

## AUDIT COMMITTEE

WEDNESDAY 27 MARCH 2013

7.00 PM

Bourges/Viersen Room - Town Hall

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

### AGENDA

	Page No
<b>1. Apologies</b>	
<b>2. Minutes of the Last Meeting Held on 4 February 2013</b>	<b>1 - 4</b>
<b>3. Declarations of Interest and Whipping Declarations</b>	
<p>At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification " that has been disclosed to the Solicitor to the Council. Members must also declare if they are subject to their party group whip in relation to any items under consideration.</p>	
<b>4. Risk Management: Strategic Risks</b>	<b>5 - 10</b>
<p>To receive an update on the strategic risks for the Council</p>	
<b>5. Regulation of Investigatory Powers Act (2000): Quarterly Report to 31 December 2012</b>	<b>11 - 12</b>
<p>To receive an update of RIPA during the 3 months to 31 December 2012</p>	
<b>6. External Audit: Report to Management</b>	<b>13 - 24</b>
<p>To receive and approve the External Audit report in relation to issues identified as part of their audit works</p>	
<b>7. External Audit: Audit Plan</b>	<b>25 - 50</b>
<p>To receive and approve the External Audit Plan</p>	

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|------------|--|------------------|
| <b>8.</b>  | <b>Public Sector Audit Standards and the Effectiveness of Internal Audit and the Audit Committee</b>   | <b>51 - 94</b>   |
|            | To receive details of the new Internal Audit Standards applicable from 1 April 2013 and their impact on the work of Internal Audit and the Audit Committee |                  |
| <b>9.</b>  | <b>Internal Audit: Strategy and Audit Plans 2013 / 2014</b>  | <b>95 - 124</b>  |
|            | To receive and approve the Internal Audit Plan 2013 / 2014   |                  |
| <b>10.</b> | <b>Draft Annual Audit Committee Report</b>   | <b>125 - 138</b> |
|            | To receive the Draft Annual Audit Committee Report prior to submission to Council  |                  |
| <b>11.</b> | <b>Feedback Report</b>   | <b>139 - 140</b> |
| <b>12.</b> | <b>Work Programme 2013 / 2014</b>  | <b>141 - 144</b> |



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Karen S Dunleavy on 01733 452233 as soon as possible.

#### **Emergency Evacuation Procedure – Outside Normal Office Hours**

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

#### **Committee Members:**

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

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

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

# Public Document Pack



## **MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 4 FEBRUARY 2013**

Present: Councillors Lamb (Chairman), Harper (Vice Chairman), Arculus, Lane, Knowles and Kreling

Also in Attendance: Councillor Seaton, Cabinet Member for Resources.

Officers in Attendance: Steve Crabtree, Chief Internal Auditor  
Steven Pilsworth, Head of Corporate Services  
Kevin Dawson, Resilience Services Manager  
Karen S Dunleavy, Governance Officer

Also in Attendance: Jacqui Dudley, PricewaterhouseCoopers

### **1. Apologies for Absence**

Apologies for absence were received from Councillors Fletcher and Maqbool.

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

There were no declarations of interest or whipping declarations.

### **3. Minutes of the Meeting held on 5 November 2012**

The minutes of the meeting held on 5 November 2012, were approved as an accurate and true record.

### **4. Risk Management: Strategic Risks**

The Committee received an update from the Resilience Services Manager regarding the revised Council's Risk Management Strategy, Business Continuity and progress of the Strategic Risk Register.

In addition the Committee was advised by the Resilience Services Manager that the Corporate Strategic Risk Register (SRR) had been reviewed by CMT at its workshop held on 8 January 2013 and that a revised copy of the SRR, would be presented to CMT for final approval during February 2013.

The key points within the report included:

- Adoption of the Strategic Risk Register following approval by CMT;
- Business Continuity Policy (BCP) formally adopted by CMT;
- Completion of operational risk profile;
- Continuation of review and revision of Service and Corporate BC plans;
- Quarterly review of Strategic (corporate) and Department risk registers by CMT;
- Quarterly Strategic Risk Register reports to Audit Committee following CMT approval;
- Coordination of Strategic and Departmental Risk Registers;
- Regular risk "conversations" within and between services at all levels;
- Updates on Insite, web and E-Learning;

- Strategic issues such as introducing and embedding RM/BCM into procurement processes, induction briefings and business plans;
- Delivery of training aimed at ensuring Members understand the risk management process and expectations upon Officers; and
- A training session was due to be delivered to Members of the All Party Policy Committee on 28 March 2013.

The Resilience Services Manager and the Head of Corporate Services responded to comments and questions raised by Members regarding the Risk Management, Business Continuity and Strategic Risk Register. In summary, responses included:

- The transfer of Public Health was included on the SRR;
- The SRR would be finalised at the end of February 2013;
- Members of the Audit Committee would review the SRR once it had been finalised with CMT in February 2013;
- The last SRR was presented to Audit Committee in February 2012;
- Inter departmental SRRs, would include any Information Communication Technology (ICT) high risk issues, such as a recovery plan for the finance systems;
- Serco, the company that was contracted to deliver the Council's ICT provision, were to develop their own disaster recovery plan;
- There was a delay in the production of the final SRR document, due to the receipt of the financial settlement from the Government, which was three weeks late;
- Any comments made by Audit Committee over the final SRR, would be fed back to CMT; and
- The SRR was a live document, which the Audit Committee would receive updates for, and may submit comments on, at anytime throughout the year.

#### **ACTION AGREED:**

The Committee considered and noted the content of the Risk Management (RM) and Business Continuity (BC) report.

#### **The Committee Further Agreed:**

That the Resilience Services Manager would present the finalised Strategic Risk Register to Audit Committee at its meeting, due to be held in March 2013.

### **5. External Audit: Annual Audit Letter and Grant Claims Annual Certification**

The Committee received a report from PricewaterhouseCoopers (PwC) on the Annual Audit Letter 2011/12 and Grant Claims Annual Certification.

The following key points within the report included:

- Annual Audit Letter reviewing the Council's arrangements and progress in relation to the Audit of the Accounts;
- Annual report into the review and verification of grant claims across PCC;
- The various appendices had been discussed, and actions agreed by senior management at various times before being finalised. In addition, Cabinet had discussed and approved the content of the report;
- PCC was to maintain appropriate scrutiny and apply service performance for the reintegration of Adult Social Care;
- The PwC recommended the Council to review accounting treatments if there were any future Statute change relating to the Local Authority Mortgage Scheme (LAMS);
- The Council was to continue to work towards the introduction of robust and sustainable management arrangements for Children's Services;

- The Council was to continue to embed Risk Management; and
- Errors and recommendations regarding accounting processes for PCC were highlighted by PwC within the claims and returns certified report.

The Head of Corporate Services and PricewaterhouseCoopers, responded to comments and questions raised by Members regarding the Annual Audit Letter and Grant Claims Annual Certificate Report. In summary, responses included:

- PwC's key findings within the Annual Audit Letter, which referred to LAMs and the transfer of Adult Social Care from the Peterborough Primary Care Trust, were recommendations made by PwC in terms of the Council's adopted accounting treatment and consideration of inclusion on the PCC Strategic Risk Register;
- Financial and non financial risks had been highlighted for Adult Social Care and Children's Services; however, PwC had recommended that the appropriate level of risk management should be introduced to monitor both service areas;
- Serco had introduced training to their employees in order to minimise any possibility of errors occurring in future for the Council Tax Benefit system;
- It would be necessary for PwC to include a qualified response within the Grant Claims report if any error had been highlighted within the PwC inspection of the claim, no matter how small;
- The material amount set for the PwC qualification criteria was set by the Audit Commission and would be qualitative rather than quantitative;
- PwC would review PCC's previous financial year's procedures to ascertain if processes had been followed and whether there was any material change; and
- It would be difficult for PwC to predict any procedural errors for the following financial year.

#### **ACTION AGREED:**

##### **The Committee:**

Considered, and endorsed the final reports produced by External Audit in the following areas:

- (i) 2011/12 Annual Audit Letter; and
- (ii) Grant Claims: Annual Certification Report

#### **6. Use of Consultants**

The Committee received a report from the Head of Corporate Services, which provided a revised Use of Consultants report as a result of the action point raised by Audit Committee at its meeting held on 5 November 2012.

The following key points within the report included:

- Audit Committee's role in monitoring the use and expenditure of consultants;
- Further information requested by Audit Committee at its meeting of 5 November 2012;
- Use of consultants and Interims expenditure between 2009 to present date; and
- The report had provided detail of consultants and interims, which also included the project title and cost.

The Head of Corporate Services responded to comments and questions raised by Members regarding the Use of Consultants report. In summary, responses included:

- A large volume of work would be created for Audit Committee for their monitoring role, if a line by line cost breakdown of each project was provided within the Use of Consultants report;
- The detail regarding individual projects, should be sought through the relevant Scrutiny Committee or Lead Project Officer;
- The Audit Committees role was to monitor an overview of the expenditure for Consultants and Interims in order to highlight any concerns they had over the trend of expenditure;
- Some of the projects included within the Consultancy report were being scrutinised by the relevant Scrutiny Committees; and
- Amtec and Serco, were included within the report and were companies that had provided frameworks for the Council.

Councillor Seaton, Cabinet Member for Resources advised the Committee that projects such as waste 2020 was already being scrutinised by the appropriate Scrutiny Committees and for Audit Committee to request the same information would be a duplication of work.

**ACTION AGREED:**

The Committee considered the update report on the Use of Consultants.

**7. Feedback Report**

The Committee received a report from the Chief Internal Auditor regarding the feedback over actions raised at previous meetings of Audit Committee for 2012/13.

Members commented that the audit report which was provided following an action point raised at Audit Committee on 5 November 2012, regarding the City Water Festival, was concise and had accurately clarified the situation.

**8. Work Programme 2012/13**

The Chief Internal Auditor submitted the latest version of the Work Programme for the Municipal Year 2012/2013 for consideration and approval. The standard report provided details of the proposed Work Programme for the Municipal Year 2012/2013 together with any training needs identified.

**ACTION AGREED:**

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

**The Committee Further Agreed:**

That the Chief Internal Auditor would update the 2012/13 Work Programme to also include:

- The New Public Sector Internal Audit Standards; and
- Review the full details of the revised Strategic Risks Register.

7.00pm – 7.55pm  
Chairman

<b>AUDIT COMMITTEE</b>	AGENDA ITEM NO.4
27 MARCH 2013	PUBLIC REPORT

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

## RISK MANAGEMENT AND BUSINESS CONTINUITY

RECOMMENDATIONS	
<b>FROM :</b> Kevin Dawson, Group Manager – Construction, Compliance & Resilience	<b>Deadline date :</b> N/A
Audit Committee is recommended to:	
1. Consider and note the content of this report	

### 1. ORIGIN OF REPORT

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

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to provide an update to the Committee on the revised Strategic Risk Register under its terms of reference 2.2.13 To monitor the effective development and operation of risk management and corporate governance of the Council

### 3. TIMESCALE

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

- 4.1 Following an outstanding action from Audit Committee on 13 February 2013 the Corporate Strategic Risk Register has been reviewed by Corporate Management Team (CMT) on 19 March 2013 and duly signed off.
- 4.2 Work will commence on assessing and challenging current Departmental Risk Registers to ensure potential risks are identified and adequately managed.
- 4.3 CMT has now approved the Business Continuity Policy previously considered by this committee on 5 November 2013 and work is now underway on drafting a completely new Corporate Business Continuity Plan.
- 4.3 The operational risk assessment process has assisted the review and update of current Business Continuity Plans. It is also providing a useful profile of areas of high risk, which can be escalated to the strategic registers where necessary.

#### 4.4 Key on going issues for 2013/14:

- Completion of operational risk profile;
- Continuation of review and revision of Service and Corporate BC plans;
- Quarterly review of Strategic (corporate) risk register by CMT;
- Coordination of Strategic and Departmental risk registers;
- Regular risk “conversations” within and between services at all levels;
- Updates on Insite, web and E-Learning; and
- Strategic issues e.g. introducing and embedding RM/BCM into procurement processes, induction briefings and business plans.
- Delivering training aimed at ensuring members understand the risk management process and expectations upon officers – a training session is to be delivered on 21 March to members of the All Party Policy Committee.

