

NON-CONFIDENTIAL



Borough of Tamworth

Marmion House,
Lichfield Street, Tamworth,
Staffordshire B79 7BZ.

Enquiries: 01827 709 709
Facsimile: 01827 709 271

AUDIT AND GOVERNANCE COMMITTEE

22 March 2012

Dear Councillor

A Meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 29th March, 2012 at 6.00 pm**. Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. D. ...', written over a circular stamp or mark.

A G E N D A

NON CONFIDENTIAL

- 1 Apologies for Absence**
- 2 Minutes of the Previous Meeting (Pages 1 - 2)**
- 3 Declarations of Interest**

To receive any declarations of Members' interests (personal and/or personal and prejudicial) in any matters which are to be considered at this meeting.

When Members are declaring a personal interest or personal and prejudicial interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a personal and prejudicial interest in respect of which they do not have a dispensation.

- 4 Audit Plan - Audit 2011-12** (Pages 3 - 24)
(The Report of the Audit Commission)

- 5 Final Accounts 2011/12 – Action Plan** (Pages 25 - 34)
(The Report of the Deputy Director Corporate Finance, Exchequer and Revenues)

- 6 Self Assessment - Measuring the Effectiveness of the Audit and Governance Committee** (Pages 35 - 40)
(The Report of the Head of Internal Audit Services)

- 7 Internal Audit Strategy and Plan 2012-13** (Pages 41 - 54)
(The Report of the Head of Internal Audit Services)

- 8 Regulation of Investigatory Powers Act 2000 Quarterly Report March 2012**
(Pages 55 - 56)
(The Report of the Solicitor to the Council)

People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.

To Councillors: M Gant, R Cook, S Doyle and P Seekings



MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD ON 26th JANUARY 2012

PRESENT: Councillor M Gant (Chair), Councillors S Doyle and R Cook

Officers	John Wheatley (Deputy Chief Executive and Corporate Director (Resources)), Jane Hackett (Solicitor to the Council and Monitoring Officer), Stefan Garner (Deputy Director (Finance Exchequer and Revenues)) and Angela Struthers (Head of Internal Audit Services)
Visitors	James Cook (Audit Commission) Joan Barnett (Audit Commission)

34 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P Seekings.

35 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 27 October 2012 were approved and signed as a correct record.

(Moved by Councillor R Cook and seconded by Councillor M Gant)

36 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

37 REGULATION OF INVESTIGATORY POWERS ACT 2000

The Report of the Solicitor to the Council and Monitoring Officer informing members of the surveillance carried out under the Regulation of Investigatory Powers Act 2000 was considered.

RESOLVED: That the quarterly RIPA monitoring report be endorsed.

38 ANNUAL AUDIT LETTER AUDIT 2010/11

The Report of the Audit Commission was considered.

RESOLVED: That the contents of the report be endorsed.

39 CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT AUDIT 2010/11

The Report of the Audit Commission was considered.

RESOLVED: That the contents of the report be endorsed.

40 VIREMENTS UPDATE 2011/12

The Report of the Deputy Director Corporate Finance, Exchequer & Revenues advising Members of the higher level virements processed during the first half of the 2011/12 financial year was considered.

RESOLVED: That the contents of the report be endorsed.

41 INTERNAL AUDIT QUARTERLY REPORT 2011/12

The Report of the Head of Internal Audit Services reporting on the outcome of Internal Audit's review of the internal control, risk management and governance framework in the 3rd quarter of 2011/12 – to provide members with assurance of the ongoing effective operation of an internal audit function and enable any particularly significant issues to be brought to the Committee's attention was considered.

RESOLVED: That the Committee considered and endorsed in Internal Audit Review and the assurance of an ongoing effective operation of the internal audit function.

42 RISK MANAGEMENT REPORT 2011/12

The Report of the Head of Internal Audit Services reporting on the Risk Management process and progress to date for the current financial year was considered.

RESOLVED: That the Committee considered and endorsed the Risk Management Process and the progress made to date for the current financial year.

Chair

Audit plan

Tamworth Borough Council

Audit 2011/12



Contents

Introduction.....	3
Accounting statements [and Whole of Government Accounts]	4
Value for money.....	9
Key milestones and deadlines	10
The audit team	11
Independence and quality	12
Fees	13
Appendix 1 – Independence and objectivity	15
Appendix 2 – Basis for fee.....	17
Appendix 3 – Glossary.....	18

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I will comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

P I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my **opinion**. I have initially assessed materiality as £1.260M.

O Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

I Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: Significant risks

Risk	Audit response
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Tamworth Borough Council this is likely to include, but not be restricted to your Castle; Offa's Seat; Parks; Assembly Rooms; Town Hall; and other miscellaneous buildings and artefacts.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p>
<p>The end of the housing subsidy regime will mean the Council borrowing around £44.668M, so is material and likely to happen in March.</p>	<p>I will:</p> <ul style="list-style-type: none"> • Agree settlement payment or receipt to the amount specified in the relevant Annex to the Settlement Payments Determination 2012. • Check that the settlement transaction has been accounted for in line with the requirements of the Code and relevant CIPFA guidance. • Agree details of loan transactions to supporting documentation. • Re-perform calculations supporting item 8 debit and item 8 credit to the HRA. • Check cash flow working papers to confirm that non-cash transactions associated with loan redemptions are excluded from related cash flows disclosed under operating and financing activities line items.
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to central government on or before 28 March</p>	<p>I will:</p> <ul style="list-style-type: none"> • Review management oversight of HRA reforms and transactions required by the Authority.

Risk

2012. This will adjust the HRA debt of the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

Icelandic banks

As at January 2012, the Council had £4.6m invested in Icelandic Banks - £3m of which is invested in Glitnir. The recoverable amount of this investment was in doubt. However in November 2011 the Icelandic Supreme Court ruled that local authorities would receive 'priority creditor status' for deposits with Glitnir. This means that this amount should be recoverable over time. The Icelandic banks have repaid the Council £5.577M to date, with a further £2.253M of principal and interest still outstanding.

