

## AUDIT COMMITTEE

MONDAY 7 NOVEMBER 2011  
7.00 PM

Bourges/Viersen Rooms - Town Hall

**THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING**

### AGENDA

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There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Gemma George on 01733 452268 as soon as possible.

## **Emergency Evacuation Procedure – Outside Normal Office Hours**

*In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair.*

### Committee Members:

Councillors: D Lamb (Chairman), J Stokes (Vice Chairman), C Harper, P Kreling, S Lane,  
S Goldspink and P Nash

Substitutes: Councillors: K Sharp and M Nadeem

Further information about this meeting can be obtained from Gemma George on telephone 01733 452268 or by email – [gemma.george@peterborough.gov.uk](mailto:gemma.george@peterborough.gov.uk)

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 26 SEPTEMBER 2011**

Present: Councillors Stokes (Vice Chairman), Kreling, Nash, Goldspink and Lane

Officers in attendance: John Harrison, Executive Director, Strategic Resources  
Steven Pilsworth, Head of Corporate Services  
Steve Crabtree, Chief Internal Auditor  
Ben Stevenson, Compliance Manager  
Karen S Dunleavy, Governance Officer

Also in attendance: Chris Hughes, PricewaterhouseCoopers  
Julian Rickett, PricewaterhouseCoopers

**1. Apologies for Absence**

Apologies for absence were received from Councillor Harper and Councillor Lamb.

**2. Declarations of Interest and Whipping Declarations**

There were no declarations of interest or whipping declarations.

**3. Minutes of the Meeting held on 27 June 2011**

The minutes of the meeting held on 27 June 2011 were approved as an accurate and true record.

**4. Report to Management on the Interim Audit for the 2010/11 Accounts**

The Executive Director of Strategic Resources presented a report to the Committee on the interim audit for the accounts which had been conducted by PricewaterhouseCoopers for financial year 2010/11.

Members were advised that of the four new control issues highlighted within the report, three had been set at low priority and one at medium priority. Members were advised that there had been issues highlighted within the External Audit Report regarding three information communication technologies controls:

- Use of generic and privilege user intrusion detection, which had been addressed by creating a unique user intrusion detection to improve accountability;
- Review of information communication technologies policies. The Client Team was currently reviewing all information communication technology policies in line with the new front and back office functions being introduced by the Council and Serco. The Members Information Communication Technology Policy and the Mobile Phone Policy had recently been amended and were awaiting final approval;

work was underway to complete the review of the remaining policies by year end; and

- A lack of period testing of backup media. Serco had recently finished a project to overhaul and restructure the Council's backup system and procedures with a new periodic testing schedule. This was currently being reviewed to ensure the Council complied with the recommendations. It was a work in progress.

Members were informed that the use of generic privileged user intrusion detection (user ID) had been completed and that the remaining two issues were being dealt and would be completed shortly.

Members were invited to comment on the Report to Management on the Interim Audit for the 2010/11 Statement of Accounts and the following comments and observations were highlighted:

- Members sought clarification over what work was being conducted to put a disaster recovery of financial systems programme in place? *The Head of Strategic Finance, advised that this recommendation made by PricewaterhouseCoopers related to the academies revenue and benefits system and that a similar recommendation had been made for the Oracle financial system. Work was underway to highlight other critical financial systems and for a plan to be progressed to put a recovery programme in place.*
- Members raised concerns over why the information communication technologies issues which had been raised by PricewaterhouseCoopers had been left in the hands of Serco, the outsourced information communication technologies services provider and why the measures for improvement had been lagging? *The Executive Director of Strategic Resources advised that ownership for the issues raised within the Audit Report rested with the Council's Information Communication Technologies Client Team and was part of loose ends resulting from staff handover.*
- Members sought clarification over whether the 'loose ends' had been dealt with? *The Executive Director of Strategic Resources confirmed that they had been.*
- Members sought clarification over whether the agreed action for the financial and academy systems, where it was not possible to fully segregate duties because of work requirements, had been completed? *The Executive Director of Strategic Resources advised Members that the issue had been dealt with.*
- Members sought clarification about the Oracle Financial Systems Team processing transactions, which was outside of their remit, and requested that the capability to process transactions within the team be removed. *Members were advised that within an organisation there had to be someone within a team with the ability to change access to the systems and that the team had been instructed not to*

