



GA.36 13/14

**Governance & Audit
Committee**

9th January 2014

Subject: Internal Audit Plan 2013/14 – September 2013 to November 2013 Progress report

Report by:

Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)

Contact Officer:

Russell Stone, Financial Services Manager
russell.stone@west-lindsey.gov.uk

Purpose / Summary:

The report gives members an update of progress, by the Audit partner, against the 2013/14 annual programme agreed by the Audit Committee on the 21st March 2013.

RECOMMENDATION(S):

1) **Members consider the content of the report and identify any actions required.**

IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises from the report.

Staffing: None.

Equality and Diversity including Human Rights:

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No



Internal Audit - Progress Report 2013 / 14



Date: *December 2013*

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Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 💻 lucy.pledge@lincolnshire.gov.uk

Introduction

1. The purpose of this report is to:
 - Advise of progress being made with the Audit Plan
 - Provide details of the audit work during the period
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the West Lindsey Audit Committee role

Key Messages

2. Delivery of the 2013/14 Internal Audit plan is still progressing well. Remaining are the finance audits, review of risk management and the ICT work which is scheduled for quarter four.

Internal Audit work completed from 1st September to 30th November

3. The following audit work has been completed and a final report issued:

| Full Assurance | Substantial Assurance | Limited Assurance | No Assurance |
|----------------|---|--|--------------|
| No reports | <ul style="list-style-type: none">• Payroll | <ul style="list-style-type: none">• Investment Decisions• Progress and Delivery• Counter fraud | No reports |

Note: The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

4. We are reporting three limited assurance audits in this quarter, in summary these are:

Investment Decisions

The Council needs to strengthen its processes to ensure the success of the commercial and entrepreneurial approach it is following by establishment of a delivery plan for the programmes and projects, prioritisation of projects linked to resource availability and a protocol for managing delays to projects. It also requires a methodology for identifying and measuring the social returns realised by projects and more formal liaison between the Challenge & Improvement and Audit & Governance Committees

Progress and Delivery of the Corporate Plan

Current Progress and Delivery reports are not achieving their objective of providing members with a clear performance update on delivery of the corporate plan. This should be improved by providing members with complete, accurate and timely information on performance against agreed measures. Baseline data needs to be validated to ensure targets are realistic. Finally the focus of reports should be on providing quality of data as well as delivering the report to meet governance deadlines.

Counter Fraud Arrangements

Counter fraud arrangements need refreshing and reinstating to ensure they are understood and effective enterprise wide.

The executive summaries of these reports are in Appendix 2.

We are also report one substantial assurance review:

Payroll

Our audit review included coverage of processes around deductions and variations to pay, reconciliations, BACS transactions and starters and leavers. We found most transactions reviewed to be accurate and supported and only made two recommendations relating to mileage rate policy and evidencing authorisation of starters and leavers.

5. Progress with the implementation of agreed management action on recommendations for audits resulting in 'No' or 'Limited' assurance is followed up and reported in Appendix 3. Substantial assurance audits where agreed actions are more than 3 months overdue have also been included.

Other Significant Work

6. Other audit work undertaken during the period has been

Elswitha Quarter

This work is now completed. The report was discussed in full at the extra meeting of the Governance and Audit committee on 22nd October 2013. We are awaiting a comprehensive action plan including responsibilities and timescales from Management.

Combined Assurance

The annual update of the combined assurance document has commenced. Information is being updated through Head of Service liaison meetings. The report is scheduled for presentation this report to the Governance and Audit Committee in April 2014.

Rural Broadband Project Gateway Review

Gateway reviews are typically carried out at key milestone points in a project's lifecycle. These independent reviews are timed to deliver maximum benefits to the project and support decision makers with minimum disruption.

Management requested that we complete a gateway review of the Rural Broadband Project's business case to provide an opinion as to its robustness and whether it meets what might be considered to be best practice. We concluded that there are gaps in the business case as it currently stands which compromise the ability to use it to make a robust decision, in particular:

- The objective of the project and recommended option are not clearly stated
- The business case focusses on presenting a single option and justifying that option
- Alternative options are not fully presented or appraised
- The risks of the recommended option are not presented as a whole along with mitigating actions
- The extent of the lack of access to superfast broadband, the alternatives for customers and the perceived benefits of the recommended option are not fully appraised
- Actions are recommended that are not presented within the document and so have not been appraised or commented upon
- The conditions to be attached to the loan are not detailed

As a result the business case does not clearly evaluate the need, nor clearly establish what the recommended option will deliver, the alternative options and the associated risks.

Audits in Progress

7. The following 2013/14 audits are currently in progress:

Partnership Management

We are reviewing the structures and governance arrangements in place to manage key partnerships. The field work on this audit is now complete.

Project Management

We are following up on the agreed actions taken after the last audit of project management. We will also provide an updated assurance opinion on the project management process, its fit in the organisation and its application to the management of projects. The field work on this audit is now complete.

Asset Management, Utilisation and Disposal

Our review of the asset management project seeks to provide assurance that:

- There is a comprehensive understanding of assets held;
- Process for acquisition, utilisation and disposal;
- Assets are used for maximum benefit of communities and the authority.

Welfare Reform

We are seeking to provide assurance that the requirements of the Welfare Reform Act 2012 and the Local Government Finance Bill have been fully implemented in the required timeframes, including:

- Introduction of a Local Council Tax Support scheme
- Discretionary housing payments
- Under-occupancy (also known as the bedroom tax)
- Benefits Caps

We will also consider the governance arrangements, management and benefits of the Universal Credit pilot the council is currently involved in. The field work on this audit is now complete.