### **5 ANTICIPATED OUTCOMES**

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

### **6 REASONS FOR RECOMMENDATIONS**

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

### **7 ALTERNATIVE OPTIONS CONSIDERED**

7.1 None

### **8 IMPLICATIONS**

8.1 The identification of risks and the proper management of those risks will ensure that:

- The Council’s environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

### **9 BACKGROUND DOCUMENTS**

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

9.1 Peterborough City Council Risk Management and Business Continuity Policies 2012/13

### **10 APPENDICES**

10.1 Appendix A – Strategic Risk Register



Strategic Risk Register

Date: 19 March 2013

Ref	Risk	Description	Consequences	Priority	L	I	Current Score	Previous /Initial Score	Direction	Reasons for change	Current Controls	Actions	Who	When	Review Date	Remarks
	<i>name of risk</i>	<i>brief description of risk event</i>	<i>threats &amp; opportunities arising</i>	<i>A Env B Com C Grow D Opps</i>	<i>Likelihood 1 (L) - 5 (H)</i>	<i>Impact 1 (L) - 5 (H)</i>		<i>if new risk, score on assumption no controls are in place</i>		<i>change in impact, likelihood, objective etc(ALT return to use bullet points etc)</i>	<i>to measure success of controls. What is already in place to mitigate risk. (ALT return to use bullet points etc)</i>	<i>further actions required to mitigate risk or maximise opportunity. (ALT Return to use bullet points etc)</i>	<i>officer(s) responsible</i>	<i>target date</i>	<i>all registers reviewed at least 6 monthly unless red status specified, 3 monthly review then required.</i>	<i>any other comments etc</i>
1	Failure to plan for/realise implications of Growth Agenda	The city is seeking to continue with growth, however development viability and land prices make contributions to vital infrastructure eg roads and schools very difficult. Changes to the local government finance system, with an element of business rates being retained locally, mean that the Council could lose grant if growth targets for business rates are not hit. There is a need to maintain focus on expansion and growth to ensure infrastructure has capacity to cope.	Inability to fulfil statutory obligations eg provision of roads and schools. Budget implications.	C A D	4	4	16	6	▲	Currently unable to accurately predict future levels of business rate income.	Robust viability discussions with developers. Focused Section 106 team.	Development of system to forecast future levels of business rates and assigning this role to develop such a system. We are developing funding applications through the LEP in the form of Pinchpoint Funding applications and Winter Damage applications. This will support not only further growth but additional finance for maintenance of our existing infrastructure.	GB/ND		Jun-13	
2	Impact of social demographic change	Insufficient capacity to support increased demand on specialist services as a result of ageing population, increased birth rate, migration and disability. Services include foster carers, adoption placements, special school places	Significant additional financial costs to support need within the independent sector typically in and around the city.	B	4	4	16	16	◀▶		Ongoing monitoring and review. Financial impact evaluation. Annual review informed by needs assessments.	Delivery of workstreams within early intervention and prevention strategy. SEN strategy	DASS/DCS	Ongoing	Apr-13	
3	School Places	Failure to provide our legal requirement for every child of statutory school age to access a place and within a 'reasonable' distance from their home (less than 2 miles for 4 to 8 year olds and up to 3 miles for 9 to 16 year olds)	1) Significant additional costs incurred in terms of transport, 2) impact on schools in terms of attendance, less engagement from parents and increased churn of pupils when places become available nearer to home - all having a significant impact on outcomes.	B	3	4	12	10	▲	Updated demographic information suggests ongoing pressure however capital investment and short term measures have mitigated some of the impact from the pressures.	1) New data on under 5's received from GP's which have helped pinpoint the pressure areas in the city and focus where capital resources need to be targeted. School Organisation Plan going to scrutiny panel in April for sign off. 2) Sufficient resources identified in MTFP to support known requirements in the next 3 years if forecasts remain accurate	1) Keep under review. 2) Local and national lobbying 3) Continue to review options around reducing costs including modular technology, use of existing buildings and procurement savings 4) Review potential options around further free schools in the city. 5) Continue to monitor in year admissions and trends around numbers leaving the city.	Jon Lewis	Ongoing	Apr-13	Review in line with allocation rounds (Secondary end of March, Primary mid April)

Strategic Risk Register

Date: 19 March 2013

Ref	Risk	Description	Consequences	Priority	L	I	Current Score	Previous /Initial Score	Direction	Reasons for change	Current Controls	Actions	Who	When	Review Date	Remarks
4	Corporate manslaughter/ health and safety incident	Failure of the health and safety system to prevent a death or serious injury (that could have been preventable).	Impact on the organisation and individuals concerned, potential for financial loss, litigation etc.	B	2	4	8	8	◀▶		Robust arrangements and training in place including regular internal auditing of policies and procedures.	1) Regular review of H7S Policy. 2) Focused auditing by dedicated team. 3) Training of senior management on H&S duties and responsibilities to be introduced. There is a full review taking place of all externalised contracts ensuring the appropriate contractual obligations are in place for each provider and that where our own properties are occupied the appropriate testing and monitoring schedules are in place.	CMT	Ongoing	Aug-13	
5	Crime and ASB Reduction /Cohesion	Increase in several crime types and ASB as a result of broader social changes, financial pressures etc.	Increased costs across the public sector; increased fear of crime; reduced confidence in public sector.	B	3	4	12	12	◀▶		Restructure of Neighbourhood Services to combine PCC and Police community safety teams; continual development of the Safer Peterborough Partnership; development of new projects and programmes to help reduce crime; development of Top 100 families project; launch of Integrated Offender Management approach.	Launch full IOM model; launch new combined SPP team; continue to enhance partnership structures	Adrian Chapman	Apr-13	Aug-13	
6	Safeguarding	Failure of safeguarding functions to prevent a child or vulnerable adult's being placed at significant risk of harm.	Significant risk to council both in terms of potential intervention from the government and media attention.	B	3	5	15	15	◀▶		1) New systems and processes ensuring effective front door 2) New senior leadership – DCS / AD / Service Managers 3) Effective recruitment campaign in place for SW 4) Accountability to EIB, CMT & Scrutiny 5) Performance management and Quality Assurance function strengthened 6) New Joint Commissioning board 7) Workforce Development training programme 8) Ofsted inspection Feb 2013	1) Sustain current improvement journey and adhere to EIB improvement plan 2) Recruit team managers and development of succession planning 3) Developing work around key areas of weakness e.g. domestic violence, sexual exploitation, reflect supervision 4) Appointment of new chair for PSCB Adults: 1) Revised procedures developed 2) Strengthened board arrangements 3) Consultant practitioners in frontline teams	SW/TR	Ongoing	Jun-13	
7	Information governance	The council's management of information data on a day to day basis	Lack of controls could subject the council to significant risk from litigation, financial penalties and loss of reputation	D B C	4	4	16	16	◀▶	New risk	1) Strategic Governance Board oversees and monitors the correct handling of information data 2) Dedicated team set up to oversee correct handling of information data. 3) Cross PCC data protection group set up to monitor and introduce measures to aid compliance	1) New policies introduced re-information governance, Data Protection, FOI and handling emails. 2) Mandatory training and awareness sessions held for all staff 3) Corporate Induction raises awareness to all new staff. 4) Comprehensive work plan being driven by dedicated group.	HE	Ongoing and quarterly review by CMT (data security). Oversight by SGB.	Jun-13	

Strategic Risk Register

Date: 19 March 2013

Ref	Risk	Description	Consequences	Priority	L	I	Current Score	Previous /Initial Score	Direction	Reasons for change	Current Controls	Actions	Who	When	Review Date	Remarks
8	Financial Position	The Council has plans to deliver £17m of savings in 2013-14. Risk that some items may not be deliverable, or that additional budget pressures emerge (e.g. due to risks 1 and 3 above, or prolonged economic downturn). Also the changes to council tax benefit place risk of increased cost with the council Over the medium term, the MTFS outlines deficits in future years that will need to be tackled. The next Spending Round is expected in the first half of 2013	Council cannot overspend, so savings will have to be found elsewhere in the councils budget	A B C D	3	4	12	12	◀▶		Plans for implementation of savings proposals developed during development of medium term financial strategy. RAG status of plans will be monitored by CMT. Budget position will be monitored through monthly budgetary control process in year.	See current controls.	JH	Ongoing monthly monitoring MTFS refresh to follow Autumn cycle as per constitution, but consider earlier plans depending on Spending Round	Sep-13	
9	NHS funding and organisation	Risk of loss of focus on health needs of Peterborough by a Cambridgeshire & Peterborough-wide CCG. Risk to hospital services in the light of continuing financial crisis facing City Hospital and PSFHT. Reliance on NHS/CCG to agree transfer of social care funds.	Lack of appropriate investment in key services and consequential pressures on both adult and children social care budgets. Deteriorating standards of health care with impact on overall health and well being of community. Additional pressures on stretched social care budgets	D B C	2	5	10	10	◀▶		Close monitoring of situation and regular engagement with PSFHT senior management. Close partnership working with LCG	Engagement with CCG and local management and emphasis on joint working through Health & Well Being Board	TR/AL	Ongoing	Sep-13	
10	Strategic Partnerships (Enterprise, Serco and Vivacity) fail to deliver as per expectations, prejudicing the Authority's ability to secure the desired outcomes on behalf of citizens	The Council has vested delivery of a number of key services in Strategic Partners; there are reputational and financial risks to PCC if delivery is not at either the price or to the quality envisaged at the time of the contracts being entered into; there are also external threats to the stability of the Partnerships, including the current expected acquisition of Enterprise by Ferrovial and planned subsequent integration with Amey	PCC needs to establish and secure firm governance arrangements (see separate entry) but these need to be integrated within a tighter framework - developed and managed by Strategic Client Services - that allows for on-going debate about delivery and priorities, rather than being seen as a stand-alone activity. Failure to take a whole-systems approach to the management of the Strategic Partnerships will increase the risk of underperformance and financial and reputational costs to the Council.	D B C	2	3	6	6	◀▶	New risk	There are strategic partnership boards in place for Enterprise and Serco, but more of an infrastructure is required at an operational level to set priorities and review performance - these will be introduced as part of a new approach to business planning with Strategic Partners. We have a mandate to establish a new governance regime for Vivacity but have yet to put this in place.	1) Day-to-day relationships and issues are managed between Strategic Client Services (SCS) and the three Partners; 2) Operational, delivery and financial issues are currently managed on a largely ad hoc basis but will be picked up from April 2013 onwards in a new set of 'performance management group' stock-takes; details of membership and terms of reference together with invitations for first meetings to be done in the first quarter of 13/14 by SCS. 3) Strategic oversight is provided by the existing Strategic Partnership Boards for Enterprise and Serco; a related high-level meeting with Vivacity has been agreed in principle by the Chief Executive and Deputy Leader - the action is with SCS to establish.	RFuller/JH	Ongoing	Sep-13	

6

Likelihood

5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

Review 12 months
Review 6 months
Review 3 months

Impact

Likelihood & Impact Descriptors:		
<b>1: Negligible</b>		<b>Little likelihood of risk occurring except in exceptional circumstances</b>
	Service Interruption	None noticeable
	Objectives/Projects	Insignificant slippage
	Financial	up to £10k
	Compliance	Minor non-compliance
	Reputational	Internal PCC only
	Environmental	No noticeable impact
<b>2: Low</b>		<b>Unlikely to occur in next 10 years</b>
	Service Interruption	Minor disruption
	Objectives/Projects	Minor slippage
	Financial	£10k-£25k
	Compliance	Low-level non-compliance
	Reputational	Local media - short term coverage
	Environmental	Minor impact
<b>3: Moderate</b>		<b>Reasonable chance of occurring in next 5 years</b>
	Service Interruption	Some operations compromised
	Objectives/Projects	Reduction in scope or quality
	Financial	£25k-£100k
	Compliance	Non-compliance with core standards
	Reputational	Local media - long term coverage
	Environmental	Short term, medium impact
<b>4: Significant</b>		<b>Likely to occur more than once in next 12 months</b>
	Service Interruption	All or most operations compromised
	Objectives/Projects	Failure to meet secondary objectives
	Financial	£100k-£500k
	Compliance	Major non-compliance
	Reputational	Extensive local, short-term national coverage
	Environmental	Significant impact - possible long-term effects
<b>5: Very High</b>		<b>More likely to occur than not at least once in next 12 months</b>
	Service Interruption	sustained or permanent loss of core service
	Objectives/Projects	failure to meet primary objectives
	Financial	£500k +
	Compliance	serious breach of compliance - potential prosecution
	Reputational	Long-term national coverage
	Environmental	Long-term impact

**Risk Categories**

- Strategic:** Risks affecting medium-long term goals. Project risks, governance etc
- Operational:** Events affecting service provision. Staff shortage, physical damage, ICT etc
- Financial:** Events with a financial/budgetary impact
- Compliance:** Risks threatening compliance with standards, laws and regulations etc
- Reputation:** Affecting public perception about the organisation, staff morale, stakeholder interest etc.
- Environmental:** Events with an environmental impact.

**What is a risk?**

**A risk is an event which can affect the achievement of objectives. Risks can have negative or positive outcomes.**

**The Risk Management Process:**

Identify Objectives. What are we trying to achieve?

Identify risks: Use past history, near misses, emergent events etc which could impact upon the objective(s)

What is the likelihood of the event occurring?

What are the consequences of the event occurring? Potential threats and/or opportunities

What is the preferred response? One or more of the following:

Tolerate: If the current risk level is acceptable

Transfer: Outsource, Insure etc

Terminate: Cease the activity that gives rise to the risk (not usually practicable)

Treat: Actions and controls to mitigate the likelihood and/or impact

Take the Opportunity: How to maximise any potential benefits

Who is responsible?

What are the required actions?

Is there a target score or end date?

What is the date of next review?



<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 5
27 MARCH 2013	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Diane Baker, Head of Governance	☎ 452 559

**REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) ANNUAL REPORT FOR 1 OCTOBER 2012 TO 31 DECEMBER 2012**

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> Paul Phillipson, Executive Director - Operations	<b>Deadline date :</b> N/A
Audit Committee is asked to	
1. Receive, consider and endorse this report on the use of RIPA for the three months from 1 October 2012 to 31 December 2012.	

**1. ORIGIN OF REPORT**

This report is submitted to the Committee as a scheduled report on the Council's use of RIPA in accordance with the established Work Programme 2012 / 2013.

**2. PURPOSE AND REASON FOR REPORT**

The purpose of this report is to provide an overview of the Council's use of RIPA powers in the three months from 1 October 2012 to 31 December 2012. This report is to be considered in accordance with its Terms of Reference 2.2.14 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

**3. BACKGROUND**

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

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

- 3.3 The Council has established strong governance around the use of RIPA and provides assurance to the citizens of Peterborough that the powers are only used where necessary and proportionate and in accordance with the law.
- 3.3 The following table provides a breakdown of the use of RIPA between 1 October 2012 to 31 December 2012.

Date of authorisation	Type of Covert Surveillance	Reason	Outcome
29 <sup>th</sup> October 2012	Covert	Fly Tipping	Cameras were deployed on three occasions to identify potential fly tippers in a specific area of the city. Following a review, it was considered that the camera could no longer be considered to be covert therefore no further action.

- 3.4 There have been no applications for access to communications data, such as the subscriber of telephone numbers.

**4. CONSULTATION**

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**

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

**6. REASONS FOR RECOMMENDATIONS**

There are no recommendations contained within this report.

**7. ALTERNATIVE OPTIONS CONSIDERED**

The option is not to present an annual or quarterly report, which details the use of RIPA. This could result in a lack of assurance and a potential lack of support from the Audit Committee. Failure to report usage for Member review contravenes the RIPA Codes of Practice.

**8. IMPLICATIONS**

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)

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.6
27 MARCH 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources		
Contact Officer(s):	John Harrison, Executive Director -Strategic Resources	☎ 452 398	☎ 384 564
	Steven Pilsworth, Head of Corporate Services		

## ANNUAL AUDIT LETTER

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> PriceWaterhouseCoopers	<b>Deadline date :</b> N/A
The Committee is asked to review and comment on the Report to Management: Interim and Final Audit 2011/12 (Appendix 1)	

### 1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with the regular pattern of reporting on the Council's financial controls.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to introduce the report prepared by the external auditors, PriceWaterhouseCoopers (PwC), which details matters identified during the interim and final audit for the 2011/12 accounts and their follow up on matters raised during previous years audits.
- 2.2 This is in accordance with the Committees' Terms of Reference - 2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance.