Þ
a
g
e
o
o

When the recovery of the investment was in doubt the Council received a Capitalisation Direction from Central Government enabling the write-down of the impairment to be spread over a number of years. This will need to be reversed.

There is a risk that the recoverable amount could be materially misstated.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and

Audit response

- Undertake tests of detail on the settlement payment or receipt.

I will:

- evaluate the management controls you have in place to recognise and measure the recoverable amount from your investments in Icelandic banks
- undertake testing to check that the financial statements are materially stated reflect local circumstances.

- maximise the work that can be undertaken before you prepare your accounting statements.
- The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Housing Rents Housing repairs NNDR Council Tax NNDR Treasury management Accounts payable Accounts Receivable Housing Benefits Payroll	Payroll Housing Benefits Accounts payable Accounts receivable Cash receipting Housing Rents Council Tax NNDR Housing Repairs			Non pay expenditure not covered by controls testing
Final visit			Pensions assets and liabilities – PWC as auditor to Staffordshire Local Government Pension Fund.	Pensions liabilities and assets – (Hymans Robertson LLP) and our own consulting actuary (PWC) Valuation of property, plant	Property, Plant and Equipment Analytical Review of Housing Rents, NNDR and Council Tax All material accounts balances and amounts Year-end feeder system

Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing	
			and equipment (Council's valuers), and Gerald Eve (our valuer).	reconciliations Journals	

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: Significant risks

Risk	Audit response
<p>Economic Downturn and pressure on the public sector.</p> <p>Although the Council has regularly updated its Council Plan and financial strategy, the financial pressures will continue over the next few years. There is a risk that future reductions in spending levels may affect the quality of services, and affect financial resilience and value for money.</p>	<p>I will review:</p> <ul style="list-style-type: none">– the Council's Medium Term Financial Strategy– the arrangements for monitoring and achieving the Council's annual savings target

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February – April 2012	update to the Audit Committee
Review arrangements for counter fraud, accounting estimates, related party transactions, ensuring legality of transactions.	February – April 2012	Briefing paper for the Audit Committee on consideration of the International Auditing Standards for counter fraud, accounting estimates, related party transactions, and the legality of transactions.
Opinion: receipt of accounts and supporting working papers	June 2012 (on site work commences 2 July 2012)	n/a
Opinion: substantive testing	July – August 2012	Opinion on your financial statements
Value for money	March – August 2012	Value for Money Conclusion
Present Annual Governance Report at the Audit Committee	[XX September] 2012	Annual Governance Report
Issue opinion [and value for money conclusion]	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
James Cook Senior Audit Manager	j-cook@audit-commission.gov.uk 0844 798 6689	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Joan Barnett Audit Manager	j-barnett@audit-commission.gov.uk 0844 798 3963	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Mat Berrisford Team Leader	m-berrisford@audit-commission.gov.uk 0844 798 6676	Manages the team during the on-site audit visits.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Page 14 **Quality of service**

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £109,250, as set out in my letter of 8 April 2011

The audit fee

The Audit Commission has set a scale audit fee of £109,250 which represents a 5 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As the control environment is already well developed and I already place reliance on Internal Audit Work, I have not identified any further actions that you could take.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit (scale fee)	109,250	115,000	(5,750)
Certification of claims and returns	31,500	38,446	(6,946)
Non-audit work	-	-	-
Total	140,750	153,446	(12,696)

The Audit Commission has also announced that it will pay a rebate of 8% of the scale audit fee back to councils for 2011-12, (In 2010-11, a rebate of 1.5% was paid back to the Council).

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example internal controls are operating effectively.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 2 July 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Page Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

29th March 2012

Report of the Deputy Director Corporate Finance, Exchequer & Revenues

FINAL ACCOUNTS 2011/12 – ACTION PLAN

Purpose

To provide an outline of the Corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2011/12 (including deadlines but not including detailed responsibilities) and to obtain Corporate commitment to the action plan.

Recommendations

That:

1. **the target of 15th June 2012 for closure of the final accounts and production of a draft statement for 2011/12 be approved;**
2. **staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required); and**
3. **the Statement be presented to the Audit & Governance Committee on or around 20th September 2012 (or the contingency date of 27th September 2012).**

Executive Summary

The Accounts and Audit Regulations 2011, require that the statement of accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September.

The key issues affecting the achievement of these deadlines are detailed in **Appendix A**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Audit Commission's assessment of the Council performance within the Annual Audit Letter.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions).

The information provided (detailed in **Appendix B**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 15th June 2012;
- Detailed management quality assurance review by 28th June 2012 ;
- Submission to Audit Commission (and to Members) on or before 30th June 2012;
- Report to Audit & Governance Committee on or around 20th September 2012 (with a contingency date of 27th September 2012);
- Latest publish date 30th September 2012;

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of it's accounts in compliance with statutory requirements.

Legal and Risk Implications

The Council has a statutory duty to prepare the Draft Statement of Accounts by 30th June 2012.

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain IFRS compliant which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the covalent risk register.

Risk No	Likelihood	Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of IFRS to be more complex and time consuming than thought initially	M H	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Inadequate training	L M	Research available training, ensure all relevant staff attend, training budget to be adequate
3	Failure to identify all leases	L M	Ensure staff are trained and understand exactly what is required. Explore all sources thoroughly
4	Key staff leaving	L M	Ensure there are sufficient skills within the team to cover

5	Incorrect interpretation of changes in IFRS	M H	Adequate training, sufficient resources. We have to comply with the new Code which has been prepared by CIPFA. Ensure all reasons for actions, inclusions and exclusions, are fully documented.
6	Guidance by CIPFA changing possibly causing delays	M M	Regular review and rescheduling of project timetable

Resource and Value for Money Implications

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during April and early May to ensure completion of the Financial Statements by 15th June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

Report Author

Please contact Stefan Garner, Deputy Director Corporate Finance, Exchequer and Revenues, extension 242.