Housing Benefits

We are seeking to provide assurance that benefits are correctly assessed, calculated, paid and accounted for. We focused our sampling on the case types highlighting errors in the 2012/13 subsidy claim to help assure you on the likelihood of them reoccurring in the 2013/14 claim. We also considered what

action the benefits team are taking to prevent future reoccurrence of such errors. The field work on this audit is now complete.

Performance Information

8. Our current performance against targets for 2013/14 is shown below.

| Performance Indicator | Target | Actual @ 30/11/2013 |
|--|---|-------------------------|
| Percentage of plan completed. | 100% (revised plan) | 62% |
| Percentage of key financial systems completed. | 100% | 50% |
| Percentage of recommendations agreed. | 100% | N/A – non discussed yet |
| Percentage of recommendations due implemented. | 100% or escalated | 100%* |
| Timescales | Draft report issued within 10 working days of completing audit. Final report issued within 5 working days of CMT sign off Period taken to complete audit – by exception | 0% 100% |
| Client Feedback on Audit (average) | Good to excellent | Excellent |

Other matters of Interest

CIPFA Practical Guide to Audit Committees

9. CIPFA are updating their practical guidance on the function and operation of audit committees in local authorities and police bodies. We expect this guidance shortly and will brief the Committee on any changes etc. We suggest we use the self-assessment session planned in the New Year to do this.

Audit Committee Guideline

10. CIPFA's Better Governance Forum every so often issue Audit Committee Updates. Issue 12 focusses on 'Reviewing Internal Audit Quality' – a copy is attached as a background paper at appendix 5. Ensuring the quality of internal audit is an important part of the professional standard for internal audit (the

Public Sector Internal Audit Standards) and is an important responsibility of the Head of Internal Audit. From the Governance and Audit Committee perspective it is important that you are satisfied that an appropriate quality assurance improvement programme is in place that gives you the assurance that the internal audit activity is fit for purpose.

What is important is acknowledging that quality doesn't just happen – that to be fit for purpose, you must agree what the purpose is and what good performance looks like. After that, achieving quality every day requires good people, good processes and hard work. The aim of the Quality Assurance Improvement Programme is to set out how this is done.

Appendix 1 - Assurance Definitions

| | |
|------------------------------|--|
| <p>Full Assurance</p> | <p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p> |
| <p>Substantial Assurance</p> | <p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p> |
| <p>Limited Assurance</p> | <p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high.</p> <p>As a guide there are medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements |
| <p>No Assurance</p> | <p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements <p>The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p> |

Appendix 2 – Audits where assurance is assessed as ‘No’ or ‘Limited’ (Executive Summaries only)

Investment Decisions

Introduction and Scope

West Lindsey is managing its budget reductions by introducing a greater focus on efficiencies, greater citizen action and diversifying income and adopting a strategy for a radical change in direction for income generation.

This approach is seeing the Council develop new projects to generate income from their offices, land assets and other capabilities, and with a focus on areas where they can deliver other social benefits. To support this methodology the Council has developed a Commercial Strategy, which is to be presented to Committee in January 2014, and is looking to establish the post of Commercial Director.

We have undertaken a review of the implementation of the Commercial Strategy and the process for making major investment decisions. We have considered what learning should have come from a number of previous projects and sought to provide assurance on the following areas:

- How lessons learned have influenced the Commercial Strategy and process for making investment decisions
- The robustness of the Commercial Strategy and the degree to which it is understood by staff
- That processes for considering potential investments include gathering all necessary data to make a sound decision.
- The robustness of the project management methodology to support investment projects
- The governance arrangements for investment projects
- The work of the Challenge & Improvement Committee in relation to investment decisions and the effectiveness of their scrutiny

Executive Summary

Assurance Opinion – Limited Assurance

The Council has developed a robust Commercial Strategy, due to be presented to Committee in November, and has provided appropriate training to staff in the commercial approach. It has put in place a number of processes to support the strategy and ensure its success. The proposed restructure includes the post of Commercial Director who will take the Commercial Strategy forward.

There are a number of areas where the Council could strengthen its processes to ensure the success of the commercial and entrepreneurial approach it is following. Areas for improvement include:

- The establishment of an delivery plan for the programmes and projects that support the Commercial Strategy
- The prioritisation of projects linked to resource availability
- A protocol for managing delays to projects
- A methodology for identifying and measuring the social returns realised by projects
- More formal liaison between the Challenge & Improvement and Audit & Governance Committees

Direction of Travel



Positive

The Council's has made good progress towards implementing its commercial approach. There are some areas it needs to strengthen as it moves forward to ensure it is successful in achieving its objectives.

The Council has developed a robust Commercial Strategy which is to be presented to the Policy & Resource Committee in January 2014. We found that it is a detailed document which explains the commercial aims of the Council, how officers are to apply a commercial approach and lists the key projects to aid this. Training has been provided to many officers on the implementation of the strategy and the Council is looking to establish the post of Commercial Director to take the strategy forward.

We also found that the Council has undertaken positive work to support the implementation of the strategy:

- There is a comprehensive project management methodology supported by a toolkit for officers to utilise when managing projects.
- Cost-benefit analysis has been undertaken on investment projects

- Officers have completed a review of voluntary sector grants to ensure all grant payments are in line with corporate priorities and the benefit to communities justifies awarding them.
- Membership of the Challenge & Improvement committee is politically balanced and all members have access to training and development.
- Records of the Challenge & Improvement committee are detailed and meeting are supported by additional reports.

