steve Crabtree	-		✓		-	-	-

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>REGULATORY FRAMEWORK</b>								
<b>Draft Annual Governance Statement</b>	Steve Crabtree	✓	Meeting set aside to scrutinise the Councils draft accounts	-	Meeting set aside to scrutinise the Councils final accounts following External Audit review	-	-	-
<b>Annual Governance Statement: Progress</b>	Steve Crabtree	-		-		✓	-	-
<b>Assurance Framework</b>	Steven Crabtree	-		-		-	-	✓
<b>Assurance Framework: 6 Month Refresh</b>	Steve Crabtree	-		-		✓	-	-
<b>Audit Committee: Annual Report</b>	Steve Crabtree	✓		-		-	-	-
<b>Fraud: Annual Report 2009 / 2010</b>	Diane Baker	✓		-		-	-	-
<b>Regulation of Investigatory Powers Act</b>	Diane Baker	-		✓		✓	-	✓
<b>Risk Management Strategy</b>	Stuart Hamilton	-		✓		-	-	-
<b>Strategic Risk Register: Risk Profiles</b>	Stuart Hamilton	-		✓		-	✓	-
<b>Treasury Management Strategy</b>	Steven Pilsworth	-		✓		-	-	-
<b>Use of Resources</b>	Steven Pilsworth	-		-		-	✓	-
<b>Comprehensive Area Assessment</b>	Steven Pilsworth	-		-		-	✓	-
<b>Miscellaneous Financial Reports</b> Review of other reports / policies as appropriate E.g. Changes to Contract Regulations, Financial Regulations, Accounting Policies etc.	Steven Pilsworth Steve Crabtree	-		✓		✓	✓	✓