

# PETERBOROUGH CITY COUNCIL

## INTERNAL AUDIT STRATEGY 2009 / 2010

### 1 Introduction

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

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

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

### 2 Regulatory Framework

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

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

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

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

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

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

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

The Audit Charter describes how Internal Audit complies with the Code provisions. It sets out Internal Audit's terms of reference, its scope of work, the standards and protocols by which it operates, and how it derives its authority and independence. The Audit Charter was updated in September 2006 and approved by Audit Committee in November 2006. This continues to be relevant to the operations of the team and will be reviewed each year to ensure it is still appropriate.

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

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

#### **3.3 Ethics**

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

The principles that must be observed are:

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

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

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

- 4.1 In considering the options for the provision of internal audit the Council currently delivers its service from an in-house team of staff. The establishment is due to reduce by one post to 8.3fte in April 2009 as part of the "*Manor Drive plc* proposals". This reduction is being met by the removal of both a Principal and Senior Auditor post from the Internal Audit structure through voluntary redundancy but with the addition of a Trainee Auditor post. The audit profile will therefore consist of the Chief Internal Auditor, Group Auditors (1.3fte), Principal Auditor (1), Senior Auditors (3) and Trainee Auditors (2). The recruitment process for the Trainee Auditor will commence during 2009 / 2010.
- 4.2 Internal Audit also undertake the 'External Assessor' function for the Financial Management Standard in Schools (FMSiS) accreditation, which is a mandatory requirement for all schools to achieve in accordance with the Department for Childrens Schools and Families (DCSF) and supports the s.151 officers' financial responsibilities of the Local Authority.
- 4.3 The Council complies with the above requirements (statutory framework, professional standards and role) through the operation and work of Internal Audit Services.

## **5 Role of Internal Audit**

- 5.1 The roles and responsibilities of Internal Audit are set out in the services Audit Charter which was approved by Audit Committee in November 2006. This document is reviewed each year to ensure that it is in accordance with the CIPFA Code of Practice.

## **6 Internal Audit Manual**

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

## **7 Planning and Resources**

- 7.1 It is important that the service keeps under review the resources required in order for it to fulfil its role in the medium to longer term. As such, an "Audit Universe" is maintained which predicts the likely areas for audit activity over the medium to longer term and compares this with the existing resources available.

- 7.2 In developing the Strategy and the Risk Profile it is important that audit resources are directed in line with the priorities of the Council taking into account an assessment of risk. In order to achieve this, a systematic risk assessment and planning methodology is used, as follows:
- A list of auditable areas, known as the Audit Universe is maintained on an ongoing basis. This is based on the audit activity undertaken during the year and the overall opinion of the control environment within the audited area.
  - In addition to the above, during January / February of each year a further review of the auditable areas is conducted based upon:
    - Consultation with Chief Officers and other senior managers, to identify key issues facing the council to ensure that key risks are prioritised;
    - A review of the Corporate Plan;
    - Review and consideration of new council initiatives, government initiatives and legislation;
    - Review and consideration of strategic risks as identified in the Corporate Risk Profile;
    - Review and consideration of the assurance framework; and
    - Financial and Budgetary information.
  - The Audit Universe is then updated to reflect changes in the Council and methods of service delivery. To determine the priorities for the annual Audit Plan the following are reviewed:
    - The need to be to provide an annual audit opinion of the Council's key financial and non financial systems;
    - Risk assessments which are maintained on an ongoing basis for all areas on the audit universe;
    - The assurance framework;
    - Specific client requests; and
    - The existing operational plan
- 7.3 The above methodology results in a plan that is supportive of Directors in delivering the strategic priorities and corporate improvement priorities of the Council and provides an overall view of the internal control environment, a key part of good Corporate Governance.
- 7.4 The proposed 2009 / 2010 Annual Plan has been compiled using the criteria detailed above along with a consideration for available resources. The plan shows the minimum amount of work that IAS has assessed should be undertaken to provide assurance to the organisation.
- 7.5 Internal Audit continues to explore how additional funding / resources can be obtained to support the plan. As stated in 4.2, one aspect of the IAS coverage includes the 'External Assessor' role in ensuring schools within the LEA meet the Financial Management in Schools FMSiS accreditation. Due to the FMSiS mandatory review cycle of three years more schools are required to be reviewed in a given year than would normally be the case if IAS applied their own risk assessment to the school profile. Children's Services have over the previous two years contributed to the cost of performing the external assessments from the DSG Grant. During 2009 / 2010 more reliance will be placed on the work undertaken by the Children's Services Finance Team to realise efficiencies in the review work but it is hoped that some funding will still be available as in previous years to support the additional workload that will still be required.

## **8 Performance Indicators**

- 8.1 A range of performance indicators are maintained within the IAS Business Plan. These cover areas such as Cost and Efficiency, Quality, Customer Satisfaction and Continuous Improvement. Performance against these areas will be reported to the Director of Strategic Resources and the Audit Committee on a quarterly basis.

## **9 Reporting**

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

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