There are a number of areas where the Council could strengthen its process to ensure the success of the approach it is following. Areas for improvement include:

- The establishment of an action plan for the programmes and projects referred to in the Commercial Strategy identifying responsibilities and timescales for completion.
- The presentation of significant projects to the relevant Committee and the establishment of project boards or allocation of projects to existing boards in all cases.
- The prioritisation of projects linked to resource availability to ensure there is sufficient capacity for officers to deliver projects as well as their day-to-day workloads. This will require projects to have realistic timescales and resourcing and might mean projects cannot commence immediately.
- A protocol for managing delays to projects.
- A reminder to officers of the need to comply with contract regulations.
- Obtaining legal and procurement advice in the early stages of a project.
- A methodology for identifying and measuring the social returns realised by projects
- More formal liaison between the Challenge & Improvement and Governance & Audit Committees

This audit was undertaken in March/April 2013. We have delayed reporting our findings pending the outcome of the audit review of the Elswitha Development project. We acknowledge that in the interim the Council will have moved forwards and the areas of improvement may already have been addressed.

Management Response

The audit provides a good reflection on where the organisation was in March/April 2013. It identifies a good range of recommendations, all of which are either part of, or will be included in the Corporate Governance Action Plan.

| Management Actions | No | All to be completed by: |
|--------------------|----|--------------------------------|
| High Priority | 8 | 28 th February 2014 |
| Medium Priority | 4 | 31 st January 2014 |

Progress and Delivery of the Corporate Plan

Introduction and Scope

We have carried out an internal audit on delivery of the Council's corporate plan key priorities. The scope of the audit has been agreed through the Council's Corporate Management Team.

It was agreed that we would provide assurance through review of the Progress and Delivery reports, which the Council uses to report performance.

These reports are produced three times a year and are intended to provide an overview and detailed information on how well the Council is delivering its corporate plan objectives. They include,

- An executive summary of performance,
- A performance table on programmes and projects in place to support the corporate plan outcomes
- Detailed tables of performance against Council agreed quality measures

Our report gives you an independent view and assurance on the systems in place to manage and report on performance, based on review and testing of the reports and discussion with officers involved in compiling Performance and Delivery reports.

We have also met with board members to review the role performance boards have in managing and reporting programmes and projects which support the corporate plan.

Executive Summary

Assurance Opinion Limited

In our opinion the Progress and Delivery reports are not achieving their objective of providing members with a clear performance update on delivery of the corporate plan.

The risk to the Council is that actual performance is not clear, or understood, by members and consequently decisions based on the information are not robust, or correct.

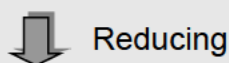
We found that;

- Agreed corporate plan quality measures had been changed or dropped from progress and delivery reports, without going through an approval process. There is a risk that progress reports do not accurately reflect agreed measures.
- The reports contained gaps in the information presented to members. In some reports up to 50% of measures had incomplete data. This is a repeat of an audit finding reported last year.
- There is no system to validate the baseline information used in the progress and delivery reports. Sample testing had shown that some figures used could not be traced back to the finance system.

The emphasis seems to be on the process of delivering the report and not focussed on the quality, scrutiny and challenge of the report details.

There is a new board structure in place to manage programmes and projects which support the corporate plan themes. This has only recently been put in place as such so we were unable to provide an assurance opinion on the effectiveness of this.

Direction of Travel



Since the last audit review in August 2012 we have been unable to evidence sufficient progress in improving the quality of the reports. Some of the findings in this report are repeat findings from that August audit review.

Although the June 2013 report does show an improvement, the February 2013 and November 2012 reports are of poor quality both in format and information supplied.

The corporate plan was refreshed and presented to full Council in September 2012. A series of themes priorities and quality measures were agreed. Review of the next Progress and Delivery report from November 2012 showed that some quality measures had been changed or dropped from the report. Review of the following report from February 2013 showed further changes and reductions in reported measures.

These changes had not been controlled through a change and approval process. There is a risk that the agreed actions in the corporate plan are not reported on or changed without overall Council awareness or approval.

The August 2012 audit review on the Progress and Delivery reports stated that information on the reports was not being completed. This lack of complete data on measures means progress is not fully reported.

The review of the latest three reports shows that this is still an issue for the Council. The February 2013 report had missing information on almost 50% of the quality measures listed. It should be noted that the June 2013 report was an improvement on the previous two reports reviewed but still contained gaps in performance information.

In our opinion this means the report is not fulfilling its objective of performance reporting. The key issues are that;

- Information can change from report to report with no system in place to control changes.
- The report measures have missing information which makes it difficult to measure progress.
- There was a lack of recorded scrutiny and challenge from the various committees which review the report.
- There is no system in place to validate baseline information on the report.

We also reviewed the management performance boards, put in place to manage the programmes of work which support the corporate plan.

We found that the board structure has recently been amended. There is now an overview board called the corporate plan board and this will manage and scrutinise the work of the other boards. At the time of the review this board had only met once and it was too early to provide assurance on this.

Future planned internal audit work on Project and Partnership management will provide more detail on the workings and effectiveness of the board structure. We have still included in the attached action plan some findings related to the boards for management to consider.

Further details and full actions and findings are listed in the attached action plan, which aims to support the Council in making the progress reports more robust and clear to all readers.

Management Response

We accept the findings of the report as a true reflection of where we are with the Progress and Delivery Report. The issues identified are part of the overall issues identified in terms of the red rating on corporate governance.

We have brought in additional capacity to help understand and resolve some of the cultural issues related to the quality of the report and an action plan is in place to tackle the wider governance issues including:

1. Strengthening first and second line assurance
2. Ensuring clear accountabilities and ownership
3. Ensuring processes exist for escalation
4. Ensuring robust change control
5. Prioritising, planning, management and embedding.