*process any transaction without prior approval from the Head of Corporate Services.*

- Members sought clarification over whether administrators, responsible for changing user access for the financials system, should be processing financial transactions and if that ability should be removed? *PricewaterhouseCoopers confirmed that the Systems Team would not be raising transactions as well as setting approval for access without prior authorisation from the Head of Corporate Services.*
- Members sought clarification over the Oracle Financial Systems Team's ability to process financial transactions and ability to set up user profiles, and whether the Systems Team had merely been advised not process transactions? *The Executive Director of Strategic Resources advised Members that the Oracle Financial Systems Team was ultimately responsible for access controls and would not process financial transactions as the action would be ultra vires and illegal. There was a status quo within the system that the Systems Team had no right to process transactions, but had the ability to do so. The Systems Team only ever carried out transactions following approval from the Head of Corporate Services.*
- Members sought clarification over whether random checking of the Oracle Financial Systems Team activities would be adopted? *The Head of Corporate Services confirmed that it was the recommendation of PricewaterhouseCoopers to do so.*
- Members raised concerns over the timescale taken to create a disaster recovery plan for the Oracle Financial System, and when it was likely to be completed? *The Head of Strategic Resources advised that Members of Audit Committee would be provided with the timescales in due course.*
- Members sought clarification over missing payroll controls documentation and whether the issue had been addressed? *PricewaterhouseCoopers advised there had been a couple of isolated incidents where the documentation for starters and leavers had not been available and that the issue was not about whether the control measure had been in place, rather the documentation being unavailable.*
- Members sought clarification on the Summary of Issues which had been highlighted within the Audit Report and when an update would be made available on the unaddressed items? *The Executive Director of Strategic Resources confirmed that the detailed responses were available within the Audit Report.*
- Members sought clarification over the periodic review of user access rights within ResourceLink and commented that a review had not been performed in the last year. *The Executive Director of Strategic*

*Resources advised Members that some of the Management responses within the Audit Report needed to be made clearer as to why the recommendations had not been completed and in particular why a review of user access rights had not been undertaken.*

- Members sought clarification over whether the issue of the Payroll Manager using the same password each week would be addressed? *The Executive Director of Strategic Resources confirmed that the issue had been addressed under the use of generic and privilege user ID as set out in the Interim Management Audit Report to Audit Committee.*
- Members sought clarification over whether a review of unallocated receipts had been undertaken? *The Head of Corporate Services advised Members of the Audit Committee that progress had been made and further information would be provided to Members in due course.*
- Members sought clarification over the payment which had been partially received from the Primary Care Trust before an invoice had been raised by Peterborough City Council, and whether the issue had been addressed in receipting the funding allocation? *The Head of Corporate Services advised Members that the amount referred to within the Audit Report had been sent to a holding code and that there was no danger that the money had not been received from the Primary Care Trust. An invoice would be raised for this amount and would therefore provide a record on the financial system of the funding received, which would be matched up accordingly.*
- Members sought further clarification over the process that was undertaken when registering a financial amount received prior to an invoice being raised by the Council? *The Executive Director of Strategic Resources advised that the PricewaterhouseCoopers External Audit Report referred to an amount of money which had been received that had yet to be allocated to an invoice number. Members were advised that departments would only raise an invoice when it was due. Members were also advised that there was no issue with sending advice letters to companies to acknowledge a payment had been received prior to an invoice being raised.*
- Members sought clarification on how it was possible to receive an amount of money from an organisation if there was no referencing issued at the time? *The Executive Director of Strategic Resources advised that money would be received by a bank automated clearing system transfer or a cheque payment and that the organisation would be written to in order to acknowledge receipt of the money received.*
- Members sought clarification over contracts being extended and whether a contract register had been implemented and who was responsible for recording contract information? *The Executive Director of Strategic Resources advised that Council departments*

*would be responsible for maintaining their own contracts register and were required to follow the Council's Financial Regulations.*

- Members sought clarification over why the property database did not accurately reflect the rental amounts agreed with tenants? *The Head of Corporate Services confirmed that technology had been purchased to implement the recommendations made by PricewaterhouseCoopers and that further progress had been made on the implementation of a property database. Members were also advised that the bulk of the property information had been input onto the property database.*

**ACTION AGREED:**

The Committee agreed to endorse the final report: Report to Management: Interim Audit 2010/11.