### 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. KEY ISSUES

- 4.1 During the year, PwC have undertaken various reviews on behalf of the authority. The following report sets out various control and system issues identified during the course of their interim and final audit work, and has been received and agreed with senior management. PwC will be in attendance to discuss matters arising in the report.
- 4.2 Each recommendation has been allocated a priority rating to reflect the degree of importance in the context of the Council's internal controls. The priority ratings are defined as high, medium or low priority.
- 4.3 During the interim and final 2011/12 audit five new control issues are noted, of which four are of medium priority and one of low priority. The report notes that all of the recommendations raised in previous reports have been addressed.

**5. CONSULTATION**

The Report to Management and action plan has been shared with the Corporate Management Team, and actions agreed by senior management at various times before being finalised.

**6 ANTICIPATED OUTCOMES**

For Audit Committee to acknowledge and approval of the works undertaken by External Audit and to endorse the Action Plans produced in consultation with senior management.

**7 REASONS FOR RECOMMENDATIONS**

Audit Committee to note the contents of the report and to comment on issues identified within the various commissioned works.

**8 ALTERNATIVE OPTIONS CONSIDERED**

None

**9 IMPLICATIONS**

Implications have been identified separately in each agreed Action Plan

**10 BACKGROUND DOCUMENTS**

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

10.1 Report to Management – Interim and Final Audit 2011/12

**11 APPENDICES**

Appendix A - Report to Management



# *Report to Management*

Peterborough City  
Council

Statement of Accounts  
2011/12



**Draft**

John Harrison  
Executive Director of Strategic Resources  
Peterborough City Council  
Town Hall  
Bridge Street  
Peterborough  
PE1 1FB

January 2013

Dear Sir

**Peterborough City Council: Report to Management 2011/12**

Please find enclosed our Report to Management summarising those issues arising from the interim and final audits in 2011/12.

Yours sincerely

PricewaterhouseCoopers LLP

Enclosures

Copies to:

Steven Pilsworth – Head of Strategic Finance  
Steve Crabtree – Head of Internal Audit  
Kirsty Nutton – Financial Services Manager

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T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, [www.pwc.co.uk](http://www.pwc.co.uk)*

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# Contents

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<b><i>Executive Summary</i></b>	<b>2</b>
The purpose of this report	2
Progress against prior year findings	2
Categorisation of findings	2
<b><i>Summary of Controls findings</i></b>	<b>3</b>
<b><i>Appendices</i></b>	<b>4</b>
Appendix A: ITGC Findings	5
Appendix B: Internal Control Findings	6

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# Executive Summary

## *The purpose of this report*

This report details matters identified during the interim and final audits of the 2011/12 accounts.

The matters included in this report are those that came to our attention as a result of our normal audit procedures. Consequently our comments should not be expected to include all possible internal control weaknesses that a more extensive and specific investigation might identify. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any other third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to take this opportunity to thank your staff for their assistance and the co-operation extended to us during the course of this review.

## *Progress against prior year findings*

It is positive that we have only noted four new control issues for our 2011/12 audit, and all of the recommendations raised during previous years' audits have been addressed.

## *Categorisation of findings*

Each recommendation has been allocated a priority rating to reflect the degree of importance in the context of Peterborough City Council's internal controls. The definition of ratings is as follows:

Priority	Definition
<b>High</b>	Significant weaknesses that could undermine the effectiveness of the system of internal controls or have a significant impact on business operations and must therefore be addressed immediately.
<b>Medium</b>	Weaknesses that could reduce the effectiveness of the system of internal controls or could disrupt business operations, but which are not fundamental. They should be addressed as soon as possible.
<b>Low</b>	Improvements that represent best practice or opportunities to enhance efficiency or control. The finding will not necessarily imply inadequate control.

This is a draft report (that has been prepared for discussion purposes). This report does not constitute our final views, which will only be expressed in our final written report. As a result, any views in this report may be subject to change or amendment (following discussion with you).

# Summary of Controls findings

This section summarises the recommendations we have made as a result of our audit work in relation to Information Technology Controls (“IT Controls”) and internal controls identified during our interim and final audit work at the Council in 2011/12.

The findings detailed in the report are summarised as follows:

No.	Summary of Finding	Priority		
		High	Medium	Low
<b>IT Controls</b>				
1	Access to datafiles and super user access to applications		X	
2	Application changes not logged		X	
<b>Other controls</b>				
3	Documentation to validate payroll controls not available		X	
4	Valuation journals		X	

---

# *Appendices*

# Appendix A: IT Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1.	<p><b>Access to datafiles and super user access to applications</b></p> <p>Three SERCO employees have access to datafiles and super user access to applications.</p> <p>Unauthorised access to high level functionality within the system.</p> <p>Application controls may be overridden and changes made to tables without autorisation/audit trail.</p>	<p>Access to data files should be restricted to non operational personnel ie segregation of duties should be maintained between data base access and application access.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> The FSS team currently have the ability to carry out system wide set up changes to the look, feel and configuration of the finance system including the tasks listed below: -</p> <ul style="list-style-type: none"> <li>• User access</li> <li>• User access levels and limitations</li> <li>• Approval hierarchies</li> <li>• Transactional processing formats and fields</li> <li>• System security and controls</li> <li>• System tolerances</li> <li>• Configuration changes</li> </ul> <p>This access is restricted to a system administration and super-user level of access so that control can be provided over these changes. Any changes are only made when the required audit trail and necessary approval is received.</p> <p><b>Owner:</b> Laurie Sharpe</p> <p><b>Timescale:</b> N/A</p>
2.	<p><b>Application changes not logged</b></p> <p>A full list of changes for Academy and resourceLink is not available.</p> <p>The risk is that changes are made to reports, configurable controls or tables without appropriate sign off.</p>	<p>Changes to applications should be logged.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The crucial amendments to system parameters that are made each financial year are signed off and records of changes kept. Amendments on a claim/account level are not recorded as this is impractical due to the frequency of amendments.</p> <p><b>Owner:</b> David Moss</p> <p><b>Timescale:</b> N/A</p>

21

# Appendix B: Internal Control Findings

No	Observation and Risk	Recommendation	Priority	Management Response
3.	<p><b>Documentation to validate payroll controls not available</b></p> <p>We noted several instances of missing documentation during our testing of payroll controls.</p> <p>We noted one missing starter form and several cases in relation to authorisation (eleven of payroll starters, five of leaver forms and six of change notification documents). Additionally, there is no evidence of review for the high value exception report or for the costings summary report.</p> <p>There are increased risks that I) new starters and changes could be inappropriately processed without authorisation and II), errors could arise in the payroll run without review of the analysis and exception reports.</p>	<p>The Council should ensure that all documentation is retained in relation to amendments to the payroll system.</p> <p>It should be ensured that evidence of review of the payroll analysis report and exception report are retained.</p> <p>This will demonstrate that the controls are in place and enable us, as auditors, to increase the level of reliance we can place on system controls.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Since the audit was undertaken, improvements have been made to processes. The Payroll Manager agreed that the all forms being sent from HR Support inbox was proof that HR have actioned it.</p> <p>Exception reports are checked every month by a Senior Payroll Officer and the report is initialled and dated at the end of the report.</p> <p>The Payroll Summary Analysis is checked against the payslip report and the BACS creation file to ensure these 2 reports show the same number of employees and the correct total amount to be paid and this is part of the authorisation process</p> <p><b>Owner:</b> Angela Clow</p> <p><b>Timescale:</b> Complete</p>

22



No	Observation and Risk	Recommendation	Priority	Management Response
4.	<p><b>Classification of transactions within capital accounting working papers</b></p> <p>We encountered some challenges in agreeing the capital accounting note to Oracle and the underlying working papers. While we were able to resolve these issues in discussions with management, the process took additional time to that we had planned for.</p>	<p>Management should consider further ways to improve the understandability of the working papers, giving particular regard to the audit trail between Oracle and the accounts.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Since the completion of the audit in September the Capital Accounting &amp; Treasury Team have amended the processes and working papers used in the production of all the capital notes that are contained in the Statement of Accounts. Actions include the preparation of a ‘Core Capital Working paper’, where all notes are linked together, populated from raw data from Oracle, and reconciled in a single working paper.</p> <p>Other developments include:</p> <ul style="list-style-type: none"> <li>○ the implementation of an integrated fixed asset register so that all capital calculations will be automated rather than based on a complex asset register spreadsheet;</li> <li>○ obtaining information from valuers much earlier in the year; and</li> <li>○ development of a valuation checklist so the information from valuers is robustly examined prior to use in the asset register.</li> </ul> <p><b>Owner:</b> Kirsty Nutton</p> <p><b>Timescale:</b> 31 March 2013</p>

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.7
27 MARCH 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Executive Director -Strategic Resources	☎ 452 398

**EXTERNAL AUDIT: AUDIT PLAN 2012/13**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> PricewaterhouseCoopers	<b>Deadline date :</b> N/A
<p>The Committee is asked to:</p> <ol style="list-style-type: none"> <li>1. Consider the External Audit Plan for 2012/13 and consider points raised by PwC (page 5): <ul style="list-style-type: none"> <li>• Proposed scope, comfortable with the audit risks, and approach</li> <li>• Consider and respond to matters relating to fraud</li> <li>• Approve proposed audit fees for the year</li> </ul> </li> <li>2. Provide comment on any amendments necessary</li> <li>3. Approve the Plan</li> </ol>	

**1. ORIGIN OF REPORT**

This report is submitted to the Audit Committee in line with its Work Programme for 2012/13.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to consider and respond to the Audit Plan for 2012/13 from PricewaterhouseCoopers (PwC), the Council’s external auditors, in accordance with the Committees’ Terms of Reference:

- 2.2.1.5 To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance, and
- 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.

**3. TIMESCALE**

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

4.1 The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsible will be discharge. It has been discussed and agreed jointly by Council representatives and External Audit (PricewaterhouseCoopers (PwC)).

- 4.2 The Plan (Appendix A) has been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the City Council and the local government sector.
- 4.3 There are a number of sections within the report as follows:
- a) **Introduction** – contains the purpose of the plan, work in 2012/13, a risk assessment overview and details of responsibilities.
  - b) **Risk Assessment** – an explanation of the categories of audit risk applied to the following:
    - Key Risks** – identification to enable PwC to determine where audit effort should be focused. There are a mix of types of risks identified, from the general risk such as fraud which any organisation would face, and those more specific to the Council such as the New Fixed Asset System, the new social care records system in Adult Social Care, and Savings Targets.
  - c) **Audit approach** – explanation of the two aspects of PwC work:
    - the audit of the Accounts including an explanation of the types of materiality and
    - work required to conclude on the Use of Resources

There is also an explanation of the work carried out on Invest to Save and reliance placed on work carried out by Internal Audit
  - d) **Risk of fraud** – clarification of roles to mitigate the risk
  - e) **Audit engagement team and independence** – contact details of team and expectations of roles
  - f) **Communications plan** – outline of the reports expected from PwC and timeframes
  - g) **Timetable** – for the execution of this Plan
  - h) **Audit Fees** – confirms the fees
  - i) **Other engagement information** – terms of appointment and other matters for attention

## 5. CONSULTATION

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

## 6 ANTICIPATED OUTCOMES

- 6.1 Approval of the External Audit Plan 2012/13.

## 7 REASONS FOR RECOMMENDATIONS

- 7.1 The Plan provides a summary of the Auditor's proposed work for 2012/13. Members can ask questions and make comments to the External Auditor on its contents and coverage.

## 8 ALTERNATIVE OPTIONS CONSIDERED

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

## **9 IMPLICATIONS**

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

## **10 BACKGROUND DOCUMENTS**

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

- 10.1 External Audit Plan 2012/13

## **11 APPENDICES**

- 11.1 Appendix A - Draft External Audit Plan 2012/13

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# ***Peterborough City Council***

## **Draft External Audit Plan 2012/13**

Government and Public  
Sector

For the year ending 31  
March 2013





The Audit Committee  
Peterborough City Council  
Town Hall  
Bridge Street  
Peterborough  
PE1 1HG

Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

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

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Julian Rickett (Engagement Leader) or Chris Hughes (Engagement Senior Manager).

Yours faithfully,

PricewaterhouseCoopers LLP

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*PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT*

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# Contents

<b><i>Introduction</i></b>	<b>5</b>
<b><i>Risk Assessment</i></b>	<b>7</b>
<b><i>Audit approach</i></b>	<b>11</b>
<b><i>Risk of fraud</i></b>	<b>13</b>
<b><i>Audit engagement team and independence</i></b>	<b>15</b>
<b><i>Communicating with you</i></b>	<b>17</b>
<i>Timetable</i>	18
<b><i>Audit fees</i></b>	<b>19</b>
<b><i>Other engagement information</i></b>	<b>20</b>

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

# Introduction

## *The purpose of this plan*

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Audit Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

## *Our work in 2012/13*

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Audit Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

## ***Risk assessment***

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

## ***Responsibilities***

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

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

# Risk Assessment

## Risk Assessment

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the accounts and our true and fair audit opinion are categorised as follows:

●	Significant	Risk of material misstatement in the accounts due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
●	Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
●	Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

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

- **Management override of controls:**

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

- **Revenue recognition:**

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

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

# Key Risks

## Financial Statements risks

Risk	Accounts audit risk	Audit approach
<p><b>Management Override of Controls</b></p> <p>In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.</p> <p>In your organisation, as the pressure to deliver savings increases, so does the risk of management override.</p>	<p>● Significant</p>	<p>We will focus our work on testing of journals and will utilise computer assisted audit techniques to do this. This will consider the level and appropriateness of manual and automated journals posted. We will also consider accounting estimates made by management.</p>
<p><b>Revenue and Expenditure Recognition</b></p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>● Significant</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• seek to place reliance on internal audit work on key income and expenditure controls;</li> <li>• evaluate the accounting policies for income and expenditure recognition;</li> <li>• test the appropriateness of journal entries and other adjustments;</li> <li>• review accounting estimates for income and expenditure, for example, provisions; and</li> <li>• reconcile your management information to the information presented in the accounts on a gross basis.</li> </ul>

