



GA.21 14/15

**Governance & Audit
Committee**

25 Sept 2014

**Subject: Internal Audit Plan 2014/15 May to August 2014 Progress
Report**

Report by:

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& Risk Management – Lincolnshire County
Council)

Contact Officer:

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Purpose / Summary:

 The report gives members an update of
progress, by the Audit partner, against the
2014/15 annual programmes agreed by the Audit
Committee in March 2014.
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 2014 / 15



Date: 12 September 2014

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effective

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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. There are 12 audits within the 2014/15 plan and progress so far is as follows:
 - 1 audit is complete: 9% of Jobs
 - 1 audit is at draft report stage: 9% of Jobs
 - 1 audit is at fieldwork stage: 9% of Jobs
 - 4 audits at scoping stage: 33% of Jobs
 - 5 audits scheduled (not started) 40% of Jobs
3. Full details of scheduled work can be found at appendix 2.
4. The assurance levels provided for 2014/15 have been amended in response to the introduction of other UK Public Sector Internal Audit Standards and are based on the Institute of Internal Auditors professional practice. The changes help auditors focus on the significance and importance of the activity in their opinions and recognise that auditors cannot give absolute (Full) assurance. The new levels of assurance are as follows (Appendix 1 outlines the definitions):

Previously:	New:
■ Full Assurance	■ Effective
■ Substantial Assurance	■ Some Improvement Needed
■ Limited Assurance	■ Major Improvement Needed
■ No Assurance	■ Inadequate

5. We have completed one audit since our last progress report, which we have given an Assurance of “Some Improvement Needed”, as follows:

Internal Audit work completed from 01st May – 31st August 2014

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

Effective	Some Improvement Needed	Major Improvement Needed	Inadequate
<ul style="list-style-type: none"> No Reports 	<ul style="list-style-type: none"> Corporate Fraud 	<ul style="list-style-type: none"> No Reports 	<ul style="list-style-type: none"> No Reports

Note: The Governance & 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.

Corporate Fraud

7. We found that the Councils approach to corporate fraud had improved since the last audit. Agreed actions arising from the Counter Fraud Audit report dated August 2013 have been fully implemented, including identifying a Fraud Lead Officer and updating the Council's website and intranet with Fraud documents and policies.
8. As part of this audit, we also carried out some proactive sample testing of Fuel Usage and Procurement Card expenditure. We found that the Council has generally good controls and systems in place for the monitoring and management of transactions in both of these areas. There were no instances of fraudulent activity found from our testing of over 80 records.
9. However, we did find areas where controls and management information could be strengthened for Procurement Card use and these have also been identified by the Council's own review.
10. There has also been an internal "boot camp" review of Waste Services which included a section on fuel use and made several recommendations for service improvements.

Audits in Progress

11. There are three planned 2014/15 audits currently in progress and also the Housing Benefits Subsidy work which is nearing completion.
- Housing Benefits
 - Housing Benefits Subsidy
 - ICT – Mobile Devices
 - Strategic Economic Development

Other Significant Work

12. Other audit work undertaken during the period:
13. **Central Lincolnshire Local Plan Partnership (CLLPP)**
An audit of the Joint Planning Unit has been commissioned by Lincolnshire County Council, North Kesteven District Council and West Lindsey District Council. These three authorities form 75% of the Central Lincolnshire Local Plan Partnership which is tasked with delivering a Local Plan for Central Lincolnshire. We also plan to involve the fourth partner, City of Lincoln Council, in our audit planning, delivery and reporting process.
A copy of the Internal Audit client brief showing the full scope and coverage of the audit is attached at Appendix 4.
14. **Combined Assurance**
The annual update of the combined assurance document is due to commence in September 2014 and will be presented to the Governance and Audit Committee during Quarter 4.

Performance Information

15. Our current performance against targets for 2014/15 is shown below.

Performance Indicator	Target	Actual @ 31/08/2014
Percentage of plan completed.	100%	17%*
Percentage of key financial systems completed.	100%	18%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations due implemented.	100% or escalated	Too early to report
Timescales: Draft report issued within 10 working days of completing audit.	100%	100%
Final report issued within 5 working days of CMT sign off	100%	100%
Draft report issued within 2 months of fieldwork commencing	80%	100%
Client Feedback on Audit (average)	Good to excellent	Good

* Indicator based on the number of days spent against the total number of days within the revised plan.

