

## MEMBERS INTERESTS 2012

A Member with a disclosable pecuniary interest in any matter considered at a meeting must disclose the interest to the meeting at which they are present, except where it has been entered on the Register.

A Member with a non pecuniary or pecuniary interest in any business of the Council must disclose the existence and nature of that interest at commencement of consideration or when the interest becomes apparent.

Where sensitive information relating to an interest is not registered in the register, you must indicate that you have an interest, but need not disclose the sensitive information.

Please tick relevant boxes

Notes

	General		Notes
1.	I have a disclosable pecuniary interest.	<input type="checkbox"/>	<i>You cannot speak or vote and must withdraw unless you have also ticked 5 below</i>
2.	I have a non-pecuniary interest.	<input type="checkbox"/>	<i>You may speak and vote</i>
3.	I have a pecuniary interest <b>because</b> it affects my financial position or the financial position of a person or body described in 10.1(1)(i) and (ii) <b>and</b> the interest is one which a member of the public with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice my judgement of the public interest or it relates to the determining of any approval consent, licence, permission or registration in relation to me or any person or body described in 10.1(1)(i) and (ii) <b>and</b> the interest is one which a member of the public with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice my judgement of the public interest	<input type="checkbox"/>          <input type="checkbox"/>	<i>You cannot speak or vote and must withdraw unless you have also ticked 5 or 6 below</i>          <i>You cannot speak or vote and must withdraw unless you have also ticked 5 or 6 below</i>
4.	I have a disclosable pecuniary interest (Dispensation 16/7/12) or a pecuniary interest but it relates to the functions of my Council in respect of:  (i) Housing where I am a tenant of the Council, and those functions do not relate particularly to my tenancy or lease.  (ii) school meals, or school transport and travelling expenses where I am a parent or guardian of a child in full time education, or are a parent governor of a school, and it does not relate particularly to the school which the child attends.  (iii) Statutory sick pay where I am in receipt or entitled to receipt of such pay.  (iv) An allowance, payment or indemnity given to Members  (v) Any ceremonial honour given to Members  (vi) Setting Council tax or a precept under the LGFA 1992	<input type="checkbox"/>          <input type="checkbox"/>          <input type="checkbox"/>          <input type="checkbox"/>          <input type="checkbox"/>          <input type="checkbox"/>	<i>You may speak and vote</i>          <i>You may speak and vote</i>          <i>You may speak and vote</i>          <i>You may speak and vote</i>          <i>You may speak and vote</i>          <i>You may speak and vote</i>
5.	A Standards Committee dispensation applies (relevant lines in the budget – Dispensation 20/2/13 – 19/2/17)	<input type="checkbox"/>	<i>See the terms of the dispensation</i>
6.	I have a pecuniary interest in the business but I can attend to make representations, answer questions or give evidence as the public are also allowed to attend the meeting for the same purpose	<input type="checkbox"/>	<i>You may speak but must leave the room once you have finished and cannot vote</i>

**'disclosable pecuniary interest'** (DPI) means an interest of a description specified below which is your interest, your spouse's or civil partner's or the interest of somebody who you are living with as a husband or wife, or as if you were civil partners and you are aware that that other person has the interest.

### **Interest**

Employment, office, trade, profession or vocation

Sponsorship

### **Prescribed description**

Any employment, office, trade, profession or vocation carried on for profit or gain.

Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M.

	This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

*"body in which the relevant person has a beneficial interest" means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest; "director" includes a member of the committee of management of an industrial and provident society;*

*"land" excludes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income; "M" means a member of a relevant authority;*

*"member" includes a co-opted member; "relevant authority" means the authority of which M is a member;*

*"relevant period" means the period of 12 months ending with the day on which M gives notice to the Monitoring Officer of a DPI;*

*"relevant person" means M or M's spouse or civil partner, a person with whom M is living as husband or wife or a person with whom M is living as if they were civil partners;*

*"securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.*

**'non pecuniary interest'** means interests falling within the following descriptions:

- 10.1(1)(i) Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;
- (ii) Any body (a) exercising functions of a public nature; (b) directed to charitable purposes; or (c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union), of which you are a member or in a position of general control or management;
- (iii) Any easement, servitude, interest or right in or over land which does not carry with it a right for you (alone or jointly with another) to occupy the land or to receive income.
- 10.2(2) A decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a connected person to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward, as the case may be, affected by the decision.

**'a connected person'** means

- (a) a member of your family or any person with whom you have a close association, or
- (b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- (c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
- (d) any body of a type described in sub-paragraph 10.1(1)(i) or (ii).

**'body exercising functions of a public nature'** means

Regional and local development agencies, other government agencies, other Councils, public health bodies, council-owned companies exercising public functions, arms length management organisations carrying out housing functions on behalf of your authority, school governing bodies.

A Member with a personal interest who has made an executive decision in relation to that matter must ensure any written statement of that decision records the existence and nature of that interest.

**NB** Section 21(13) of the LGA 2000 overrides any Code provisions to oblige an executive member to attend an overview and scrutiny meeting to answer questions.

**AUDIT AND GOVERNANCE COMMITTEE**

**HELD: 29 JANUARY 2013**  
Start: 7.00pm  
Finish: 8.30pm

**PRESENT:**

Councillors: Pope (Chairman)  
Forshaw (Vice-Chairman)

Dereli	G. Jones
Gagen	Pendleton
Grant	Westley
G. Hodson	

Officers: Borough Solicitor (Mr T Broderick)  
Borough Treasurer (Mr M Taylor)  
Deputy Borough Treasurer (Mr M Kostrzewski)  
Audit Manager (Mr M Coysh)  
Insurance and Risk Officer (Mrs N Bryan)  
Assistant Member Services Manager (Mrs J Denning)

In attendance: Clare Deegan (Grant Thornton)

**21. APOLOGIES**

Apologies for absence were received from Councillors Cheetham and Pryce-Roberts.

**22. MEMBERSHIP OF THE COMMITTEE**

There were no changes.

**23. DECLARATIONS OF INTEREST**

There were no declarations.

**24. MINUTES**

RESOLVED: That the minutes of the meeting of the Committee held on 25 September 2012 be received as a correct record and signed by the Chairman.

**25. RISK MANAGEMENT FRAMEWORK**

Consideration was given to the report of the Borough Treasurer, as contained on pages 179 to 182 of the Book of Reports, which set out details of the operation of the Risk Management Framework over the last twelve months and a review of the Risk Management Policy.

Members agreed that any escalation of risk should be reported to the relevant Portfolio Holder by the responsible Head of Service.

RESOLVED: A. That the continuing effective operation of the Risk Management Framework be noted.

- B. That the proposed amendment to the Risk Management Policy set out in paragraph 4.7 be endorsed for submission to Cabinet for formal approval.

**26. INTERNAL AUDIT ACTIVITIES - APRIL TO DECEMBER 2012**

Consideration was given to the report of the Borough Treasurer, as contained on pages 183 to 188 of the Book of Reports, which detailed progress against the 2012/13 Audit Plan to date.

RESOLVED: That the progress in the year to date be noted.