The recommendations will all strengthen the quality of the report and will be implemented for the period 2 report of 2013/14.

| Management Actions | No | All to be completed by: |
|---------------------------|-----------|--------------------------------|
| High Priority | 3 | 31/Jan/2014 |
| Medium Priority | 7 | 31/Jan/2014 |

Counter Fraud Arrangements

Introduction and Scope

Strong counter fraud arrangements are key to good governance – the national spotlight is on public sector fraud and the message from Central Government, via the National Fraud Authority, is that Councils need to do more to acknowledge, understand and tackle their fraud risks. To provide assurance in this area we have undertaken a review of counter fraud arrangements. Our review covered:

- Management arrangements and planning
- Counter Fraud policies and procedures & compliance with them
- Awareness, understanding and engagement of staff
- Engagement with management and staff
- Communication/publication of successful proven cases of fraud and corruption
- Review of arrangements against good practice (for deterrence, prevention, investigation, sanctions and redress)
- Identification of main fraud risks
- Corporate oversight and reporting
- Use of National Fraud Initiative (NFI)

Executive Summary

Assurance Opinion - Limited

We found that the historically effective counter fraud arrangements in place at West Lindsey have lost their prominence and as a result:

- The policy owner is unclear.
- Policy contents need to be updated to include recent legislation.
- There is no consistency in the policies available to staff, who find them hard to locate.
- Members no longer review and approve the anti-fraud, corruption and money laundering and whistleblowing policies on a regular basis.

The most significant findings of our review are:

There is insufficient evidence to be assured that the risk of fraud, other than housing benefit fraud, is reviewed and monitored on a regular basis.

The National Fraud Authority assessed this to be £2.2 billion nationally across all local authorities for 2012 compared to benefit fraud of £1.2 billion. Whilst locally the


risk is not so great as WLDC does not have housing stock, social care or schools this demonstrates the need for the authority to concentrate on prevention and detection in addition to benefits.

A counter fraud action plan, which should outline proactive work, is no longer maintained and monitored. Such a plan helps officers to focus on preventing and detecting the overall risks of fraud faced by the authority and developing a counter fraud culture.

The National Fraud Authority's 'Fighting Fraud Locally Strategy' (Appendix B) and The Audit Commission's 'Protecting the Public Purse 2012 – Fighting Fraud' review (Appendix C) are useful guides that provide links to assessment, checklists and toolkits which will help management address strategy and action improvements.

We are able to give assurance that the council has effective arrangements for assessing, investigating, processing and reporting on potential benefit fraud cases. During 2012/13 the team investigated 48% of all referrals and were able to prove fraud in 28% of these cases.

Direction of Travel

 Reducing

Counter fraud arrangements have not been audited at the authority for several years; however many of the processes that were previously operating have ceased in recent years.

Without intervention from Management to re-instate the prominence of counter fraud activities the assurance we are able to provide will continue to reduce.

Our review of policies and procedures found that staff and management were not very clear on the location of the most recent Anti-fraud and corruption and Whistleblowing policies. The Anti-fraud and corruption policy submitted to audit was not the most recent version and review of the intranet and WLDC website identified that different versions were stored on each.

The most recent version of the Anti-fraud and corruption policy that we could identify was dated February 2009 and includes money laundering, but does not reference the bribery act. The roles and responsibilities within this are also very outdated as structure and governance have changed since this time. We recommend a full update of the policy which should then be reviewed and approved by members.

A counter fraud action plan used to be in place which was monitored by the Governance and Audit Committee. Use of this plan ceased in 2011 and without it the authority has limited evidence of its proactive counter fraud work.

Our review of fraud risk assessment identified a focus on the risks of benefit fraud. Management need to extend assessment of risk to include other key areas such as tenancy, procurement, payroll and grants fraud. We also found that risk assessment have not been completed since May 2012 so are due to be reassessed.

Our work identified areas of effective fraud management, particularly in the benefits section of the authority where we found:

- 1.8FTE dedicated staff are employed to assess, investigate and process fraud cases
- The investigations team have appropriate qualifications and experience and attend regular CPD sessions.
- There are set processes to follow when dealing with potential benefit fraud cases.
- Data sharing with other organisation is organised and effective.
- Successful prosecutions are publicised as appropriate in an effort to help deter potential benefit fraudsters.
- The investigation team engage in proactive work to help reduce benefit fraud, often working in partnership with other organisations.
- An annual report on benefit fraud cases is taken to the Governance and Audit committee.
- Members have received information and training on the Nation Fraud Authorities 'Fighting Fraud Locally Strategy' and The Audit Commission's 'Protecting the Public Purse 2012 – Fighting Fraud' review.

We also found that the authority is managing the co-ordination of the National Fraud Initiative well and has met deadlines, although management reported that data has not identified any recoveries to date.

Management Response

We are pleased that the audit has found the major risk of fraud in benefits is well controlled. We are confident that the risk of fraud in other areas such as finance and payroll is being managed through effective internal controls; however we accept that the co-ordination and reporting on this has been lacking since 'Organising for Delivery' and this robustness needs to be reinstated. Once the Policy Owner has been established by CMT the agreed actions will be dealt with.

| Management Actions | No | All to be completed by: |
|--------------------|------|--------------------------------|
| High Priority | Four | 31 st December 2013 |
| Medium Priority | Six | 31 st January 2014 |

Appendix 3 - Outstanding recommendations as at 31st May 2013

| Audit Area | Date | Assurance | Number of Recs | Implem'd | Outstanding | | | Not Due Date |
|--------------------------------------|------------|-------------|----------------|----------|-------------|---|---|--------------|
| | | | | | H | M | L | |
| Business Improvement | | | | | | | | |
| Change program | Nov 2012 | Substantial | 11 | 9 | 0 | 2 | 0 | |
| Information Governance | May 2013 | Limited | 12 | 4 | 3 | 5 | 0 | |
| IT Security | May 2013 | Limited | 15 | 15 | 2 | 0 | 0 | 13 |
| Resources | | | | | | | | |
| Income Generation | Mar 2013 | Limited | 7 | 6 | 1 | 0 | 0 | |
| Asset Management | May 2013 | Substantial | 4 | 3 | 0 | 1 | 0 | |
| Strategic Growth and Localism | | | | | | | | |
| Localism | Oct 2012 | Substantial | 5 | 2 | 3 | 0 | 0 | |
| Gainsborough Regained | April 2013 | Limited | 6 | 4 | 2 | 0 | 0 | |

