

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 25 March 2013
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Black, Burton, Butler (Chairman),
Warner and Mrs Wilson

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 14 January 2013

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Continued Over/:

Issued on 15 March 2013

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Alison Broom

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Report of the Director of Regeneration and Communities - Certification of Financial Claims and Returns	8 - 20
9.	Report of the Head of Finance and Customer Services - Audit Committee Progress Report - March 2013	21 - 34
10.	Report of the Head of Audit Partnership - Internal Audit Operational Plan 2013/14	35 - 44
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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 14 JANUARY 2013

Present: **Councillor Butler (Chairman) and
Councillors Black, Burton, Warner and Mrs Wilson**

Also Present: **Councillor English**

67. APOLOGIES FOR ABSENCE

There were no apologies for absence.

68. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

69. URGENT ITEM

The Chairman stated that, in his opinion, the reference from the Corporate Services Overview and Scrutiny Committee seeking clarification of the Audit Committee's reference to that Committee relating to the revaluation of investment properties should be taken as an urgent item in view of the length of time until the next meeting.

70. NOTIFICATION OF VISITING MEMBERS

Councillor English indicated his wish to speak on the report of the Head of Democratic Services concerning the relationship between the Audit and Corporate Services Overview and Scrutiny Committees.

71. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

72. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

73. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed except that matters arising from Minute 65 of the Minutes of the meeting held on 26 November 2012 (Maidstone Museum East Wing Project Review – Update) should be taken in private insofar as to discuss these issues in public could prejudice the Council's position in any proceedings to recover additional costs.

74. MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012

RESOLVED: That the Minutes of the meeting held on 26 November 2012 be approved as a correct record and signed.

75. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012

Minute 56(2) – Audit Commission’s Annual Governance Report 2011/12

In response to a question by a Member, the Head of Finance and Customer Services confirmed that a copy of the valuation report from the Council’s External Valuers had been circulated to all Members of the Committee for information, but he would arrange for it to be circulated again.

76. RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND THE CORPORATE SERVICES OVERVIEW AND SCRUTINY COMMITTEE

The Committee considered the report of the Head of Democratic Services setting out details of the recommendations arising from the meeting between the Chairman and Vice-Chairman of the Committee and the Chairman of the Corporate Services Overview and Scrutiny Committee to discuss the relationship between the two Committees. It was noted that at this meeting:-

- It was explained that the role of the Audit Committee differed from that of the Overview and Scrutiny Committees in that the role of scrutiny was to review policy and challenge whether the Executive had made the right decisions to deliver policy goals. The Audit Committee, however, provided independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council’s financial and non-financial performance to the extent that it affected the Council’s exposure to risk and affected the control environment, and oversight of the financial reporting process.
- It was recognised that although the Audit Committee’s work programme was driven largely by statute and the governance and financial reporting cycle, there was a potential overlap between the work of the Audit Committee and the Corporate Services Overview and Scrutiny Committee having regard to their terms of reference. Additionally, there could potentially be areas of overlap with the other Overview and Scrutiny Committees. It was considered, therefore, that the co-ordination of work programmes was desirable not only to avoid duplication of work, but to ensure that resources were used most effectively.
- The Chairmen and Vice-Chairman had also discussed whether there was a need for a protocol to manage the referral of issues either way between the Audit and Overview and Scrutiny Committees. It

was considered that the adoption of a protocol would mitigate the risk of inappropriate referrals and inform the subsequent debate.

RESOLVED:

1. That the outcome of the discussions between the Chairman and Vice-Chairman of the Audit Committee and the Chairman of the Corporate Services Overview and Scrutiny Committee be noted.
2. That the Chairman and Vice-Chairman of the Audit Committee should meet with the Scrutiny Co-ordinating Committee at the beginning of each Municipal Year to discuss Committee work programmes and any areas of overlap to ensure that the Audit Committee does not carry out or duplicate work which is properly the responsibility of the Overview and Scrutiny Committees and that the Overview and Scrutiny Committees are aware of the work plan and role of the Audit Committee.
3. That the following protocol be adopted to manage the referral of issues either way between the Audit and Overview and Scrutiny Committees:-

In the event of the Audit Committee being minded to refer an issue to an Overview and Scrutiny Committee (or vice-versa), the issue, the reasons for referral and the desired outcome must be clearly understood, and specified in the minutes and the reference.

77. REFERENCE FROM THE CABINET - PROPERTY INVESTMENT GOVERNANCE ARRANGEMENTS

The Committee considered the response of the Cabinet to its reference seeking assurances that the governance arrangements relating to property investment are sound and that controls are in place to minimise the risks to the Council associated with this new area of activity. It was pointed out that there was an ambiguity in that although the reference stated that the Member Advisory Panel relating to Property Investment had no decision making powers, the Panel did, in accordance with its terms of reference, have the power to reject proposals put forward by the Officers for potential property investment.

In this connection, it was suggested that the terms of reference of both the Member Advisory Panel and the Property Investment Cabinet Committee should be amended to clarify the intention that decisions to either reject or take forward property investment proposals are to be taken by the Cabinet Committee based on the recommendation of the Advisory Panel, supported by a robust financial business case, and having specific regard to the CIPFA Code of Practice.

RESOLVED to RECOMMEND to the CABINET: That consideration be given to the amendment of the terms of reference of both the Member Advisory Panel relating to Property Investment and the Property Investment Cabinet Committee to clarify the intention that decisions to either reject or

take forward property investment proposals are to be taken by the Cabinet Committee based on the recommendation of the Advisory Panel, supported by a robust financial business case, and having specific regard to the CIPFA Code of Practice.

78. REFERENCE FROM THE CORPORATE SERVICES OVERVIEW AND SCRUTINY COMMITTEE - REVALUATION OF INVESTMENT PROPERTIES

The Committee considered the reference from the Corporate Services Overview and Scrutiny Committee seeking clarification of the reasons for its referral relating to the revaluation of investment properties and the desired outcome. It was noted that in referring the matter back, the Corporate Services Overview and Scrutiny Committee had asked that further consideration be given as to whether it was in fact properly the responsibility of the Audit Committee.