**5. 2010 / 2011 Report to those Charged with Governance and Statement of Accounts**

The Executive Director of Strategic Resources presented a report to the Committee on the recent external audit of Peterborough City Council's Statement of Accounts, by PricewaterhouseCoopers.

Members of the Audit Committee received a further update from PricewaterhouseCoopers on the action for items that had been outstanding within the External Audit Report and the Statement of Accounts. Members were advised that there was nothing that PricewaterhouseCoopers wished to bring to the Committees attention. The items outstanding, which were highlighted within appendix one of the external audit report, were as follows:

- Value for Money Opinion; and
- Confirmation of any outstanding legal matters from the Monitoring Officer

Members were invited to comment on the Report to those charged with Governance and the Statement of Accounts. The following comments and observations were raised:

- Members sought clarification over what action had been taken over the controls used to administer housing and council tax benefit to claimants that had not been entitled to receive them and whether any recovery action was outstanding? *PricewaterhouseCoopers advised Members that there was a system of testing what recipients should be receiving. The Executive Director of Strategic Resources advised that the Head of Shared Transactional Services would be approached to request that contact was made with Councillor Nash to discuss any matters regarding the controls used in administering housing and council tax benefits.*
- Members sought clarification over what would happen with pension entitlements for teaching staff when their employment had transferred to the academies? *The Executive Director of Strategic Resources*

*advised Members that teaching staff would transfer under the transfer of undertakings protection of employment (TUPE) arrangements, and that their pension rights would remain the same.*

- Members sought clarification over the overspend figure detailed under 'Corporate Items, Revenue Expenditure' within the Statement of Accounts and commented that the Council seemed to be overspent by £2.4m? *The Head of Corporate Services advised Members that the figure was due to a reduction from Local Government Grants and that following the emergency budget, the grants received, which were split between area grants and additional grants, meant that the funding had been reduced by £2.4m for the financial year 2010/11.*
- Members sought clarification over the current liability and current assets figures within the external report at appendix one within the Statement of Accounts and whether there was any significant impact for the Council as there was a difference of £8m? *The Head of Corporate Services advised that the figures had no significant impact for the Council, although cash balances and debts outstanding were closely monitored.*
- Members sought clarification over the Council's cost incurred of £3.4m which had resulted from the termination of contracts of employment following the voluntary redundancy programme and what the liability costs were? *The Head of Corporate Services advised Members that as the figures were unavailable for a response, that there would be a response sent directly to Members following the meeting.*
- Members sought clarification over the schools balance figure and whether the representation was just a snap shot? *The Executive Director of Strategic Resources confirmed that the schools balance was a snap shot and that the figure had been projected to reduce.*
- Members sought clarification over the technical adjustment figures on the capital asset value and why it had been considered immaterial by PricewaterhouseCoopers? *PricewaterhouseCoopers confirmed that the statement had been made within the Executive Director of Strategic Resources covering report to Audit Committee and that the statement was correct regarding the figures, due to the size of asset base the Council had.*
- In a comment made by Members regarding the amount of money which was as a result of technical adjustments to the bottom-line position; PricewaterhouseCoopers confirmed that the amount did not represent pounds and pence and that it only affected the asset balance sheet, which would not be treated in the same way as a bank account. The Executive Director of Strategic Resources confirmed the figures were in relation to the estimated value of assets.



- Members sought clarification over the Council's liability in regards to Private Finance Initiative Grant Funding and what the impact would be if it was not available through the unguaranteed funding? *The Executive Director of Strategic Recourses provided Members with an update on the position of Private Finance Initiative Grant Funding and stated that it had survived a round of recent Government spending reviews which was a good sign.*

#### **ACTION AGREED:**

The Committee:

- (1) Approved the "Report to those charged with governance (ISA260) 2010/11 Audit" from PricewaterhouseCoopers (PWC), the Councils external auditors;
- (2) Approved the audited Statement of Accounts 2010/11; and
- (3) Approved the letter for the Statement of Accounts

#### **6. Regulation of Investigatory Powers Act 200 (RIPA) Annual Report for 2010-11**

The Compliance Manager presented a report to the Committee which provided an overview of the Council's use of RIPA powers over the year 2010-2011 and the first quarter to June 2011. Members were advised that RIPA authorisations were a statutory measure to report on authorised covert surveillance in preventing and detecting crime and also disorder.