Outstanding Recommendations

16. Each quarter we follow up our audit report recommendations and track the implementations of agreed management action. There are a number of reports with Limited assurance which currently show outstanding actions, however it has been agreed that these will be re-visited to ensure the agreed timescales are realistic and achievable:

- IT Security
- Partnership Management
- Project Management
- Asset management
- NNDR Growth Project

Other Matters of Interest

17. **Effective Audit Committee Workshop – 7th November 2014**

Lincolnshire County Council has arranged for CIPFA to provide their Effective Audit Committee development workshop in Lincolnshire. The day is designed to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members. It includes:

- briefings on recent and emerging governance matters
- identifies how the audit committee can fulfil its purpose and improve its impact.
 - Balanced Work plan
 - Assurance Planning
 - Getting the most out of members knowledge and skills

The County Council is opening up the session to all Lincolnshire Districts Audit Committees – for a small fee of £100. A copy of the agenda for the day is attached in Appendix 5

18. **CIPFA Audit Committee Update**

CIPFA's Better Governance Forum every so often issue Audit Committee Updates. Issue 14 focusses on:'

External Audit Quality and Independence

Both the quality of the work performed by external auditors and their independence are essential factors underpinning the audit opinion on the financial statements and other audit work performed so it is important for audit committees to have an appreciation of them.

There are three main areas that are of importance to an audit committee:

1. That auditor independence is safeguarded.
2. That a satisfactory quality of audit is provided.
3. That the customer service provided and client relationships operate well.

Government Consultation on Local Audit Regulations

DCLG has issued a consultation on regulations relating to the implementation of the Local Audit and Accountability Act 2014. As well as matters relating to the implementation of the Act there are also updated Accounts and Audit Regulations which directly impact on the work of finance and internal audit.

Also includes:-

1. Collective auditor procurement
2. Accounts and Audit Regulations (England)

CIPFA's Consultation on a new Counter Fraud Code

The draft code has been out for consultation since mid-May comments were required by 18 July and the responses are now being analysed.

The code is made up of five principles:

1. Acknowledge the responsibility of the governing body for countering fraud and corruption.
2. Identify the fraud and corruption risks.
3. Develop an appropriate counter fraud and corruption strategy.
4. Provide resources to implement the strategy.
5. Take action in response to fraud and corruption.

Each of the principles contains a number of more detailed statements that explain what action is required.

Regular Briefing on Current Issues

- International Framework: Good Governance in the Public Sector
- Ethical Standards
- Implementation of the Single Fraud Investigation Service and Accessing Funding for Counter Fraud Activities
- National Fraud Initiative reports
- Government Response on Whistleblowing
- The Audit Committee Cycle

A copy is attached as a background paper at Appendix 6.

Appendix 1 – Assurance Definitions¹

<p>Effective</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. Controls have been evaluated as adequate, appropriate and are operating effectively.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Some improvement needed</p>	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence (assurance) 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 have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. A few specific control or risk issues identified.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
<p>Major improvement needed</p>	<p>Our critical review or assessment on the activity identified numerous concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p> <p>As a guide there are numerous 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>Inadequate</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>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of high risks / priority actions arising from the review.</p>

¹ These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 2 – Internal Audit Plan & Schedule 2014/15

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities						
Corporate Fraud	10	<p>Preparing for major national change has been identified as a Strategic Risk and is being managed through the Strategic Risk Register. This audit will carry out proactive testing in the following areas:</p> <ul style="list-style-type: none"> • <i>Fleet fuel management</i> Proactive work – based on fraud risk; to provide assurance on the arrangements in place to manage and report on fuel usage across the vehicle fleet. • <i>Purchase Cards</i> Proactive work – based on fraud risk; to ensure only bona fide payments are made and to provide assurance that payments are not bypassing or breaching procurement procedures. are being managed. 	May 2014	30 th April 2014	26 th June 2014	Some Improvement Needed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Information Governance	10	To review organisation wide information governance arrangements to provide assurance that data related risks are sufficiently managed whilst ensuring the right data is available at the right time.	October 2014			
Land, Property & Estate Management	10	To ensure that processes and controls around procurement, project management and investment decisions are embedded / complied with. Ensure the best use of resources / value for money in line with the Commercial Strategy.	Q4			
Strategic Economic Development	10	To assess the Council's role in supporting Economic Development, including partnership governance and project management.	Q3			
Central Lincolnshire Local Plan Partnership.	10	Provide assurance on the revised delivery arrangements for the central Lincolnshire joint	Q2			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		local plan and provide support and advice at key stages through gateway review. (combined audit resource with North Kesteven & City of Lincoln)				
Vulnerable People	15	To review the controls in place for safeguarding people and multi-agency working including Domestic Abuse	Q2			
Subtotal	65					
Due Diligence						
Resources						
Finance Systems – to be agreed with external audit input	20	To review systems and test transactions for finance systems feeding into the Council's accounts in liaison with external audit: <ul style="list-style-type: none"> • Creditors • Payroll • General Ledger • Treasury Management 	December 2014			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Key Control Testing	25	To undertake testing on key controls within finance systems for Head of Audit assurance	December 2014			
Benefits	10	To provide assurance that all benefits paid are bone fide, complete, accurate, timely and in accordance with policy / regulations	August 2014	30 th June 2014		
Insurance	0	To ensure that the Council has effective arrangements in place to manage its insurable risks	Postponed to April 2015/16			
Contract Management	10	To provide assurance that key contracts are managed effectively and monitored to confirm they are delivering as agreed	January 2015			
Sub Total	75					
Emerging Risks						
Emerging risk & contingency	5	To audit any significant emerging risks arising in the year.			5 Days to planning	