To assist Members in their consideration of this matter, the Officers explained that:-

- Valuations obtained for accounting purposes were not necessarily the same as those obtained for asset management/disposal purposes as different rules applied.
- Accounting standards required the annual revaluation of investment properties. It was accepted that the arrangements for obtaining these valuations had not gone to plan last year. The External Valuers had identified a number of limitations to the scope and reliability of their valuations, particularly in respect of the timescale for their work, the assumptions made and the extent to which their valuations could be relied upon. In particular, they had made clear that their valuations were based on the information provided by the Council without any independent inspections.
- Upon receipt of a revised Letter of Representation signed by the Director of Regeneration and Communities confirming, inter alia, that the information provided to the External Valuers in order to undertake their valuations was accurate and complete, the External Auditors had issued an unqualified opinion on the 2011/12 Statement of Accounts.
- It was a recommendation of the Action Plan contained within the Annual Governance Report that a review be undertaken of the arrangements in place for ensuring that valuations carried out by the Council's Valuers are reliable, complete and provided within an acceptable timescale. This recommendation had been accepted as a high priority, and the outcome of the review would be reported to the Audit Committee as the Committee responsible for the adequacy and robustness of the accounts, and followed up as part of the post statements audit of the 2012/13 accounts.
- Any review of the arrangements in place for obtaining valuations for asset management/disposal purposes would more appropriately be

a matter for the Corporate Services Overview and Scrutiny Committee.

Members accepted the position regarding the respective responsibilities of the Audit and Corporate Services Overview and Scrutiny Committees in relation to this matter, and asked that an update on the review of the arrangements in place for obtaining valuations for accounting purposes be reported to the next meeting of the Committee to provide an assurance that lessons have been learned and action is being taken to avoid the problems which were experienced in relation to the preparation/closing of the 2011/12 Statement of Accounts occurring in future years. The Officers confirmed that the report would cover the appointment of the External Valuers and the scope of the contract. Discussions would take place at an early date with the External Auditors to ensure that they were satisfied with the arrangements.

RESOLVED: That an update on the review of the arrangements in place for obtaining valuations for accounting purposes be reported to the next meeting of the Committee to provide an assurance that lessons have been learned and action is being taken to avoid the problems which were experienced in relation to the preparation/closing of the 2011/12 Statement of Accounts occurring in future years.

79. TREASURY MANAGEMENT STRATEGY 2013/14

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the report of the Head of Finance and Customer Services setting out the draft Treasury Management Strategy for 2013/14, including the Treasury and Prudential Indicators.

The Committee asked a number of questions of the Officers relating to the implications of any proposal to borrow for purposes other than the acquisition of commercial property assets to generate additional income to support the Capital Programme; the calculation of the Minimum Revenue Provision; the arrangements in place for monitoring and responding to changes in the credit ratings of financial institutions and the knowledge and skills available within the Finance Team to deal with these matters; and the risks associated with the appointment of external fund managers.

The Committee indicated that it was satisfied with the adequacy of the draft Treasury Management Strategy for 2013/14.

RESOLVED: That the Cabinet be recommended to agree the draft Treasury Management Strategy for 2013/14, as set out in the report of the Head of Finance and Customer Services, for submission to the Council.

80. BUDGET STRATEGY 2013/14 ONWARDS - RISK ASSESSMENT

The Committee considered the report of the Head of Finance and Customer Services setting out the risk assessment of the budget strategy 2013/14 onwards. It was noted that the risk assessment considered operational risks rather than strategic risks and that the actions to

mitigate these risks formed part of the Finance Section's service plan for 2013/14. The highest risks in terms of both likelihood and impact related to the possible failure to deliver expected income levels from fees and charges due to falling demand in the current economic climate and the potential loss to the Collection Fund due to the non-collection of taxes as a result of the significant changes in 2013/14 that would affect collection rates.

In response to questions by Members, the Head of Audit Partnership confirmed that it was proposed to arrange a training session for Members on the principles of risk management, including strategic risk.

The Committee indicated that it was impressed with the risk analysis of the budget strategy 2013/14 onwards, considered the approach to be thorough and fit for purpose, and would not wish to see any amendments to the document as presented.

RESOLVED: That the Cabinet be recommended to agree, without amendment, the risk assessment of the budget strategy for 2013/14 onwards as set out in Appendix C to the report of the Head of Finance and Customer Services.

81. DRAFT STRATEGIC RISK REGISTER

The Committee considered the report of the Head of Audit Partnership setting out the first draft of the Strategic Risk Register. It was noted that the document had been considered at an informal meeting of the Cabinet and the Corporate Leadership Team earlier that day. The session had been facilitated by a representative of Zurich Risk Engineering and the Chairman of the Audit Committee had been in attendance. The Group had agreed that the six strategic risk areas which had been identified were the correct ones and that no significant strategic risks had been missed. The Group had also agreed that it would be helpful if the relevant Cabinet Members could take joint ownership of the risks with the Officers. A number of changes were made to the wording, adding to the vulnerabilities and triggers shown. Some additional consequences were identified, and would be added to the Register, but on the whole the Group endorsed the scoring shown for the likelihood of each strategic risk occurring and the potential impact. The Risk Register would be amended to reflect these changes and then the document would be reported to the Cabinet on 13 February 2013 for adoption. Risk owners would then be asked to complete action plans setting out how the risks would be managed and mitigated where possible. The updated Risk Register, including the action plans, would be reported to the Committee in March. It was hoped that this would provide the necessary assurances to the Committee in terms of the effective development and operation of risk management.

In response to questions by Members about the mitigation of risks associated with political change at a national or local level, the Officers explained that this related to the management of the impact of any

political change which could lead to a significant, unforeseen change in policy direction and the re-alignment of resources.

RESOLVED: That the first draft of the Strategic Risk Register be noted with the proviso that the submission of action plans with the updated version of the document to the next meeting of the Committee should assist Members in their understanding and provide the necessary assurance that the risks which have been identified are being managed effectively.