Background papers	Accounts and Audit Regulations 2011
	Implementation of International Financial Reporting Standards – Progress Report, Audit & Governance Committee 21 st October 2010
	Implementing International Financial Reporting Standards (IFRS), Audit & Governance Committee 29 th April 2009
	Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended consultation (January 2011)
	Code of Practice on Local Authority Accounting in the United Kingdom (2011) based on IFRS

Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

The Accounts and Audit Regulations 2011, require that the statement of accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. This was successfully achieved for the 2010/11 financial year with draft accounts being prepared by the 30th June 2011 and audited accounts approved by the Audit and Governance Committee, at its meeting on 22nd September - in compliance with the statutory deadline.

Between completion of the statement in June and the conclusion of the on-site audit in August, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

To meet the necessary deadlines, the closure process for 2010/11 has been reviewed to identify any lessons to be learned for future years – including the actions recommended by the Audit Commission within the Annual Governance Report (attached at **Appendix D**).

The main issues affecting the closure of accounts for 2010/11 included:

- the need for corporate ownership of the process;
- reliance on staff in Directorates and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with laid down parameters (i.e. receipt of goods/services **before** 30th March);
- The need to ensure that payroll details are properly checked to HR records on a regular basis and that evidence of the check is being properly maintained.
- The introduction of a systems control to require service managers to confirm continued existence and responsibility for assets.

Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks.

A planning meeting has already been held with the Audit Commission to discuss the draft timetable of the year end process (**Appendix C**) with further meetings arranged prior to the commencement of the on-site audit of the accounts to discuss progress to date.

A detailed year-end timetable has been prepared (**attached at Appendix B**) and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next time. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2010/11 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping. There is still some room for development to ensure an efficient closedown for 2011/12.

2010/11 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	The majority were received after the deadline and following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 30/3/12, Directorates will be asked to ensure that the majority of orders are 'goods received' within e-financials, only where goods/services have been received, thereby generating 'auto-accruals' on 1/4/12 The minimum level for manual accruals will be £5k (as set by CDR). However, should material accruals have been missed (i.e. over £5k) then the Service Accountant must be advised and appropriate action taken	ALL
Asset Register / Valuations / Disclosures	Delay in finalisation of valuations	Meetings held with Audit Commission to agree date and basis of valuations prior to commencement of awarding contract for valuations work with ongoing reviews. Earlier deadline for return of valuations agreed. A regular review / reconciliation will be carried out as part of the quality control / monitoring process.	DD Corporate Finance / Chief Accountant
Related Party Transactions	Again - Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings - for sign off by 30/4/12 at the latest.	Solicitor
Transition to IFRS based Accounts	There were problems with the transition process in particular with the identification of Finance Leases	Any proposal to enter into a lease agreement has to be authorised by the Corporate Director of Resources which ensures that any necessary information is acquired early	

A flexible 'teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Corporate Director - Resources) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts to be cleared regularly.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimis levels for year-end accruals.

This has already been discussed and agreed with the Audit Commission during the planning meeting held on 26th January 2012 with further planning meetings scheduled during the coming weeks to communicate progress and discuss any issues that may arise.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a 'get it right first time' approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

Appendix B

Ref	CORPORATE REQUIREMENTS – FINAL ACCOUNTS 2011/12	DIRECTOR/ DD/AD	DEADLINE
1	Temporary Reserve / Retained Fund information	ALL	09/03/2012
2	Review all outstanding orders and delete where necessary	ALL	09/03/2012
3	Postal Franker Reading / Costs	DD AE	Close of Business 30/03/12
4	All "goods receipts" should be on e-financials by 30/03/12, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 16/03/12)	ALL	31/03/2012
	Deadline for approved manual accruals. (ie goods need to be received by 31/03/12.) Refer to year end guidance	ALL	11/04/2012
5	Manual accruals to be kept to a minimum, with CD-R approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	11/04/2012
6	Staff Holiday and Flexi Leave entitlement as at 31/03/12 (balances to be obtained from Tensor)	ALL (sign off confirmation)	11/04/2012
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/12 and information returned to accountancy	ALL	04/04/2012
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/3/12 will be issued	ALL	04/04/2012
9	IT stock purchases and disposals (hardware and software) information	AD BP	04/04/2012
10	Bad debt information: e-financials Sundry Debtors and overpayments Homelessness and Housing Rents	CD-R DD CFER DD Hsg	11/04/2012
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	DD OS	Draft by: 30/03/2012 Final Certified by: 30/04/2012
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	11/04/2012
13	HAA SOCH Mortgage principal repayment information	DD CFER	11/04/2012
14	Related Party Transaction information. Requirement to be sent by 23/03/12 / Approach at Committee if delayed	CDR S&MO	11/04/2012
15	Housing Capital salaries detailed by capital project	DD AE	11/04/2012
16	Managers confirmation of continued existence and responsibility for assets	ALL	13/04/2012
17	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	13/04/2012
18	Sale of council house enhancement information (Reg 14)(final quarter)	DD AE	13/04/2012
19	Improvement grant reconciliation	DD AE	13/04/2012
20	Collection fund information (NNDR3)	DD CFER	30/04/2012
21	FRS17 Pension information from SCC Pension Fund	SCC	30/04/2012
22	Review Code of Corporate Governance and Prepare Annual Governance Statement	Head of Internal Audit	18/05/2012
23	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	30/04/2012
24	Review potential post balance sheet events / impact on accounts	ALL	Up to 30/09/12