**27. REGULATION OF INVESTIGATORY POWERS ACT - QUARTERLY MONITORING OF USE OF POWERS**

Consideration was given to the report of the Borough Solicitor, as contained on pages 189 to 192 of the Book of Reports, the purpose of which was to monitor on a quarterly basis the use of the Regulation of Investigatory Powers Act 2000 (RIPA) to ensure it is being used consistently with the Council's Policy.

RESOLVED: That the Council's RIPA activity be noted.

**28. INTERNAL AUDIT CHARTER**

Consideration was given to the report of the Borough Treasurer, as contained on pages 193 to 204 of the Book of Reports, which was to consider proposals for a new Internal Audit Charter.

RESOLVED: A. That the Audit Charter attached at Appendix 1 to the report, be approved to take effect from 1/4/2013.

**29. COUNCIL INSURANCE ARRANGEMENTS**

Consideration was given to the report of the Borough Treasurer, as contained on pages 205 to 210 of the Book of Reports, which provided an update on insurance issues, claims history and investigation, and the tenants home contents insurance scheme, including the collaborative insurance procurement process to date.

RESOLVED: That the report be noted.

**30. INFORMATION GOVERNANCE/DATA PROTECTION**

Consideration was given to the report of the Borough Solicitor, as contained on pages 211 to 274 of the Book of Reports, the purpose of which was to enhance information governance/data protection arrangements by clarifying/formalising governance arrangements in line with recommended good practice.

The Borough Solicitor advised that appropriate training would be organised for Members.

- RESOLVED: A. That the delegation to the Borough Solicitor at Constitution 4.2 A, B (i) para16 be amended to read "To co-ordinate compliance with the requirements of the data protection legislation, determine requests for disclosure of personal data and act as the Council's Senior Information Risk Owner (SIRO)."
- B. That the updated Data Protection Policy attached at Appendix 2 to the report, be approved and it be noted that a proposal for additional resources of £30,000 will be submitted to Council in February 2013.

**31. ANNUAL AUDIT LETTER 2011/12 AND PLANNED AUDIT FEE 2012/13**

Consideration was given to the report of the Borough Treasurer, as contained on pages 275 to 282 of the Book of Reports, which set out the Audit Commission's Annual Audit Letter 2011/12 and provided details of Grant Thornton's planned audit fee for 2012/13.

RESOLVED: That the Audit Commission's Annual Audit Letter 2011/12 and the letter from Grant Thornton on the planned audit fee for 2012/13 be noted.

**32. REVIEW OF ANTI MONEY LAUNDERING POLICY**

Consideration was given to the report of the Borough Treasurer, as contained on pages 283 to 306 of the Book of Reports, which detailed the results of a review of the Council's Anti-Money Laundering Policy and Guidance and Procedure Notes.

RESOLVED: That the updated Anti-Money Laundering Policy and Guidance and Procedure Notes, as set out in Appendix 1 and 2 to the report, be endorsed for agreement.

**33. WORK PROGRAMME**

Consideration was given to the Committee's programme of work, as contained on page 307 of the Book of Reports.

RESOLVED: That the Work Programme be approved.

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THE CHAIRMAN



**AGENDA ITEM: 5**

**AUDIT AND GOVERNANCE COMMITTEE:**

**26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: Managing Director (People and Places)**

**Contact for further information: Marc Taylor (Extn. 5092)  
(E-mail: marc.taylor@westlancs.gov.uk)**

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**SUBJECT: GRANT THORNTON CERTIFICATION WORK REPORT 2011/12**

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Wards affected: Borough wide

**1.0 PURPOSE OF THE REPORT**

- 1.1 To receive details of our External Auditor's findings from their certification of 2011/12 claims and returns.

**2.0 RECOMMENDATION**

- 2.1 That the findings be considered and that any questions be raised with the Grant Thornton representatives who will be attending the meeting.

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**3.0 BACKGROUND**

- 3.1 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescales set by grant paying government departments. Our external auditor certified four claims and returns for the financial year 2011/12 relating to expenditure of £73m.

## **4.0 FINDINGS**

4.1 Details of the external auditor's findings are included in their report which is attached as an appendix to this report. Some of the key messages from this report include:

- All claims were certified within the required timescales
- Overall the Council is performing well and there are no significant matters arising from the certification of claims and returns
- The value of amendments made as a result of the audit process was £595
- A number of recommendations were made in relation to the Benefits claim form

## **5.0 RISK ASSESSMENT**

5.1 The work that our External Auditors undertake is an integral part of the Council's internal control framework and provides assurance to Members that the Council is operating effectively.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have a direct impact on members of the public, employees, elected members and/or stakeholders. Therefore no equality impact assessment is required.

### **Appendix**

Grant Thornton Certification Work Report 2011/12



## **West Lancashire Borough Council**

Certification work report 2011/12

January 2013



# Contents

<b>1</b>	<b>Executive Summary</b>	<b>1</b>
<b>2</b>	<b>Results of our certification work</b>	<b>3</b>

## **Appendices**

<b>A</b>	<b>Approach and context to certification</b>	<b>5</b>
<b>B</b>	<b>Details of claims and returns certified for 2010/11</b>	<b>7</b>
<b>C</b>	<b>Action plan</b>	<b>8</b>

# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 We have certified four claims and returns for the financial year 2011/12 relating to expenditure of £73 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 All work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditors work.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

### Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	The majority of claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor	Overall the Council is performing well and there are no significant matters arising from our certification of claims and returns.
Amendments and qualifications	Two claims were subject to qualification. One was also amended
Supporting working papers	Supporting working papers for the majority of claims and returns were good, which enabled certification within the deadlines. However, there were some delays in providing us with the information required for one claim.

#### The way forward

- 1.8 We have made one recommendation following our work on the 2011/12 claims.
- 1.9 We followed up progress on recommendations made in the 2010/11 certification of claims annual report. There were no significant matters which remained outstanding.

#### Acknowledgements

- 1.10 We would like to take this opportunity to thank the grant claim co-ordinator and Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**January 2013**

## 2 Results of our certification work

### Key messages

- 2.1 We have certified four claims and returns for the financial year 2011/12 relating to expenditure of £73 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		4		6		
Number of claims submitted on time	100%	3	75	N/K	N/K	
Number of claims certified on time	100%	4	100	6	100	→
Number of claims certified with amendment	0%	1	25	1	17	↓
Number of claims certified with qualification	0%	2	50	1	17	↓

- 2.3 This analysis of performance shows that the number of claims presented for certification continues to fall due to changes in thresholds, changes in government funding, and changes to the way in which the Council funds social housing stock.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.
- 2.6 Your previous auditors, the Audit Commission, charged a total fee of £38,291 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 The following findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

#### **Certification of the housing and council tax benefit scheme**

- 2.8 The original grant claim was submitted for audit in April. This was ahead of the submission deadline of 30 June 2013. However, the initial claim had been compiled using an incorrect version of Capita's benefits software. The claim was therefore withdrawn from us. A corrected claim was provided for audit in August.
- 2.9 The Council should only pay benefit, and can only claim subsidy, up to the amount of council tax due from the claimant. If the Council does not apply the single occupancy discount to the council tax account correctly, the benefit awarded, and the subsidy claimed from DWP, are overstated. Our testing of Council Tax Single Person Discount (SPD) cases in 2010/11 highlighted a number of cases where the SPD had not been applied to single occupancy properties. We therefore tested a sample of applicable SPD cases in 2011/12 and identified 75 cases where SPD was incorrectly treated. As a result, £9,794 of benefit was overpaid and subsidy was overclaimed.
- 2.10 We experienced some delays in obtaining information to support our testing of benefit claims. Agreed deadlines for providing the information were not achieved and our work had to be rearranged to accommodate the delays. We recognise that the Council's benefits processing team has undergone significant change during the year and we will continue to work with officers to ensure we can minimise the impact on our work so that the certification deadlines can be achieved.