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Planning	15	TBC				
Other relevant Areas						
Assurance mapping	10	Update assurance map with service managers and gain management assurances and third party assurances.	September 2014			
ICT Audit.						
	10	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 (TM)	Q1 & 4			
Non-Audit						
Advice / liaison	5					
Annual Report	1					
Audit Committee	5					
Sub Total	11					
Total Audit Plan for 2014/15	176					

Appendix 3 - Outstanding Recommendations at 31st August 2014

Audit Area	Date	Assurance	Number of High / Medium Recs	Imple m'd	Outstanding			Not Yet Due
					High	Medium	Total	
Previous Years								
Localism	Oct 2012	Substantial	5	2	3	0	3	
Change program	Nov 2012	Substantial	11	10	0	1	1	
IT Security	August 2013	Limited	15	11	3	1	4	
			31	23	6	2	8	
2013/14								
Partnership Management	Feb 2014	Limited	6	1	3	2	5	
Project Management	Feb 2014	Limited	8	4	0	1	1	2 (H) 1 Not Agreed
Asset Management – Utilisation and Disposal	Feb 2014	Limited	9	2	5	2	7	
NNDR – Growth Project	March 2014	Limited	5	4	1	0	1	
Treasury Management	March 2014	Full	1	1	0	0	0	
General Ledger	March 2014	Substantial	2	2	0	0	0	
Risk Management	June 2014	Some Improvement Needed	4	3	0	1	1	
Creditors	June 2014	Limited	3	0	0	0	0	1 (H) 2 (M)
ICT	June 2014	Substantial	2	0	0	0	0	2 (M)
			40	17	9	6	15	7
2014/15								
Corporate Fraud	June 2014	Some Improvement Needed	9	2	0	1	1	6 (M)
			9	2	0	1	1	6



Central Lincolnshire 2011
LOCAL PLAN 2036



Internal Audit Client Brief

SUBJECT: INTERNAL AUDIT REVIEW

CENTRAL LINCOLNSHIRE LOCAL PLAN PARTNERSHIP

Central Lincolnshire Local Plan – 2014/15

Document reference / version	Central Lincolnshire Local Plan brief
Document date	July 2014

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INTRODUCTION

The National Planning Policy Framework (2012) requires all planning authorities to produce a Local Plan.

The aim of the Local Plan is to prepare plans and policies that help create places that are sustainable and attractive to live in. The Local Plan should work together with other plans and policies, such as economic, housing and environmental strategies.

This audit has been commissioned by Lincolnshire County Council, North Kesteven District Council and West Lindsey District Council as part of their 2014/15 audit plan provide via Audit Lincolnshire. These three authorities form 75% of the Central Lincolnshire Local Plan Partnership (CLLPP) which is tasked with delivering a Local Plan for Central Lincolnshire. We also plan to involve the fourth partner, City of Lincoln Council, in our audit planning, delivery and reporting process.

SCOPE AND COVERAGE

We will be seeking to provide assurance on a broad range of the elements of the CLLPP

We shall review the following areas:

- Governance arrangements of the partnership
- Project management of the Local Plan
- Staffing and resources adequacy – now and in future years
- Contract management of external planning experts
- Quality assurance processes over the evidence base
- Stakeholder engagement and consultation
- Financial sustainability of the partnership

As Lincolnshire County Council also has the same formal role and responsibilities for the South East Lincolnshire Local Plan Partnership we will also be seeking to provide assurance that good practice and lessons learnt is shared to achieve the best outcomes for the sustainable development of Lincolnshire.

APPROACH

We will conduct the audit in sections based on the areas listed above. We plan to start the work during August 2014 when we will focus on governance arrangements and project management. This will be followed by quality assurance of evidence in September and then stakeholder engagement and consultation will be reviewed in October / November to align with the formal consultation on the draft plan. Remaining areas will be scheduled at the most appropriate time during the year to maximise the value our audit work will add.