Appendix 4 – Internal Audit Plan & Schedule 2013/14

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|---|------|--|--------------------|-------------------|---------------------|---|
| Critical Service Activities | | | | | | |
| Communities and Localism | | | | | | |
| Partnership Management | | To provide assurance on the structures and governance arrangements in place to manage key partnerships. | May 2013 | July 2013 | | Substantially complete – awaiting closure meeting |
| | | | | | | |
| Resources | | | | | | |
| Progress and delivery of the corporate plan | | To provide assurance on the progress made against the delivery of key priorities in the corporate plan and reporting through progress and delivery reports. To also include the role and effectiveness of the programme boards – incorporating how well risk, performance, partnership working and projects associated with the priority are being managed. | May 2013 | July 2013 | | Complete |
| Welfare Reform | | To provide assurance that welfare reform has been | October 2013 | December 2013 | | Substantially complete – |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|--|-----------|---|--------------------|-------------------|---------------------|--------------------------------|
| | | implemented effectively, including <ul style="list-style-type: none"> • Delivery plan • Sustainability • Assessment of the impact on communities / vulnerable people • Impact on collection rates | | | | awaiting closure meeting |
| NNDR and new homes bonus | | To provide assurance on how the council is proactively managing NNDR income, including: <ul style="list-style-type: none"> • Supporting business growth • Maintaining collection rates • Sustainability | January 2014 | February 2014 | | Scope agreed |
| Subtotal | 50 | | | | | |
| Due Diligence | | | | | | |
| Resources | | | | | | |
| Finance Systems – to be agreed with external audit input | | To review systems and test transactions for finance systems feeding into the Council's accounts in liaison with external audit. | December 2013 | March 2014 | | |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|---|------------|---|---------------------------------|-------------------|---------------------|---|
| Housing Benefits and Subsidy claim Review | | Review of the housing benefit systems in conjunction with testing to support the external audit of the subsidy claim. | July 2013 | September 2013 | | Complete |
| Risk Management | | To provide assurance on the risk management strategy, structure and operations within the organisation. | January 2014 | March 2014 | | |
| Project Management | | Review of the project management process, its fit in the organisation and its application to the management of projects. Audit to include gateway reviews of key projects to be agreed with the Assistant chief executive. | May 2013 To be requested | July 2013 | | Substantially complete – awaiting closure meeting |
| Elswitha Quarter | | To review processes and decisions made in the Elswitha Development, to include governance arrangements. | April 2013 | June 2013 | | Complete |
| Sub Total | 110 | | | | | |
| | | | | | | |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|-------------------------------------|-----------|---|--------------------|-------------------|--|--------------------------------|
| Key Projects | | | | | | |
| Asset Mgt, utilisation and disposal | | Review of the asset management project to provide assurance that: <ul style="list-style-type: none"> • There is a comprehensive understanding of assets held; • Process for acquisition, utilisation and disposal; • Assets are used for maximum benefit of communities and the authority. | May 2013 | July 2013 | | In progress |
| Sub Total | 10 | | | | | |
| Emerging Risks | | | | | | |
| Emerging risk contingency | | To audit any significant emerging risks arising in the year. | | | Used on additional days for Elswitha review and Asset Management | |
| Sub Total | 10 | | | | | |
| Other relevant Areas | | | | | | |
| Assurance mapping | | Update assurance map with service managers and gain management assurances and | September 2013 | November 2013 | | In progress |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|-------------------------------------|------------|--|--------------------|-------------------|---------------------|--------------------------------|
| | | third party assurances. | | | | |
| Counter Fraud | | To assess the effectiveness of the Council's arrangements for 'Fighting Fraud Locally' as outlined in the National Fraud Authority good practice guide. | July 2013 | July 2013 | | Complete |
| Sub Total | 20 | | | | | |
| ICT Audit. | | | | | | |
| | | Identifying the assurances available on the Councils ICT Management arrangements – Infrastructure – applications. Based on this information undertaken an ICT audit eg critical application or IT security | January 2014 | March 2014 | | |
| Sub Total | 10 | | | | | |
| | | | | | | |
| | | | | | | |
| Non-Audit | | | | | | |
| Advice / liaison | 5 | | | | | |
| Annual Report | 1 | | | | | |
| Audit Committee | 5 | | | | | |
| Sub Total | 11 | | | | | |
| Total Audit Plan for 2013/14 | 221 | | | | | |

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Issue 12

Reviewing Internal Audit Quality

New CIPFA Publication, *Audit Committees Practical Guidance for Local Authorities and Police*

Regular Briefing on Current Issues

November 2013

Introduction

Dear audit committee member,

This issue of Audit Committee Update focuses on reviewing internal audit quality. Ensuring the quality of internal audit is an important part of the professional standards for internal audit (the Public Sector Internal Audit Standards) and is an important responsibility for your head of internal audit. From the audit committee's point of view it is an area that you need to be satisfied that appropriate arrangements are in place, underpinning the important assurance work that your internal audit team provide.

This issue also outlines the new guidance from CIPFA's *Audit Committees, Practical Guidance for Local Authorities and Police* due out next month.

As usual we also feature a round-up of legislation, reports and developments that may be of interest to audit committee members.

We have included links to resources and further information on our website. To access these all you need to do is register. Further details on how to do this are at the bottom of the page.

We welcome feedback on these briefings and also any suggestions for future topics. Feel free to contact me and let me know.