#### **Certification of the national non-domestic rates return**

- 2.11 We identified an incorrect property "change in value" adjustment. This resulted in an incorrect calculation of transitional relief. The error was extrapolated and our findings were reported in the qualification letter.

## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

### **Certification fees**

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

<b>Role</b>	<b>2011/12</b>	<b>2010/11</b>
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	37,961,000	Yes	595	Yes	27,502	28,340	
National non-domestic rates return	28,748,000	No	None	Yes	569	3,496	More detailed testing required per the Audit Commission certification instructions
Pooling of housing capital receipts	498,000	No	None	No	868	900	
Housing revenue account subsidy	6,210,000	No	None	No	3,540	5,083	More detailed testing required following our control environment assessment
Planning and reporting					N/A	473	In prior years planning and reporting time was not charged separately
<b>Total</b>	<b>£73,417,000</b>		<b>£595</b>		<b>£39,728</b>	<b>£38,291</b>	Additional claims were certified in 2010/11



## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
<p>Housing and Council Tax benefit scheme.</p>	<p>Ensure that all applicable software systems upgrades and patches are run and all required adjustments undertaken prior to submission of the MPF720A claim for audit</p>	<p>H</p>	<p>In relation to the completion of the final HB/CTB Final Subsidy Claim an amended software patch release to the Capita Benefits system relating to completion of this claim, was received from Capita on 24 April 2012. The above release was, unfortunately, not loaded in time to produce the subsidy claim information required to meet the deadline for submission of 30 April 2012. The correct software release was subsequently loaded, tested and signed off to enable a correct and final claim to be submitted.</p> <p>One Connect Limited have implemented significant improvements in the management of software including updates, testing and sign off which will ensure that in future, correct software versions are in place in time to run final subsidy claim data within statutory deadlines.</p>

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing and Council Tax benefit scheme.	Ensure single person discounts are properly treated and are applied to accounts in a timely manner.	M	<p>Historically the Borough Council operated two disparate software systems, i.e. Civica Council Tax and Capita Benefits, and the reconciliation of Single Person Discount data did present challenges in terms of keeping both systems in line in this respect. One Connect Limited highlighted this problem and introduced manual processes to reconcile this information periodically via a snapshot in time.</p> <p>Now that One Connect Limited who deliver the Benefits Service on behalf of the Borough Council, have migrated to a new, single Northgate software solution this will provide greater automation and reconciliation functionality within that single, core system, to ensure that this data is maintained accurately.</p>
Housing and Council Tax benefit scheme.	<p>All parties should agree a timetable for the 2012/13 Housing and Council Tax Benefit audit programme.</p> <p>The timetable should detail all key deliverables, responsibilities and deadlines.</p>	M	Agreed

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## **AGENDA ITEM: 6**

**AUDIT AND GOVERNANCE COMMITTEE:**

**26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: People and Places**

**Contact for further information: Mr M.Coysh (Extn. 2603)  
(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To advise of changes to the Standards applying to internal audit in the UK public sector.

### **2.0 RECOMMENDATION**

2.1 That the changes to standards be noted.

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### **3.0 BACKGROUND**

3.1 The Accounts and Audit Regulations 2011 require the Council to undertake an audit of its accounting records and system of internal control in accordance with proper practices.

3.2 Guidance accompanying the legislation identified that In the case of principal local authorities in England, "Proper practices" are those contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The Code). These were therefore the standards that applied to internal audit in the Council.

3.3 CIPFA is just one of a number of bodies responsible for setting standards in the UK public sector and tailoring them to the different requirements of the legislation from which audited bodies draw their powers and the diverse

governance arrangements applying in the different segments of the public sector.

- 3.4 At the instigation of the Treasury and various other standard setters, including CIPFA, the Internal Audit Standards Advisory Board was established to draft new standards which were published in December 2012.
- 3.5 The new standards known as the United Kingdom Public Sector Internal Audit Standards (PSIAS) will apply across the UK public sector in local authorities, central government departments and the NHS.
- 3.6 From the 1st April 2013 these become mandatory for all principal local authorities subject to the Accounts and Audit (England) Regulations 2011 including the Council.

#### **4.0 CONTENT OF THE PSIAS**

- 4.1 The PSIAS are based on the Institute of Internal Audit's International Standards (IIAIS) with a limited number of additional requirements and interpretations to adapt them for use in the public sector. After an introduction and statement of applicability their format mirrors the IIAIS within the following sections.
  - Definition of internal auditing
  - Code of Ethics
  - Standards
- 4.2 A Definition of Internal Auditing is key to the standards and the IIA definition has replaced the CIPFA definition previously used in the public sector. The new definition is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 4.3 The Code of Ethics sets out a series of Principles relevant to the profession and practice of internal auditing under the headings of Integrity, Objectivity, Confidentiality and Competency with more detailed Rules of Conduct defining the behaviour expected of auditors as an aid to interpreting the Principles.
- 4.4 The Standards themselves are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 4.5 A line by line dissection of the document is beyond the scope of this report but a link to the full text of the PSIAS has been provided as an appendix to this report and the Audit Manager can provide printed copies to Members on request.

#### **5.0 ISSUES**

- 5.1 CIPFA acknowledge that the PSIAS are new and complex, and recognise the need to provide guidance for the bodies applying them. It intends to produce a Local Government Application Note specifically to provide that guidance.
- 5.2 Previously, the Application Note was simply guidance and referred to as such. However, after discussion with DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts & Audit Regulations 2011, the status has altered so that 'proper practices' for UK local government is the PSIAS in conjunction with the Local Government Application Note.
- 5.3 The mandatory sectoral requirements for local authorities are therefore the PSIAS as well as this Application Note and the content of both documents must be followed in order to satisfy proper internal audit practices.
- 5.4 The application note has not yet been published and its expected release date according to the CIPFA website is currently stated to be the 3rd April.
- 5.5 Once the application note is received a further report will be brought setting out any implications of the changes for the Council.

## **6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 6.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **7.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 7.1 All the activity referred to in this report is covered by existing budget provisions.

## **8.0 RISK ASSESSMENT**

- 8.1 Working in accordance with the PSIAS is essential to ensure that Internal Audit's work is carried out to standards which allow stakeholders such as this Committee to rely on the assurance it provides.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

1. Public Sector Internal Audit Standards Applying the IIA International Standards to the UK Public Sector (Document available on the Council Information System 'CoInS') Paper copies are available on request from the Audit Manager.

# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector



**Issued by the Relevant Internal Audit Standard Setters:**



Llywodraeth Cymru  
Welsh Government

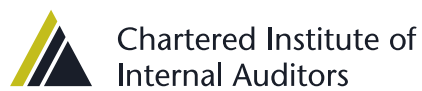


HM TREASURY



The Scottish Government  
Riaghaltas na h-Alba

**In collaboration with:**



# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

ISBN 978 1 84508 356 4

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# Contents

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<b>Section 1</b>	<b>Introduction</b>	4
<b>Section 2</b>	<b>Applicability</b>	7
<b>Section 3</b>	<b>Definition of Internal Auditing</b>	9
<b>Section 4</b>	<b>Code of Ethics</b>	10
<b>Section 5</b>	<b>Standards</b>	13
	<b>Attribute Standards</b>	13
	Purpose, authority and responsibility	13
	Independence and objectivity	14
	Proficiency and due professional care	16
	Quality assurance and improvement programme	17
	<b>Performance Standards</b>	20
	Managing the internal audit activity	20
	Nature of work	22
	Engagement planning	24
	Performing the engagement	26
	Communicating results	27
	Monitoring progress	30
	Communicating the acceptance of risks	30
	<b>Glossary</b>	31

## SECTION 1

# Introduction

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A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

## Framework overview

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

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<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

## Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

## Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

## Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

# Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>CIPFA</b>			<p><b>UK</b> Local authorities.</p> <p><b>England &amp; Wales only</b> The Office of the Police &amp; Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK.</p> <p><b>Scotland only</b> Strathclyde Partnership for Transport.</p>
<b>HM Treasury</b>	<p><b>UK*</b> Government departments and their executive agencies and non-departmental public bodies.</p>		
<b>Department of Health</b>		<p><b>England</b> Clinical Commissioning Groups. NHS Trusts.</p>	



SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>Scottish Government</b>	<p><b>Scotland</b></p> <p>The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Parliament Corporate Body.</p>	<p><b>Scotland</b></p> <p>NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.</p>	
<b>Welsh Government</b>	<p><b>Wales</b></p> <p>The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.</p>	<p><b>Wales</b></p> <p>Health Boards and Trusts.</p>	
<b>Northern Ireland Assembly: Department of Finance and Personnel (NI)</b>	<p>Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.</p>		

\* Unless the body falls under the jurisdiction of the devolved governments.

# Definition of Internal Auditing

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Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## SECTION 4

# Code of Ethics

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### Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

### Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

## Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

## 1 Integrity

### Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

### Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## 2 Objectivity

### Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3 Confidentiality

### Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## 4 Competency

### Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

#### **Public sector requirement**

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

# Standards

## Attribute Standards

### 1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### *Interpretation:*

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

#### **Public sector requirement**

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

#### **1000.A1**

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

#### **1000.C1**

The nature of consulting services must be defined in the internal audit charter.

### **1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter**

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

## 1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

### *Interpretation:*

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

## 1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

### *Interpretation:*

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive;
- approving the remuneration of the chief audit executive; and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

### **Public sector requirement**

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

### **Public sector interpretation**

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

### **1110.A1**

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

### **1111 Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

### **1120 Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

#### *Interpretation:*

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

### **1130 Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

#### *Interpretation:*

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

### **1130.A1**

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **1130.A2**

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

### **1130.C1**

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.



### **1130.C2**

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

#### **Public sector requirement**

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## **1200 Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

### **1210 Proficiency**

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

#### *Interpretation:*

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

#### **Public sector requirement**

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

### **1210.A1**

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **1210.A2**

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

### **1210.A3**

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

### **1210.C1**

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **1220 Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

#### **1220.A1**

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

#### **1220.A2**

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

#### **1220.A3**

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

#### **1220.C1**

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

### **1230 Continuing Professional Development**

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## **1300 Quality Assurance and Improvement Programme**

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

#### *Interpretation:*

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

## 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

#### *Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and
- The need for more frequent external assessments.

#### *Interpretation:*

External assessments can be in the form of a full external assessment, or a self-assessment with independent validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

### Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

## 1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

### Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

### Public sector requirement

Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.

## 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

### Interpretation:

The internal audit activity conforms with the International Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *International Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

## 1322 Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

### Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

# Performance Standards

## 2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

*Interpretation:*

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the *Definition of Internal Auditing* and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the *Code of Ethics* and the *Standards*.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

*Interpretation:*

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

### Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

### 2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

### 2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

## 2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

## 2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

## 2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

## 2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

### *Interpretation:*

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

## 2050 Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

### **Public sector requirement**

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

## **2060 Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

### *Interpretation:*

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

## **2070 External Service Provider and Organisational Responsibility for Internal Audit**

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

### *Interpretation:*

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards*.

## **2100 Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

### **2110 Governance**

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

#### **2110.A1**

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

#### **2110.A2**

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

## 2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### *Interpretation:*

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

### **2120.A1**

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

### **2120.A2**

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

### **2120.C1**

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

### **2120.C2**

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

### **2120.C3**

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.



## **2130 Control**

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

### **2130.A1**

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

### **2130.C1**

Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes.

## **2200 Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

### **2201 Planning Considerations**

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

### **2201.A1**

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

### **2201.C1**

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

## 2210 Engagement Objectives

Objectives must be established for each engagement.

### 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

### 2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

### 2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

#### Public sector interpretation

In the public sector, criteria are likely to include value for money.

### 2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

### 2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

## 2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

### 2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

### 2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

### 2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

## **2220.C2**

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

## **2240 Engagement Work Programme**

Internal auditors must develop and document work programmes that achieve the engagement objectives.

### **2240.A1**

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

### **2240.C1**

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **2300 Performing the Engagement**

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

### **2310 Identifying Information**

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

#### *Interpretation:*

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

### **2320 Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

### **2330 Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

#### **2330.A1**

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

### **2330.A2**

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

### **2330.C1**

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

## **2340 Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.

### *Interpretation:*

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

## **2400 Communicating Results**

Internal auditors must communicate the results of engagements.

### **2410 Criteria for Communicating**

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

#### **2410.A1**

Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

### *Interpretation:*

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

#### **2410.A2**

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

#### **2410.A3**

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

#### **2410.C1**

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## 2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

### *Interpretation:*

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

## 2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

## 2430 Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing

Internal auditors may report that their engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, only if the results of the quality assurance and improvement programme support the statement.

## 2431 Engagement Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the engagement results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for non-conformance; and
- Impact of non-conformance on the engagement and the communicated engagement results.

## 2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

### *Interpretation:*

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated.

### **2440.A1**

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

## 2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

## 2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

## 2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

## 2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

*Interpretation:*

The communication will identify:

- The scope including the time period to which the opinion pertains.
- Scope limitations.
- Consideration of all related projects including the reliance on other assurance providers.
- The risk or control framework or other criteria used as a basis for the overall opinion.
- The overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## **2500 Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

### **2500.A1**

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

### **2500.C1**

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## **2600 Communicating the Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

### *Interpretation:*

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

# Glossary

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## Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

### Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

### Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## Board

The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' is the head of the company or agency. 'Board' may refer to an audit committee to which the governing body has delegated its authority.



## Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

## Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

## Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

## Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Control Processes

The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the level of risk that an organisation is willing to accept.

## Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

## Engagement Opinion

The ratings, conclusions or other descriptions of results of an individual internal audit engagement based upon the procedures performed, relating only to those aspects within the objectives and scope of the engagement.

## Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

## **Fraud**

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

## **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

### **Public sector definition: Governance Statement**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

## **Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

## **Information Technology Governance**

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

## **Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) endorsed and strongly recommended.

### Public sector interpretation

Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

### Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

## Must

The *Standards* use the word must to specify an unconditional requirement.

## Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

## Overall Opinion

The overall ratings, conclusions or other descriptions of results provided by the chief audit executive addressing, at a broad level, governance, risk management and control processes of the organisation. An overall opinion is based on the results of a number of individual engagements and other activities for a specific time interval.

## Risk

The effect of uncertainty on objectives. An effect is a deviation from the expected and may be positive or negative. Risk is often expressed in terms of a combination of the consequences of an event and the associated likelihood of occurrence.

## Risk Appetite

The level of risk that an organisation is willing to accept.

## Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

## **Should**

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

## **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

## **Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

## **Technology-based Audit Techniques**

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).







## **AGENDA ITEM: 7**

**AUDIT AND GOVERNANCE COMMITTEE:  
26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: People and Places**

**Contact for further information: Ms J Ashcroft (Extn. 2606)  
(E-mail: [julie.ashcroft@westlancs.gov.uk](mailto:julie.ashcroft@westlancs.gov.uk))**

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**SUBJECT: LOCAL CODE OF GOVERNANCE 2013**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To set out the results of the annual review of the Council's Local Code of Governance.

### **2.0 RECOMMENDATION**

2.1 That the Local Code of Governance for 2013/14, attached as Appendix 1 to this report, be approved.

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### **3.0 BACKGROUND**

3.1 In order to comply with best practice for producing the Annual Governance Statement, as set out in the CIPFA Solace publication "Delivering Good Governance in Local Government: Framework", it is necessary to have in place a Local Code of Governance. The Local Code identifies the Governance framework of the Authority against which it can be reviewed each year.

3.2 The terms of reference of this Committee include responsibility for approving the Council's Annual Local Code of Governance. The annual review of the Code has now been completed to ensure that it is accurate and up to date.

### **4.0 CURRENT POSITION**

4.1 Since last year's review there have been a small number of changes made in various areas throughout the Council affecting governance arrangements. The main changes include:



- A number of amendments have been made to the Council's corporate priorities, values and vision to reflect the new Business Plan refresh agreed by Council in February 2013
- References to the Data Quality Strategy have been updated to refer to the Data Quality Protocol – this change was considered by this Committee at its meeting in September 2012
- Changes to reflect developments in the way in which the Local Strategic Partnership will operate in the future

4.2 The Code has been revised to take account of all relevant factors and the tracked changes version is attached at Appendix 1.

## **5.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **6.0 FINANCIAL AND RESOURCE IMPLICATIONS**

6.1 All the activity referred to in this report is covered by existing budget provisions.

## **7.0 RISK ASSESSMENT**

7.1 The maintenance of a Local Code of Governance is necessary to demonstrate compliance with the Council's statutory duty under the Accounts and Audit Regulations.

### **Background Documents**

CIPFA Solace "Delivering Good Governance in Local Government: Framework"

### **Equality Impact Assessment**

The decision does not have a direct impact on members of the public, employees, elected members and/or stakeholders. Therefore no equality impact assessment is required.

### **Appendices**

Appendix 1 – Local Code of Governance – updated March 2013

# West Lancashire Borough Council



## Local Code of Governance

Local Code of Governance  
Last updated [March 2013](#)

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**CONTENTS**

	Page
<b>Introduction</b>	3
<b>The Core Principles of Good Governance</b>	4

**The Council's Approach to the Application of the Six Principles:**

Implementing a vision for the area	6
The roles of Members and Officers	8
Promoting high standards of conduct	<del>8</del>
Informed, transparent decision making	<del>9</del>
Developing capacity to act effectively	<del>10</del>
Engaging with local people and stakeholders	<del>10</del>

Deleted: 9

Deleted: 10

Deleted: 1

Deleted: 1

Deleted: April

Deleted: 2

## **INTRODUCTION**

The contents of this Code have been developed by drawing on the CIPFA/Solace publication “Delivering Good Governance in Local Government Framework” and associated guidance, which set out “proper practice” for the publication of an Annual Governance Statement as required by Regulation 4 of the Accounts and Audit Regulations 2003 (as amended).

The Council has in place arrangements to govern its activities with the aim of ensuring that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

These are comprised of the systems, processes, priorities, cultures and values by which it is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.

The Council’s governance framework brings together underlying legislative requirements, governance principles and management processes that enable it to pursue its vision effectively, as well as underpinning that vision with mechanisms for control and management of risk.

The publication of this document is intended to make the Council’s governance processes more transparent and increase accountability to all of the Council’s stakeholders.

The CIPFA/SOLACE framework recommends that the Council tests its arrangements against the framework principles by:

- Developing and maintaining an up to date local code of governance
- Reviewing existing governance arrangements against it
- Preparing a governance statement in which they publicly report how they have monitored their governance arrangements in the year, the extent to which they comply with their own code and any planned changes to it.

This Local Code and governance arrangements will be reviewed annually and a Governance Statement will be published each year in conjunction with its financial reports.

## **THE CORE PRINCIPLES OF GOOD GOVERNANCE**

The CIPFA/SOLACE framework sets out how good governance can be recognised by adherence to six core principles with associated supporting principles.

The six core principles are set out below in bold together with the supporting principles which underpin them:

### **1. Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.**

Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users

Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning

Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money

### **2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

Ensuring effective Leadership throughout the Authority and being clear about executive and non-executive functions and the roles and responsibilities of the scrutiny function

Ensuring that a constructive working relationship exists between authority Members and Officers and that the responsibilities of authority Members and Officers are carried out to a high standard

Ensuring relationships between the authority and the public are clear so each knows what to expect of the other

### **3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance

Ensuring that organisational values are put into practice and are effective

**4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny

Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs

Ensuring that an effective risk management system is in place

Using their legal powers to the full benefit of the citizens and communities in their area.

**5. Developing the capacity and capability of Members to be effective.**

Making sure that Members and Officers have the skills, knowledge, experience and resources they need to perform well in their roles

Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group

Encouraging best use of individuals' skills and resources in balancing continuity and renewal.

**6. Engaging with local people and other stakeholders to ensure robust public accountability.**

Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships

Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning

Making best use of human resources by taking an active and planned approach to meet responsibility to staff.

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## THE COUNCIL'S APPROACH TO THE APPLICATION OF THE SIX PRINCIPLES

### Implementing a Vision for the Area

The Council's longer term vision and priorities are reviewed annually to ensure that they remain relevant. A statement of the vision, values and priorities is made available publicly in a number of formats.

#### **CORPORATE PRIORITIES 2012/15**

The Council's vision is to be a Council to be proud of – delivering services that are lean, local and fair

#### **OUR VALUES**

We will deliver our vision by continuing to be an innovative organisation which:

- Prioritises customers and the services that are most important to quality of life;
- Work as 'one council' to provide a joined up approach;
- Is open and accountable in the way that it makes decisions;
- Develops and values employees;
- Promotes equality and diversity; and
- Works in partnership to benefit the Borough

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#### **OUR PRIORITIES**

Our values underpin the way in which we will deliver our priorities and achieve our vision. Our corporate priorities over the next three years

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(2012/13-2014/15) are:

- Balancing the budget and providing the best possible services within the resources available;
- Focusing upon sustainable regeneration and growth within the Borough;
- Caring for our Borough – delivering the small improvements that can make a big difference;
- Minimising uncertainty for staff and stakeholders by continuing to implement a managed approach to change; and
- Exploring innovation as a means to secure further value for money.