Risk	Accounts audit risk	Audit approach
<p><b>Property, plant and equipment - Valuation</b></p> <p>Property, plant and equipment (PPE) represents the largest balance in the Council's balance sheet. The Council's measurement of its properties at fair value involves a range of assumptions and the use of external valuation expertise. ISAs (UK&amp;I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> <li>• The accuracy and completeness of detailed information on assets; and</li> <li>• Whether the Council's assumptions and basis of valuation are appropriate.</li> </ul> <p>In our 2011/12 ISA 260 report, we reported to the Audit Committee that the Council's external valuers had included an element for finance costs in the valuation of assets measured on a Depreciated Replacement Cost basis. The Council has chosen to change its accounting policy and going forward will not capitalise finance costs. This has resulted in a prior period adjustment and the relevant assets have been revalued excluding finance costs.</p>	<p style="text-align: center;">●</p> <p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• use valuations experts to review the assumptions used in determining the fair value of assets recorded within the Council's financial statements;</li> <li>• perform detailed testing of a sample of assets included within the restatement exercise; and</li> <li>• consider the accounting treatment within the financial statements.</li> </ul>
<p><b>Property, plant and equipment – New fixed asset system</b></p> <p>The Council has implemented a new fixed asset system during the year.</p> <p>Specific risks include:</p> <ul style="list-style-type: none"> <li>• The completeness and accuracy of data transfer; and</li> <li>• The establishment of appropriate access controls and system interfaces.</li> </ul>	<p style="text-align: center;">●</p> <p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the testing of the system performed by the Council;</li> <li>• perform detailed testing of a sample of assets transferred; and</li> <li>• review the IT controls in place.</li> </ul>

Risk	Accounts audit risk	Audit approach
<p><b>Adult Social Care – New social care records system</b></p> <p>The Council has implemented a new social care records system during the year, from which the income and expenditure figures to be included in the financial statements are derived.</p> <p>Specific risks include:</p> <ul style="list-style-type: none"> <li>• The completeness and accuracy of data transfer; and</li> <li>• The establishment of appropriate access controls and system interfaces.</li> </ul>	<p style="text-align: center;">●</p> <p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the testing of the system performed by the Council;</li> <li>• perform detailed testing of transactions from the two systems; and</li> <li>• review the IT controls in place.</li> </ul>

## Other Code responsibilities risks

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



# Audit approach

## Code of Audit Practice

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

- Accounts, including a review of the Annual Governance Statement; and
- Use of Resources.

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

## Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

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

## Materiality

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on an understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

Materiality is another factor which helps us to determine our audit approach. Materiality is more than just a quantitative concept. Judgements about materiality are subjective and may change during the course of the engagement. The judgements about materiality are often implicit, and will be reflected in our assessments of risk and our decisions about which business units or locations, account balances, disclosures and other items are of greater or lesser significance.

We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures. Specifically, under our integrated audit methodology, we are required to identify three quantitative materiality thresholds as set out in the table below.

These help us to plan the nature, timing and extent of our work and to evaluate the significance of any unadjusted differences identified from our audit procedures.

<i>Type of materiality</i>	<i>What is it used for?</i>
Overall materiality	Overall materiality represents the level at which we would consider qualifying our audit opinion.
Planning materiality	This is the level to which we plan our audit work and identify significant accounts.
De minimis threshold	<p>ISA (UK&amp;I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.</p> <p>We propose to treat misstatements less than £250,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&amp;I) 260 report.</p>

### ***Use of Resources***

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

In accordance with recent guidance issued by the Audit Commission, in 2012/13 our conclusion will be based on two criteria:

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

We will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances.

### ***Invest to Save***

At the Audit Committee on 24 September 2012, it was agreed that PwC would discuss with Officers and the Audit Committee an appropriate scope of work to look at the governance arrangements with respect to elements of the allocation of expenditure within the Council's budget policy framework.

### ***Internal Audit***

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

# Risk of fraud

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

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## Management's responsibility

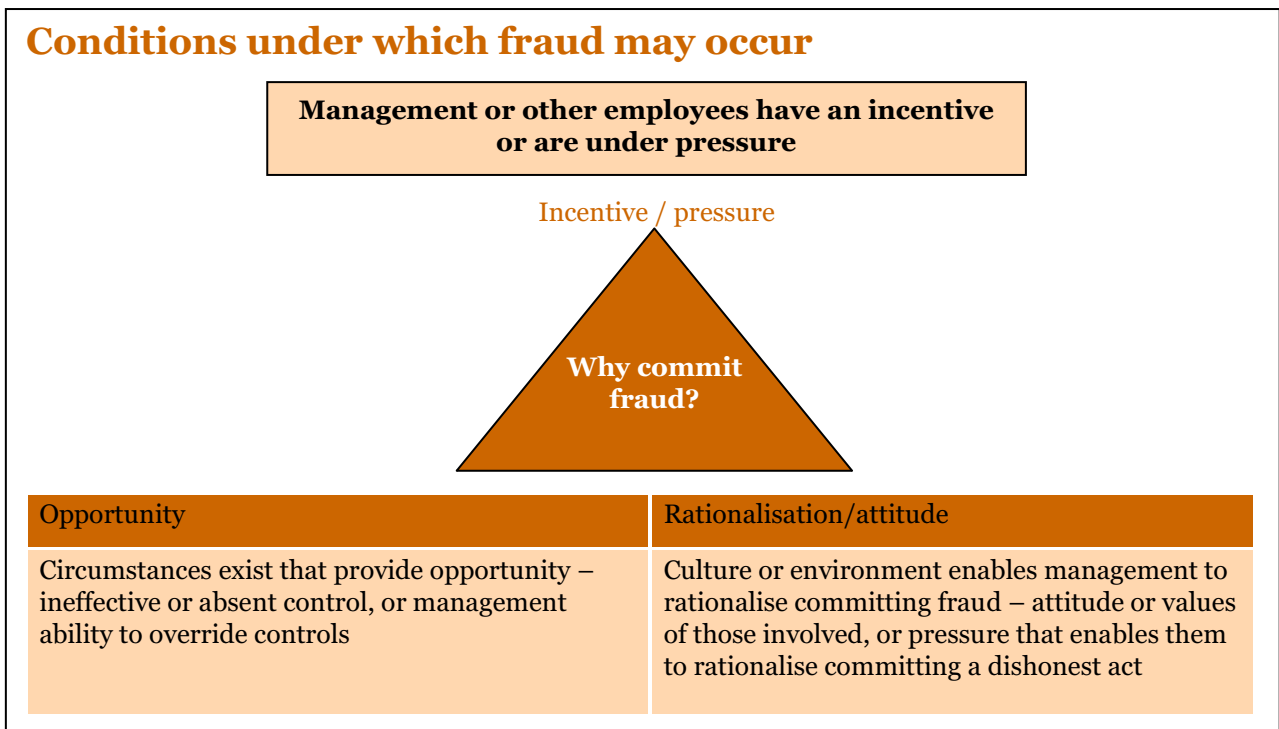
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the Audit committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



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## *Your views on fraud*

We enquire of the Audit Committee:

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

# Audit engagement team and independence

The audit team has been drawn from our government and public sector team. The audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
<b>Engagement Leader</b> Julian Rickett 01603 883321 julian.c.rickett@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members as appropriate.
<b>Engagement Senior Manager: Accounts and Use of Resources</b> Chris Hughes 020 7804 3392 chris.hughes@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.
<b>Engagement Manager: Accounts and Use of Resources</b> Jacqui Dudley 01223 552340 jacqui.a.dudley@uk.pwc.com	Manager on the assignment responsible for the control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.

## Our team members

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

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

## Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

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### ***Relationships and Investments***

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

### ***Independence conclusion***

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

# Communicating with you

## Communications Plan and timetable

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

Stage of the audit	Output	Date
<b>Audit planning</b>	Audit Planning Letter	December 2012
	Audit Plan	March 2013
<b>Audit Findings</b>	<p><b>ISA (UK&amp;I) 260 report incorporating specific reporting requirements, including:</b></p> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report;</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit;</li> <li>• Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures;</li> <li>• Any significant difficulties encountered by us during the audit;</li> <li>• Any significant matters discussed, or subject to correspondence with, Management;</li> <li>• Any other significant matters relevant to the financial reporting process; and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion</li> </ul>	September 2013
<b>Audit reports</b>	Financial Statements including Use of Resources	September 2013
<b>Other public reports</b>	<p><b>Annual Audit Letter</b> A brief summary report of our work, produced for Members and to be available to the public.</p>	October 2013
	<p><b>Annual certification report to those charged with governance</b> Report detailing the value of each certified claim, details of any amendments and qualifications, certification fees charged and a discussion of issues arising, including recommendations for improvement where necessary.</p>	January 2014

# Timetable

<i>Month/Deadline</i>	<i>Audit activity</i>
27 March 2013	Review of Draft External Audit Plan by the Audit Committee
8 April 2013	Interim audit begins
July to August 2013	Statement of Accounts audit
30 September 2013	Deadline for issue of: <ul style="list-style-type: none"> <li>• Audit Opinion on the Statement of Accounts;</li> <li>• Value for Money Conclusion; and</li> <li>• Opinion on the Whole of Government Accounts return</li> </ul>
September 2013 (date to be confirmed)	Planned date for issue of final version of ISA (UK&I) 260 Report to those Charged with Governance
30 November 2013	Deadline for issue of Annual Audit Letter



# Audit fees

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for your audit is £143,640 (excluding VAT). Our planned fee below includes a budget of £20,000 to cover additional work (for example, invest to save, matters raised with us as auditors requiring consideration, the prior year adjustment and change to the adult social care system). The total £163,640 compares to the outturn fee of £239,400 for 2011/12. The fee for 2011/12 is not directly comparable with the 2012/13 fee as it included a mandatory recharge payable to the Audit Commission that is no longer required to be made.

The fee is broken down as follows:

	Planned 2012/13 £	Outturn fee 2011/12 £
Financial statements, local value for money conclusion (including risk based audit work), and Whole of Government Accounts	163,640	239,400
Certification of claims and returns	19,700	36,300
<b>Total fee</b>	<b>183,340</b>	<b>275,700</b>

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, where planned, upon the work of internal audit;
- Agreeing the availability of staff whilst we are on site. Ensuring that staff are briefed so that they can pick up queries on work done by team members when the team members are not available;
- Discussing any unusual, new or complex transactions with us as they occur so that we can understand the detail and agree the necessary accounting treatment. Bringing unusual or potentially contentious items in the accounts to our attention as soon as possible;
- Providing us with named contacts for audit queries and for responding within an agreed timescale; Transaction listings are sufficiently detailed and are available to allow early sample testing to be carried out by the audit team;
- Evidence provided in relation to audit sample requests and answers provided to audit queries have been reviewed internally reviewed by the Council;
- Delays in producing the financial statements or missing and incomplete working papers are communicated to us two weeks before the start of the final audit;
- We are able to draw comfort from your management controls;
- Our use of resources conclusion and accounts opinion being unqualified;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based.

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

Should PwC be required to answer a formal question or objection raised by a local elector, the costs associated with that work would be additional to the fee quoted above.

## Certification of grant claims

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

# *Other engagement information*

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

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

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

## ***Electronic communication***

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

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

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

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

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

## ***Access to audit working papers***

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

## ***Quality arrangements***

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT.

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In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

***Events arising between signature of accounts and their publication***

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

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

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

This report has been prepared for and only for Peterborough City Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local Government) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.8
27 MARCH 2013	PUBLIC REPORT

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

**PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND THE EFFECTIVENESS OF INTERNAL AUDIT AND THE AUDIT COMMITTEE**

<b>RECOMMENDATIONS</b>	
<b>FROM : John Harrison, Executive Director: Strategic Resources</b>	<b>Deadline date : N/A</b>
<p>1. The Committee is asked to:</p> <p>a) Consider and endorse the new Public Sector Internal Audit Standards applicable from the 1<sup>st</sup> April 2013; and</p> <p>b) Note their implications for future assessments in relation to the effectiveness of the Internal Audit service and that of the Audit Committee.</p>	

**1. ORIGIN OF REPORT**

This report is submitted to the Audit Committee in line with the Work Programme for 2012 / 2013.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to present to Members details of changes made to the Internal Audit profession and how these new standards impact on the workings of the section and that of the Audit Committee.

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

- 2.2.1.3. *To consider reports dealing with the management and performance of the providers of internal audit services; and*
- 2.2.1.16. *To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.*

**3. TIMESCALE**

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

4.1 The Public Sector Internal Audit Standards come into effect from 1<sup>st</sup> April 2013 and a copy is attached to this report (**Appendix A**). The Standards have been developed as

a result of extensive joint working by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA) and a range of other public bodies to tailor the International Professional Practices Framework (IPPF) – the mandatory international standards - to meet the special requirements of public sector organisations in the UK.

- 4.2 The Standards have been endorsed by CIPFA: because CIPFA is recognised as the standard setter for local government in the UK, compliance with the Standards will be mandatory. The Council will be under an obligation to comply fully or to provide a clear justification for any aspects of non-compliance. The Council's External Auditor will also be required to obtain assurance as to compliance and to report any material non-compliance. Broadly speaking, the Standards will have the same status in respect of internal audit as the International Financial Reporting Standards have in respect of accounting and financial reporting and effectively provide a consistent framework for internal audit services across the UK public sector.

## **5. IMPACT ON INTERNAL AUDIT AND THE AUDIT COMMITTEE**

- 5.1 The IPPF has been in place for a considerable period and was already recognised as a statement of good practices in internal audit. Those good practices are also reflected in the CIPFA Code of Practice for Internal Audit in Local Government (2006) – which the Standards will replace.

- 5.2 The standards follow a consistent format across all sectors to ensure appropriate commonality. With the current service working across a number of authorities – Cambridge City Council and South Cambridgeshire District Council from 1 July 2013 – a consistent approach will benefit partnership working. The standards covers:

- Definition of internal auditing;
- Code of Ethics;
- Attribute standards; and
- Performance standards

- 5.3 While it is not anticipated that there will be any requirement for material changes in day to day operational arrangements – for example the service has already established its own Local Code of Ethics and a separate Audit Charter – there are subtle changes which Members should be aware of. These are detailed as follows:

### **5.4 Terminology**

- A revised definition of Internal Auditing to “*an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*”; and
- The use of the term “chief audit executive”, the description used internationally, rather than “Head of Internal Audit” or “Chief Internal Auditor”.

### **5.5 Audit Charter**

- There is a requirement for an “Internal Audit Charter” to be in place. The latest version is included elsewhere on the agenda. Reference is now made towards avoiding conflicts of interest if Internal Audit carries out any non-audit activities.