Audit Planning Timetable 2011/12

Date / Deadline	Completion of:	
Jan 2012	Audit Commission Workshops	
26/01/2012	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc) key dates to be agreed with Audit Commission	
20/03/12	Quarterly meeting with Chief Executive / Deputy Chief Executive (Corporate Director Resources)	
29/03/12	Opinion audit plan to Audit & Governance Cttee	
w/c 16/04/12	Audit Planning Meeting / requirements	
10/05/12	Audit Planning Meeting / requirements (including detailed Audit Plan for 2011/12 Audit from Audit Commission)	
15/06/2012	Draft Statement preparation	
2 weeks	Quality assurance	
28/06/2012	Submission of Accounts (to Audit commission / Members)	
28/06/2012	Detailed Audit Plan for 2011/12 Audit confirmed (for planning / management purposes)	
02/07/2012	On Site Audit Commences (prepare working papers / reconciliations / quality assurance process)	Leave Restricted - Accountants / Key Officers to be available for Auditor questions
06/07/2012	Weekly Meeting with Audit Manager	
13/07/2012	Weekly Meeting with Audit Manager	
20/07/2012	Audit Amendments / issues to date documented	
27/07/2012	Audit Amendments / issues to date documented	
20/07/2012	Appointed Day	
03/08/2012	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager	
06/08/2012	Final list of audit amendments / issues received	
17/08/2012	Amended Statement of Accounts prepared	
16/09/2012	Annual Governance Report received	
20/09/2012	ISA260 - Report to those charged with governance (Audit & Governance Committee 29/09/11)	
20/09/2012	Audit & Governance Committee	
20/09/2012	Sign Off	
30/09/2012	Publish at latest	

Extract from Audit Commission Annual Governance Report 2010/11
(as presented to the Audit & Governance Committee 22nd September 2012)

Quality of your financial statements

14 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

15 Table 4 contains the issues I want to raise with you. None of these issues are of major concern and prevent me issuing an unqualified opinion.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
All signed valuation certificates and reports should be provided at the start of the audit.	The delay in receiving the signed certificates meant that the related audit work could not be completed until late in the audit process.
The Council has not applied the requirements of IAS 16 in relation to component accounting for its housing stock because the impact has been assessed as not material. This relates to the annual depreciation charge on housing stock.	A working paper was provided demonstrating that the increase in the annual depreciation charge (£76 per property or £350k for the whole stock) was not material. I am satisfied that the Council's approach and assumptions made are reasonable. I am also satisfied that this estimated impact is significantly lower than the materiality level of £1.966m. Therefore I am satisfied that no adjustment is required to the accounts.

Recommendation

R1 The Council should ensure that all signed valuation and impairment reports are provided at the beginning of the audit.

R2 The Council should annually review whether the application of component accounting would make a material difference to the estimated depreciation charge in the accounts.

This page is intentionally left blank

29th March 2012

Report of the Head of Internal Audit Services

SELF-ASSESSMENT – MEASURING THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE

EXEMPT INFORMATION

None

PURPOSE

To complete a self assessment of the effectiveness of the Audit & Governance Committee and produce an improvement action plan if required.

RECOMMENDATIONS

That Members of the Committee complete the self assessment checklist at Appendix A in order to formulate an improvement plan if required.

EXECUTIVE SUMMARY

To ensure that effective governance arrangements exist, the Authority is required to review the effectiveness of the system of internal control. Part of this review includes the review of the effectiveness of the Audit & Governance Committee.

The attached self assessment questionnaire (**Appendix A**) contains questions from the CIPFA guidance on how to measure the effectiveness of the Audit & Governance Committee plus additional appropriate questions.

The aim of the self assessment questionnaire is to identify areas of compliance and areas where improvement may be required.

Members are requested to complete the questionnaire.

RESOURCE IMPLICATIONS

There are no direct implications in relation to finance, community/performance planning, sustainable development, community safety, equal opportunities or human rights.

LEGAL/RISK IMPLICATIONS BACKGROUND

The risk that the Audit & Governance Committee are not effective and do not fulfil Governance requirements.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

Angela Struthers ex 234

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix A – Audit & Governance Committee self assessment checklist 2012

Audit & Governance Committee Self Assessment 2012

<p>Terms of Reference Have the Committee's terms of reference been approved by the full Council and do they follow the CIPFA model.</p>	
<p>Internal Audit Process Does the Committee approve the strategic audit approach and the annual programme</p> <p>Is the work of Internal Audit reviewed regularly</p> <p>Are summaries of quality questionnaires from managers reviewed</p> <p>Is the annual report from the Head of Internal Audit presented to the Committee</p> <p>Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations</p>	
<p>External Audit Process</p> <p>Are reports on the work of External Audit and other inspection agencies presented to the Committee</p> <p>Does the Committee input into the external audit programme</p>	

<p>Regulatory Framework</p> <p>Does the Committee take a role in overseeing</p> <ul style="list-style-type: none"> • Risk management strategies • Annual Governance Statement • Anti-fraud arrangements • Confidential reporting policy • Financial regulations • Constitution • Complaints handling/ombudsman's report 	
<p>Accounts</p> <p>Does the Committee take a role in overseeing the annual statement of accounts</p>	
<p>Membership</p> <p>Has the membership of the Committee been formally agreed and a forum set</p> <p>Is the chair free from executive or scrutiny functions</p> <p>Are members sufficiently independent of the other key committees of the council</p> <p>Have all members' skills and experiences been assessed and training given for identifying gaps</p> <p>Can the Committee access other committees as necessary</p>	

<p>Meetings</p> <p>Does the Committee meet regularly</p> <p>Are separate, private meetings held with the external auditor and internal auditor</p> <p>Are meetings free and open without political influence being displayed</p> <p>Are decisions reached promptly</p> <p>Are agenda papers circulated in advance of meetings to allow adequate preparation by members</p> <p>Does the Committee have the benefit of attendance of appropriate officers at its meetings</p> <p>Can special meetings be organised to allow a quick response to emergencies</p> <p>Does External Audit regularly attend meetings and update members on their progress/external audit issues</p>	
<p>Training</p> <p>Is induction training provided to members</p> <p>Is more advanced training available as required</p> <p>Is the Committee made up of members with a different mix of skills and experience</p>	

Administration

Does the Authority's s151 officer or deputy attend meetings

Are key officers available to support the Committee

Do reports to the Committee communicate relevant information at the right frequency and in a format that is effective

AUDIT & GOVERNANCE COMMITTEE

29th March 2012

Report of the Head of Internal Audit Services

INTERNAL AUDIT STRATEGY AND PLAN 2012-2013

EXEMPT INFORMATION

None

PURPOSE

To advise Members of the proposed Internal Audit Strategy and Plan for 2012-13, to provide members with assurance on the appropriate operation of Internal Audit.