We have met with the Head of Planning Group to confirm that the scope and coverage is correct and meets your assurance needs. It is important to us that before we commence the audit we understand your business, and the issues you face. The agreed scope will then be considered by the Central Lincolnshire Strategic Group for final sign off

In conducting the review we:

- Will meet with Allan Simpson to gain a basic understanding of the legal framework for plan making
- Propose to meet with appropriate members of the partnership to identify the processes, procedures and practices designed to help achieve the objectives of the areas within scope, to include:
 - Richard Kay – Local Plan Manager
 - Andy Gutherson – HoP* Lincolnshire County Council
 - Kate Ellis – HoP City of Lincoln Council
 - Suzanne Fysh – HoP West Lindsey District Council
 - Andy McDonough – HoP North Kesteven District Council
 - The Strategic Group
- Will examine the necessary evidence that supported progress being made
- Will keep you informed of our findings as the audit progresses, and issue a highlight report for each part of the audit reviewed along with our recommendations.
- Produce an overview draft report on completion covering all parts of the review along with recommendations and progress made
- Following a final closure meeting with you we will issue a final report. Any agreed actions arising out of the review will be monitored for implementation.
- Will capture the outcome of the review as part of each Council's Assurance Map.

Effective Audit Committees

7th November 2014

The Lincoln Golf Centre, Thorpe on the Hill, Lincoln. LN6 9BW

9.00 **Coffee and Registration**

9.15 **Introduction & Housekeeping (Lucy Pledge)**

9.30 **Roles and Responsibilities of the Audit Committee**

An overview of the role of the audit committee, its objectives and accountability arrangements.

10.30 **Break**

10.45 **Achieving a balanced work programme**

An overview of the key areas of activity for the audit committee, including the core areas outlined in the CIPFA position statement, eg governance, risk management, internal audit, external audit, value for money and counter fraud. The session will identify how the audit committee can add value to each of these areas.

(This could be a high level look at all the areas identified as core functions in the position statement, or more in depth on one or two.)

12.30 **Lunch**

13.15 **Knowledge and skills**

An interactive session outlining key areas of knowledge and skills, including the role of the chair, and engaging delegates in a practical assessment of the knowledge and skills of their committee.

14.15 **Break**

14.30 **Assurance Planning**

This session will examine how audit committees can better plan their assurances using a range of assurance providers and linking to their work plan and objectives.

- What assurances should an audit committee look for?
 - Who are the assurance providers?
 - Some useful questions to ask
-

16.15 **Close**

The facilitator for this event will be Elizabeth Humphrey

We reserve the right to alter the timing or content of sessions where circumstances require.

CIPFA Better Governance Forum

Audit Committee Update

- helping audit committees to be effective

Issue 14

External Audit Quality and Independence

Government Consultation on Local Audit Regulations

CIPFA's Consultation on a new Counter Fraud Code

Regular Briefing on Current Issues

July 2014

Introduction

Dear Audit Committee Member,

This is the 14th issue of Audit Committee Update. It contains an article explaining current arrangements for overseeing the quality and independence of external auditors. Both the quality of the work performed by external auditors and their independence are essential factors underpinning the audit opinion on the financial statements and other audit work performed so it is important for audit committees to have an appreciation of them. For organisations in England whose auditors are appointed for them by the Audit Commission it is also helpful to understand what monitoring is undertaken on the contracts by the Audit Commission.

There are also articles outlining CIPFA's work on developing a counter fraud code of practice and recent consultation around local audit regulations.

In addition we include our round up of developments to help keep you informed and up to date. The round up includes a number of developments in the fields of governance, risks and counter fraud so I am sure you will find topics of interest and use here.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

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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 – Please note that Issue 13 provides an updated review of this topic.	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
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13

Workshops and Training for Audit Committee Members in 2014 from CIPFA

Developing the Audit Committee

A practical workshop designed to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

2 October 2014, Edinburgh; 4 December 2014, London

Advanced Audit Committees

The audit committee's role in relation to risk, value for money and countering fraud.

20 November 2014, London

Governance Annual Summit

16 October 2014, London

The annual summit features high profile speakers and addresses the governance challenges facing the public services. The full programme will be confirmed shortly along with booking details but confirmed speakers include:

- Sheila Drew-Smith, Member of the Committee on Standards in Public Life
- Jessica Crowe, Chief Executive, Centre for Public Scrutiny
- Rob Whiteman, Chief Executive, CIPFA

CIPFA events information and dates available are on the website.

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

In house training

In house audit committee training tailored to your needs is available. For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the [website](#).

Receive our Briefings Directly

This briefing will be sent to all contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent 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 and download any of our guides and briefings directly. Register now, please click here <https://www.cipfa.org/Login>.

Understanding External Audit Quality and Independence

Introduction

The audit opinion from external audit is one of the most important elements of assurance that the audit committee receives. It is helpful therefore for audit committee members to understand some of the professional standards, guidance and oversight arrangements that are in place to safeguard the quality of that audit opinion and auditor independence. Audit quality and independence are essential to ensure there is public confidence in external audit and they are taken very seriously by the external auditors themselves as well as regulators.

It is also helpful for audit committee members to understand the role they can play to support an efficient external audit and to help ensure good working relationships between their organisation and the auditors.

What does the audit committee need confidence in? There are three main areas that are of importance to an audit committee:

1. That auditor independence is safeguarded.
2. That a satisfactory quality of audit is provided.
3. That the customer service provided and client relationships operate well.