### **5.6 Audit Strategy**

- There is no longer a requirement to produce an Internal Audit Strategy. In future, the annual risk based plan must incorporate or be linked to a

strategic statement on how the service will be provided and how it links with the organisation's objectives. We have endeavoured to include that in our Audit Plan.

## **5.7 Service Quality and Assessments**

- Ongoing monitoring of the performance of the internal audit activity. This already exists and reflects the quality checks undertaken before reports are issued.
- There will be rigorous checks under a separate Quality Assurance and Improvement Programme (QA & IP). This has been previously reported to Members as part of the review of Internal Audit effectiveness and has been undertaken as part of an assessment against the CIPFA checklist (last reported to Audit Committee June 2012). The QA & IP will continue to require ongoing internal assessments of all aspects of internal audit activity by other persons within the organisation with sufficient knowledge of audit practice. An option is to look for reciprocal arrangements with neighbouring authorities for peer reviews.
- External assessments will need to be carried out by qualified and independent assessors or assessment teams from outside the Council every five years. The Standard specifies that any external review must evaluate both conformance with prescribed policies and processes and the effectiveness of "internal audit activity".
- Supplementary guidance indicates that this term would encompass both the service activities and those of Audit Committee.

5.8 A specific Application Note for Local Government in relation to the Standards is due for publication in March 2013, and any other specific issues will be brought to Members attention at this meeting.

## **6. CONSULTATION**

6.1 The new standards are produced for all Members and will be incorporated into the Audit Committee Handbook to assist in development opportunities.

## **7. ANTICIPATED OUTCOMES**

7.1 Inform Audit Committee of the new international standards operational from 1<sup>st</sup> April 2013 and the impact on the works of Internal Audit and the Audit Committee.

## **8. REASONS FOR RECOMMENDATIONS**

8.1 In accordance with best practice, Audit Committee is expected to be informed of any material governance issues which may impact on the service or the Committee.

## **9. ALTERNATIVE OPTIONS CONSIDERED**

9.1 None – seen as adoption of best practice.

## **10. IMPLICATIONS**

10.1 Financial: There are no significant financial issues arising at the present moment. The Head of Internal Audit is working to minimise any impact of the Standards with other authorities.

10.2 Risks: Failure to conform with the Standards could result in reputational damage to the service and the Council.

## **11. BACKGROUND DOCUMENTS**

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

11.1 Public Sector Internal Audit Standards

## **12 APPENDICES**

12.1 Appendix A - Public Sector Internal Audit Standards



# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

**Issued by the Relevant Internal Audit Standard Setters:**



Llywodraeth Cymru  
Welsh Government



HM TREASURY



**In collaboration with:**



# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

ISBN 978 1 84508 356 4

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# Contents

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<b>Section 1</b>	<b>Introduction</b>	4
<b>Section 2</b>	<b>Applicability</b>	7
<b>Section 3</b>	<b>Definition of Internal Auditing</b>	9
<b>Section 4</b>	<b>Code of Ethics</b>	10
<b>Section 5</b>	<b>Standards</b>	13
	<b>Attribute Standards</b>	13
	Purpose, authority and responsibility	13
	Independence and objectivity	14
	Proficiency and due professional care	16
	Quality assurance and improvement programme	17
	<b>Performance Standards</b>	20
	Managing the internal audit activity	20
	Nature of work	22
	Engagement planning	24
	Performing the engagement	26
	Communicating results	27
	Monitoring progress	30
	Communicating the acceptance of risks	30
	<b>Glossary</b>	31

## SECTION 1

# Introduction

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A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

## Framework overview

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

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<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

## Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

## Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

## Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.



# Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>CIPFA</b>			<p><b>UK</b> Local authorities.</p> <p><b>England &amp; Wales only</b> The Office of the Police &amp; Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK.</p> <p><b>Scotland only</b> Strathclyde Partnership for Transport.</p>
<b>HM Treasury</b>	<p><b>UK*</b> Government departments and their executive agencies and non-departmental public bodies.</p>		
<b>Department of Health</b>		<p><b>England</b> Clinical Commissioning Groups. NHS Trusts.</p>	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>Scottish Government</b>	<p><b>Scotland</b></p> <p>The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Parliament Corporate Body.</p>	<p><b>Scotland</b></p> <p>NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.</p>	
<b>Welsh Government</b>	<p><b>Wales</b></p> <p>The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.</p>	<p><b>Wales</b></p> <p>Health Boards and Trusts.</p>	
<b>Northern Ireland Assembly: Department of Finance and Personnel (NI)</b>	<p>Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.</p>		

\* Unless the body falls under the jurisdiction of the devolved governments.

# Definition of Internal Auditing

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

## SECTION 4

# Code of Ethics

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### Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

### Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

## Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

## 1 Integrity

### Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

### Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## 2 Objectivity

### Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3 Confidentiality

### Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## 4 Competency

### Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

#### **Public sector requirement**

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

# Standards

## Attribute Standards

### 1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### *Interpretation:*

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

#### **Public sector requirement**

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

#### **1000.A1**

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

#### **1000.C1**

The nature of consulting services must be defined in the internal audit charter.

### **1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter**

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

## 1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

### *Interpretation:*

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

## 1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

### *Interpretation:*

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive;
- approving the remuneration of the chief audit executive; and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

### **Public sector requirement**

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

### **Public sector interpretation**

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.



### **1110.A1**

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

### **1111 Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

### **1120 Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

#### *Interpretation:*

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

### **1130 Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

#### *Interpretation:*

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

### **1130.A1**

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **1130.A2**

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

### **1130.C1**

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

### **1130.C2**

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

#### **Public sector requirement**

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## **1200 Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

### **1210 Proficiency**

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

#### *Interpretation:*

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

#### **Public sector requirement**

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

### **1210.A1**

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **1210.A2**

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

### **1210.A3**

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

### **1210.C1**

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **1220 Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

#### **1220.A1**

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

#### **1220.A2**

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

#### **1220.A3**

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

#### **1220.C1**

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

### **1230 Continuing Professional Development**

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## **1300 Quality Assurance and Improvement Programme**

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

#### *Interpretation:*

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

## 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

#### *Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and
- The need for more frequent external assessments.

#### *Interpretation:*

External assessments can be in the form of a full external assessment, or a self-assessment with independent validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

### Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

## 1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

### Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

### Public sector requirement

Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.

## 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

### Interpretation:

The internal audit activity conforms with the International Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *International Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

## 1322 Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

### Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

## Performance Standards

### 2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

*Interpretation:*

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the *Definition of Internal Auditing* and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the *Code of Ethics* and the *Standards*.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

### 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

*Interpretation:*

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

#### Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

#### 2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

#### 2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

### **2010.C1**

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

### **2020 Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

### **2030 Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

*Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

#### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

### **2040 Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

*Interpretation:*

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

### **2050 Coordination**

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

#### **Public sector requirement**

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

## **2060 Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

### *Interpretation:*

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

## **2070 External Service Provider and Organisational Responsibility for Internal Audit**

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

### *Interpretation:*

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards*.

## **2100 Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

### **2110 Governance**

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

#### **2110.A1**

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

#### **2110.A2**

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.



## 2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### *Interpretation:*

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

### **2120.A1**

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

### **2120.A2**

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

### **2120.C1**

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

### **2120.C2**

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

### **2120.C3**

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

## **2130 Control**

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

### **2130.A1**

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

### **2130.C1**

Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes.

## **2200 Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

### **2201 Planning Considerations**

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

### **2201.A1**

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

### **2201.C1**

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

## 2210 Engagement Objectives

Objectives must be established for each engagement.

### 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

### 2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

### 2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

#### Public sector interpretation

In the public sector, criteria are likely to include value for money.

### 2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

### 2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

## 2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

### 2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

### 2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

### 2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

## **2220.C2**

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

## **2240 Engagement Work Programme**

Internal auditors must develop and document work programmes that achieve the engagement objectives.

### **2240.A1**

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

### **2240.C1**

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **2300 Performing the Engagement**

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

### **2310 Identifying Information**

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

#### *Interpretation:*

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

### **2320 Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

### **2330 Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

#### **2330.A1**

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

### **2330.A2**

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

### **2330.C1**

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

## **2340 Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.

### *Interpretation:*

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

## **2400 Communicating Results**

Internal auditors must communicate the results of engagements.

### **2410 Criteria for Communicating**

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

#### **2410.A1**

Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

### *Interpretation:*

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

#### **2410.A2**

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

#### **2410.A3**

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

#### **2410.C1**

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## 2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

### *Interpretation:*

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

## 2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

## 2430 Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing

Internal auditors may report that their engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, only if the results of the quality assurance and improvement programme support the statement.

## 2431 Engagement Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the engagement results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for non-conformance; and
- Impact of non-conformance on the engagement and the communicated engagement results.

## 2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

### *Interpretation:*

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated.

### **2440.A1**

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

## 2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

## 2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

## 2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

## 2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

*Interpretation:*

The communication will identify:

- The scope including the time period to which the opinion pertains.
- Scope limitations.
- Consideration of all related projects including the reliance on other assurance providers.
- The risk or control framework or other criteria used as a basis for the overall opinion.
- The overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## **2500 Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

### **2500.A1**

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

### **2500.C1**

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## **2600 Communicating the Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

### *Interpretation:*

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.



# Glossary

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## Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

### Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

### Public sector definition: 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.

## Board

The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' is the head of the company or agency. 'Board' may refer to an audit committee to which the governing body has delegated its authority.

## Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

## Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

## Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

## Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Control Processes

The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the level of risk that an organisation is willing to accept.

## Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

## Engagement Opinion

The ratings, conclusions or other descriptions of results of an individual internal audit engagement based upon the procedures performed, relating only to those aspects within the objectives and scope of the engagement.

## Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

## **Fraud**

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

## **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

### **Public sector definition: Governance Statement**

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

## **Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

## **Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

## **Information Technology Governance**

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

## **Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) endorsed and strongly recommended.

### Public sector interpretation

Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

### Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

## Must

The *Standards* use the word must to specify an unconditional requirement.

## Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

## Overall Opinion

The overall ratings, conclusions or other descriptions of results provided by the chief audit executive addressing, at a broad level, governance, risk management and control processes of the organisation. An overall opinion is based on the results of a number of individual engagements and other activities for a specific time interval.

## Risk

The effect of uncertainty on objectives. An effect is a deviation from the expected and may be positive or negative. Risk is often expressed in terms of a combination of the consequences of an event and the associated likelihood of occurrence.

## Risk Appetite

The level of risk that an organisation is willing to accept.

## Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

## **Should**

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

## **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

## **Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

## **Technology-based Audit Techniques**

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).







<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.9
27 MARCH 2013	PUBLIC REPORT

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

## DRAFT INTERNAL AUDIT PLAN 2013 / 2014

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM : John Harrison, Executive Director: Resources</b>	<b>Deadline date : N/A</b>
<p>The Committee is asked to examine the draft Internal Audit Plan for 2013 / 2014 and:</p> <ul style="list-style-type: none"> <li>(i) Identify any areas for further consideration;</li> <li>(ii) Approve the draft audit plan; and</li> <li>(iii) Note the contents of the Internal Audit Charter.</li> </ul>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to the Audit Committee in line with its agreed Work Programme for 2012 / 2013.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to ensure that the Council reviews and agrees the audit activity for the next audit year.
- 2.2 This report is for Committee to consider under its Terms of Reference:
- 2.2.1.1 *To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements; and*
  - 2.2.1.16 *To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.*

### 3. TIMESCALE

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

- 4.1 This is the draft Annual Plan for Internal Audit for 2013 / 2014 for consideration by the Audit Committee. Liaison has taken place with Directorates and a copy of the draft plan has been sent to External Audit.
- 4.2 The Council is required under the Accounts and Audit Regulations 2011 to make provision for Internal Audit in accordance with proper practices in relation to internal control defined in the Guidance as the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (“the Code”). “The Code” defines standards on the way in which the Internal Audit Service should be established and undertake its functions. “The Code” will be replaced by new Internal Audit Standards with effect from 1 April 2013. There is a separate report on the Agenda covering this.
- 4.3 Ongoing resource pressures within the team have been more challenging this year, although not too detrimental to the delivery of the plan, due to the plan being prioritised. Issues include:
- The Chief Internal Auditor post is shared with Cambridge City Council and has been in operation since January 2011. Nevertheless, this arrangement only provides for approximately 50% of the previous resource. This has been factored into current and future plans. In addition, this will reduce further later in the year when South Cambridgeshire District Council joins the arrangement from July 2013;
  - Two posts have been vacant during the year and have occasionally been covered by a temporary resource. The delay in recruitment has been to provide a corporate saving in year. These vacancies will now need to be filled permanently in order to provide appropriate coverage going forward; and
  - Maternity leave of the Principal Auditor (0.6 FTE) since February 2013. It is forecast to remain empty for 12 months.

#### **5. DRAFT INTERNAL AUDIT PLAN 2013 / 2014**

- 5.1 The draft Audit Plan (**Appendix A**) documents the way in which Internal Audit intend to deliver the service and comply with the standards. In particular, it states how the work of Internal Audit will provide the assurances required for the production of the statutory Annual Governance Statement. We will achieve this by adopting a risk-based approach to our work; both at the level of annual planning and of individual audits, to ensure that the Council’s key priorities, objectives and risks are targeted.
- 5.2 The Annual Plan describes the individual audit reviews to be undertaken during the year. To determine the scope of the plan for 2013 / 2014 we have undertaken a systematic risk assessment of all auditable areas. This is informed by our review of the risk registers where available, consultation with Directors and Heads of Service, council and government initiatives and the Medium Term Financial Strategy. We have also determined the work required to fulfill statutory s.151 responsibilities.
- 5.3 The plan shows the minimum amount of work that the Internal Audit service has assessed should be undertaken after considering available resources. The plan for 2013 / 2014 is not a static document. The Chief Internal Auditor reserves the right to amend plans (in consultation with the s151 officer) in line with emerging risks and changing priorities as they occur throughout the year. Any major changes in the plan will be reported to those charged with governance and through to the Audit Committee on a periodic basis.