RECOMMENDATION

That the Committee endorses the attached Internal Audit Strategy and Plan 2012-13 and raises any issues it deems appropriate.

EXECUTIVE SUMMARY

Internal Audit provides a statutorily-required independent and objective opinion to the organisation on the control environment (comprising risk management, control and governance). It does this by evaluating the control environment's effectiveness in helping to achieve the organisation's objectives. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The consideration and approval of an appropriate Internal Audit Strategy and Plan by Members is an important element in providing assurance to the organisation that adequate arrangements are in place to provide the expected independent, objective opinion.

In accordance with good practice, the Head of Internal Audit Services has consulted relevant senior managers, to ensure current and proposed developments/projects and risks are identified, and has built these into an evaluation of the priority of the different potential areas for audit review. A proposed Audit Plan for 2012-13 is thus attached. The Audit Plan constitutes the main operational delivery of the Internal Audit service as part of its Internal Audit Strategy, which in turn sets out how the service proposes to meet statutory and professional requirements; the Strategy is also attached as Appendix A.

Members will recall that the Committee's Terms of Reference include the function to "receive, but not direct, internal audit's strategy and audit plan."

This report aims to provide members of the Committee with such an opportunity.

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS

If a thoroughly risk-assessed, adequately-resourced audit plan is not in place the authority will fail to comply with statutory requirements and will not be able to provide the appropriate assurance on the internal control environment. Internal Audit has reviewed the risks to the effective delivery of its functions and has in place appropriate steps to ensure delivery.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

Angela Struthers ex 234

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix A – Internal Audit Strategy and Audit Operational Plan 2012-13
Appendix B – Audit Reporting Protocol
Appendix C – Internal Audit Plan 2012/13

INTERNAL AUDIT STRATEGY AND OPERATIONAL AUDIT PLAN 2012-13

1. Strategy Statement

The overall Strategy of Internal Audit is:

“To deliver a risk-based internal audit service focussed on its audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it where necessary.”

The Terms of Reference of Internal Audit are summarised within *Financial Guidance*. These are expanded upon and the measures in place to deliver these set out below.

2. Statutory Basis for Internal Audit – Our Role

The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) more specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices”.

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. (The control environment includes all authority operations, resources, services, and its responsibilities to other bodies).

Internal Audit’s work forms an important part of providing the enhanced assurance required to inform the corporate Annual Governance Statement that the authority must publicly provide. Based on the work carried out by the service over time, and drawing on other sources, the Head of Internal Audit Services is able to provide an opinion as to the appropriate level of assurance that can be given with regard to internal control, governance and risk management.

Internal Audit also has a role in advising managers in relation to issues within its remit, eg appropriate controls in new projects/developments, and forms a key element in helping management to achieve organisational objectives through sound risk management, control and governance.

2. Delivery of the Audit Service

The Head of Internal Audit Services is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:

- determining and planning the work to be carried out (ie an audit plan based on an assessment of the risk);

- providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).

The Internal Audit service will be delivered on the basis of an Audit Plan covering 2012/13 (attached as Appendix C). The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved, and indicates the priority level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an annual opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues. Where resources available are not considered by the Head of Internal Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation, including the Audit & Governance Committee as necessary. Professional guidance now requires that Internal Audit plans are for a maximum of one year, as to formulate formal plans for longer periods is becoming more and more impractical given increasing change within local government. The annual audit plan is then expected to be responsive and flexible to enable Internal Audit to deal with such change adequately. Internal Audit will comply with these requirements while ensuring that risk assessments still bear in mind the need for a longer term view of audit input to areas of risk.

A number of different audit techniques will be used to deliver the annual audit plan and consequently, the annual audit opinion. These are:

Key Financial System Reviews

The documentation, evaluation and testing of financial, operational and management systems. These reviews provide much of the evidence to support the Head of Internal Audit Services' opinion on the adequacy and effectiveness of the system. External Audit place reliance on the work completed by Internal Audit on the key financial systems to meet their responsibilities.

Systems Based Reviews

The documentation, evaluation and testing of financial, operational and management systems. These reviews provide much of the evidence to support the Head of Internal Audit Services' opinion on the adequacy and effectiveness of the system. They assess how internal controls are operating in a system, thereby forming a view on whether reliance can be placed upon the system. They provide management with assurances that systems are adequately meeting the purposes for which they were designed, provide constructive and practical recommendations to strengthen systems and address identified risks, use findings to feed into an overall opinion on the control framework, thereby fulfilling S151 responsibilities and furnish appropriate evidence for external audit and other review agencies

Risk Based Reviews

While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that those risks have been properly managed. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working.

Substantive Testing

These tests are designed to give direct evidence as to the completeness, accuracy and validity of records, account balances, etc.

Probity Review

Typically, such audits will also provide information and evidence about the extent, in practice, of compliance with corporate systems, but will also cover any locally designed systems (or local modifications of corporate systems). Where testing relating to corporate systems is undertaken at sites, the results should be fed back into any work undertaken centrally.

Implementation Reviews

Six months after the finalisation of an audit, an implementation review is completed on the agreed management actions arising from the completed audit to ensure that the agreed actions are implemented. An annual review is completed of the key financial systems, so the implementation review is completed annually.