Members were informed that the Council had used the powers eleven times within the year 2010-11. The key points highlighted to Committee included:

- Nine covert operations on test purchasing for the sale of fireworks, tobacco and alcohol to minors;
- One covert operation on a trading standards operation;
- One covert operation on fly tipping; and
- There were no authorised covert surveillance operations in the first quarter of 2011-12.

Members were invited to comment on the annual and quarterly report. The following issues and observations were highlighted:

- Members raised a question on what level of authorisation would a request for investigations be conducted and whether Members were involved in the authorisations? *The Compliance Manger advised Members that the level of authorisation would be the responsibility of Senior Officers.*
- Members raised a question about how many successful investigations had been conducted? *The Compliance Manger advised Members that the relevant departments would be approached to provide further information on the success of investigations and a report would be provided at the next meeting of Audit Committee.*

- Members requested an update regarding the fly tipping prosecutions and what action the Council was taking to improve enforcement. *The Compliance Manger advised Members that the purpose of the RIPA report was to provide an overview of Council surveillance powers and the covert operations that had taken place. The Compliance Manager also advised Members that the Neighbourhood Enforcement Team would be contacted to provide an update on enforcement and respond to Members directly.*

**ACTION AGREED:**

The Committee endorsed the report on the use of RIPA for the annual review of 2010 to 2011 and for the first quarter of 2011 – April to June 2011.

**7. Work Programme 2011 / 2012**

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2011 / 2012 for consideration and approval.

Members were advised that the following items would appear on the scheduled Audit Committee meeting on 7 November:

- Risk Management;
- Risk Management: Strategic Risks;
- Treasury Management: Update;
- Internal Audit: Mid Year Progress against Audit Plan; and
- Second quarter of the investigatory powers act.

Members were advised by the Chief Internal Auditor that there would be a training session on the Risk Management and Strategic Risk agenda items before the start of the next meeting.

**ACTION AGREED:**

The Committee noted and approved the 2011 / 2012 Work Programme.

7.00pm – 8.05pm  
Chairman

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 4
<b>7 NOVEMBER 2011</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Director of Strategic Resources Steve Crabtree, Chief Internal Auditor	☎ 452 398 ☎ 384 557

### INTERNAL AUDIT: HALF YEAR UPDATE 2011 / 2012

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> John Harrison, Director of Strategic Resources	<b>Deadline date :</b> N/A
Audit Committee are asked that :	
<ol style="list-style-type: none"> <li>1. The Internal Audit Update Report to 30 September 2011 be received and the Committee note in particular: <ol style="list-style-type: none"> <li>(a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 6 months to 30 September 2011, internal control systems and governance arrangements remain generally sound;</li> <li>(b) Progress made against the plan and the overall performance of the section.</li> </ol> </li> </ol>	

#### 1. ORIGIN OF REPORT

This report is submitted to Audit Committee as a routine planned report within the work programme of the Committee. It sets out Internal Audit performance and progress with regards to the 2011 / 2012 Audit Plan (Audit Committee approval: 28 March 2011).

#### 2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2011 / 2012 as at 30 September 2011.

The report is for the Committee to consider under its Terms of Reference No. 2.2.4 – *To consider reports dealing with the management and performance of the providers of internal audit services.*

#### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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#### 4. OVERVIEW

This report outlines the work undertaken by Internal Audit up to 30 September 2011, progress against our plan and other issues of interest.

#### 5. ASSURANCE OPINION

- 5.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **FULL**; **SIGNIFICANT**; **LIMITED**; and **NO ASSURANCE**. Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews will be included in an appendix to this report, once the audit review has been agreed and finalised. **ONE** reports falls into this category for the period.
- 5.2 Based on the work carried out and finalised during the 2011 / 2012 (to 30 September 2011), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound.