- 5.4 As in previous years, should any significant additional request work be required by Members or Officers, which leads to the potential for resources required exceeding the amount set aside, then the Chief Internal Auditor will establish the course of action to be taken in consultation with the Director of Resources and the Chair of Audit Committee. In the event of this occurring, a separate report will be produced to inform all Members of the Committee.
- 5.5 The result of the work set out in the Internal Audit plan will be the production of the annual audit opinion setting out an independent statement on the governance arrangements in place across the Council.
- 5.6 As detailed in the report elsewhere on the agenda on Public Sector Internal Audit Standards, an Internal Audit Charter is required to supplement how the Audit Plan will be delivered. This is documented in **Appendix B**.

## **6. CONSULTATION**

- 6.1 The Internal Audit Plan has been compiled after consultation with Directors and Heads of Service. It has also been submitted to External Audit for their comments.

## **7. ANTICIPATED OUTCOMES**

- 7.1 Approval of the Annual Plan 2013 / 2014 and associated documents.

## **8. REASONS FOR RECOMMENDATIONS**

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

## **9. ALTERNATIVE OPTIONS CONSIDERED**

- 9.1 The Internal Audit plan could be constructed on a cyclical basis, thus covering all areas of the Council over a period of time. This does not concord with current professional guidance and would not seek to target the limited resource available to areas of high risk. The alternative of not providing an Internal Audit service is not an option – see section 10 below.

## **10. IMPLICATIONS**

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

## **11. 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

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

## **12. APPENDICES**

- Appendix A - Draft Internal Audit Plan 2013 / 2013
- Appendix B - Internal Audit Charter

## PETERBOROUGH CITY COUNCIL

## DRAFT INTERNAL AUDIT PLAN 2013 / 2014

**DEFINITION OF INTERNAL AUDIT**

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

**1 INTRODUCTION**

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council and will be reviewed on an annual basis to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 New Public Sector Internal Audit Standards come into effect from the 1st April 2013, replacing the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice. A separate report on these standards is on this Committees' agenda. The new standards require a high level statement of how the internal audit service should be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities. The purpose of this document is to communicate the contribution that Internal Audit makes to the organisation and includes the following:
- Internal Audit objectives and outcomes;
  - How the Head of Internal Audit will form and evidence their opinion on the control environment to support the Annual Governance Statement;
  - How Internal Audit's work will identify and address significant local and national issues and risks;
  - How the service will be provided; and
  - The resources and skills to deliver
- 1.3 To appreciate the role of Internal Audit, this plan should be read in conjunction with the terms of reference as set out in the Audit Charter (**Appendix 2**).
- 1.4 **Objectives and Outcomes**
- 1.4.1 The Internal Audit section reviews the operations of all services the Council provides, and also shares the Head of Internal Audit role with Cambridge City Council. With effective from 1<sup>st</sup> July 2013, this will be extended to South Cambridgeshire District Council under an updated Memorandum of Understanding (MoU) – the current service level agreement and will be in accordance with statutory and professional requirements.
- 1.4.2 Implementation of the audit plan helps the Council maintain “a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk” (Accounts and Audit Regulations 2011).

1.4.3 The internal audit role is a central element of the Council's Corporate Governance framework, as internal audit work and the Head of Internal Audit opinion is a key input to the published Annual Governance Statement and focus for the work of the Audit Committee. A separate Audit Plan is created annually and approved to ensure that objectives are met in a risk-based, structured manner. Internal audit adds value and improves the Council's operations by promoting a robust control environment, best practice in governance and risk management as well as making recommendations for improvements in operating efficiencies. To achieve this, the Internal Audit section engages with the various change programmes, providing independent and objective input to emerging issues.

1.4.4 Key challenges include:

- Continuing to promote the improvement of systems and procedures to enhance the services against a background of reducing resources;
- Continuing the good relationship with our external auditor to gain the Council maximum benefits and eliminate any duplication of effort;
- Continue to develop relationships and any possible collaborative working with other authorities;
- Proactively work with management to introduce new initiatives and support innovation (including in-house projects and any joint provision of services across the Authority);
- To provide advice and guidance on changes to controls, on risk management issues and governance;
- To liaise with the Corporate Compliance Team to investigate any irregularity or fraud and corruption matter; and
- Maximising efficiencies within Internal Audit while still undertaking sufficient work to provide the annual opinion.

1.4.5 Expected Outcomes:

- Delivery of the Audit Plan for the Authority, taking into account necessary changes for unplanned work /revised priorities;
- Provision of an annual opinion and assurance on the risk, governance and control systems;
- Delivery of reports to the Committee and other Members as agreed;
- Provision of clear, concise and meaningful reports to management covering areas reviewed and including agreed actions to mitigate risks;
- Increased awareness amongst Members and staff of the Council's Financial Procedure Rules and Contract Procedure Rules;
- Provision of advice and consultancy on control, risk and governance processes;
- Assistance in the investigation of any cases of suspected financial irregularity, fraud or corruption;
- Identification of areas of inefficient use of resources and proposals for lean solutions; and
- Latest technology used where appropriate.

## 1.5 **Opinion on Internal Control**

1.5.1 The role of Internal Audit is to understand the key risks to the Council and to examine and evaluate the adequacy and effectiveness of its systems of risk management, governance and internal control and to provide an annual opinion to the Audit Committee on those.

1.5.2 To achieve the above the service operates within professional standards and uses a risk based approach for both planning and where possible auditing to ensure the audit resource is directed to the appropriate activities. The control environment for each activity reviewed by Internal Audit is then assessed for its adequacy and is assigned an assurance rating which is reported to the Audit Committee as part of the Head of Internal Audit annual opinion. The progress

against the Audit Plan is monitored throughout the year and is reported at the half year stage to the Committee. The section also assesses the Council's risk management and corporate governance framework.

## 1.6 Local and National Issues / Risks

- 1.6.1 The annual audit planning process ensures that new or emerging risks are identified and considered. Directors and Heads of Service are asked to identify any potential areas of concern for audit review in the forthcoming year. The strategic risk register is also examined to ensure high scoring risks are taken into account. The audit 'universe' and resulting plan are further informed by the review of corporate topics and awareness of issues arising from past audits.
- 1.6.2 The Audit Plan is approved by the Audit Committee on an annual basis, however, it is a flexible document which can be revised should unforeseen issues arise during the year. Such adjustments are subsequently reported to Committee.
- 1.6.3 We recognise that the audit universe needs to reflect the organisation. As such our focus is not just on the Council but also to look at working in partnership with other organisations to achieve County-wide aims. There is the development of joint provision of services with our neighbouring authorities. Therefore our approach needs to follow this direction and become more focused on this wider picture, while retaining sufficient inward facing audit coverage to provide the assurance necessary for compliance with the regulations.
- 1.6.4 The individual audit projects within the annual plan may be either risk based or systems based work, depending on how well established risk management is within the service being audited, and the degree of assurance needed on key systems for the annual opinion. Awareness of national issues is maintained through membership and subscription to professional bodies such as the Institute of Internal Auditors, the CIPFA on-line query service, liaison with External Audit and through networking with other internal audit colleagues throughout Cambridgeshire and beyond.

## 1.7 Provision of the Service, Resources and Skills

- 1.7.1 The current service is provided in-house, overseen by a shared Head of Internal Audit. The current structure is made up of 6.56 FTE (including the shared Head of Internal Audit and will reduce to 6.41 FTE – see 2.2.1 below). Within this figure there are also existing vacancies of 2.0 FTE as at 8 March 2013 and one member of staff on maternity leave (0.6FTE). Both our existing structure and potential requirements are regularly reviewed.
- 1.7.2 To ensure we continue to provide the most cost-effective service we will need to ensure the risk-based approach to auditing is developed alongside lean processes. Ultimately we are aiming to ensure that the whole audit process is risk based so that audits are focussed on areas of most importance and greatest risk to the authority.
- 1.7.3 Alongside the authority's performance and development review process, the service will establish training needs assessment for future service requirements. Joint arrangements already exist between Cambridge and Peterborough and this will continue to look for efficiencies in terms of time and cost.

## 2 DRAFT AUDIT PLAN

### 2.1 Internal Audit Planning Process

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

- Council Objectives;
- Medium Term Strategy;
- The Council's strategic and operational risk registers;
- Consultations with individual Directors and their Management Teams;
- Consultation with PricewaterhouseCoopers, the Council's external auditor; and
- The Audit Committee (at this meeting).

2.1.2 The purpose is to align audit effort with those areas assessed as posing the greatest risk to the Council.

2.1.3 The principles of risk management are applied throughout the planning process. Whilst the annual audit plan is initially compiled using risk to assess the areas needing coverage and the Council objectives, the views of Directors and Heads of Service have been sought so that planned work is focused on where Internal Audit can provide added value to the organisation. Reference is made to available Department risk registers in developing the audit plan. Following the recent re-focusing of Risk Management, increased reliance will be placed on these risk registers in informing risk assessments for audit planning purposes.

2.1.4 External Audit have been consulted on the content of the 2013 / 2014 operational Internal Audit plan and a number of financial control areas of planned Internal Audit work are of particular interest to them in arriving at their own audit opinion on the published financial statements of the Council.

2.1.5 There is potential for priorities and associated risks to change during the year, such that the focus of audit effort in a particular area may change. The audit plan is therefore a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible and prepared to amend its activities in response to changing circumstances or emerging risks. To provide some cushion for this, a small contingency provision is included within our resource plans. However, this flexibility may not be sufficient to cope with all changes required. It may also prove necessary to remove planned audits from our work plans in order to address emerging issues of greater risk. Should such action be required, the Audit Committee will be advised of:

- The proposed changes to the audit plan; and
- The potential effect of such changes on the ability to give adequate assurance on the effectiveness of the Council's system of internal control based on the work of Internal Audit.



## 2.2 Audit Resources Available

2.2.1 Current resource assumptions are based upon an audit section complement of 3.96 FTE (which does not include 2.60 FTE vacancies and maternity leave). This is made up of:

- |                          |          |  |
|--------------------------|----------|--|
| • Head of Internal Audit | 0.50 FTE | NB. Reduces to approx. 0.35 FTE at July 2013 as the shared service is further extended |
| • Group Auditor          | 1.46 FTE |  |
| • Senior Auditor         | 1.00 FTE |  |
| • Auditor                | 1.00 FTE |  |
| • Principal Auditor      | 0.60 FTE | On maternity leave since February 2013   |
| • Vacant posts           | 2.00 FTE | Recruitment to both posts is planned for mid year (1 FTE)                              |

2.2.2 Should vacancies arise in areas which are difficult to recruit to, it is intended to use the allocated Internal Audit budget to purchase additional audit resources to deliver the audit plan. After taking account of non-available time (such as annual leave and training, and non-chargeable time such as team management and staff appraisals), 718 days are anticipated to be available for audit work in the period 1 April 2013 to 31 March 2014. This is based on the critical need to recruit into the two vacant posts by mid year at the latest, subject to approval.

2.2.3 In compiling the audit plan, Internal Audit has always sought to present an objective view of the audit needs of the Council and assess the extent to which this can be delivered within the resources it has available. However, much effort continues across the whole of the Council to deliver the best possible services while reducing the resources needed. Internal Audit is also seeking to do this and is looking to use a combination of specialist technology, more streamlined working practices and more focus in its activities so as to strive to deliver the whole of the assessed audit need. A development in this is the move to upgrade our audit management software. It is envisaged that this will allow significant enhancements and efficiencies in the management and conduct of Internal Audit work.

2.2.4 Finally, as identified in the Medium Term Financial Strategy, Internal Audit has been successful in obtaining additional external clients and also proactive in establishing shared arrangements with other organisations. There is an intention for this to be further explored during the year. However, for this to not be at a detriment to the Council by reducing existing audit coverage to undertake works elsewhere, appropriate resources will need to be included to enable a sustainable comprehensive audit service and investment in its continuing development. Additional resources will be sought, such as fixed term or temporary staff, as appropriate. This is not however a relevant factor in determining the audit needs of the Council.

## 2.3 Emerging Themes

2.3.1 A number of themes have emerged in the preparation of the 2013 / 2014 Internal Audit Plan. These are:

- **Financial pressures** faced by the Council;
- **Contracts and Projects**. This is an essential component of the audit process, especially given the increasing dependence on external suppliers and partners in the provision of Council services;
- A continuation of Internal Audit work in **high-level corporate management functions**;
- **Information governance and data security**;
- **Schools**. Governance processes linked with the Schools Financial Value Standard (SFVS);
- **Adult Social Care**. Ongoing integration and streamlining of processes;
- **Grant Claims**. Increased requirement for Internal Audit to certify grant claims; and
- **Public Health**. Full integration into the Council from April 2013.

## 2.4 Allocation of Resources

2.4.1 The overall allocation of time from the estimated 718 days available is as follows:

	<b>Days: Current FTE</b>	<b>%</b>	<b>Extra Days: If Recruit</b>	<b>Revised %</b>
Core Systems Assurance Work	61	11.8	48	15.2
Annual Governance and Assurance Framework	101	19.6		14.1
Strategic and Operational Risks	74	14.3	154	31.7
External Works	36	7.0		5.0
Grant Certification	55	10.7		7.7
Other Resource Provisions	189	36.6		26.3
<b>TOTAL RESOURCES ALLOCATED</b>	<b>516</b>	<b>100.0</b>	<b>202</b>	<b>100.0</b>

2.4.2 Current and future audit plans are regularly reviewed in year with changes made as a result of emerging risks and requests for assurance work or audit support from senior management or Members. A contingency allocation of 80 days has been made within this year's plan to undertake other requests for high priority work and consultancy advice. Any changes to audit plans will be reported to the Audit Committee via the update report following discussion with, and agreement with the Chair and the Executive Director of Resources.

2.4.3 The Internal Audit plan has been analysed into six main themes. The purpose of this is to demonstrate the balance of audit coverage.

### 2.4.4 Core Systems Assurance Work

Audits of the main financial systems of the Council are undertaken on a cyclical basis. And we will adopt a key-control approach for these audits with associated testing. The audit plan for 2013 / 2014 details that the team will carry out reviews of Housing Benefit, Council Tax, NNDR and Payroll (as

required by our External Auditors) along with Accounts Payable. Additional financial systems will be reviewed subject to resources and include Main Accounting System, Fixed Assets and Sundry Billing. We will co-ordinate our work with our External Auditors to ensure that reliance can be placed on the work provided by Internal Audit in accordance with their rolling programme.

#### 2.4.5 **Annual Governance and Assurance Framework**

Within this theme there will be a strong focus on corporate governance, particularly with regard to Business Ethics and Integrity. This will look at issues surrounding the culture of the organisation and how it promotes the highest standards of business ethics and culture in line with the Nolan principles of good governance.