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Subject to affordability, our Service Priorities for the next three years (2012/13-2014/15) are:

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- Protect and improve the environment and keep our streets clean and tidy;
- Combat crime and the fear of crime;

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Local Code of Governance  
Last updated March 2013.

- Work to create opportunities for and retain good quality jobs in particular for local people;
- Improve housing and deliver housing that meets the needs of local people, including affordable housing; and
- Provide opportunities for leisure and culture that together with other council services contribute to healthier communities

## PERFORMANCE

We manage our performance by using performance indicators to highlight any areas of concern at the earliest opportunity. We also manage performance against a number of Priority Delivery projects (those identified in the Business Plan as being the most important in terms of achieving the Council's priorities). We do this by monitoring progress against key milestones and targets.

The Coalition Government has removed the duty for Local Authorities to report performance against a suite of National Indicators. The DCLG has issued a 'Single Data Set'. This comprises all of the information that the Government requires Local Authorities to report to its Departments. Departments use this information for their own performance management purposes and not, as has been the case in the past, as a means to judge the performance of individual Local Authorities.

The purpose of this is to allow Local Authorities to develop local performance frameworks tailor made to their own area's needs and priorities. West Lancashire Borough Council now has an agreed suite of Corporate Performance Indicators that are aimed at doing just that – they are key to monitoring and thereby managing the Council's performance in achieving the aims of the Business Plan. They are monitored annually and, where appropriate, quarterly by Members.

These are supplemented by other operational and management indicators/measures (the "local" PIs) which reflect our corporate priorities and are monitored regularly by Senior Management, Portfolio Holders and within the individual service areas.

The Council's Business Plan 2011-15 is supported by a Delivery Plan which details key projects, milestones and targets. This is monitored regularly by both Chief Officers and Members. Progress against the Delivery Plan, which also contains key overarching targets for the Council, will be reported yearly to Members, partners and the public through an Annual Report.

Indicators are managed and monitored within the Council's performance management system, Covalent. Indicators are linked to Service Priorities, Key Projects and Service Action Plans, which are also managed through the Covalent system.

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¶ Excellent progress has been made towards completing our priority delivery projects over the last 12 months and we will continue to pursue them in 2012/13 by:¶

¶ <#>Working with the County Council and other partners to deliver support for enterprise and the generation of funding and inward investment to the Borough¶

<#>Implementing the MSR 2012/13 policy options and undertaking further MSRs in 2013/14 and 2014/15¶

<#>Monitoring the implementation of the new JVC partnership with LCC and OneConnect Ltd in relation to HR, Revenues and Benefits and ICT Services to ensure their success¶

<#>Progressing the Skelmersdale Vision Town Centre Action Plan in partnership with the Homes and Community Agency and St Modwen¶

<#>Delivering a Self Financing Business Plan for Housing¶

<#>Delivering an adopted Local Plan to provide the basis of a sustainable Borough going forward¶

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Internal and External Audit regularly examine performance indicators as part of their review work.

## GOVERNANCE

The Council has in place a Protocol which sets out how the essential elements of local governance, accountability and transparency will be maintained within any proposed arrangements for service delivery through partnerships.

A Medium Term Financial Forecast and Treasury Management Strategy and Policy are maintained which fully assess the potential financial risks facing the Council.

The Council follows and complies with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.

Advice from Statutory Officers, along with Member input, plays a key part in the decision making process of the Council to ensure the effective use of resources and achievement of objectives.

The Council has in place a clearly defined complaints process which enables it to identify and learn from any failings in service delivery.

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Deleted: West Lancashire Local Strategic Partnership's (LSP) Sustainable Community Strategy 2007-17 was launched at the LSP Annual Conference in 2007. The strategy provides a framework for improving the wellbeing of our local communities through a vision, agreed objectives and a set of priority projects. The SCS was refreshed last year in 2011 to ensure that the LSP's priorities and work programme continue to be targeted at the areas of greatest need and where a partnership approach will be the most effective solution.

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## The Roles of Members and Officers

The Council's [Constitution](#) clearly sets out the respective roles and responsibilities of the Council, its Executive and Overview and Scrutiny functions, and delegations to Committees, Portfolio Holders and Chief Officers as well as those functions which by statute are to be exercised by a designated "Proper Officer". It also delineates the Council's Management Structure.

Field Code Changed

As part of the Constitution the Council has agreed a Protocol on Member/Officer Relations and Conventions for the Management of Council Business.

## Promoting High Standards of Conduct

As part of the Constitution the Council has adopted the Members' Code of Conduct and an Officer's Code of Conduct. The Council has a Standards Committee whose role is to promote and maintain high standards of conduct by councillors and co-opted members.

The Council's Human Resources team lead and monitor on Equality issues. An Equality Scheme Action Plan 2011-14 is in place to ensure the Council conforms with the Equality Act 2010 requirements. 'Approach to Equality' and

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Local Code of Governance  
Last updated [March 2013](#)

'Equality in Employment' documents are available to all staff and an Equality and Diversity Corporate Steering Group meets periodically to monitor compliance.

## SERVICE STANDARDS

We have a number of core customer service standards which apply to all customers and staff. These corporate customer care standards provide a clear commitment of our desire to attain an effective and consistent customer service making our services easier to understand and access; they include responses to letters and emails, telephone calls, complaints, visits to our offices, visits to customer's homes and out of hours emergencies; they cover targets and the attitude and behaviour of staff and customers.

We are committed to improving, front-line services for residents and visitors to the Borough. To underline this we also have a set of service standards for each key front-line service, available on the Council's [Website](#), which are linked to our priorities.

## Informed, Transparent Decision Making

The Council publishes Forward Plans which set out those executive decisions it knows it will be considering in advance for the information of interested stakeholders. In addition, appropriate notice of meetings of Council bodies is given together with the publication of the agenda and all available reports.

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It has arrangements in place to ensure that conflicts of interest for members and officers are explicitly identified and dealt with before decisions are taken.

Guidance for report authors sets out matters which must be explicitly considered in the production of any report, including financial, resource and equality implications. These provide documentary evidence of the rationale behind any recommendations.

All decisions of the Council, Cabinet and Committees are formally minuted. Information about the Council's Committees including membership, meeting timetables, Agendas and Minutes can be accessed through the Council's [Committee Information System](#)

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The Council has adopted a formal Risk Management Strategy and process which is fully embedded throughout the Authority and forms an integral part of the management process. A dedicated resource is committed to this area of work to ensure consistency and compliance throughout the Authority.

Guidance on effective internal financial controls are detailed within the Council's Financial Regulations.

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The Council has in place a Data Quality [Protocol](#) to ensure the accuracy, [relevance](#) and reliability of data produced [for use by internal and external stakeholders](#).