#### 6. AUDIT PLAN 2011 / 2012

##### 6.1 Progress against Plan

- 6.1.1 **Appendix A** shows the Operational Plan that was agreed by the Audit Committee on 28 March 2011. It shows the audits that are due to be performed during 2011 / 2012 and the status of those audits. It includes audits brought forward from the previous year that have been finalised during 2011 / 2012. It also includes audits that were not planned when the Annual Audit Plan was approved. It does not, however, separately list audit work of more limited scope, such as control advice.
- 6.1.2 To date, 16 audit projects for 2010 / 2011 have been finalised together with a further 13 for 2011 / 2012. There are also 24 audit assignments that are in various stages of completion.
- 6.1.3 The original plan was produced to reflect the number of staff available for the year, but it included a reserve list of audits that would be undertaken depending on when the vacant posts are filled. Progress against the main 2011 / 2012 plan is good and it is anticipated that this part of the plan will be achieved. Two audits from the reserve list have been commenced in anticipation of the vacancies being filled, however it is unlikely that all of the reserve audits will be undertaken this year.

##### 6.2 Other Performance Matters

- 6.2.1 An average of 0.67 days sickness per person was lost during the 6 months to 30 September 2011, compared to a target of 2.5 days. This is a substantial improvement on the figure of 5.6 days per person at this time last year.
- 6.2.2 Post audit customer satisfaction questionnaires continue to demonstrate that audit reviews are meeting the needs of the organisation with an average score of 4.46 (the maximum score available is 5).

## **7. CONSULTATION**

This report and the accompanying appendices have been issued to the deputy s.151 Officer for consideration.

## **8. ANTICIPATED OUTCOMES**

That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

## **9. REASONS FOR RECOMMENDATIONS**

The Council is subject to the Accounts and Audit Regulations 2011 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. This report and associated papers demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

## **10. ALTERNATIVE OPTIONS CONSIDERED**

The alternative of not providing an Internal Audit service is not an option.

## **11. IMPLICATIONS**

### **11.1 Corporate Resource Implications**

During the year, Internal Audit makes a number of recommendations. While implementing these may have resource implications for the various areas under review, Internal Audit discuss and agree recommendations with the Auditee prior to the issue of the final audit report. Therefore, it is assumed that their implementation can and will be undertaken either with existing resources or with additional resources that they can readily call upon.

### **11.2 Legal Implications**

The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2011. There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

## **12. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
- Accounts and Audit Regulations 2011
- Internal Audit Business Plan
- Internal Audit Annual Plan 2011 / 2012

## **13. APPENDICES:**

- Appendix A - Progress of Audit Plan 2011 / 2012 (To 30 September 2011)

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## **APPENDIX A**



# **HEAD OF INTERNAL AUDIT INTERNAL AUDIT PROGRESS REPORT 2011 / 2012 AS AT 30 SEPTEMBER 2011**

**PROGRESS REPORT**

1. Introduction
2. Resourcing
3. Progress Against Agreed Audit Plan
4. Key Issues Arising



## 1. **INTRODUCTION**

- 1.1 The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2011 / 2012 Internal Audit Plan as at 30 September 2011. This report aims to:
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit;
  - Advise the committee of significant issues where controls need to improve to effectively manage risks;
  - Advise of any planned changes to reviews, slippage or deletions to that originally agreed on 28 March 2011;
  - Track progress on the delivery of agreed actions which will be reported as part of the annual reporting process; and
  - Provide an update on performance indicators comparing actual performance against planned where measurable at this stage.
- 1.2 The information included in this progress report will feed into, and inform our overall opinion in the Annual Head of Internal Audit Report issued at the year-end. This opinion will in turn be used to inform the Annual Governance Statement (AGS) included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council.
- 1.3 Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

<b>AUDIT ASSURANCE</b>	
<b>Assurance</b>	<b>Definitions</b>
Full	The system is designed to meet objectives/controls are consistently applied that protect the Authority from foreseeable risks.
Significant	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
Limited	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
No	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

- 1.4 This is based upon the number and type of recommendations we make in each report and is for any control weakness that jeopardises the complete operation of the service. The prioritisation of recommendations is established as follows:

<b>RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS</b>		
<b>Status</b>	<b>Definitions</b>	<b>Implementation</b>
Critical	Extreme control weakness that jeopardises the complete operation of the service.	Immediately
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	As a matter of priority
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	At the first opportunity
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	As soon as reasonably practical

- 1.5 It is managers' responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed actions arising from audit reviews are implemented in a timely manner.