82. AUDIT COMMITTEE WORK PROGRAMME 2012/13

RESOLVED: That the Audit Committee Work Programme 2012/13 be noted and amended to reflect decisions made at this meeting.

83. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following item of business because of the likely disclosure of exempt information for the reasons specified, having applied the Public Interest Test:-

Head of Schedule 12 A and Brief Description

Matters Arising from the Minutes of the Meeting Held on 26 November 2012 – Minute 65 - Maidstone Museum East Wing Project Review - Update	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
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84. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2012 - MINUTE 65 - MAIDSTONE MUSEUM EAST WING PROJECT REVIEW - UPDATE

The Director of Regeneration and Communities updated the Committee on the position with regard to the actions being taken in relation to the Maidstone Museum East Wing extension construction project. The update included details of the negotiations regarding the final account; the position with regard to the claim in relation to inaccurate surveying; and the progress being made on the review of the project commissioned by the Cabinet. In response to questions by Members, the Director of Regeneration and Communities confirmed that a breakdown of the claim in relation to inaccurate surveying would be circulated to all Members of the Committee.

RESOLVED: That the report be noted.

85. DURATION OF MEETING

6.30 p.m. to 8.55 p.m.

Agenda Item 8

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

14 March 2013

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by Stephen McGinnes

1. Certification of financial claims and returns
- 1.1 Issue for Consideration
 - 1.1.1 To consider the outcome of the Audit Commission work to certify the grant and subsidy claims that the Council submitted during 2011/12.
- 1.2 Recommendation of Head of Revenues and Benefits Shared Service
 - 1.2.1 That the Committee notes the Audit Commission assurance that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns.
- 1.3 Reasons for Recommendation
 - 1.3.1 The Audit Commission undertook work to certify the two primary grant claims that are submitted by the Council with a combined value of £104,400,000.
 - Housing and council tax benefit scheme;
 - National non-domestic rates;
 - 1.3.2 The level and form of testing varied between claims to reflect the value and specific requirements of the grant paying body, as detailed within Appendix A.
 - 1.3.3 Whilst the work gave rise to minor amendment, the adjustments were cost neutral, with the overall assurance confirming that the Council continues to have good systems in place to ensure the accuracy of its' grant claims and returns.
- 1.4 Alternative Action and why not Recommended
 - 1.4.1 The report is provided for information only.
- 1.5 Impact on Corporate Objectives
 - 1.5.1 The report supports the objective of providing corporate and customer excellence.
- 1.6 Risk Management

1.6.1 The accuracy of the grant claims represents a key financial risk, with the work undertaken by the Audit Commission in part aimed at mitigating that risk.

1.7 Other Implications

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

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1.7.2 The financial considerations have been outlined within the body of the report and attached appendices.

1.8 Relevant Documents

1.8.1 Appendices

Appendix A: Certification of claims and returns – annual report.

1.8.2 Background Documents

None.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

Maidstone Borough Council

Certification work report 2011/12

February 2013

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2	Results of our certification work	3

Appendices

A	Approach and context to certification	5
B	Details of claims and returns certified for 2011-12	7

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 one claim and return for the financial year 2011/12 relating to expenditure of £52.5 million in respect of Housing and Council Tax Benefit Subsidy. This certification was carried out following the handover of partly completed work from the Audit Commission at 31/10/12. Previously the Audit Commission's in-house auditors certified the Council's Business Rates (NNDR) return.
- 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 It should be noted that most of the 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 primarily 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	All claims were submitted on time to audit and were certified within the required deadline.
Accuracy of claim forms submitted to the auditor	The Council is performing well and there are no significant matters arising from our certification of claims and returns.
Amendments and qualifications	As in previous years, some minor amendments were made to the housing benefit grant claim. The net effect of these was to increase subsidy receivable by £640. Four cases of underpaid benefit were reported in the qualification letter, as required by the certification guidance.
Supporting working papers	Supporting working papers for all claims and returns were good, which enabled certification within the deadlines.

The way forward

- 1.8 We have not identified any areas where action is required to improve the Council's procedures for completion and submission of grant claims and returns.

Acknowledgements

- 1.9 We would like to take this opportunity to thank the Council's officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

February 2013

2 Results of our certification work

Key messages

- 2.1 We have certified one claim and return for the financial year 2011/12 relating to expenditure of £52.5 million in respect of housing and council tax benefit subsidy. The non-domestic rates return (£51.9m) was audited by the Audit Commission's in-house auditors. There was no requirement for external audit of the Council's disabled facility grant claim in 2011/12.
- 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.	%	
Total claims/returns		2	100	3	100	→
Number of claims submitted on time	100%	2	100	3	100	→
Number of claims certified on time	100%	2	100	3	100	→
Number of claims certified without amendment	100%	1	50	1	66	→
Number of claims certified without qualification	100%	1	50	1	66	→

- 2.3 The number of grant claims and returns requiring audit for a council such as Maidstone is too small to draw meaningful conclusions in respect of trends in performance. The control environment at the Council is sound, and good quality assurance arrangements are in place. However, the size and complexity of the housing benefit subsidy grant claim at most authorities is such that it is unusual for it to be certified without any amendments, and a qualification letter is often required to comply with the detailed audit certification guidelines laid down by the DWP and Audit Commission.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Your previous auditors, the Audit Commission, charged a total fee of £27,515 against an indicative budget of £29,000 for the certification of claims and returns in 2011-12. We charged a fee of £1,360 in respect of the housing and council tax benefit subsidy claim. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

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

Grants co-ordination

- 2.7 Sound arrangements are in place to ensure that all grant claims and returns are completed in accordance with statutory requirements and submitted to meet statutory deadlines

Compilation procedures

- 2.8 As noted in previous years, a good control environment is in place to ensure that claims are supported by clear working papers and correctly recorded in the Council's ledgers and financial statements.