Auditor independence

Independence is safeguarded by a combination of ethical standards to which all external auditors must adhere and specific arrangements for the appointment of auditors. For many parts of the public sector external auditors are not appointed by the client organisation but by the appointed audit institutions (Audit Commission, National Audit Office, Audit Scotland, Wales Audit Office, and Northern Ireland Audit Office). The Codes of Audit Practice¹, to which all external auditors of local government and local health bodies work, include standing guidance that requires auditors to ensure they are independent of their client. This includes, for example, a requirement that the auditors should not be employed by or be a member of their client organisation.

Ethical standards for **all** public and private sector external auditors are set by the Auditing Practices Board (APB) of the Financial Reporting Council (FRC). The objective of these is that 'auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence'². Ethical Standard 1 contains the following requirement:

The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence.

Typically it would be the audit committee that would be the recipient of that information. So for example the annual plan from your external auditor is likely to include a statement about their independence for the period covered by the plan.

¹ Audit Commission <http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/>

² *Ethical Standard 1 (Revised) Integrity, Objectivity and Independence* (Auditing Practices Board FRC, 2011) <https://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx>

Role for the audit committee:

- Review the assurances from your external auditor over independence.

Auditors are also obliged to abide by the ethical standards of their professional institute. For example CIPFA members and students need to abide by the *Standard of Professional Practice on Ethics*³ (IFAC, 2010).

Quality of audit

All the national audit bodies have arrangements in place to ensure that the quality of audit work undertaken, whether by their own auditors or by appointed firms, comply with auditing standards, ethical standards and the body's own quality arrangements. It is helpful for an audit committee member to understand the quality mechanisms that underpin the work of external audit, roles and responsibilities and to know what information is available. Overall audit quality inspections conclude that audit quality is good, but there can always be scope to improve and ensure consistency.

Quality review processes

All audit organisations will operate their own quality mechanisms to ensure that their audits are all conducted to the required quality standards. Typically this includes the provision of training and guidance to ensure adherence to standards and review mechanisms to check the performance of audit work by more senior staff. This would be completed before the audit is signed off. The second stage is a "cold" review of a sample of audits by an in-house quality team against quality standards. This would normally be conducted after an audit has been completed.

The appointing body of the external auditor will also have arrangements in place to monitor the performance of firms undertaking audits on its behalf. For example the Audit Quality Review team of the FRC may be invited to undertake an independent quality review of a sample of audits and to report to the regulator on their findings. This is then used to inform the regulator's monitoring.

Role of the audit committee:

- Understand the quality mechanisms that underpin the work of external audit. These are usually outlined in the audit plan report to the committee.
- Consider the annual reports from the relevant regulator that provide assurance on audit quality (see section below and links to further documentation available).
- See the published quality inspection reports relevant to your external audit firm (where available).

Customer service

A good working relationship between the external auditor and your finance and internal audit teams is helpful to ensure an efficient external audit.

The audit committee can seek assurance from the chief financial officer and head of internal audit on how well the external audit team are working with your finance and internal audit teams. There should be good day-to-day contacts between the teams.

³ <http://www.cipfa.org/membership/conduct-and-ethics/ethics>

External audit should clearly set out their expectations, liaise over timescales and requirements and provide good client support. Minor difficulties should be resolved without recourse to the audit committee but the audit committee should provide support where required. If a formal complaint is made to the external auditor then it would be reasonable for the audit committee to be informed.

The lead external auditor or representative is likely to attend most audit committee meetings and it is helpful for the audit committee to receive assurance that the external audit team is receiving the co-operation required. Again it would not be expected that minor matters would be raised directly with the audit committee but the audit committee may need to become involved in a more serious failure in co-operation.

It is helpful for the audit committee to have a good relationship with the nominated lead of the external audit team. This will help the committee to better understand the audit plan, team roles and their approach to the audit.

Accessing further information

Available from the Audit Commission:

- *Regulatory Compliance and Quality Review Programme Annual Report 2014*. This provides an overview of the quality of work across all audit suppliers appointed by the Audit Commission.
- Annual regulatory compliance and quality report on each of the firms contracted to provide audits 2013. These include the results of the Audit Commission's own quality review work on each firm and incorporate the results of the FRC's commissioned work. The reports identify improvement points identified during the review processes and comparison against other audit suppliers.
- Quarterly regime compliance monitoring reports 2013/14. These are published quarterly and summarise the performance of each firm against key quarterly performance indicators. The performance indicators cover whether deadlines have been met, attendance at technical meetings and approval of non-audit work.
<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/>

Available from the National Audit Office (NAO):

- *Transparency Report (2012)* <http://www.nao.org.uk/about-us/what-we-do/audit-quality/>

Available from Audit Scotland:

- *Transparency and Quality Report (2014)* http://www.audit-scotland.gov.uk/docs/corp/2014/as_transparency_1314.pdf

Available from the Wales Audit Office:

- *Transparency Report 2012-13 (2013)* http://www.wao.gov.uk/sites/default/files/download_documents/Wales_Audit_Office_Transparency_Report_English_2013.pdf

Available from the FRC:

- An annual report summarising the overall findings from the inspection work of the Audit Quality Review team, including inspections of audits on public sector entities. The most recent report was published in May 2014 and is available on the FRC website. It includes a summary of 2013/14 inspection results, outlines key issues

arising and also outlines changes to future inspection work resulting from the [Local Audit and Accountability Act 2014](#).