## 2 **RESOURCING**

- 2.1 The staffing position in Internal Audit has remained as reported when the Annual Internal Audit Plan was agreed. This is made up of:

- Permanent Staff (Fte) 3.98
- Head of Internal Audit (share) 0.50
- Maternity Leave 1.00
- Vacant Posts 1.80

- 2.2 The reduction of 0.50 fte for the Head of Internal Audit shared service arrangement along with the member of staff on maternity leave has been factored into the audit plan at the start of the year so there is no impact on the audit plan. The ongoing vacancy of one post has now been re-evaluated as an auditor post rather than a trainee auditor. Arrangements to recruit to the vacant posts are due to commence in quarter 3 although it is not anticipated that the positions will be filled until quarter 4. These vacancies will have some impact on the ability to deliver the additional reviews highlighted within the audit plan that were subject to the vacancy being recruited to within the year.

- 2.3 **Sickness statistics are vastly improved** at 0.67 days per person to September 2011 compared to 5.6 days per person at the same time last year. This has enabled some additional work to be completed from within the plan relating to the vacant post.
- 2.4 **Post audit customer satisfaction questionnaires continue to demonstrate that audit reviews are meeting the needs of the organisation** with an average score of 4.46 / 5.00.
- 2.5 **As part of Internal Audits long term strategic plan to further increase working efficiencies the team are exploring the further development of the audit automated system currently in use.** This is being undertaken with the existing system provider and Cambridge City Council have expressed an interest in using the system as part of the shared service arrangement.

### 3 PROGRESS AGAINST AGREED AUDIT PLAN

Where audits are “shaded”, these represent all jobs not started at 30 September 2011.

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>CORE SYSTEM ASSURANCE WORK</b>							
Housing Benefit	To commence quarter 4						
Council Tax	To commence quarter 4						
NNDR	To commence quarter 4						
Accounts Payable	To commence quarter 3						
Payroll System	To commence quarter 3						
Payroll – Teachers Pensions <ul style="list-style-type: none"> <li>• Ken Stimpson</li> <li>• City College</li> <li>• Paston Ridings</li> <li>• The Beeches</li> <li>• St John Fisher</li> </ul>	Final report Final report In draft In draft In draft	Significant Significant	0 0	0 0	1 1	1 3	2 4
Accounts Receivable – Debt Recovery Process	To commence quarter 3						

Core / Fundamental systems are agreed with our External Auditors each year to ensure that the coverage meets their requirements in addition to our needs. The work undertaken is in accordance with our agreed Protocol.

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>ANNUAL GOVERNANCE / ASSURANCE ACTIVITIES</b>							
Annual Governance Statement Assurance Framework	Complete Full report submitted to Audit Committee on 27 June 2011	N / A	N / A	N / A	N / A	N / A	N / A
Annual Audit Opinion	Complete Full report submitted to Audit Committee on 27 June 2011	N / A	N / A	N / A	N / A	N / A	N / A
Annual Audit Plan	To commence quarter 4						
Internal Audit Effectiveness	Work in progress						
Anti-fraud Culture: <ul style="list-style-type: none"> <li>• National Fraud Initiative</li> </ul>	Ongoing work to look at fraud. In draft						
Partnership Governance	In progress, fieldwork completed.						
Information Governance	To commence quarter 3						
Project Governance	To commence quarter 4						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>STRATEGIC and OPERATIONAL RISKS</b>							
Carbon Management	Fieldwork completed. Works being quality reviewed						
Localism Bill	To commence quarter 3						
Schools <ul style="list-style-type: none"> <li>Hampton Vale Credit/Debit Card Processes</li> <li>Orton Wistow Credit Card Procedures</li> </ul>	In draft In draft						
OP / Peterborough Development Partnership	In progress						
Partnership Management <ul style="list-style-type: none"> <li>ICT Managed Service</li> </ul>	At planning stage						
Project delivery <ul style="list-style-type: none"> <li>Manor Drive Initiative – CIA Consultancy</li> </ul>	In progress						
<b>EXTERNAL WORK</b>							
Vivacity  As part of our Service Level Agreement with Vivacity, we have been commissioned by them to undertake a series of 8 reviews during the year.	Two reviews in progress	N / A	N / A	N / A	N / A	N / A	N / A