Certification of Housing and Council Tax Benefit Subsidy Claim

- 2.9 Some minor amendments to the claim were required in respect of errors identified from our initial testing samples. Total net amendments to the claim amounted to £640.
- 2.10 One case was identified where the previous year's Local Housing Allowance rate had been applied in error, with the difference between the current and prior year classified as payments exceeding the cap. On extending the sample to the whole population one further case was identified, and the claim was amended.
- 2.11 Two cases were identified where overpayments had been incorrectly classified as claimant error rather than as due to administrative delay. All cases of this type were subsequently examined by officers and some further classification errors identified, resulting in a reclassification of £818 between overpayment cells on the subsidy claim.
- 2.12 One case was identified where an increase in the claimant's earnings had not been applied, and new benefit was awarded using out of date information. However this did not impact on the claimant's benefit entitlement, and additional testing did not identify any further errors of this type.
- 2.13 In accordance with the certification requirements, a qualification letter was submitted to notify the DWP of four cases totalling £306 where benefit had been underpaid to individual claimants. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect the subsidy claim and are therefore not classified as errors for subsidy purposes. In all cases, our additional testing confirmed these were isolated errors and no further action was required.

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.

Role	2011/12	2010/11
Engagement lead	£345	£345
Manager	£195	£195
Senior auditor	£125	£125
Other staff	£95	£95

B Details of claims and returns certified for 2011-12

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Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	52,502,560	yes	+ 640	yes	28,833	28,385	
National non-domestic rates return	51,939,931	no	n/a	no	455	490	
Reporting to those charged with Governance					540	435	
Total	104,442,491		640		29,828	29,310	

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25TH MARCH 2013

REPORT OF THE HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by: Paul Holland (Senior Accountant)

1 AUDIT COMMITTEE PROGRESS REPORT – MARCH 2013

1.1 Issue for Decision

1.1.1 To consider the report of the External Auditor on the progress to date against the 2012/13 audit.

1.2 Recommendation of the Head of Finance & Customer Services

1.2.1 That Audit Committee notes the External Auditor's progress report attached as **Appendix A**.

1.3 Reasons for Recommendation

1.3.1 The Committee will be aware that following a tendering exercise Grant Thornton have been appointed as External Auditor for the Council. This report provides an update on the progress of their work to date, and their report is attached at **Appendix A**. This report covers their work on both Final Accounts and Value for Money.

1.3.2 The External Auditor has made an interim visit to do some initial preparatory work in advance of the main audit, which is scheduled to begin on 1st July 2013. To date no concerns have been raised with the Council on the work they have undertaken.

1.3.3 As well as summarising their work to date the report also highlights a number of emerging issues and developments for district councils that the Auditor feels the Committee should be aware of. It also suggests a number of challenge questions that the Committee may wish to ask to seek reassurance that these issues are being addressed.

1.3.4 The Committee may wish to note the section of the report at **Appendix A** on recent publications from Grant Thornton that can be downloaded from their website.

1.4 Alternative Actions and Why Not Recommended

1.4.1 Due to the responsibilities of both the External Auditor and this Committee a progress report of this sort is appropriate for consideration.

To not consider the report would weaken the control over the process that is available to the Committee.

1.5 Impact on Corporate Objectives

1.5.1 The External Auditor's Audit Plan is focusing on the Auditor's opinion being issued by the Statutory deadline of 30th September 2013.

1.6 Risk Management

1.6.1 This report helps this Committee's governance responsibilities and aids the mitigation of risk of failure to produce the statutory accounts by the due date through the provision of timely warnings regarding possible issues.

1.7 Other Implications

Financial	<input type="checkbox"/>
Staffing	<input type="checkbox"/>
Legal	<input type="checkbox"/>
Social Inclusion	<input type="checkbox"/>
Environmental/Sustainable Development	<input type="checkbox"/>
Community Safety	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Procurement	<input type="checkbox"/>
Asset Management	<input type="checkbox"/>

1.8 Relevant Documents

1.8.1 Appendices: Appendix A – Audit Committee Progress Report

<u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan? _____			
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
<u>Reason for Urgency</u>			
Not applicable			



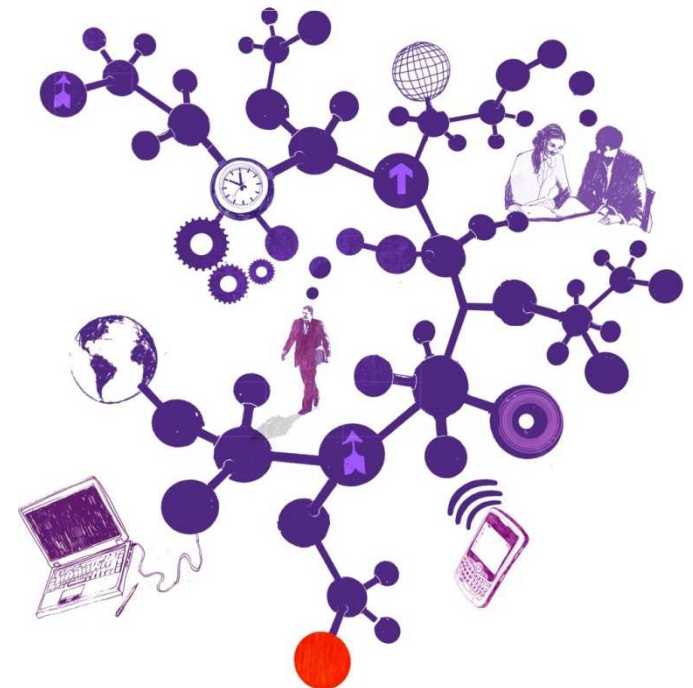
Audit Committee Update for Maidstone Borough Council

23 **Year ended 31st March 2013**
25th March 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications - 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 25th March 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	By 31/03/13	Yes	On the agenda for the 25/03/13 Audit Committee meeting
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early work on Value for Money conclusion. 	By 31/03/13	In progress	<p>Audit team on site 04/03/13 to 15/03/13.. Any matters arising will be reported to the July Audit Committee meeting.</p> <p>We will also be meeting with finance officers in March as planned to explore ways of improving the accounts preparation process.</p>
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	By 30/09/13	Not started	Audit team will be on site from 01/07/13 to 19/07/13. Our Annual Governance Report, incorporating our opinion on the accounts and our value for money conclusion will be reported to the September Audit Committee meeting.