Kind regards

Diana Melville
Governance Advisor
CIPFA Better Governance Forum

diana.melville@cipfa.org
01722 349398

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

| Issue | Principal Content | Link |
|-------|--|--------------------------|
| 1 | Reviewing the Audit Plan | Issue 1 |
| 2 | Reviewing the Annual Governance Statement | Issue 2 |
| 3 | Countering Fraud | Issue 3 |
| 4 | Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit | Issue 4 |
| 5 | Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government | Issue 5 |
| 6 | Partnerships from the Audit Committee Perspective | Issue 6 |
| 7 | Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation | Issue 7 |
| 8 | Commissioning, Procurement and Contracting Risks | Issue 8 |
| 9 | Reviewing Assurance over Value for Money | Issue 9 |
| 10 | Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements | Issue 10 |
| 11 | Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees | Issue 11 |

Receive Our Briefings Directly

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our website <http://www.cipfa.org/Services/Networks/Better-Governance-Forum> or [register](#) today.

Workshops and Training for Audit Committee Members in 2013 and 2014 from CIPFA

Improving the Standard of your Audit Committee

A new series of workshops that will explore the challenges and barriers to performing effectively as an audit committee.

2014 dates:

22 January London, 5 February Chester, 12 June Edinburgh, 9 July York, 10 July Birmingham, 4 December London

Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and assurance gathering.

20 November 2013, London, Further dates available in 2014

Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

3 December 2013 London

17 June 2014, London

<http://www.cipfa.org/events>

In-house training

We have many years' experience in delivering training in-house for audit committees.

A range of options are available including:

- Key roles and responsibilities
- Effective chairing and support for the committee
- Working with internal and external auditors
- Corporate governance
- Strategic risk management
- Value for money
- Counter fraud
- Reviewing the financial statements
- Treasury management
- Assurance arrangements
- Partnership assurance

We can also develop bespoke training to meet your needs.

For more information please contact inhousetraining@cipfa.org or speak to Diana Melville.

Internal Audit Needs You!

What have you done this year to maintain the quality of internal auditing?

Nothing? Not your job? Think again.

Asked the external auditor? Well, have a care! External audit has an explicit and specific goal – to give an opinion on your financial statements. When external audit assesses your system of internal control, it does so against criteria related to how the system helps to ensure true and fair financial statements – and it assesses internal audit in this way too.

Internal audit has a much wider purpose – it is there to assess your system of governance, how you manage risks over operations and strategic matters as well as over financial reporting, and how you then control those risks. Internal audit is there to give you a report every year, including a conclusion on the effectiveness of governance, risk management and control. Internal audit is also there to help your organisation to take action to improve how the organisation controls its risks. If you discuss internal audit with your external auditor, make sure you know the context of their remarks.

Internal audit is a profession with standards of education and of performance. It recognises that to achieve the quality of work that you deserve every day of the year, it has to have a programme to ensure that quality. This is what the Quality Assurance and Improvement Programme (QAIP) is all about – it comprises a set of activities that your internal auditors will carry out and commission and it ensures that your internal audit activity is fit for purpose.

The UK Public Sector Internal Audit Standards, introduced from April 2013 to ensure a consistent standard of performance across the public sector, include the requirement for the QAIP. This is in line with international standards for the profession of internal auditing.

You may have heard people talking about needing a costly external assessment of quality. That's not the most important aspect of this. What is important is acknowledging that quality doesn't just happen; that to be fit for purpose, you must first agree what the purpose is and what good performance looks like. After that, achieving quality every day requires good people, good processes and hard work.

So, you can expect that your internal audit team will be talking to you and all their stakeholders about what "good" looks like to you. You can expect your internal audit team to be setting out procedures and templates and expectations that help every internal auditor to do their work to the standard required. You can expect your internal audit team to take some time out to review the work of the team to check if it is in line with procedures, and, perhaps more importantly, if it actually achieves the desired outcomes.

That's what quality is all about. And, you might say, that's what management is all about too – and it is. What the QAIP does is ensure that all professional internal auditors pay attention to quality.

The QAIP must include on-going checks, an internal assessment and an external assessment. That requires professional internal auditors to take care to establish the level at which they must work, to review it every day, to conduct a more thorough review once a year and to invite every few years a knowledgeable outsider to review what they are doing as an independent check.

The annual review is a chance for the internal audit team to step back and to look at what they are doing and how they are doing it. They will look at the standards and ask

themselves: How are we applying these principles? What do our processes say? Are we following them? And, is that achieving the outcomes we intended?

The value of an external assessment really comes out when you have someone who knows about internal auditing and who has no personal axe to grind. For that reason, it is worth following the professional standards to find an "Independent and Qualified Assessor".

Your head of internal audit will be reporting to you on the programme of quality assurance and improvement. In the annual report, they'll tell you about the programme itself and about its results, or, as standards say: "a statement on conformance with" them. They can report more frequently on the on-going monitoring part of the programme, if you wish.

It's worth familiarising yourself with the expected language of these reports. Quality isn't about a binary yes/no answer. It has to mould itself to each organisation and it works best when people focus on trying to apply the principles that the standards capture. That's why we use the word "conformance", not compliance. The statement will say your internal audit department generally conforms, partially conforms or does not conform with the standards.