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>OTHER CORPORATE SUPPORT: Carry Forward Activities</b>							
Risk Management	At review stage						
Delivering through Localities – Invoice Procedures	Final report  As the opinion is either Limited or No Assurance, in accordance with our audit reporting arrangements the Executive Summary is reported to Audit Committee. This is on the report for 7 November 2011.	Limited	0	1	4	0	5
Economic Participation Process	Final report	Significant	-	-	-	-	-
Accounts Payable	At review stage						
Capital Budgetary Control	At review stage						
Bishop Creighton Governor Complaint	Final report	N / A	N / A	N / A	N / A	N / A	N / A
Vivacity (3 reviews)	Final report	N / A	N / A	N / A	N / A	N / A	N / A
Hampton Vale Follow up	In draft						
Council Tax 2010/11	Final report	Significant	0	1	1	2	4
Business Rates 2010/11	Final report	Significant	0	1	3	2	6
Payroll 2010/11	Final report	Significant	0	0	5	6	11
Duke of Bedford FMSIS	Final report	Significant	0	1	5	3	9
Winyates FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
St Augustines FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>OTHER CORPORATE SUPPORT: Carry Forward Activities</b>							
Woodston FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Welbourne FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Hampton College FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
The Beeches FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Dogsthorpe Infants FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Winyates FMSIS Follow up	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
<b>OTHER CORPORATE SUPPORT: Grant Claim Certification</b>							
<b>Grants</b>							
<ul style="list-style-type: none"> <li>• GAF OP Grant 2010/11</li> <li>• GAF 3 Grant 2010/11</li> </ul>	Assurance Letter Assurance Letter	N / A N / A	N / A N / A	N / A N / A	N / A N / A	N / A N / A	N / A N / A



AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>OTHER CORPORATE SUPPORT: Follow Up Provision</b>							
Agile working	Final Report	N / A	N / A	N / A	N / A	N / A	N / A
Right to Work	Final Memo	N / A	N / A	N / A	N / A	N / A	N / A
Internal Health and Safety	In progress						
Youth Offending Service	Final Memo	N / A	N / A	N / A	N / A	N / A	N / A
Hampton Hargate	Final Memo	N / A	N / A	N / A	N / A	N / A	N / A
Marshfields	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Eye C of E	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Heritage Park	Final Memo	N / A	N / A	N / A	N / A	N / A	N / A
Southfield Primary	In progress						
Braybrook Primary	In progress						
Queens Drive Infants	In progress						
Future Jobs Fund	In progress						
Purchasing Cards 2011/12	In progress						
Fulbridge Primary	In progress						
Dogsthorpe Juniors	In progress						
Duke of Bedford	In progress						
Thorpe Primary	In progress						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b>OTHER CORPORATE SUPPORT: Requested Work Contingency</b>							
Peterborough Register Office – Income procedures	In draft						
Orton Wistow CC procedures	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Routewise	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Supplier Query	Final memo	N / A	N / A	N / A	N / A	N / A	N / A
Business Support – Imprest Procedures	In progress						
Duplicate payment testing	In progress						
Committee Support	On going						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
<b><u>ADDITIONAL WORK POSSIBLE WITH VACANCY FILLED</u></b>							
<b>STRATEGIC and OPERATIONAL RISKS</b>							
S106 Developer Contributions	In progress						
Contracting							
Neighbourhood Councils							
Community Buildings							
Clare Lodge							
IT Security							
Internet Usage							
Elective Home Education	In draft						
Buyback Arm – School Improvement							
Placement Strategy							
Learning Disability Services							
Health and Safety							

#### 4 **KEY ISSUES ARISING**

##### 4.1 **Audit Reports: Assurance**

To ensure transparency of our activities, the Audit Committee is provided with a précis of Executive Summaries where the audit opinion is considered to be No or Limited Assurance. Finalised audit activities that have been highlighted within these criteria since the last Audit Committee are identified as follows:

<b>Audit Title</b>	Delivering through Localities – Invoice Procedures Memo and Action Plan
<b>Scope</b>	The purpose of the Internal Audit review was to review the internal controls within the purchasing process as a result of the delay in payment of two invoices at the request of the Assistant Director, Education and Resources. This delay in payment to the supplier was as a result of the invoices remaining unprocessed due to a breakdown in procedures with regards to the Oracle system.
<b>Findings</b>	<ul style="list-style-type: none"> <li>• Oracle procedures are not always followed with regards to receipting of goods and use of delivery notes resulting in timing issues;</li> <li>• A general housekeeping exercise regarding requisitions needs to be undertaken to ensure accurate information is recorded within the system;</li> <li>• There is a requirement to address any training needs to ensure a consistent approach across teams</li> </ul>
<b>Conclusions</b>	The control environment has been assessed as having Limited Assurance.