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Progress at 18th March 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • A review of the Council's medium and longer term financial plans and budget strategy; • A benchmarking exercise comparing the Council's financial performance with similar authorities; • An overall assessment of the Council's financial resilience; and • A review of performance monitoring arrangements and service delivery against the Council's 2012/13 targets 	By 30/09/13	In progress	A Financial Resilience Report will be presented to the September Audit Committee meeting.

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Emerging issues and developments

Accounting and audit issues

Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

- Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.
- 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

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In December 2012, CIPFA issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

Challenge questions:

- Do you know your key risks?
- Have officers ensured the financial impact is fed into medium term financial plans?

Emerging issues and developments

Accounting and audit issues

Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.
- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.

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Emerging issues and developments

Grant Thornton

'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '

In December 2012, Grant Thornton published 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'. This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

Challenge questions:

- Have you considered the findings of the report?

Emerging issues and developments

Local government guidance

'Auditing the Accounts 2011/12' report

In December, the Audit Commission published 'Auditing the Accounts 2011/12'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

'Striking a balance: improving councils' decision making on reserves'

In December, the Audit Commission published 'Striking a balance: improving councils' decision making on reserves.' The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

Challenge questions:

- Are your officers providing you with the right information about reserves?

Emerging issues and developments

Local government guidance

'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published 'Tough times 2012: Councils' financial health in challenging times.' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:

- Have you considered the findings of the report and any actions required?

'Protecting the public purse 2012'

In November, the Audit Commission published "Protecting the public purse 2012: Fighting fraud against local government." The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that could relate to your authority and how are these being dealt with?
- Have you reviewed your existing arrangements for tackling fraud?

If you have any fraud queries, talk to your audit manager to see how Grant Thornton could help.

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 MARCH 2013

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. INTERNAL AUDIT OPERATIONAL PLAN – 2013/14

1.1 Issue for Decision

1.1.1 The report sets out (at Appendix 1) the one-year operational Internal Audit plan for the financial year 2013/14 and asks that the Audit Committee review and approve the plan.

1.1.2 The purpose of the report is to meet the requirements of the Public Sector Internal Audit Standards (effective from 1 April 2013) in relation to audit planning; and to help to discharge the Section 151 officer's responsibility for financial control; and to inform Management / Members of the planned audit work to be undertaken in 2013/14.

1.2 Recommendation of Head of Audit Partnership

1.2.1 That the Audit Committee review and approve the contents of the one-year operational Internal Audit plan (shown at Appendix 1)

1.3 Reasons for Recommendation

1.3.1 The Committee previously received a report on the three-year Internal Audit Strategic Plan at its meeting on 19 September 2011. The report explained the process for the creation of the three-year plan and the elements that were considered in deciding its content.

1.3.2 The strategic plan set out the proposed work of the Internal Audit team for the three financial years, 2011/12, 2012/13 and 2013/14. The Audit Committee approved the plan.

1.3.3 The approved strategic plan has been used as the basis for the operational work programme for 2013/14 shown at Appendix 1. However, the plan has been amended to take account of the changed

risks that the Council faces compared to 2011 and to reflect issues or concerns raised more recently by management.

- 1.3.4 The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' for internal audit are defined as being those which are set out in the Public Sector Internal Audit Standards, which have been set for local government by CIPFA in collaboration with the Chartered Institute of Internal Auditors. The new standards are effective from 1 April 2013.
- 1.3.5 The Standards require the Head of Internal Audit to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisations goals.
- 1.3.6 The Head of Internal Audit is required to review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.
- 1.3.7 The Standards state that the Head of Internal Audit must communicate the internal audit plans to senior management and the 'board' (the Audit Committee) for review and approval.

Preparation of the operational plan

- 1.3.8 The majority of the work of Internal Audit is identified in the three-year strategic audit plan which takes full account of organisational objectives and priorities. The operational plan is largely an extract from the strategic plan updated to reflect changed priorities and new risk areas.
- 1.3.9 The plan gives specific consideration to:
 - the arrangements for the prevention of fraud and corruption
 - corporate governance
 - compliance with legislation/changes in legislation
 - compliance with codes of conduct
 - compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
 - the 'national agenda'
 - coordinating work, or at least as much as is practical, with the external auditors to ensure that best use is made of audit resources, and:
 - coordinating work with the other three teams that form the Mid Kent Audit Partnership

1.3.10 The plan seeks to:

- provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness
- give adequate coverage to allow the external auditors to place reliance on the work of Internal Audit
- add value and improve the organisation's operations
- help the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Plan

1.3.11 The plan (Appendix 1) shows the projected internal audit work for 2013/14.

1.3.12 The plan shows a total of 36 audit projects, which is based on the available auditor resources.

1.3.13 The Plan has been prepared on a risk basis. This has involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, and past history.

1.3.14 The actual time spent on an audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place.

1.3.15 The resources available to Internal Audit consist of three full-time operational auditors, supported operationally by an Audit Manager for two days of the week, and strategically by the Head of Audit Partnership.

1.3.16 Each auditor is expected to complete twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.

1.3.17 The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits.

1.3.18 The majority of the time of the Maidstone auditors is spent on Maidstone audit projects; however they also work on other partnership

sites where it is efficient to do so. This is reciprocated on a quid-pro-quo basis.

- 1.3.19 The Internal Audit Plan for Maidstone is sovereign. However, where possible it has been aligned with the Audit Plans for Swale, Ashford and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
- 1.3.20 The plan sets out the audit work that will be carried out in relation to the key financial systems; Council Tax and Council Tax Support, Business Rates, General Ledger, Creditor Payments, Debts Receivable, and Payroll. The financial materiality of these systems and the expectations of senior management and the external auditors dictate that these systems are reviewed annually.
- 1.3.21 The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually or biennially or triennially depending on their risk profile.