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## Developing Capacity to act Effectively

The Managing Director (People and Places), takes a leading role in developing Members of the Council through the Member Development Commission. The Managing Director (Transformation), through the HR [service](#), develops Officers through the Development Appraisal Scheme which enables them to continue delivering high quality services.

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Audit and Governance Committee Members receive training, in both financial and non financial matters, to support them in their role.

## Engaging with Local People and Stakeholders

West Lancashire Borough Council is committed to consulting local people and we are keen to gather your views. The Council has a consultation diary in the ["Your Views"](#) section of its website. This provides information on recent, current and future consultation activities as well as information on how you can get involved.

The "Duty to involve", is a statutory requirement for all Councils which came into effect in April 2009 aimed at ensuring people have greater opportunities to have their say. The Council has devised an Action Plan for Corporate Consultation in response to the requirements of the Duty.

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**AGENDA ITEM: 8**

**AUDIT AND GOVERNANCE COMMITTEE:**

**26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: People and Places**

**Contact for further information: Mr M.Coysh (Extn. 2603)  
(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: INTERNAL AUDIT ACTIVITY TO MARCH 2013**

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Wards affected: Borough wide

**1.0 PURPOSE OF THE REPORT**

1.1 To report progress against the 2012/13 Audit Plan.

**2.0 RECOMMENDATION**

2.1 That Members note progress in the year to date and direct any questions to the Internal Audit Manager who will be present at the meeting.

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**3.0 BACKGROUND**

3.1 This Committee approved the 2012/13 Internal Audit Plan and resolved that a written report be brought back quarterly to enable progress against it to be monitored.

**4.0 INTERNAL AUDIT ACTIVITY TO DATE**

4.1 A report summarising progress in the fourth quarter is attached and the Audit Manager will be present to answer questions in relation to it.

4.2 At the time of writing there were no significant issues arising from Internal Audit's work in the quarter that would merit being drawn specifically to the attention of Audit and Governance Committee. Any issues arising from work completed after

this update will be included in the Annual Report brought to this Committee in June.

## **5.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **6.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 6.1 All the activity referred to in this report is covered by existing budget provisions.

## **7.0 RISK ASSESSMENT**

- 7.1 This report summarises progress against Internal Audit's work programme for the year. Internal Audit activity is a key source of assurance to this Committee that risks to the Council's overall objectives are being properly managed.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

1. Internal Audit fourth quarter update report.

**Internal Audit Update Report 2012/13 to date**

**Progress against the Plan**

<b>Title</b>	<b>Position</b>
Annual Governance Statement	Planned Work Complete
Shared and Contracted Services	Planned Work Complete
MSR and OR implementation	Planned Work Complete
Data Management	Planned Work Complete
ICT	Review of contract implementation
Matrix	Planned Work Complete
Human Resources	Planned Work Complete
Performance Management	Planned Work Complete
Corporate Health and Safety	Planned Work Complete
Business continuity	Planned Work Complete
Contract Audit	Work in progress
QL Procurement	Planned Work Complete
Procurement through Official Order	Planned Work Complete
Benefits	Work not commenced
Council Tax	Work in progress
NNDR	Work not commenced
Debtors	Planned Work Complete
Creditors	Work in progress
Right to Buy / Housing Act Advances	Work in progress
Accounting Controls	Work in progress
Payroll	Planned Work Complete
Rents	Planned Work Complete
Treasury Management	Work in progress
Fees and Charges	Work in progress
Housing Stock Maintenance	Work in progress
Q.L (Housing Management system)	Planned Work Complete
Cash to Leave and Transfer Incentive Schemes	Work in progress
Licensing	Planned Work Complete
Depot	Work in progress
Transport	Work in progress
Community Safety CCTV	Work not commenced
Leisure	Planned Work Complete
Customer Services	Planned Work Complete
Strategic Asset Management Plan	Work in progress
Building Control	Planned Work Complete
Estates and Valuation	Work in progress
National Fraud Initiative	Planned Work Complete
Money Laundering Controls	Planned Work Complete
Anti Fraud and Corruption Policy and Action Plan	Planned Work Complete

There are no formal investigations in progress at this time

<b>Summary</b>	
Planned Work Complete	22
Audits in progress	13
Reviews of contract implementation	1
Work not yet commenced	3
<b>Total</b>	<b>39</b>

## **COMMENTARY**

This report was prepared in advance of the year end to meet committee deadlines and is based on best estimates of progress.

Adequate resources to fulfil the plan were secured part way through the year by approval to fill a vacancy which arose at the start of the financial year on a temporary basis. The reduced resources available early in the year had an impact on the work of the section but satisfactory progress has been made following the introduction of the temporary resource which will carry forward into May.

This work will inform the overall opinion relating to the system of internal control in the Internal Audit Annual Report.

Management have agreed action plans to secure improvement in relation to any issues identified by work from the plan to date.

At the time of writing there were no significant issues arising from Internal Audit's work in the quarter that would merit being drawn specifically to the attention of Audit and Governance Committee. Any issues arising from work completed after this update will be included in the Annual Report brought to this Committee in June.

## **CONCLUSION**

By the end of the fourth quarter 36 out of 39 items (92%) from the plan are complete or in progress. This is a similar position to the final quarter of the previous plan when 24 out of 26 (92%) of items were in progress or completed.

Given that the resources required to complete the plan were not profiled evenly across the year this represents excellent progress for the year and it is anticipated that the plan will be complete before the expiry of the resources allocated for it.



**AGENDA ITEM: 9**

**AUDIT AND GOVERNANCE COMMITTEE:**

**26 March 2013**

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**Report of: Borough Treasurer**

**Relevant Managing Director: People and Places**

**Contact for further information: Mr M.Coysh (Extn. 2603)  
(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: INTERNAL AUDIT PLAN 2013-14**

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Wards affected: Borough wide

**1.0 PURPOSE OF THE REPORT**

1.1 To provide Members with the background to the preparation of the 2013/14 Internal Audit Plan and present it for approval.

**2.0 RECOMMENDATION**

2.1 That the attached Internal Audit Plan be approved.

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**3.0 BACKGROUND**

3.1 The United Kingdom Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to prepare a risk based Audit Plan.

3.2 The planned work provides assurance on the control environment to management and this Committee, supports the process for preparing the Annual Governance Statement and underpins the Audit Manager's Annual Report.

3.3 In preparing the Plan the Audit Manager takes account of the adequacy of the Council's systems of risk management, performance management and other assurance processes. The Audit Manager also reviews the risks the organisation faces and its changing priorities in order to plan Internal Audit's approach to significant local and national issues and risks. This Annual Plan and the risk assessments on which it is based are subject to consultation with heads of service and other key stakeholders.



3.4 This Committee's terms of reference require it to approve, but not direct the plan.

#### **4.0 ISSUES INFLUENCING THE INTERNAL AUDIT WORK PROGRAMME**

4.1 The Council has revised its priorities to take account of changing public expectations and the current economic climate.

4.2 The redirection of resources to align with new priorities and the revisions to the governance framework necessary to take account of new service delivery arrangements are being managed through work streams contained in the Council's Business Plan, the masthead initiative through which change is being managed.