- Quality reports on “big 5”⁴ firms. Of interest if one of these is your external audit provider.
- Thematic reports on quality issues.

<https://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review.aspx>

Future regime changes

Organisations that currently have their external auditors appointed for them by the Audit Commission should be aware of the future changes being made. The Audit Commission is closing at the end of March 2015 as a result of the [Local Audit and Accountability Act 2014](#), but current audit contracts arranged by the Audit Commission will continue. The Department for Communities and Local Government (DCLG) has announced that a new company to be established by the Local Government Association (LGA) will have oversight of the contracts until they expire at the end of 2017 or 2020 if they are extended. This oversight will include the quality and contract monitoring that the Commission currently undertakes and this is specified in the draft Local Audit Regulations. The future appointment of external auditors under the Act will change the quality regime with a new role for the FRC.

The NAO has formally taken on responsibility for the Codes of Audit Practice and these will be out for consultation this summer.

Diana Melville

CIPFA Better Governance Forum

⁴ Baker Tilly, Deloitte LLP, Ernst & Young LLP, KPMG LLP and KPMG Audit Plc and PricewaterhouseCoopers LLP

CIPFA Consults on New Counter Fraud Code

Background to the code

*Managing the Risk of Fraud*⁵ was developed by the Better Governance Forum Counter Fraud Panel in 2005 and has gained widespread acceptance among counter fraud professionals. It is used to guide and assess good practice in counter fraud arrangements across many organisations. The guidance was updated in 2008 and the BGF has been planning a review of the standards for a while to ensure that it remains current.

The guidance still contains much that is relevant and useful, however we know that some smaller organisations have found it too long and detailed for application in their organisations. As part of our review we considered it essential that an updated version should be a tool for communicating the importance of effective counter fraud arrangements to senior managers, the board and the audit committee and also outlined the importance of governance and leadership for achieving effective arrangements. As a result we felt a shorter set of principles that focused on the responsibilities of the organisation's leadership as well as counter fraud expertise was the way forward.

CIPFA has also decided to give the guidance a higher status as a code, although adherence to it is voluntary. Another objective was that the code should be suitable for application across all parts of the public services. This is of increasing importance with the growth of collaborative arrangements across public bodies. Again this objective pointed to a higher level set of principles. At the same time CIPFA recognises the need for help and support in applying the principles to specific organisations so supplementary guidance notes are being developed, together with an assessment tool to enable evaluation and benchmarking of an organisation's approach to tackling fraud and corruption.

Draft code and consultation process

The draft code has been out for consultation since mid-May and is available to download from the CIPFA website. We asked for comments to be sent to us by 18 July and we are now analysing the responses. If you do have comments you would like to make, do get in touch as soon as possible. CIPFA is keen to hear not just from counter-fraud experts but also senior managers, audit committee members and governors as they all have a stake in operating the code.

The code is made up of five principles:

1. Acknowledge the responsibility of the governing body for countering fraud and corruption.
2. Identify the fraud and corruption risks.
3. Develop an appropriate counter fraud and corruption strategy.
4. Provide resources to implement the strategy.
5. Take action in response to fraud and corruption.

Each of the principles contains a number of more detailed statements that explain what action is required. For example there are four statements underpinning the principle of acknowledging responsibility:

Acknowledge Responsibility

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation:

⁵ *Managing the Risk of Fraud, Actions to Counter Fraud and Corruption* (2008 edition)

- The organisation's leaders acknowledge the threats of fraud and corruption, the harm they can cause and the potential for savings from managing the risk.
- The organisation's leaders acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the standards of good governance.
- The governing body acknowledges its responsibility for managing its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- The governing body sets a specific goal of improving its resilience to fraud and corruption.

CIPFA has also established a Counter Fraud Centre to be a centre of excellence in counter fraud and to build on the existing resources of both CIPFA and the Audit Commission in supporting excellent counter fraud practice. CIPFA will also be working with the Fighting Fraud Locally Board to produce the next counter fraud strategy for local government and leading new initiatives in support of Fighting Fraud Locally. Further details about the Centre can be found on the CIPFA website - <http://www.cipfa.org/services/counter-fraud-centre>.

