

PETERBOROUGH CITY COUNCIL

INTERNAL AUDIT STRATEGY 2011 / 2012

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 (PCC) 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)¹, 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.

¹ The Department for Communities and Local Government have been consulting on these Regulations which have had a series of amendments since 2003. Closing date was 4 March 2011. New proposals reinforce audit requirements, but also reflect government proposals in relation to the Audit Commission.

3 Professional Standards and Ethics

3.1 Chartered Institute of Public Finance and Accountancy (CIPFA)

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 regular reviews of the work of Internal Audit in order to place reliance on it to satisfy their needs in produced the Annual Audit Letter for reporting to Audit Committee. In addition, Internal Audit will conduct a periodic self-assessment during the intervening period to ensure continuing compliance with the Code.

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

3.2 Chartered Institute of Internal Auditors - UK (CIIA - UK)

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

3.3 Ethics

The CIPFA Code of Practice and the CIIA International Code of Ethics for Internal Audit set out minimum ethical standards for the performance and conduct of internal auditors. All internal audit staff are required to understand and comply with these standards of ethics, in addition to those required by professional institutes of which they are members. The principles that must be observed are Integrity; Objectivity; Competence; and Confidentiality. PCC has adopted its own code of ethics (based on the standard) and this was approved by Audit Committee in March 2007. It remains fully relevant.

4 Provision of Internal Audit

PCC currently delivers its service in-house with an establishment of 7.3 full time equivalents (FTE) comprising: Chief Internal Auditor (0.5 FTE); Group Auditors (1.3 FTE); Principal Auditor (1 FTE); Senior Auditors (2.5 FTE); Auditor (1 FTE) and Trainee Auditor (1 FTE). Shortfalls in resources will be managed by ensuring that audit work is prioritised to ensure that at least a statutory minimum service is provided. Vacancies will be filled in line with corporate policies and agency staff may be used where appropriate.

A shared service arrangement with Cambridge City Council has been underway since January 2011 with the aim of sharing knowledge and best practice, increasing flexibility and efficiency and driving down costs through economies of scale. For 2011 / 2012 the two audit teams will remain distinct entities and the initial impact for PCC is a 50% reduction in the time available from the Chief Internal Auditor, along with an associated reduction in costs. Savings generated will be used to “pump prime” additional improvements in the service as identified through business plans as well as going back to the corporate pot to assist in meeting future budget pressures. The success of this arrangement will be monitored with a view to developing a merged trading organisation capable of bidding for, and winning, other contracts.

5 Internal Audit Manual

5.1 In order to deliver its role effectively, Internal Audit continues to review its Audit Manual. The manual sets out the processes for planning, implementing, checking and reviewing the way in which audit services are delivered. The objectives of the manual are to:

- State clearly roles and responsibilities i.e. our Terms of Reference;
- Describe the organisational, managerial and planning arrangements in place;
- Explain the standard procedures to be followed and documentation to be completed;
- 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.

5.2 The Audit Manual has been produced after consideration of the guidelines recommended by CIPFA and the IIA.

6 Planning and Resources

6.1 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.

6.2 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, during January / February each year a further review of the auditable areas is conducted based upon:
 - Consultation with all Directorates to identify key issues facing the council;
 - Review / consideration of new council initiatives, government initiatives and legislation;

- Review / consideration of strategic risks identified in the Corporate Risk Register;
 - Review of business / service plans; and
 - Financial and Budgetary information.
- The Audit Universe is then updated to reflect changes in the Council and methods of service delivery. To determine the priorities for the annual Audit Plan the following are reviewed:
 - The need to be able to provide an annual audit opinion of the Council's key financial and non financial systems;
 - Risk assessments which are maintained on an ongoing basis for all areas on the audit universe;
 - Specific client requests; and
 - The existing operational plan

6.3 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.

6.4 The proposed 2011 / 2012 Annual Plan has been compiled using the criteria detailed above along with a consideration of available resources. The plan shows the minimum amount of work required to provide assurance to the organisation.

7 Marketing of Internal Audit

7.1 Notwithstanding the plans for the shared service arrangement described in section 4, Internal Audit has been charged with selling audit services to generate income for PCC.

7.2 Internal Audit currently provides an audit service to Vivacity. A Service Level Agreement covering a two year period up to March 2012 has been drawn up, indicating that 30 audit days will be delivered in each financial year. Vivacity will be charged for the audit activities undertaken based on a benchmarked day rate.

7.3 To further develop the profile and of audit services in line with current initiatives, Internal Audit will look to develop an overarching Marketing Strategy during 2011 / 2012. This will also involve Cambridge City Council (CCC) and will look to cover other public sector bodies and organisations. Any successes in obtaining additional works will need to be carefully managed so as not to be at the detriment of the core service delivery to Peterborough City. A separate strand will look at developing internal promotion of the service.

8 Performance Indicators

8.1 A range of performance indicators are maintained internally to monitor service delivery. These cover areas such as progress against the annual plan, quality and customer satisfaction. Performance against these areas will be reported to Audit Committee periodically.

8.2 Traditionally, Internal Audit has undertaken CIPFA benchmarking, providing service comparisons with other local authorities. During 2011 / 2012 we intend to widen the scope for benchmarking by exploring comparisons with both private and public sector organisations. This will hopefully highlight any improvements that can be

made to service delivery that have not been previously considered and will assist in developing marketing strategies.

- 8.3 Internal Audit will continue to liaise with PricewaterhouseCoopers by sharing best practice to enhance performance and efficiency throughout the year.

9 Training Strategy

Alongside the authority's Performance and Development Review process, the service will establish training needs assessment for future service requirements. Joint arrangements will be explored so that officers from both Peterborough and Cambridge can be developed at the same time and also to look for efficiencies in terms of time and cost.

10 Reporting

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

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