The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits remaining required and deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated eg allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

Progress against the audit plan, and the content of the plan itself, will be kept under review by Head of Internal Audit Services in liaison with the Corporate Director - Resources, and through monitoring corporate and service developments. The Audit & Governance Committee will be advised of performance against the audit plan and on relevant indicators under the performance management framework.

Where necessary to ensure an adequate, effective and professional audit service is provided, the Head of Internal Audit Services will buy in, through an appropriate process, resources from external providers to supplement internal resources. Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.

The reporting approach for Internal Audit is set out in an *Audit Reporting Protocol* (see Appendix B), and Internal Audit shall comply with this protocol as the most efficient method of delivering the outcomes of its work.

In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

3. Professional Standards – How we work

Internal Audit will comply with the Auditing Practices Board's *Guidance for Internal Auditors*, as interpreted by CIPFA's *Code of Practice for Internal Audit in Local Government in the UK*, and staff are expected to comply with any other appropriate professional standards. The Head of Internal Audit Services will ensure that there is an up to date *Audit Manual* in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

4. Quality

Internal Audit will deliver a professional, cost effective and competent service which meets customer requirements.

Internal audit will monitor and review the quality measures and performance targets identified and ensure that they are meaningful to customers.

5. How we maintain our independence

Internal Audit is responsible to the Corporate Director - Resources for both line management purposes, and helping to deliver the statutory financial responsibilities. Internal Audit is independent in its planning and operation, however the Head of Internal Audit Services has responsibility for risk management services. Both areas have a key part to play in mitigating the risks facing the Council. There is a possibility that occasionally these responsibilities could, unless specifically addressed, compromise the operational independence of the Internal Audit Service. Therefore, clear separation and division of duty will be established by the Head of Internal Audit Services to ensure that Internal Audit staff who have been involved in dealing with risk management operational matters do not undertake audit reviews within this area.

The Head of Internal Audit Services shall have direct access to the Head of Paid Service, all levels of management and elected members. Internal Auditors shall have the authority to:

- Enter at all reasonable times any Council establishment.
- Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary.
- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control.

- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

6. Working with our customers

Internal Audit will provide a responsive, professional and informed audit service, which demonstrates value for money.

Internal Audit will be familiar and proactive to all service areas and to recognise their objectives, requirements and limitations.

Internal Audit will promote **equalities, best value, fairness, openness, honesty, involvement and value added** with all our customers and colleagues.

Internal Audit will continue to consult during audits, and through post audit questionnaires and annual customer survey.

7. Striving to achieve Excellence

Internal Audit will continually review its working methods and practices to ensure continuous improvement in its service delivery. This will include optimisation of available and productive time.

Internal Audit will continue to ensure that all audits undertaken where value for money areas are identified that these are noted.

8. Audit of and Use of Technology

Internal Audit will develop the effective use of technology by Internal Audit in the delivery of the service.

Internal Audit will review the provision of computer audit services to ensure that these meet the needs of Internal Audit Services.

9. Developing our Employees

The Head of Internal Audit Services will ensure that employee appraisals occur annually, including the development of personal action plans.

The Head of Internal Audit Services will encourage and support professional continuous personal development.

The Head of Internal Audit Services will develop mechanisms to enable the sharing of training experiences to encourage development of employees and value for money from training.

The Head of Internal Audit Services will ensure effective communications within the team at all levels.

The Head of Internal Audit Services will ensure a team of appropriately skilled and resourced staff, effectively managed and fully involved in the operation of the unit.

10. Developing the Service

The Head of Internal Audit Services will continually review and assess the Internal Audit Service against the CIPFA Code of Audit Practice.

The Head of Internal Audit Services will ensure the Corporate Governance arrangements of the Council reflects the Annual Governance Statement.

The Head of Internal Audit Services will continue to identify relevant training for Members in relation to their role on the Audit & Governance Committee.

The Head of Internal Audit Services will review the role of audit to ascertain ways in which it can add further value to the organisation.

The Head of Internal Audit Services will investigate new or alternative ways of service delivery based on customer feedback and practices in other local authorities and service providers.

The Head of Internal Audit Services will review practices, procedures and standard documentation.

Audit Reporting Protocol

Agreement of Audit Plan

The audit plan is agreed by Audit & Governance Committee (following Corporate Management Team (CMT) approval and agreement with all Corporate Directors and Assistant Directors individually as part of the consultation process).

Reporting of Individual Audits

A draft audit report is produced after each audit, and a management response is obtained from the appropriate manager then built into a final report that is issued to the relevant Corporate Director. The Corporate Director – Resources, the Solicitor to the Council (as the Monitoring Officer), and the Chief Executive receive the report Executive Briefings (a summary of the key issues) in each case. A copy of the final audit report will be made available to the Audit & Governance Committee members.

Periodic Reporting

Audit & Governance Committee is provided with a quarterly summary of key Internal Audit performance areas, details of finalised audit reports in the quarter, the number of recommendations made and accepted in those reports, and the key control issues identified. These quarterly reports also discuss the reviews carried out by Internal Audit, in the relevant quarter, into progress made by management in implementing previously agreed recommendations due to be implemented by that point, and gives Internal Audit's view on the extent to which this is satisfactory. The quarterly report concludes by providing an opinion on the adequacy of the control environment including internal control, risk management and governance.

The Head of Internal Audit Services also meets on at least a half yearly basis with members of the Corporate Management Team to update them on key themes arising from audit work, progress against the audit plan, and other areas of audit work planned, as well as providing senior managers with an opportunity to raise any concerns they may have which may require support from the Internal Audit service.

Annual Reporting

Over and above the periodic reporting process set out above, Internal Audit also contributes to the Annual Governance Statement to the Council (and thus all members) through the medium of the *Statement of Accounts*. This Statement sets out the responsibility for, assurance provided by and key features of, the system of internal control, as well as a review of its effectiveness and significant control weaknesses highlighted in the year and actions taken or being taken to address them.