Role of the audit committee

Recent guidance from CIPFA⁶ sets out in more detail the role of the audit committee in respect of counter fraud:

The audit committee role should be to have oversight of the authority's strategy to counter fraud – assessing whether it meets recommended practice and governance standards and complies with legislation.

So the draft code is a key document for the audit committee to refer to when considering whether its organisation's understanding of fraud risk, capacity and capability to respond to the risk and clear leadership of the counter-fraud strategy are fit for purpose. Further guidance to the audit committee will be available in the next issue of Audit Committee Update when the code and guidance notes are published.

Next steps

Please visit the CIPFA website to download the draft code - <http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-counter-fraud>.

⁶ *Audit Committees, Practical Guidance for Local Authorities and Police* (2013 edition)

Government Consultation on Local Audit Regulations

DCLG has issued a consultation on regulations relating to the implementation of the [Local Audit and Accountability Act 2014](#). The draft regulations cover a number of different topics. As well as matters relating to the implementation of the Act there are also updated Accounts and Audit Regulations which directly impact on the work of finance and internal audit.

The following short summary identifies a few of the key areas of interest to the audit committee.

Collective auditor procurement

The regulations set out how the secretary of state will nominate “an appointing person” to operate a collective procurement on behalf of authorities. Authorities (including police and health bodies covered by the Act) will have the option of choosing a collective procurement. If they choose this option it will replace the requirement under the Act to establish an auditor panel to oversee and recommend an appointment.

The appointing person will invite authorities to join in. Acceptance of the invitation means commitment to the term of the audit contract. At the end of the procurement exercise the appointing person will have a duty to consult the client authority on the external auditor selected for appointment. The appointing person will also set the audit fees to be paid following consultation.

The appointing person will also have other responsibilities, which are to design and implement appropriate systems to:

- oversee the ongoing independence of the auditor
- monitor the compliance of appointed auditor with contractual obligations and
- deal with disputes or complaints relating to audit contracts and the carrying out of audits.

Accounts and Audit Regulations (England)

From the accounts for the financial year 2017/18 the government proposes to bring forward the existing dates of 30 June and 30 September to 31 May and 31 July for accounts being signed and certified by the responsible financial officer and then approved and published. This means that audit committees will be reviewing the audited accounts in July rather than September.

There are also changes to the rules on the exercise of the public’s rights to inspect the accounting records and to put objections and questions to the auditor. These will both commence immediately after the responsible financial officer has certified the accounts and the unaudited accounts must be published then.

The requirement for internal audit has been amended to explicitly include risk management, control and governance and to refer to public sector internal audit standards. The annual review of effectiveness is no longer included.

Full details of the draft regulations are available on the government website - <https://www.gov.uk/government/consultations/local-audit-regulations>.

CIPFA has responded to the regulations.

Recent Developments You May Need to Know About: Reports, Recommendations and Guidance

International Framework: Good Governance in the Public Sector

CIPFA has worked with the International Federation of Accountants (IFAC) to develop a new international framework on governance. The framework aims to encourage more effective public sector governance and better governed and managed public sector entities. The aim of governance should be to help the organisation to achieve its intended outcomes while acting in the public interest at all times.

To support that objective the framework sets out six principles, as illustrated in the following diagram:



The international framework does not replace existing governance frameworks, such as the CIPFA/SOLACE Framework for local government. However, CIPFA will be using the framework to help shape its future governance work.

[Download the International Framework from the CIPFA website](#)

Ethical Standards for the Providers of Public Services

The Committee on Standards in Public Life has published its report including results of research with commissioners of services, providers and the public. This is an important area as more public services are delivered by private contractors. The report makes a number of recommendations to government to ensure that proportionate ethical standards

are made explicit in commissioning, contracting and monitoring arrangements for all those delivering public services.

[Committee on Standards in Public Life Report](#)

Ethics in Practice: Promoting Ethical Standards in Public Life

Another report from the Committee on Standards in Public Life, this time focusing on the promotion of ethical standards, particularly through the use of induction on appointment. Good arrangements were identified in many parts of the public sector but the committee identified the need for improvement in some, for example MPs and police and crime commissioners.

[Committee on Standards in Public Life Ethics Report](#)

Auditor General for Wales Improvement Study: Scrutiny in Local Government

The Wales Audit Office has issued a report which aims to help councils achieve lasting improvements in scrutiny. Overall the Wales Audit Office concludes that local government scrutiny in Wales is improving but councils need to do more to develop consistently rigorous scrutiny to increase public accountability in decision-making. The report includes a number of recommendations and also features the outcomes and characteristics for effective local government overview and scrutiny developed by the Wales Scrutiny Officers Network.

[Wales Audit Office Scrutiny Report](#)

Centre for Public Scrutiny, Growth through Good Governance

A new report from the Centre that considers how good governance supports economic development. For example the report identifies how good governance leads to a clearer sense by partners of what they are trying to achieve – which is critical to securing meaningful outcomes from partnership work. Clarity of funding and clarity of involvement are also highlighted as resulting from good governance.