Reporting the work

- 1.3.22 A written report is provided to the respective Head of Service on completion of each audit project. The Internal Audit report sets out the findings, conclusions and recommendations arising from the audit. A copy of every report is provided to the respective Director and the Chief Executive.
- 1.3.23 Heads of Service are required to complete an action plan setting out how they will address the recommendations. The action plan is assessed for adequacy and completeness by the Audit Manager.
- 1.3.24 A follow-up is carried out approximately six months after the original report was issued to establish whether the proposed action has been implemented in practice. The results of the follow-up are reported in writing to the respective Head of Service, with copies to the respective Director and the Chief Executive.
- 1.3.25 If the initial report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately or if it is found that the agreed action has not been taken at the time of the follow-up, the matter will be reported to the next meeting of the Audit Committee. The Head of Service will be invited to attend the meeting to explain the action that will be taken to address the control weaknesses.

1.3.26 The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year; this is reported to the Committee in November/December. The Annual Internal Audit report shows the work for the complete financial year and is reported to the Committee in July to support the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the adequacy of the Council's control environment.

1.4. Alternative Action and why not Recommended

1.4.1 There is a requirement under the Public Sector Internal Audit Standards that the Head of Internal Audit should prepare a risk-based plan to determine the priorities of the internal audit activity. There are no alternative options.

1.5 Impact on Corporate Objectives

1.5.1 Internal Audit will operate a risk-based plan linked to a strategic or high-level statement. This will set out how the internal audit service will be provided and developed in accordance with the Audit Charter and how it will link to the organisation's objectives and priorities.

1.6 Risk Management

1.6.1 The Internal Audit operational plan sets out a series of projects for 2013/14 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

1.7 Other Implications

1.7.1

1.	Financial	X
2	Staffing	X
3	Legal	X
4	Equality Impact Needs Assessment	
5	Environmental/Sustainable Development	
6	Community Safety	
7	Human Rights Act	

- 8 Procurement
- 9 Asset Management

- 9.5.1 Financial - The Internal Audit Plan includes the audit of financial systems.
- 9.5.2 Staffing – Internal Audit work will involve some of the staff who work in the areas that are being audited. Changes to systems and procedures as a result of audit work will affect the staff concerned.
- 9.5.3 Legal - The Accounts and Audit Regulations 2011 place a statutory duty on the Council for an internal audit in accordance with the 'proper practices'. These practices are the Public Sector Internal Audit Standards

9.6 Relevant Documents

- 9.6.1 Appendices – Appendix 1 Internal Audit Operational Plan 2013/14.
- 9.6.2 Background Documents - None

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

	Team Maidstone		Appendix 1	
	Title	Scope	Assurance Category	HOS
TW	Benefits	New local scheme and Payments Procedures	Financial System Assurance	Revenues and Benefits
1	Benefits	Applications and Assessment Procedures - 2012/13 transactions	Financial System Assurance	Revenues and Benefits
2	Council Tax	Recovery and Enforcement Procedures - 2013/14 transactions	Financial System Assurance	Revenues and Benefits
3	NNDR/Local Business Rates	Valuation Liability and Billing Procedures (inc composite properties) - including new business rates retention scheme	Financial System Assurance	Revenues and Benefits
4	General Ledger	Feeder Systems and Journals	Financial System Assurance	Finance and Customer Services
5	Treasury Management	Compliance review	Financial System Assurance	Finance and Customer Services
6	Creditors	System and transactions	Financial System Assurance	Finance and Customer Services
7	Debtors	System and transactions	Financial System Assurance	Finance and Customer Services
8	Payroll (SBC and MBC operations)	System and transactions	Financial System Assurance	Finance and Customer Services
9	Car Parking (SBC and MBC operations)	Income - System and Security	Financial System Assurance	AD Environment and Regulatory Services
10	Income, Cash Collection and Banking (excluding Council Tax and Parking income)	Operations	Financial Systems Assurance	Finance and Customer Services
11	Housing - Commercialisation Project	Project Management Review	Financial Assurance	AD Regeneration and Cultural Services
SBC	Legal Services	Practice review -Partnership	Core Assurance	Legal Services
12	Freedom of Information	Operations	Core Assurance	Legal Services
13	Business Continuity Planning	Operations	Core Assurance	AD Environment and Regulatory Services
14	Procurement	Compliance with Contract Procedure Rules - including Category Management and Corporate Contracts management	Core Assurance	AD Regeneration and Cultural Services

15	Trusts and Partnerships	Governance Review	Core Assurance	AD Regeneration and Cultural Services
16	Declaration of interest (Members)	Operations	Core Assurance	Democratic Services
17	Recruitment and Retention	Job evaluation process, Recruitments controls	Core Assurance	Human Resources
18	Health and Safety (Council)	Operations	Core Assurance	Human Resources
19	NFI	Facilitation	Core Assurance	Finance and Customer Services
20	Community Right to Challenge	New Operations Review	Core Assurance	AD Environment and Regulatory Services
21	Corporate Equality Plan and Social Inclusion	Compliance Review	Core Assurance	Policy, Scrutiny and Partnerships
22	IT Policies	Consulting	Core Assurance	IT Services
23	IT Partnership Operations	Establishment Review	IT Systems Assurance	IT Services
SBC	PC/Internet Controls	Service review	IT Systems Assurance	IT Services
24	Refuse Collection Contract - Waste and Recycling	New multi-partner contract review	Operations Assurance	AD Environment and Regulatory Services
25	Property Management	Strategic Asset Management -Compliance review	Operations Assurance	AD Environment and Regulatory Services
26	Property Management	Property Income	Operations Assurance	AD Environment and Regulatory Services
27	Street Cleansing	Establishment/Operations	Operations Assurance	AD Environment and Regulatory Services
28	Markets	Operations and Income	Operations Assurance	AD Environment and Regulatory Services
29	Dev Control Administration - Planning Applications and fees	Operations and income	Operations Assurance	Development Management
30	Sports Development and Youth Schemes	Operations and Income	Operations Assurance	AD Regeneration and Cultural Services
31	Hazlitt Theatre and Arts Centre	Operational/Business Review	Operations Assurance	AD Regeneration and Cultural Services
32	Museum	Business Operations (including Education)	Operations Assurance	AD Regeneration and Cultural Services
33	Housing Grants	Housing Assistance policy	Operations Assurance	Housing and Community Safety