As an audit committee member, what can you do to help?

| |
|--|
| 1. Think about what you want from internal audit. |
| 2. Think about the value of their independent and objective but knowledgeable view of what the organisation is doing. |
| 3. Give the internal auditors enough resources to do a good job and keep professionally up-to-date. |
| 4. Encourage the internal audit team to take its on-going quality work seriously. |
| 5. Ask for regular updates on the findings of the QAIP and what things the internal audit team is doing to improve the efficiency and effectiveness of its work. |
| 6. Support the need for an external assessment every few years and take part in interviews and other parts of the assessment. |

Sources of further information:

Public Sector Internal Audit Standards – a free document, available from the website of the UK Public Sector Internal Audit Standards Advisory Board. <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Local Government Application Note for the UK Public Sector Internal Audit Standards 2013 - The PSIAS are new and complex, and CIPFA recognises the need to provide guidance for the bodies set out above in applying them, and has produced an Application Note to provide that guidance. The CD Rom version includes a Word version of the assessment tool that can be used as part of the QAIP. Check with your head of audit if they have a copy you can access. <http://www.cipfa.org/policy-and-guidance/publications/l/local-government-application-note-for-the-united-kingdom-public-sector-internal-audit-standards-cdrom>

Jackie Cain CMIIA
Technical Manager
CIPFA

New Guidance from CIPFA for Audit Committees in Local Authorities and Police

CIPFA will be publishing a new position statement and guidance on audit committees in December 2013. This will replace the current CIPFA's publication *Audit Committees Practical Guidance for Local Authorities* and *Position Statement* which were published in 2005. Since then audit committees have become well established and a core part of good governance. During that time there have been some significant changes to governance to which audit committees have had to adapt. Taking these trends together, CIPFA felt it was timely to issue a fully revised position statement and guidance document.

The position statement sets out what CIPFA considers to be good practice for audit committees and the publication is an aid to achieving that. While CIPFA hopes that local authorities and police audit committees will review their arrangements against the new position statement, it is a recommendation and not mandatory to do so.

What's new?

The new guidance reflects developments since the original document, for example Public Sector Internal Audit Standards and Annual Governance Statements. It also provides support on a wider range of topics where the audit committee may expect to be involved, for example, assurance over value for money and counter fraud arrangements. It recognises the significant changes affecting police audit committees following the Police Reform and Social Responsibility Act 2011 and also developments in Wales with the introduction of statutory audit committees.

The publication recognises that there isn't a "one-size fits all" template for audit committees so while the publication includes an updated terms of reference, authorities are encouraged to think more widely about how their audit committee adds value and supports the organisation's objectives. An important new section on effectiveness emphasises an evaluation of the impact of an audit committee rather than compliance with a checklist. For example, the audit committee can support improvement across a range of objectives such as good governance, arrangements to secure value for money and the operation of an ethical governance framework.

What has stayed the same?

Many of the principles set out in the original position statement are unchanged. CIPFA is not recommending changes to the way most audit committees are constituted. There are a few key principles that CIPFA thinks form an essential platform on which to build a successful committee and the position statement includes these.

Additional resources

The publication includes additional resources to support those reviewing their audit committee and working to make it as effective as possible. There is additional guidance on the knowledge and skills audit committee members should have and assessment tools to help you review your arrangements. There is also an analysis of the common problems an audit committee may experience and suggestions for addressing these.

The position statement and publication will be available in December from the CIPFA website. If you have queries relating to the purchase of the publication then please contact publications@cipfa.org. If you have any queries about the latest guidance please contact me.

Diana Melville

Governance Advisor

Diana.Melville@cipfa.org

Developments You May Need to Know About

- **Legislation and Regulations**

Local Audit and Accountability Bill

The July 2013 edition of the Audit Committee Update gave Audit Committee members an overview of how the provisions of the Local Audit and Accountability Bill could impact on the work of Audit Committees. As promised, this note provides a brief update.

The Bill completed its passage through the House of Lords on 24 July 2013 and received its 2nd Reading in the House of Commons on 28 October 2013. It goes into Committee on 5 November 2013 and is still expected to complete all parliamentary stages by the end of the year and receive Royal Assent early in 2014.

The government has promised to introduce amendments to the Bill to permit the creation of sector-led procurement bodies (one for principal authorities and one for smaller authorities) to appoint auditors. Authorities that opt to use such procurement bodies will not need to establish an Auditor Panel. There are clearly advantages in using sector-led procurement bodies, not least in that it will mean audit committees retaining their role in relation to external audit.

The Opposition suggested during the 2nd Reading that they might introduce an amendment during Committee stage to place local government audit committees, chaired by an independent person, on a statutory footing. This idea was raised during the Lords' Grand Committee stage and was supported by many peers from all parties, although an amendment was voted down. Peers believed that such a move would then obviate the need for auditor panels, as the audit committee could perform that function. It will be interesting to see if such a provision gains the same level of support in the Commons. If it were to become law, this could have significant implications for local authorities in terms of appointing audit committee chairs, but equally could enhance the role of audit committees in local government.

A further update will be provided in the next issue.
David Watkins, Policy and Technical, CIPFA.

The progress of the Bill can be tracked on the [Parliament website](#).

Financial Management Code of Practice for the Police Forces of England and Wales

The Home Office has issued an updated code of practice. The code refers to a number of CIPFA standards and guidance documents including *Public Sector Internal Audit Standards* (2013) and *Delivering Good Governance in Local Government: Guidance Note for Police* (2012). In establishing police audit committees the police and crime commissioner and chief constable should have regard to the CIPFA *Guidance on Audit Committees* due out in December 2013.

The code of practice comes into effect from 1 November 2013. This is statutory guidance applying to England and Wales.

[Financial Management Code of Practice](#)

Local Authority Accounts (Scotland) Regulations 2013

The Scottish Government has recently conducted consultation on new accounts regulations for Scottish local authorities. The proposed regulations will amend regulations covering publication of annual governance statements, timing of publication of the financial statements and internal audit. The proposals in these areas are in line with the Accounts and Audit Regulations already in force in England.

Key points proposed are:

- the local authority must conduct a review of the effectiveness of its system of internal control and publish an annual governance statement
- a local authority must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with recognised practices in relation to internal control
- a local authority must, at least once in each financial year, conduct a review of the effectiveness of its internal audit
- the proper officer must certify the statement of accounts by 30 June each year and submit them for audit. The authority must publish the unaudited statements of accounts on its website
- approval of the audited accounts must take place by 30 September.