[Centre for Public Scrutiny Report](#)

Implementation of the Single Fraud Investigation Service and Accessing Funding for Counter Fraud Activities

Audit committee members in local authorities are likely to be aware of the changes currently being implemented for the investigation and prosecution of welfare fraud. As part of the move to Universal Credit the Department for Work and Pensions (DWP) is establishing a Single Fraud Investigation Service (SFIS) and local authorities will not investigate housing benefit fraud. This is likely to involve some transfer of staff, both fraud investigators and prosecution lawyers. Dates have been set for all authorities and these are staggered over the next year.

Authorities still retain responsibility for fraud prevention and the investigation of all other fraud risks, for example: tenancy fraud, frauds affecting council tax or business rates, procurement fraud, pension and payroll fraud. It is therefore vital that councils review their counter-fraud capacity and capability in the light of the SFIS changes.

DCLG has announced a fund to support the development of counter fraud initiatives. Further details of how to bid are on the DCLG website.

[Communities and Local Government Counter Fraud Fund](#)

National Fraud Initiative reports

The data matching exercise co-ordinated by the Audit Commission identified £229m of fraud, overpayment and error across the UK. Scotland Wales and Northern Ireland have also published their own results for their areas. The survey includes local government, police, fire, health bodies and some central government departments and agencies.

- [Audit Commission – National Report](#)
- [Audit Scotland](#)
- [Wales Audit Office](#)
- [Northern Ireland Audit Office](#)

Schools Fraud Healthcheck

Guidance to schools on fraud risks, including examples of the types of frauds schools are at risk from is now available. The guidance has been developed by Mazars to support the Fighting Fraud Locally strategy. CIPFA is supporting the Fighting Fraud Locally initiative through its new Counter Fraud Centre. The guidance can be downloaded from the Centre's website.

[CIPFA Counter Fraud Centre – Schools Fraud Healthcheck](#)

Government Response on Whistleblowing

The government has published its response to its earlier consultation on the adequacy of whistleblowing arrangements. Key recommendations include:

- improved guidance for individuals
- development of best practice or non-statutory code
- introduction of a duty to report annually on whistleblowing
- celebration of those employers who embrace whistleblowing in their organisation.

[Business Innovation and Skills Response](#)

The National Audit Office's Role in Local Audit

The NAO has produced a guide explaining its new role resulting from the [Local Audit and Accountability Act 2014](#).

[National Audit Office Guide](#)

Understanding Central Government's Accounts – An Introductory Guide for Those with an Oversight Role

A new guide from the NAO is aimed at helping non-accountant readers of government's accounts understand better what is being reported in them and what it means. The guide explains the key elements of the accountability cycle for public money, as well as the purpose and content of the annual report, the primary statements and the notes to the accounts. It also includes some challenge questions that readers of the accounts might like to use.

[National Audit Office Guide to Accounts](#)

Scotland's Public Finances - Follow-up Audit: Progress in Meeting the Challenges

A new report from Audit Scotland says that public bodies have coped well so far with reduced budgets but need to focus more on priorities and develop longer-term financial plans. It says that longer-term spending plans focusing on priorities and risks must be created to assess spending needs and options and their implications for affordability.

[Audit Scotland Report](#)

Police Reform: a Developing Picture

A report from Grant Thornton looking at the implementation of new governance arrangements from the [Police Reform and Social Responsibility Act 2011](#). It focuses on three main areas:

1. Governance and accountability.
2. Partnerships, collaboration and commissioning.
3. Public communication and transparency.

[Grant Thornton report on police reform](#)

Government Response on Local Government Procurement

The government has responded to the Communities and Local Government Select Committee report on Local Government Procurement.

[Communities and Local Government Response](#)

The Audit Committee Cycle

Audit committee annual reports

Many audit committees prepare an annual report to demonstrate how they have fulfilled their role and purpose over the previous year. The Better Governance Forum has produced a new briefing to support organisations preparing their report.

[CIPFA Better Governance Forum Briefing](#)

Reviewing the annual governance statement

Audit committees may have already considered the draft annual governance statement (AGS) and supporting evidence. The final version must be published alongside the financial statements by 30 September. [Issue 10 of Audit Committee Update](#) included details of the latest guidance from CIPFA on the AGS.

The Better Governance Forum has a webinar and presentation on its website with a note about the key changes to remember for the 2013/14 AGS for local government. This can be accessed through the following link:

[Annual Governance Statements webinar](#)

One point that is often overlooked is that the AGS should be current at the point that it is published. If publication is in September then the audit committee should be satisfied that there are no material developments or changes since they first reviewed the statement or that the statement has been brought up to date. The statement should be signed shortly before publication.

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