#### 2.4.6 **Strategic and Operational Risks**

Audit work in this area focuses on activities that are corporate in their nature or cut across a number of service areas and includes audits of new service areas, information governance, Information systems, partnership arrangements and school reviews. Further work based on available resources have been identified as project and contract governance, additional new service areas, risk management and carbon management.

These areas have been identified as a continuing risk in light of their increasing number, their importance in relation to the Council's overall aims and objectives and, at times, their complex linkages and funding arrangements. Internal Audit will review specific projects as identified, but a small contingency is also included to provide support and advice to other projects that arise during the year.

Audit work in this area focuses on key systems and activities in operational and service delivery areas of the Council.

#### 2.4.7 **External Works**

PCC Internal Audit provides audit services to Vivacity–Peterborough which is managed through a Service Level Agreement. The contract arrangements have been operational since 2010 and the contract was renewed in 2012 for a further two years. Approximately six reviews will be undertaken during 2013 / 2014. These reviews are client confidential and as a result their outcomes are only available to Vivacity.

#### 2.4.8 **Grant Claim Certification**

As a result of the organisation obtaining European funding, the demand for internal audit to certify grant claims has increased as they are required to act in the capacity as 'First Level Controller'. The activities undertaken have proven to be more resource intensive than ordinarily they should be, often due to data quality and staff movement in ensuring the conditions of the grant have been met.

If further funding is received during the year it will add pressure on the delivery of the audit plan elsewhere as the conditions of the European grant funding requires a rigorous audit certification process.

#### 2.4.9 Other Resource Provisions

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

#### 2.5 Detailed Plan

2.5.1 The Plan for 2013 / 2014 aims to give the Council the best audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that the plan can only be a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing at the time.

2.5.2 The Head of Internal Audit, along with the whole Internal Audit Team, are fully committed to delivering a high quality and responsive Internal Audit service to the City Council. With this in mind, they will be seeking throughout the year to continue to develop the service in accordance with recognised best practice.

**PETERBOROUGH CITY COUNCIL: INTERNAL AUDIT PLAN 2013 / 2014**

**VISION FOR THE CITY**

**STRATEGIC PRIORITIES**

- 1 Creating the UK's environment capital
- 2 Creating strong and supportive communities
- 3 Delivering substantial and truly sustainable growth
- 4 Creating opportunities – tackling inequalities
- 5 (Providing value for money underpins all of our objectives)

## Draft Internal Audit Plan 2013 / 2014

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>CORE SYSTEM ASSURANCE WORK</b>				
Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.				
Housing Benefit	5	A review of key controls, in accordance with PwC requirements	Yes	External Audit reliance work
Council Tax	5	A review of key controls, in accordance with PwC requirements	Yes	External Audit reliance work
NNDR (Business Rates)	5	A review of key controls, in accordance with PwC requirements	Yes	External Audit reliance work
Accounts Payable	5	Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid, accurate and timely	Yes	Major changes to system
Payroll	5	A review of key controls, in accordance with PwC requirements	Yes	External Audit reliance work
Teachers Pensions	5	A systems based approach considering key risk exposures in non-centralised locations, in accordance with PwC requirements	Yes	External Audit reliance work
Purchasing Cards	5	Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid, accurate and timely	Yes	External Audit reliance work
<b>TOTAL AUDIT DAYS</b>				<b>61</b>

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review		
			Yes	Reason	
<b>ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK</b>					
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					
Annual Framework and Annual Governance Statement Review	ALL	Process and framework to feed into work on Annual Governance Statement, including the review of recommendations made by External Audit in their annual letter and verify implementation / progress.	Yes	Corporate responsibility	
Annual Audit Opinion	ALL	Head of Internal Audit opinion on the state of governance and the internal control framework in place within the Council	Yes	Corporate responsibility	
Annual Audit Plan	ALL	Establishment of the annual audit plan based on a systematic risk assessment across the Council. This included a review of the corporate risk registers and the Medium Term Financial Strategy together with consultation with Directors and Heads of Service	Yes	Corporate responsibility	
Internal Audit Effectiveness / Audit Committee Effectiveness	ALL	Review of the internal audit service and the Audit Committee against the new Public Sector Internal Audit Standards	Yes	Corporate responsibility	
Anti Fraud Culture	ALL	Investigation of matches received from the National Fraud Initiative  Liaison with the Corporate Compliance Team  Evaluation of control weaknesses that have allowed a fraud to take place or remain undetected and provide recommendations to improve fraud prevention and detection – in line with our Memorandum of Understanding with the Corporate Compliance Team  30 days were set aside for 2012 / 2013	Yes	Corporate responsibility to protect finite resources	
Information Governance	ALL	Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group	Yes	Corporate responsibility to protect finite resources	
				<b>TOTAL AUDIT DAYS</b>	<b>101</b>

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>STRATEGIC AND OPERATION RISKS</b>				
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks				
Information Governance	ALL	Specific operation reviews resulting from outcomes from the Information Governance Group	Yes	Corporate responsibility to protect finite resources
Adult Social Care – Compliance with new eligibility criteria	ALL	Review the effectiveness of processes in place as a result of new assessment criteria for Direct Payments	Yes	Ensure Council position is protected Management request
Adult Social Care Database	ALL	Review the processes and controls within the FRAMEWORK-I system	Yes	New system developed Management request
Schools	2, 4, 5	The Schools Financial Value Standard (SFVS) has been introduced as a replacement to the previous FMSiS accreditation assessment. Chief Financial Officers will be required make a statement that they have a system of audit in place which gives them adequate assurance over schools' standards of financial management and the regularity and propriety of their spending.  Reviews of School processes to be reviewed in accordance with risk assessment priorities Limited coverage of six schools	Yes	Ensure finite resources are appropriately managed
Partnership Management	ALL	Review of client management arrangements in place for outsourced contract(s)	Yes	Ensure Council position is protected
			<b>TOTAL AUDIT DAYS</b>	<b>74</b>



SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>EXTERNAL WORKS</b>				
Work which generates an income for the Council				
Vivacity	–	Works agreed as part of an ongoing Service Level Agreement	Yes	Contractual requirement
<b>TOTAL AUDIT DAYS</b>				<b>36</b>

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>GRANT CLAIM CERTIFICATION</b>				
Certification of claims in relation to funding requirements				
Various Grants	5	ZECOS (2 per year) CTIE (2 per year) Disabled Facilities Grant DFT (Local Plan Integrated Transport) DFT (Local Transport Plan Highways) GAF	Yes	To meet government requirements
<b>TOTAL AUDIT DAYS</b>				<b>55</b>

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	TOTAL
<b>OTHER RESOURCE PROVISIONS (CORPORATE SUPPORT)</b>			
Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.			
Carry Forward Activities	ALL		50
Follow Up Provision	ALL		30
Requested Work Contingency	ALL	Allowance exists to provide flexibility within the audit plan for time spent on providing risk and control advice to officers, management /members and ad hoc requests and consultancy work.	80
Committee Support	-	Production of reports and attendance at Council committees and boards	29
<b>TOTAL</b>			<b>TOTAL AUDIT DAYS</b>
			<b>189</b>

**RESERVE LIST: SUBJECT TO RECRUITMENT INTO VACANT POSTS**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>CORE SYSTEM ASSURANCE WORK</b>				
Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.				
Main Accounting System	5	A review of key controls to include feeder system input and reconciliations	Yes	Ensure finite resources are appropriately managed
Fixed Asset Accounting	5	To identify the controls in operation for the identification of assets, disposal and arrangements for inclusion on the fixed asset register, to include appropriate accounting processes	Yes	Ensure finite resources are appropriately managed
Sundry Billing and Debt Recovery	5	Systems based approach considering key risk exposures. Testing to provide assurance that all sundry income is billed and that appropriate recovery arrangements are in place	Yes	Ensure finite resources are appropriately managed
Budgetary Control	5	A review of the budgetary control arrangements within two areas of the organisation	Yes	Ensure finite resources are appropriately managed
<b>TOTAL AUDIT DAYS</b>				<b>48</b>

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Critical Service Review	
			Yes	Reason
<b>STRATEGIC AND OPERATION RISKS</b>				
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks				
Partnerships	ALL	A review of client management arrangements and performance delivery	Yes	Ensure Council position is protected
Project Governance	ALL	To provide assurance that the Council's projects are managed in accordance with best practice. This will include, where appropriate, post-implementation reviews in order to evaluate whether benefits have been realised.	Yes	Ensure finite resources are appropriately managed
Risk Management and Business Continuity	ALL	Review the effectiveness of processes in place as a result of organisation / responsibility changes	Yes	Ensure Council position is protected
Fuel Cards	5	Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid and accurate	Yes	Ensure finite resources are appropriately managed
Carbon Management	1, 5	Data quality review prior to submission of information regarding carbon reduction commitment and carbon trading return	Yes	Ensure finite resources are appropriately managed
Contracting	5	To review specific aspects of the contracting process across a variety of contracts.	Yes	Ensure finite resources are appropriately managed
Schools	2, 4, 5	Review of school processes.	Yes	Ensure finite resources are appropriately managed
ICT Projects	ALL	Review of controls and processes in developing automated systems	Yes	System process change
Electronic Call System	ALL	Review of risk management processes in place to align with organisation changes	Yes	System process change
Re-ablement	ALL	ASC management request to review processes and controls for reablement outcomes	Yes	Management request
Public Health	ALL	Review integration of new service area	Yes	New service area
RAISE		Review the access arrangements to ensure appropriate data security and conflict of interests managed	Yes	Ensure finite resources are appropriately managed
			<b>TOTAL AUDIT DAYS</b>	<b>154</b>

## APPENDIX B

**INTERNAL AUDIT: INTERNAL AUDIT CHARTER**

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

March 2013

Next Review: By March 2014

## **INTRODUCTION**

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

The Charter is reviewed annually.

## **DEFINITION OF AUDIT**

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities "*make arrangements for the proper administration of their affairs*". The Accounts and Audit Regulations 2011 (SI<sup>1</sup> 2011 / 817), regulation 6, more specifically require that a "*relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*". The provision of internal audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director of Strategic Resources.

The **Public Sector Internal Audit Standards** defines Internal Audit as:

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

## **VISION / MISSION STATEMENT**

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

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

## **PURPOSE AND OBJECTIVES**

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

A key objective of Internal Audit is to provide the Council with assurance of the adequacy of the internal control environment together with supporting the Executive Director of Strategic Resources to discharge duties as the s.151 Officer.

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

<sup>1</sup> SI: Statutory Instrument

## **SCOPE AND AUTHORITY**

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

For the purposes of internal audit activity, the Chief Internal Auditor has direct access, as appropriate, to:

- Senior Management. This includes the Chief Executive, the Monitoring Officer and the Executive Director of Strategic Resources;
- Elected Members. This includes the Leader and Cabinet Members, together with the Chair and Members of the Audit Committee. The Audit Committee acts as the "Board" overseeing the works of Internal Audit;
- Employees of the Council;
- Agents of the Council.

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

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

## **INDEPENDENCE**

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

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

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## **RESPONSIBILITIES**

### **For Internal Audit**

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the adequacy of the Council's system of internal control, risk management and governance;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties;
- Producing an annual plan that provides adequate audit coverage of the Council's control environment within an agreed assurance framework;
- Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
- Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
- Providing an overall opinion on the control environment comprising risk management, control and governance.

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

### **For Management**

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

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



## **EXTERNAL RELATIONSHIPS**

### **External Auditors**

Internal Audit's role and function is distinct from external auditors. The council's external auditors, PricewaterhouseCoopers, have a Code of Practice and specific statutory responsibility for the audit of the Financial Aspects of Corporate Governance and the audit of financial statements.

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

### **Audit Groups**

Internal Audit meets regularly with audit groups comprising Head's of Internal Audit from other councils to discuss best practice and developments in the audit profession, as well as exploring partnership working.

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

### **Inspection Bodies**

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

### **Third Parties**

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

Similarly, Internal Audit may be required to provide assurance to other outside parties. Where required, audit reports will be provided to respective Audit Committees.

## **QUALITY ASSURANCE**

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

- An Audit Manual describes policies and procedures for the guidance of staff. This builds upon the CIPFA Audit Manual;
- Assignments are allocated according to the experience and skills of individual auditors;
- Internal review of work standards is undertaken through a system of management review involving senior audit staff. This incorporates review of all audit documentation and reports prior to release;
- Quality questionnaires are issued at the end of each audit review. Completed questionnaires are recorded and monitored against performance indicators. If standards have slipped, quality issues are discussed with senior management across the Council;
- A self assessment of compliance with current best practice is carried out periodically (whether by internal assessment or peer review) and other external quality reviews are commissioned as appropriate; and
- A separate independent (external) review of quality and compliance with standards is also undertaken to meet Public Sector Internal Audit Standards, as a minimum every 5 years.

Quality also depends on appropriate staffing, in terms of numbers, grades, qualifications and experience. The Chief Internal Auditor is CIPFA qualified. Other auditors are professionally qualified

within the field of accountancy or internal audit, or are in the process of becoming qualified. Training needs are assessed as part of the appraisal process and time and financial resources (subject to availability) are made available to all staff to undertake continuing professional development.

## **AUDIT PROTOCOLS**

### **Annual Planning**

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

Internal Audit will prepare a risk based audit plan, taking into account of the Council's risk management process and the Assurance Framework. Any difference between the plan and the resources available will be identified and reported to the Audit Committee. The risk based plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

<b>TABLE 1: AUDIT ACTIVITIES</b>
<ul style="list-style-type: none"> <li>• Core system assurance work</li> <li>• Governance, Risk Management and Assurance Framework</li> <li>• ICT governance and risk</li> <li>• Corporate / Cross Cutting audits, including value for money reviews</li> <li>• Contracts and Projects</li> <li>• Departmental specific reviews</li> <li>• Compliance activity e.g. schools</li> <li>• Grant claim verification</li> <li>• Fraud and irregularities<sup>2</sup></li> <li>• Follow up activity</li> <li>• Internal consultancy / advice on risks, controls and procedures</li> <li>• Fee Paying Audit work</li> <li>• Member support</li> </ul>

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

Annual audit plans will be discussed with each Executive Director and Departmental Management Team prior to their formal approval.