34	Homelessness	New Scheme Review	Operations Assurance	Housing and Community Safety
35	Food Safety (Commercial)	Statutory Responsibility -Operations	Operations Assurance	AD Environment and Regulatory Services
36	CCTV	Contract Review	Operations Assurance	Housing and Community Safety

TWBC	Audit to be completed within Tunbridge Wells BC resource
SBC	Audit to be completed within Swale BC resource

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

25 MARCH 2013

REPORT OF THE HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. Public Sector Internal Audit Standards

1.1 Issue for Decision

1.1.1 The report provides a summary of the new standards for the provision of internal audit within public sector organisations in the United Kingdom. The standards are effective from 1 April 2013. The Audit Committee is asked to note the new standards and the action that is being taken to implement them.

1.2 Recommendation of Head of Audit Partnership

1.2.1 That the Audit Committee note the new Public Sector Internal Audit Standards and the action that is being taken to implement them

1.3 Reasons for Recommendation

1.3.1 After more than a year of development, the Public Sector Internal Audit Standards were launched in December. They will come into effect on April 1, providing a consistent framework for internal audit services across the UK public sector.

1.3.2 The PSIAS were issued by the 'Relevant Internal Audit Standard Setters' in the sector – CIPFA, the Treasury, the Department of Health and the Scottish, Welsh and Northern Ireland governments.

1.3.3 A consistent framework has obvious benefits for partnership working, and for internal auditors who work across the different parts of the public sector. The standards are also designed to drive improvement, leading to better public financial management.

1.3.4 This ground-breaking development is based on the Institute of Internal Auditors' *International Standards, Definition of Internal Auditing and*

Code of Ethics, which form the core of the PSIAS. The new standards will replace the existing ones in local government, central government and the NHS, including the *CIPFA Code of Practice for Internal Audit in Local Government*.

- 1.3.5 The first noticeable difference compared with the previous CIPFA standards (The Code of Practice for Internal Audit in the UK) is the distinctive look and feel of the PSIAS: individual standards are numbered with subsections and the additional public sector requirements and interpretations are displayed in separate, additional boxes. This allows for amendments without disturbing the flow of the standards.
- 1.3.6 Another difference, especially for local government, is the terminology. For example, the PSIAS use the term 'chief audit executive', the description used internationally, rather than 'head of internal audit' or 'chief internal auditor', which are more common in the UK. The PSIAS also makes regular reference to 'the board'; for the Council this is the Audit Committee.
- 1.3.7 Another change/amendment is the requirement for an internal audit 'charter', which must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- 1.3.8 There is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement. This should set out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- 1.3.9 The quality of the service will also need to be rigorously checked under the Quality Assurance and Improvement Programme. The QA&IP requires ongoing internal assessments of all aspects of internal audit activity, as well as an external assessment at least once every five years. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement.
- 1.3.10 The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.
- 1.3.11 The internal assessments can be divided into two parts. The first will be monitoring the department's activity, in much the same way as under current quality review procedures. The other will comprise 'periodic' self-assessments or assessments carried out by other officers

in the organisation, who will have to have sufficient knowledge of internal audit practices.

1.3.12 External assessments will need to be carried out by qualified and independent assessors or assessment teams from outside the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation and cannot be carried out on a rolling basis.

1.3.13 CIPFA's *Local Government Application Note for the PSIAS*, due out in March, will include a full PSIAS checklist to assist local authorities with both internal and external assessments.

Definition of 'internal auditing'

1.3.14 The PSIAS contain a revised definition of internal auditing:

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.

1.3.15 This replaces the previous CIPFA definition (which is now redundant):

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

1.3.16 The most obvious differences are the inclusion within the new standards of the words:

- 'consulting activity',
- 'adding value and improving an organisation's operations'
- 'bringing a systematic disciplined approach', and
- 'to evaluate the effectiveness of risk management, control and governance processes.

1.3.17 The new standards represent a change of emphasis for public sector internal audit which will now more closely align public sector audit with the audit practices used in the private sector, but with additional requirements for the public sector where necessary and appropriate. The PSIAS are very much based on the international standards of the Chartered Institute of Internal Auditors.

1.3.18 A complete copy of the Standards is attached as an Appendix.

Action being taken to implement the Public Sector Internal Audit Standards

1.3.19 A copy of the new standards has been provided to each auditor in the Internal Audit Partnership. A short presentation, providing a summary of the changes was made to the meeting of the Audit Partnership team on 17 January 2013. The auditors will be asked to sign a statement to confirm that they have read and understand the PSIAS.

1.3.20 A revised internal audit charter will be prepared by the Head of Internal Audit Partnership, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The revised internal audit charter will be discussed with senior management and provided to the Audit Committee for final approval.

1.3.21 The Head of Audit Partnership will confirm, on an annual basis, the organisational independence of the internal audit activity. This will occur as part of the Annual Internal Audit report to the Audit Committee.

1.3.22 The internal audit quality control process will be amended to reflect the new arrangements for 'due professional care' and the requirement for a 'quality assurance and improvement programme'.

1.3.23 Arrangements will be put in place for an external assessment of the service every five years by a qualified, independent assessor or assessment team from outside the organisation.

1.3.24 Progress against any improvement plans, agreed following external assessment, will be reported in the annual report to the Audit Committee.

1.3.25 Instances of non-conformance to the standards will be reported to the Audit Committee. More significant deviations will be considered for inclusion in the annual governance statement.