It is intended that the final regulations will come into force on 31 March 2014 and will apply to the financial year 2013/14. This means that audit committees in Scotland will need to ensure that the regulations are complied with in relation to the 2013/14 accounts, annual governance statement and annual review of internal audit.

[Consultation draft of Accounts Regulations 2013](#)

• **Reports, Recommendations and Guidance**

Audit regime compliance monitoring reports

The Audit Commission conducts monitoring of their outsourced audit contracts and publishes quarterly and annual reports on the results for each of the contracted firms. The latest quarterly reports relating to 2013/14 were published in September. The reports cover a range of performance indicators including the issue of annual audit letters, quality of data returns, complaints against the auditor upheld, fee variation requests and requests to undertake non-audit work.

It is helpful for audit committees to understand the monitoring that is undertaken by the Audit Commission and to review the results for their own external audit provider.

[Audit Quality Reports](#)

Transparency International UK, Corruption in Local Government

This recent report investigated the risks and evidence of corruption in local government. It didn't find evidence of widespread corruption but it did conclude that there are conditions within local government that could enable corruption to thrive. The report is also critical that some checks and balances within local government are being reduced or removed, particularly in England. The report makes a number of recommendations to the government but also for individual local authorities, including:

- each local authority should have a nominated individual responsible for counter-corruption
- each local authority should undertake a periodic corruption risk assessment in relation to its own functions and operations
- there should be strict procedures requiring officers always to report (i) major price discrepancies among procurement bids and (ii) details of contract variations to the council's audit committee and senior management.

www.cipfa.org/Services/Networks/Better-Governance-Forum

- internal auditors and those conducting internal investigations should be supported to ensure adequate resourcing and independence
- elected members' declared interests must be subject to monitoring and, where appropriate, investigation.

[Corruption in Local Government report](#)

Committee on Standards in Public Life Annual Report 2012/13

The Committee's annual report outlines the work of the committee over the year but also reflects on the current evidence of standards and areas of risk. While the committee finds evidence of good practice it also highlights the need to review ethical governance and to continue to reinforce standards at the operational level. More specifically it recommends:

'Ethical issues should feature regularly on the agendas of the boards of public bodies and, where appropriate, on risk registers. All such boards should as a matter of course monitor standards of behaviour throughout their organisation, either directly or through their audit and risk committees.'

The report also expresses concern over the operation of local government standards and the committee has identified this area as one of the outstanding risks it will continue to monitor. Other risks areas it is likely to investigate include:

- how best to maintain high standards as new models of delivering public services are developed and
- the interchange between the public and private sectors (the so-called revolving door).

[Committee on Standards In Public Life Annual Report](#)

Severance agreements and confidentiality clauses – update on NAO report

The National Audit Office has published a report containing further work on severance agreements and the use of confidentiality clauses. Their findings highlight the need for:

- better guidance on the use of confidentiality clauses and special severance payments
- improved transparency and oversight to identify and address patterns of behaviour.

The original report highlighted concerns that compromise agreements could potentially interfere with genuine whistleblowing under the Public Interest Disclosure Act 1998.

[National Audit Office report](#)

Single Fraud Investigation Service update

An emerging issue is the latest proposal to form the Single Fraud Investigation Service (or SFIS) to undertake all benefit investigations as part of the universal credit development. The Department for Work and Pensions (DWP) is proposing that SFIS should be sited within the DWP rather than shared between local authorities and the DWP. If agreed this could mean that local authority fraud investigators and legal prosecutors transfer to SFIS or the Crown Prosecution Service during 2014/15. There is concern that some local authorities will have reduced capacity and expertise to tackle other areas of fraud risk such as council tax, business rates, housing and all other forms of corporate fraud as a result.

Audit committee members should consider what impact the proposals could have for their organisation's counter fraud capability.

The latest information is available by joining the LGA Knowledge Hub. Alternatively the following article summarises the new position. [SOLACE briefing on SFIS](#)

- Look out for

Protecting the Public Purse

The Audit Commission report will be published on 14 November. The report is based on their annual data collection on fraud from English local authorities and gives valuable insight into the experience of fraud and emerging fraud risks in the sector. It will be available from the [Audit Commission website](#).

Fighting Fraud Locally update and conference

Registration is now open for the third annual conference in London on 10 December. It will update on progress made over the year and consider the next steps for tackling fraud in local government. Details of the conference are available here:

<http://fightingfraudlocally.co.uk/>

[Download the Fighting Fraud Locally Strategy](#)

Whistleblowing Commission Report and Recommendations

Public Concern at Work will be publishing the report of the Commission on 27 November. Details will be available on the [Public Concern at Work website](#).

The Audit Committee Cycle

Take stock of your assurance needs

Mid-way through the year it is helpful to take stock of the assurances planned, received and any emerging issues. Audit committees usually plan their agendas for the year to ensure that they are covering all the appropriate areas in their terms of reference and it is likely that the committee will have received regular updates or monitoring reports on assurance. For example you are likely to have had progress reports from internal audit outlining work done to date and performance against the audit plan and there may be regular reports outlining current risks or progress against action plans or strategies.

It is important to keep track of changes to ensure that adequate assurance is received to support the fulfilment of the committee's terms of reference and to underpin the annual governance statement. The committee should also be made aware of any resourcing issues that could impact on the head of internal audit's annual opinion.

Where any significant governance, risk or control issues emerge during the year the audit committee may need to re-assess their need for assurance and their agendas to respond to these.

For information contact:

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
diana.melville@cipfa.org
01722 349398
www.cipfa.org/services/networks/better-governance-forum

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Registered office:
3 Robert Street
London
WC2N 6RL
T: 020 7543 5600 F: 020 7543 5700
www.cipfa.org