### **Notification of an Audit**

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

<sup>2</sup> A joint working arrangement between Internal Audit and Corporate Compliance Team to deal with allegations of fraud and irregular activity. A primary role for Internal Audit is to evaluate the control weaknesses that have allowed a fraud to take place or remain undetected, and provide recommendations to improve fraud prevention and detection. Referrals are usually received by the Corporate Compliance Team and investigated by them, with assistance by Internal Audit where required. Where there is irregular activity, but fraud is not suspected, Internal Audit will consider the need for a review.

## Conduct of Audit

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

## Reporting

Reports contain an opinion on the control environment of the area under review, and a table of recommendations for improvement, prioritised according to the level of risk. **Table 2** provides information on the criteria used to determine the opinion and risk classification.

<b>TABLE 2: AUDIT OPINION / CLASSIFICATION OF RISKS</b>		
We categorise our <b>opinions</b> according to our assessment of the controls in place and the level of compliance with these controls:		
<b>Opinion</b>	<b>Description</b>	<b>Guide For Awarding</b>
<b>FULL assurance</b>	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.	Only <b>LOW</b> recommendations.
<b>SIGNIFICANT assurance</b>	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.	Predominantly <b>LOW</b> and <b>MEDIUM</b> recommendations or a significant number of <b>LOW</b> recommendations.
<b>LIMITED assurance</b>	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.	Predominantly <b>MEDIUM</b> and <b>HIGH</b> recommendations, or a significant number of <b>LOW</b> and <b>MEDIUM</b> recommendations.
<b>NO assurance</b>	Controls are weak and /or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.	One <b>CRITICAL</b> or a significant proportion of <b>HIGH</b> recommendations.
We categorise our <b>recommendations</b> according to their level of risk and priority for implementation		
<b>PRIORITY</b>	<b>LEVEL OF RISK</b>	
<b>CRITICAL</b>	Extreme control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY.</b>	
<b>HIGH</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>TO BE IMPLEMENTED AS A MATTER OF PRIORITY.</b>	
<b>MEDIUM</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>TO BE IMPLEMENTED AT THE FIRST OPPORTUNITY.</b>	
<b>LOW</b>	Control weakness which, if corrected, will enhance control procedures that are already relatively robust. <b>TO BE IMPLEMENTED AS SOON AS REASONABLY PRACTICAL.</b>	

Our current reporting arrangements are set out in **Table 3**.

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

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

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

### **Follow-up**

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

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

Continuing significant weaknesses will be reported to the Audit Committee.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.10
27 MARCH 2013	PUBLIC REPORT

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

## DRAFT ANNUAL AUDIT COMMITTEE REPORT

<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
Audit Committee are asked to approve the Annual Audit Committee Report as shown in Appendix A.	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee in line with the agreed Work Programme for the Municipal Year 2012 / 2013.

### 2. PURPOSE AND REASON FOR REPORT

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

### 3. TIMESCALE

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

- 4.1 Audit Committee members have been issued with an Audit Committee Handbook which identifies all the key activities and work delivered through the committee. Best practice

within this publication establishes a need to highlight to a wider audience the works undertaken by the committee and to enhance its profile across the organisation.

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

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

## **5. ANTICIPATED OUTCOMES**

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

## **6. REASONS FOR RECOMMENDATIONS**

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

## **7. ALTERNATIVE OPTIONS CONSIDERED**

7.1 None required at this stage.

## **8. IMPLICATIONS**

8.1 This report contains no specific financial implications.

## **9. BACKGROUND DOCUMENTS**

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

9.1 Draft Audit Committee Annual Report

## **10 APPENDICES**

10.1 Appendix A - Draft Audit Committee Annual Report



**(DRAFT) ANNUAL REPORT FROM  
THE CHAIR OF AUDIT COMMITTEE  
2012 / 2013**

*Assurance*

*Governance*

*Accountability*

*Risk Management*

*Independence*

## **AUDIT COMMITTEE: ANNUAL REPORT 2012 / 2013**

**INTRODUCTION**

**MEMBERSHIP AND MEETINGS**

**KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR**

**PLANS FOR 2013 / 2014**

## INTRODUCTION

This is the 5<sup>th</sup> annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice<sup>1</sup> and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has endeavoured to improve the Council's governance and control environments.

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

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

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

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

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

This report sets out the work undertaken by the Committee for 2012 / 2013 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Committee has overseen good progress in all areas under its supervision.

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

## MEMBERSHIP AND MEETINGS

During 2012 / 2013, the Audit Committee met on the following dates:

- 7 June 2012
- 25 June 2012
- 3 September 2012 (meeting cancelled due to insufficient business)
- 24 September 2012
- 5 November 2012
- 4 February 2013
- 25 March 2013

The Audit Committee membership increased from 7 to 8 following the incorporation of the Standards Committee into the Terms of Reference. There is a cross representation of all parties in accordance with the make up of the Council. The members for 2012 / 2013 were (excluding substitutes):

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

Table 1: Audit Committee Membership 2012 / 2013

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

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

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

## KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

### Background

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

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

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

### Internal Audit

#### 2.2.1 Terms of Reference

2.2.1.1	To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2.2.1.2	To consider summaries of specific internal audit reports as requested.
2.2.1.3	To consider reports dealing with the management and performance of the providers of internal audit services.
2.2.1.4	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
2.2.1.9	To commission work from internal and external audit.

25 June 2012

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

5 November 2012

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

25 March 2013

- *Annual Audit Plan.* Audit Committee considered a report on the 2013 / 2014 annual plan. The annual audit plan is an indicative plan which is kept under review to ensure that it is aligned to emerging risks. It is subject to revisions during the year with approval from the Committee. The assurance gained from the programme of work set out in the annual plan forms the main input for the development of an annual opinion for the Council. The Committee reviewed the plan and approved it after gaining assurance on the adequacy of work on the Council's key financial systems audits. Overall, we ensured that internal and external audit plans were complementary and provided optimum use of the total audit resource.

## **Internal Control and Corporate Governance**

### **2.2.1 Terms of Reference**

<b>2.2.1.1</b>	To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
<b>2.2.1.5</b>	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
<b>2.2.1.10</b>	<b>Regulatory Framework</b>
<b>2.2.1.11</b>	To maintain an overview of the council's constitution in respect of contract procedure rules, and Financial Regulations.
<b>2.2.1.12</b>	To review any issue referred to it by the Chief Executive or a Director, or any council body.
<b>2.2.1.15</b>	To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
<b>2.2.1.16</b>	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

7 June 2012

- *Information Governance.* While the Council strives to protect data at every opportunity, with the best will in the world, there are rare occasions where standards may slip and data is breached. In order to monitor and establish appropriate processes and procedures are in place to protection personal data, the Audit Committee discussed and approved a Data Incident Response Policy.
- *Audit Handbook.* The Audit Committee Handbook was fully updated and agreed by the Committee. This would continue to be annually refreshed.

25 June 2012

- *Annual Governance Statement.* A key role of the Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Committee must satisfy itself that the Authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions needed to improve it. This is done through receiving and scrutinising reports on the relevant areas and calling officers to account where necessary.
- The Committee reviewed the draft Annual Governance Statement on 25 June 2012, noting areas for improvement following a review of internal controls, risk management arrangements and significant governance issues. The Committee agreed to final changes to the Statement prior to its inclusion in the Statement of Accounts.
- At that meeting the Committee also reviewed the effectiveness of the system of internal audit noting planned actions to address any areas of partial compliance. It endorsed the reporting of findings from the review within the 2011 / 2012 Annual Governance Statement and the Chief Internal Auditors Annual report and opinion.

5 November 2012

- *Use of Consultants.* Following the review of consultants used by the Council in 2010, it was recommended, and agreed that Audit Committee would keep tabs on progress. We received an update in November and a further progress in February 2013.

27 March 2013

- Public Sector Internal Audit Standards.
- In line with best practice, we also conducted a review of the effectiveness of the Audit Committee, and in essence identified that this was working well. A number of observations were made at the meeting (6 February 2012) and these are being researched with professional bodies to look to see if we can introduce to further improve the effectiveness.

## **Annual Accounts**

### **2.2.1 Terms of Reference**

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

25 June 2012

- *Budget Monitoring: Final Outturn 2011 / 2012 and Statement of Accounts.* The Committee reviewed and scrutinised the outturn and Statement of Account on 25 June 2012 prior to its submission to the external auditors for audit. Change in legislation has meant that we do not have to normally do this, but we have seen this as good practice to adopt. The Committee then approved the Statement of Accounts for 2011 / 2012 and authorised its signing by the Chair. The Committee delegated authority to the Executive Director of Strategic Resources to make, following consultation with the Portfolio Holder for Resources, any non-material amendments to the Accounts arising from the external audit to be carried out by the Audit Commission between July and September 2012.

24 September 2012

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

5 November 2012

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

## **Risk Management**

### **2.2.1 Terms of Reference**

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

5 November 2012

- *Risk Management Strategy and Business Continuity Strategy*. To discharge its responsibilities for overseeing the effectiveness of risk management within the authority, the Committee formally approved the updated Strategy in November. Corporate activities around developing, implementing and embedding risk management were presented.
- Further information was requested to allow for further member challenge and scrutiny in relation to the strategic risks generated.

## **External Audit**

### **2.2.1 Terms of Reference**

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

24 September 2012

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Committee. Following review the Committee approved and agreed the:
  - audited Statement of Accounts for 2011 / 2012 and adjustments;
  - signing by the Executive Director of Strategic Resources of the Council's letter of representation; and
  - actions to be taken in respect of the issues identified by the auditors that did not result in changes to the accounts.

4 February 2013

- Committee scrutinised the Annual Audit and Inspection Letter in respect of 2011 / 2012 and considered the Annual Grant Claims Certification.

25 March 2013

- Annual Audit Plan.



## **Counter Fraud & Irregularities**

### **2.2.1 Terms of Reference**

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

25 June 2012

- The Committee received an annual report highlighting counter fraud and irregularity work over the previous year. The Committee's review of the work and performance of the counter fraud team showed strong support and interest. Separate training was provided on the investigating fraud and the use of Regulation of Investigatory Powers Act (RIPA).

24 September 2012 / 5 November 2012 / 27 March 2013

- Quarterly update reports have been provided into the use of RIPA.

## **Member Code of Conduct**

### **2.2.1 Terms of Reference**

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

5 November 2012

- *Report to consider dispensations and Hearing Panel Procedures.* The adoption of the Localism Act 2011 has changed elements of the Councils governance arrangements. As well as amalgamating

## **Training**

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

- Preparation and scrutiny of the Statement of Accounts and the impact of International Financial Reporting Standards on these; and
- Risk management and business continuity

To further assist Member development, the Chief Internal Auditor fully revised the Audit Committee Handbook. The 4<sup>th</sup> edition was endorsed in June 2012.

## **FUTURE DEVELOPMENTS AND PLANS FOR 2013 / 2014**

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2013 / 2014 this will involve:

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

A similar programme of works has been scheduled for the year, although additional areas which will be taken through the committee include:

- Information governance and security arrangements
- Detailed risk register profiles, both strategic and operational; and
- Member related issues

## 2.2 AUDIT COMMITTEE: TERMS OF REFERENCE<sup>2</sup>

### 2.2.1 Terms of Reference

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

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

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

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

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

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.11
27 MARCH 2013	PUBLIC REPORT

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

## FEEDBACK REPORT

### 1. ORIGIN OF REPORT

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

### 2. PURPOSE AND REASON FOR REPORT

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

### 3. APPENDICES

Appendix A - Feedback Responses

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2012 - APRIL 2013

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2012 - APRIL 2013

DATE ISSUE RAISED	AGENDA ITEM / ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE
4 February 2013	To present the finalised Risk Register at the Audit Committee in March.	Kevin Dawson	The Risk Register finalised at CMT on 19 March 2013. A report is due to be presented to Audit Committee on 27 March 2013.	19 March 2013

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No.12
27 MARCH 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557
	Karen Dunleavy, Governance Officer	☎ 452 233

## WORK PROGRAMME

### 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 provides details of the:

- Draft Work Programme for 2013 / 2014.

### 2. UPDATE

#### 2.1 Work Programme 2013 / 2014

The Work Programme is based on previous years agendas. The programme has been refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

### 3. APPENDICES

#### 3.1 Appendix A – Work Programme 2013/14

<b>DRAFT WORK PROGRAMME FOR 2013 / 2014</b>	<b>June</b>	<b>September</b>	<b>November</b>	<b>February</b>	<b>March</b>
<b>INTERNAL AUDIT / EXTERNAL AUDIT ACTIVITIES (2.2.1.1 – 2.2.1.9)</b>					
<b>EXTERNAL AUDIT ACTIVITIES</b>					
Annual Audit Letter				X	
Grant Claims Annual Certification				X	
Report to Management				X	
Audit Plan					X
<b>INTERNAL AUDIT ACTIVITIES</b>					
Head of Audit Opinion 2012 / 2013	X				
Review of IA Effectiveness	X				
Mid Year Progress Report			X		
Audit Plan 2014 / 2015					X
<b>REGULATORY FRAMEWORK (2.2.1.10 – 2.2.1.16)</b>					
<b>GOVERNANCE ARRANGEMENTS / BEST PRACTICE</b>					
Annual Governance Statement	X	X			
Risk Management Strategy / Corporate Risks		X			X
Effectiveness of the Audit Committee				X	
Treasury Management			X		
Governance Policies (*)	X	X	X	X	X
Draft Annual Audit Committee Report					X
<b>FRAUD AND INVESTIGATIONS</b>					
Annual Fraud Report 2012 / 2013	X				
Investigatory Powers Act (Progress Reports)		X	X		X

(\*) Subject to changes made during year. For example Financial Regulations, Whistleblowing policy, Bribery Act.



<b>DRAFT WORK PROGRAMME FOR 2013 / 2014</b>	<b>June</b>	<b>September</b>	<b>November</b>	<b>February</b>	<b>March</b>
<b>ACCOUNTS (2.1.1.17 – 2.2.1.19)</b>					
<b>STATEMENT OF ACCOUNTS</b>					
Draft Accounts	X				
Audited Accounts		X			
<b>MEMBER STANDARDS AND HEARING PANEL (#)</b>					
<b>MEMBER ACTIVITIES</b>					
Member Code of Conduct	X	X	X	X	X
Member Dispensations	X	X	X	X	X
Member Complaints	X	X	X	X	X

(#) Subject to procedure changes / referrals within the year

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