Process for Ensuring Appropriate Management Response/Escalation

The planning and initiation of each audit includes agreeing with the relevant Service manager a date for finalisation of the report. This helps to clarify for both parties the timescale for completing the audit and arriving at the agreed action plan to address any areas for improvement.

Where management does not respond to an audit report within a suitable timescale there is a process in place by which the relevant report is then referred to the Director for response. This has been appropriate to address any delays that have arisen to date. A similar approach would be taken initially to tackle any serious lack of implementation of agreed actions. Should this not be successful in future, however, or indeed should it be necessary, there is the potential route to refer a matter in more detail to CMT. If still unresolved the matter would then progress through the usual Performance Management process set out above under **Periodic Reporting** to the Audit & Governance Committee.

INTERNAL AUDIT PLAN - 2012/13					APPENDIX C
AREA OR SUBJECT OF REVIEW	Risk Rating	Audit type	days allocated		
KEY FINANCIAL SYSTEMS					
MAIN ACCOUNTING & BUDGETARY CONTROL	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
TREASURY MANAGEMENT	MEDIUM	KEY FINANCIAL SYSTEM - interim	8		
CREDITORS	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
DEBTORS	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
COUNCIL TAX	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
NNDR	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
PAYROLL	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
BANK REC & CASH	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
HOUSING & COUNCIL TAX BENEFITS	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
CAPITAL STRATEGY & PROGRAMME MANAGEMENT	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
HOUSING RENTS	MEDIUM	KEY FINANCIAL SYSTEM - interim	5		
HOUSING RESPONSIVE REPAIRS & PROPERTY CONTR	MEDIUM	KEY FINANCIAL SYSTEM	28		
STRATEGIC & OPERATIONAL RISKS					
CORPORATE BUSINESS CONTINUITY	HIGH	SYSTEMS BASED REVIEW	10		
MEMBERS ALLOWANCES AND EXPENSES	HIGH	SYSTEMS BASED REVIEW	7		
BUILDING SECURITY	MEDIUM	RISK BASED REVIEW	7		
STREET WARDENS	MEDIUM	RISK BASED REVIEW	7		
COMMUNITY SAFETY HUB	MEDIUM	SYSTEMS BASED REVIEW	8		
TRAVEL & SUBSISTENCE	MEDIUM	SYSTEMS BASED REVIEW	7		
INSURANCE	MEDIUM	SYSTEMS BASED REVIEW	7		
COMMUNITY LEISURE	MEDIUM	RISK BASED REVIEW	10		
PROGRAMME/PROJECT MANAGEMENT	MEDIUM	RISK BASED REVIEW	7		
PR & COMMUNICATIONS STRATEGY	MEDIUM	RISK BASED REVIEW	7		
LAND CHARGES	MEDIUM	SYSTEMS BASED REVIEW	7		
TOURISM & TOWN CENTRE	MEDIUM	RISK BASED REVIEW	7		
RECRUITMENT & RETENTION	MEDIUM	RISK BASED REVIEW	7		
HEALTH & SAFETY	MEDIUM	SYSTEMS BASED REVIEW	7		
TOURIST INFORMATION CENTRE	MEDIUM	RISK BASED REVIEW	7		

INTERNAL AUDIT PLAN - 2012/13					APPENDIX C
AREA OR SUBJECT OF REVIEW	Risk Rating	Audit type	days allocated		
LEGIONELLA	MEDIUM	RISK BASED REVIEW	7		
PUBLIC PROTECTION - FOOD SAFETY	MEDIUM	RISK BASED REVIEW	7		
ASBESTOS POLICY	MEDIUM	RISK BASED REVIEW	7		
SAFEGUARDING CHILDREN & VULNERABLE ADULTS	MEDIUM	RISK BASED REVIEW	7		
HOUSING ALLOCATION OF ACCOMMODATION	MEDIUM	SYSTEMS BASED REVIEW	12		
LICENCES	MEDIUM	SYSTEMS BASED REVIEW	8		
PERFORMANCE MANAGEMENT	MEDIUM	SYSTEMS BASED REVIEW	7		
CLEANING	MEDIUM	SYSTEMS BASED REVIEW	7		
MOBILE TELEPHONY	MEDIUM	SYSTEMS BASED REVIEW	8		
E-INDUCTION/INDUCTION PROCESS	MEDIUM	SYSTEMS BASED REVIEW	7		
PRIVATE SECTOR HOUSING - EMPTY HOMES	MEDIUM	SYSTEMS BASED REVIEW	8		
PRIVATE SECTOR HOUSING - FEASIBILITY STUDIES/MA	MEDIUM	SYSTEMS BASED REVIEW	8		
HOMELESSNESS	MEDIUM	SYSTEMS BASED REVIEW	7		
CCTV	MEDIUM	RISK BASED REVIEW	7		
CAR PARKING INCOME	MEDIUM	SYSTEMS BASED REVIEW	7		
SCHEME OF DELEGATION	MEDIUM	SYSTEMS BASED REVIEW	15		
OMBUDSMEN PROCESS	MEDIUM	SYSTEMS BASED REVIEW	6		
LOCALISM ACT	MEDIUM	RISK BASED REVIEW	8		
ICT AUDIT REVIEWS					
ACADEMY APPLICATION REVIEW	MEDIUM	SYSTEMS BASED REVIEW	8		
ISO27001	MEDIUM	SYSTEMS BASED REVIEW	7		
DATA PROTECTION	MEDIUM	PROBITY	4		
IT PHYSICAL & ENVIRONMENTAL CONTROLS	HIGH	SYSTEMS BASED REVIEW	8		
END POINT SECURITY	MEDIUM	SYSTEMS BASED REVIEW	8		
IT FILE CONTROLS	HIGH	SYSTEMS BASED REVIEW	8		
IMPLEMENTATION REVIEWS					
STREET SCENE	MEDIUM	IMPLEMENTATION REVIEW	2		
POST PROJECT IMPLEMENTATION PROCESS - TRANSF	HIGH	IMPLEMENTATION REVIEW	2		