4.3 Significant and rapid change impacts on controls and the risk profile of the Council. The speed with which these changes are taking effect means that there are issues arising which can only be addressed as the plan progresses.

4.4 Internal Audit do not just police compliance with existing structures and processes but support improvement and efficiency and promote adequate governance arrangements during times of change.

4.5 Any failure to secure adequate governance arrangements as projects progress could lead to:

- Less robust risk management and a corresponding dilution of control over operational contributions to the Council's objectives
- Failure to maintain expected service standards following implementation
- Failure to realise projected savings from the Business Plan

4.6 The breadth, scale and speed of these changes underscores the need for independent assurance in relation to the control environment. These areas will continue to be Internal Audit's primary focus over the life of this annual plan.

#### **5.0 INTERNAL AUDIT WORK PROGRAMME KEY THEMES**

5.1 The complete 2013/14 Plan is produced as an appendix to this report but its key themes are summarised below.

##### **5.2 Financial Audits**

Key financial systems are central to the work of internal audit and the implementation of the new revenues, benefits and payroll software will all require review over the life of this plan.

##### **5.3 Service Delivery**

The broad spread of services provided by the Council is covered in its entirety over several annual plans. The broad objective of the majority of this work is to ensure that services make an effective contribution to the Council's objectives and are delivered in ways which secure value for money.

#### 5.4 Contract

The plan includes reviews of the operation of controls on procurement, a key thread given the significant level of resources expended on activity secured through contracts.

#### 5.5 Corporate Management and Performance Improvement

Corporate systems provide the means to monitor activity at an authority wide level and underpin services by providing expert support in specialist disciplines. Work in this area is mainly intended to provide assurance that the data in corporate systems is fit for purpose and that services are complying with the corporate policy framework and non service specific statutory requirements.

#### 5.6 Corporate Governance

The effectiveness of governance and risk management processes is fundamental to internal audit activity and time is included for monitoring key systems and new developments in this area. This plan includes time for review of the practical arrangements for the implementation of the recently approved Data Protection Policy and Senior Information Risk Officer arrangements.

#### 5.7 Corporate anti Fraud initiatives.

In addition to their day to day role in promoting systems which are resistant to fraud this area of the plan provides a resource used by internal audit to co-ordinate various pro-active intelligence operations targeting fraudulent activity against the public purse.

### **6.0 FUTURE DELIVERY OF THE INTERNAL AUDIT SERVICE**

6.1 The Council has a statutory duty to maintain an adequate and effective system of internal audit of its accounting records and system of internal control.

6.2 The future arrangements for the delivery of the internal audit service are being considered through the major service review process. Temporary arrangements are in place to maintain staffing levels pending the outcome of that review and it is not anticipated that these will substantially affect the delivery of the plan in this financial year. Any proposed changes will be reported back to this committee in due course.

### **7.0 CONCLUSIONS**

7.1 In order to ensure it has exercised appropriate control during the progress of its business plan the Council will need assurance on its governance arrangements. The Internal Audit Service are a key source of assurance for management and this Committee.

7.2 The Audit Manager has prepared the 2013/2014 Internal Audit Plan, attached as appendix one to this report, in accordance with proper practices and is of the opinion that the coverage proposed will provide adequate assurance to the authority in accordance with current legislation based on the best information available at the time it was prepared.

## **8.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **9.0 FINANCIAL AND RESOURCE IMPLICATIONS**

9.1 The PSIAS requires the Audit Manager to prepare the plan based on the Council's activities and the scale and breadth of potential audit areas and secure sufficient resources to ensure it can be delivered.

9.2 The Audit Manager considers he has sufficient resources at his disposal to deliver an effective audit service in 2013/2014 based on current risk assessments.

9.3 The resources required to deliver the proposed plan are contained in existing budget provisions.

## **10.0 RISK ASSESSMENT**

10.1 Production and approval of the Annual Audit Plan is part of the framework required to maintain an adequate internal audit of the Council's accounting records and system of internal control. Failure to maintain it would put the Council in breach of one of its statutory duties.

10.2 The Council's Business Plan is its key strategy for service delivery into the future and it is essential that risks to its achievement are managed effectively. Change will continue to impact on current risk management, governance and control frameworks and the work proposed in this plan is designed to provide assurance on the revisions to controls being developed and implemented through this period of change.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

## **Appendices**

1. Internal Audit Plan 2013-2014

**Planned Audit Activity (Days)** 542**Financial Audits – Probity, Income & Collection Improvement**

Treasury Management	10
Rents	15
Benefits	20
Council Tax	20
NNDR	15
Debtors	15
Creditors	25
Icon cash and income collection systems	10
OCL and Wigan Payroll	25
Arrears management	20
Accounting controls	20
Market	15

**Service Delivery – Economy, Efficiency & Effectiveness Improvement**

Refuse and recyclables	15
Planning Policy	20
Community Safety – CCTV	5
Private Sector Housing	15
Property services (non housing)	15
Economic Development	15
Furnished tenancies	15

**Contract & Procurement Improvement & Compliance**

Contract	30
Matrix	10
Council Stock Maintenance	25

**Corporate Management & Performance Improvement**

Performance indicators	15
Complaints system	10
H.R.	20
ICT	20
Time recording systems	5
Corporate Health and Safety	10
Asset Management (non SAMP items)	15
QL system	10

**Corporate Governance**

Annual Governance Statement	2
Risk Management	10
Data protection / SIRO arrangements	20

**Corporate Anti Fraud Initiatives**

Money laundering	5
Anti fraud work	5
NFI	20

**Audit & Governance Committee Work Programme – 26 March 2013**

<b>Date</b>	<b>Training (commencing 6.30pm)</b>	<b>Items</b>
25 June 2013	Financial Regulations	<ol style="list-style-type: none"><li>1. Annual Governance Statement</li><li>2. Statement of Accounts</li><li>3. Internal Audit Activities – Quarterly Update</li><li>4. Internal Audit Activities – Annual report</li><li>5. Regulation of Investigatory Powers Act Annual and Quarterly Monitoring of Use of Powers</li><li>6. Application of New Audit Standards</li><li>7. Treasury Management</li></ol>
24 September 2013	Housing Self Financing	<ol style="list-style-type: none"><li>1. External Audit Annual Governance Report</li><li>2. Internal Audit Mid-Year Review</li><li>3. Approval of Statement of Accounts</li><li>4. Regulation of Investigatory Powers Act quarterly monitoring of use of powers</li><li>5. Annual Review - Anti-Fraud, Bribery and Corruption Policy</li><li>6. The Effectiveness of the Data Quality Protocol</li></ol>
28 January 2014	Basic Guide to Governance	<ol style="list-style-type: none"><li>1. Risk management Framework</li><li>2. Internal Audit Activities – Quarterly Update</li><li>3. Regulation of Investigatory Powers Act quarterly monitoring of use of powers</li></ol>
25 March 2014	???????	<ol style="list-style-type: none"><li>1. External Audit Report – Claims and Returns</li><li>2. Local Code of Governance</li><li>3. Internal Audit Activities – Quarterly Update</li><li>4. Internal Audit Plan 2014/15</li><li>5. Regulation of Investigatory Powers Act quarterly monitoring of use of powers.</li></ol>