1.3.26 Where the Head of Internal Audit Partnership believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.

1.3.27 Other than the specific matters referred to above, it is considered that the Mid-Kent Internal Audit Partnership fundamentally already

operates to the PSIAS. This is not too surprising as the partnership has always set good professional standards for its work and for a number of years has jointly embraced the CIPFA standards and the standards of the Chartered Institute of Internal Auditors.

1.4 Alternative Action and why not Recommended

1.4.1 The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' are those contained in the Public Sector Internal Audit Standards. There is no option for the Council other than to adopt the PSIAS.

1.5 Impact on Corporate Objectives

1.5.1 Internal Audit will operate a risk-based plan linked to a strategic or high-level statement. This will set out how the internal audit service will be provided and developed in accordance with the Audit Charter and how it will link to the organisation's objectives and priorities.

1.6 Risk Management

1.6.1 The failure to adopt/implement the PSIAS would create the risk that internal audit is not being provided to the statutory standard and would be failing to provide the necessary assurances to management, Audit Committee and the external auditors.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	

- 8. Procurement
- 9. Asset Management

1.7.2 Financial: The only direct financial implication associated with adopting the Public Sector Internal Audit Standards is the need to obtain external validation that the standards are being adhered to. It is intended to make use of peer review by another local authority Internal Audit service provider, on a reciprocal basis; however a one day external validation will still be required. The cost of this will be spread over the four audit partnership Councils.

1.7.3 Legal: The Accounts and Audit Regulations 2011 place a statutory duty on the Council for an internal audit in accordance with the 'proper practices'. These practices are the Public Sector Internal Audit Standards.

1.8 Relevant Documents

1.8.1 Appendices: Public Sector Internal Audit Standards

1.8.2 Background Documents: None

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

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

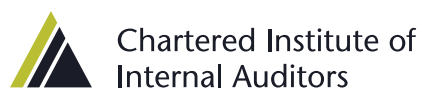


HM TREASURY



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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SECTION 1

Introduction

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)¹ 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).

¹ 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
CIPFA			<p>UK Local authorities.</p> <p>England & Wales only The Office of the Police & Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK.</p> <p>Scotland only Strathclyde Partnership for Transport.</p>
HM Treasury	<p>UK* Government departments and their executive agencies and non-departmental public bodies.</p>		
Department of Health		<p>England Clinical Commissioning Groups. NHS Trusts.</p>	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
Scottish Government	<p>Scotland</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>Scotland</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>	
Welsh Government	<p>Wales</p> <p>The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.</p>	<p>Wales</p> <p>Health Boards and Trusts.</p>	
Northern Ireland Assembly: Department of Finance and Personnel (NI)	<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

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

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

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

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).

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

Work Programme

2012/13

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Agenda Item 12

Date of Meeting	Title of Report	Contact Officer
11 June 2012	Benefit Fraud Annual Report 2011/12	Stephen McGinnes, Head of Revenues and Benefits
11 June 2012	Internal Audit Annual Report 2011/12	Brian Parsons, Head of Audit Partnership
11 June 2012	Annual Governance Statement 2011/12	Paul Riley, Head of Finance and Customer Services
11 June 2012	Treasury Management Annual Report 2011/12	Paul Riley, Head of Finance and Customer Services
11 June 2012	Audit Commission Progress Report - June 2012	Paul Riley, Head of Finance and Customer Services
16 July 2012	Statement of Accounts 2011/12	Paul Riley, Head of Finance and Customer Services
16 July 2012	Maidstone Museum East Wing Project Review - Update	Brian Morgan, Assistant Director of Regeneration and Cultural Services
17 September 2012	Audit Commission's Annual Governance Report 2011/12	Paul Riley, Head of Finance and Customer Services
17 September 2012	Audit Committee Annual Report 2011/12	Jennifer Daughtry, Audit Manager
17 September 2012	Update on Proposed Single Fraud Investigation Service	Stephen McGinnes, Head of Revenues and Benefits
17 September 2012	Review of Audit Committee	Brian Parsons, Head of Audit Partnership
17 September 2012	Audit Committee Meetings Schedule	Brian Parsons, Head of Audit Partnership
17 September 2012	Risk Management Update	Brian Parsons, Head of Audit Partnership
17 September 2012	Maidstone Museum East Wing Project Review - Update	Brian Morgan, Assistant Director of Regeneration and Cultural Services
26 November 2012	Audit Committee Frequency of Meetings	Brian Parsons, Head of Audit Partnership
26 November 2012	Independent Member of Audit Committee	Paul Riley, Head of Finance and Customer Services

26 November 2012	Internal Audit - Six Monthly Interim Report	Brian Parsons, Head of Audit Partnership
26 November 2012	Internal Audit Partnership - Progress Report	Brian Parsons, Head of Audit Partnership
26 November 2012	Treasury Management Strategy Mid-Year Performance 2012/13	Paul Riley, Head of Finance and Customer Services
26 November 2012	Audit Commission's Annual Audit Letter 2011/12	Paul Riley, Head of Finance and Customer Services
26 November 2012	External Audit Fees 2012/13	Paul Riley, Head of Finance and Customer Services
26 November 2012	Maidstone Museum East Wing Project Review - Update	Brian Morgan, Assistant Director of Regeneration and Cultural Services
14 January 2013	Treasury Management Strategy 2013/14	Paul Riley, Head of Finance and Customer Services
14 January 2013	Budget Strategy 2013/14 Onwards - Risk Assessment	Paul Riley, Head of Finance and Customer Services
14 January 2013	Draft Strategic Risk Register	Brian Parsons, Head of Audit Partnership
14 January 2013	Relationship Between the Audit Committee and the Corporate Services Overview and Scrutiny Committee	Debbie Snook, Democratic Services Officer
25 March 2013	Certification of Financial Claims and Returns	Stephen McGinnes, Head of Revenues and Benefits
25 March 2013	External Auditor's Progress Report - March 2013	Paul Riley, Head of Finance and Customer Services
25 March 2013	Internal Audit Operational Plan for 2013/14	Brian Parsons, Head of Audit Partnership
25 March 2013	Public Sector Internal Audit Standards	Brian Parsons, Head of Audit Partnership