INTERNAL AUDIT PLAN - 2012/13		APPENDIX C	
AREA OR SUBJECT OF REVIEW	Risk Rating	Audit type	days allocated
FINANCIAL CONTROLS - STREET SCENE	MEDIUM	IMPLEMENTATION REVIEW	2
DATA QUALITY & RECORDS MANAGEMENT	HIGH	IMPLEMENTATION REVIEW	2
IT SOFTWARE LICENSING	HIGH	IMPLEMENTATION REVIEW	2
IT POST IMPLEMENTATION REVIEW PROCESS	MEDIUM	IMPLEMENTATION REVIEW	3
EFIN APPLICATION REVIEW	MEDIUM	IMPLEMENTATION REVIEW	2
CORPORATE POLICY MANAGEMENT	HIGH	IMPLEMENTATION REVIEW	4
FREEDOM OF INFORMATION	HIGH	IMPLEMENTATION REVIEW	2
OUTDOOR EVENTS	MEDIUM	IMPLEMENTATION REVIEW	2
CASTLE	MEDIUM	IMPLEMENTATION REVIEW	2
STRATEGIC PLANNING	MEDIUM	IMPLEMENTATION REVIEW	2
COMMUNITY DEVELOPMENT	MEDIUM	IMPLEMENTATION REVIEW	2
REMOTE DESKTOP SUPPORT	MEDIUM	IMPLEMENTATION REVIEW	2
ACADEMY APPLICATION REVIEW	MEDIUM	IMPLEMENTATION REVIEW	2
VIRTUAL SERVERS	MEDIUM	IMPLEMENTATION REVIEW	2
COVALENT APPLICATION REVIEW	MEDIUM	IMPLEMENTATION REVIEW	2
VOLUNTEERS POLICY	HIGH	IMPLEMENTATION REVIEW	2
OPERATIONAL SERVICES FINANCIAL CONTROLS	MEDIUM	IMPLEMENTATION REVIEW	2
TIME RECORDING	MEDIUM	IMPLEMENTATION REVIEW	2
M3 APPLICATION REVIEW	MEDIUM	IMPLEMENTATION REVIEW	2
ANNUAL GOVERNANCE & ASSURANCE FRAMEWORK			
ANNUAL GOVERNANCE STATEMENT	HIGH		13
ANNUAL AUDIT OPINION	HIGH		3
ANNUAL AUDIT PLANNING & REVIEW	HIGH		6
COUNTER FRAUD CULTURE	HIGH		
- NATIONAL FRAUD INITIATIVE & PROACTIVE COUNTER FRAUD WORK			12
- REVIEW OF FRAUD RISK REGISTER			2
- REVIEW OF COUNTER FRAUD POLICIES AND DOCUMENTS	HIGH		3
REVIEW OF INTERNAL AUDIT EFFECTIVENESS	HIGH		2
REVIEW OF FINANCIAL GUIDANCE	HIGH		4

INTERNAL AUDIT PLAN - 2012/13				APPENDIX C
AREA OR SUBJECT OF REVIEW	Risk Rating	Audit type	days allocated	
REVIEW WORK COMPLETED ON BEHALF OF STAFFORDSHIRE COUNTY COUNCIL				
AREA BASED GRANTS	MEDIUM	SUBSTANTIVE TESTING	2	
PENSION CONTRIBUTIONS	MEDIUM	SUBSTANTIVE TESTING	2	
CORPORATE SUPPORT				
GOVERNANCE TRAINING				
AUDIT & GOVERNANCE COMMITTEE SUPPORT				
EXTERNAL AUDIT LIAISON				
SPECIAL INVESTIGATIONS				
CONTINGENCY				
TOTAL AUDIT DAYS			534	

AUDIT & GOVERNANCE COMMITTEE

29 March 2012

Regulation of Investigatory Powers Act 2000

Report of the Solicitor to the Council and Monitoring Officer

1. Purpose

1.1. The Council's Code of Practice for carrying out surveillance under the Regulation of Investigatory Powers Act 2000 (RIPA) specifies that quarterly reports will be taken to Audit & Governance Committee to demonstrate to elected members that the Council is complying with its own Code of Practice when using RIPA.

1.2. On 14 December 2010, the Council adopted the RIPA policy and agreed that quarterly reports on the use of RIPA powers be submitted to Audit & Governance Committee.

2. Recommendation

2.1. That Audit and Governance Committee endorse the quarterly RIPA monitoring report.

3. Background Information

3.1. The RIPA Code of Practice produced by the Home Office in April 2010 introduced the requirement to produce quarterly reports to elected members to demonstrate that the Council is using its RIPA powers appropriately and complying with its own Code of Practice when carrying out covert surveillance. This requirement relates to the use of directed surveillance and covert human intelligence sources (CHIS).

3.2. The table below shows the Council's use of directed surveillance in the current financial year to provide an indication of the level of use of covert surveillance at the Council. There have been no applications under RIPA in the period from 1 January 2012 to the date of this report.

3.3. The table outlines the number of times RIPA has been used for directed surveillance, the month of use, the service authorising the surveillance and a general description of the reasons for the surveillance. Where and investigation is ongoing at the end of a quarterly period it will not be reported until the authorisation has been cancelled. At the end of the current quarterly period there are no outstanding authorisations.

3.4. There have been no authorisations for the use of CHIS.

Financial year 2011/12

Month	Service	Reason
--------------	----------------	---------------

No applications		
-----------------	--	--

4. Background papers

4.1. None

"If Members would like further information or clarification prior to the meeting please contact Jane M Hackett Solicitor to the Council and Monitoring Officer on Ext.258"