Actions in relation to this audit have been agreed and progress is being made to resolve satisfactorily.

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 5</b>
<b>7 November 2011</b>	<b>PUBLIC REPORT</b>

Committee Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Strategic Finance	☎ 452398 ☎ 384569

## TREASURY MANAGEMENT PERFORMANCE INDICATORS

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM :</b> John Harrison, Executive Director Strategic Resources	<b>Deadline date :</b> N/A
<p>Audit Committee is asked to</p> <ol style="list-style-type: none"> <li>1. To review current performance against the Treasury Management Strategy set in the Medium Term Financial Strategy (MTFS)</li> <li>2. To approve the revised Prudential Indicators included in the Prudential Code and Treasury Management Strategy 2010 updated for International Financial Reporting Standards (IFRS) impact on the Council's accounting policy with regard to lease arrangements</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 The Treasury Management in the Public Services: Code of Practice 2009 recommends that members receive reports on its treasury management policies, practices and activities, including, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.2 The annual strategy is approved by Council as part of the Medium Term Financial Strategy (MTFS) and the final performance against the strategy is reported to Audit Committee in June alongside the Statement of Accounts. This report forms the mid-year review.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 To report current performance and the forecast outturn position against the strategy.
- 2.2 The change in the accounting treatment for leases brought about by the implementation of IFRS in 2010/11 has resulted in the Prudential Indicators, included in the Prudential Code and Treasury Management Strategy 2010-15, to be revised. This report sets out these amendments and performance against them.
- 2.3 This is in accordance with the Committees' Terms of Reference – 2.2.17 - To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

### 3. **TIMESCALE**

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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### 4. **TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS**

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

- a) capital investment plans are affordable;
- b) all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- c) treasury management decisions are taken in accordance with professional good advice.

The Council has revised the 2011/12 Prudential Indicators to include the leasing requirements since the Full Council approval of the Medium Term Financial plan on 23rd February 2011, which needs to be approved by the Audit Committee.

For the 2010/11 financial year, all Councils were required to review, and amend where necessary, the accounting treatment for lease arrangements. Where lease arrangements have come 'on to the Balance Sheet' as a result of the IFRS based approach, there is a requirement to adjust the Capital Financing Requirement and the Council will therefore need to ensure their authorised limits and operational boundaries are set accordingly.

The revised Prudential Indicators are attached at Appendix A, and has no impact on General Fund balances.

It is not anticipated for the Council to be significantly impacted by the recent Eurozone crisis or from the recent credit downgrading of British banks. As per the Treasury Management Strategy, the Council is operating a restrictive lending list, where surplus cash is only invested for the short term with the Council's banking provider, other Local Authorities, and the Debt Management Office (DMO).

### 5. **CONSULTATION**

5.1 As 'The Prudential Code and Treasury Management Strategy 2011-16' forms part of the annual MTFS, it has undergone full consultation and been through the scrutiny process.

5.2 The Council continues to liaise with its treasury advisors, Sector Treasury Services Ltd, and specifically in relation to its deposits in the UK subsidiaries of the Icelandic banks, with Administrators, the Local Government Association, City Council Members, Members of Parliament and the Press.

## **6. ANTICIPATED OUTCOMES**

As set out in the report.

## **7. REASONS FOR RECOMMENDATIONS**

This report and update is given to the Committee to review performance against the Treasury Management Strategy set in the MTFs, and approve the revised Prudential Indicators.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

The 'The Prudential Code and Treasury Management Strategy 2011-16' is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2009. This report sets out the performance against the associated indicators. The options are therefore limited.

## **9. IMPLICATIONS**

- The implications arising from this report are to approve the revised Prudential Indicators; and
- To provide the Committee the opportunity to review current performance against the revised Prudential Indicators.

## **10. BACKGROUND DOCUMENTS**

(Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- The Prudential Code for Capital Finance in Local Authorities – Fully revised second edition 2009, CIPFA
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes - Fully revised second edition 2009, CIPFA

## Appendix A

### **Treasury Management Strategy - Prudential Indicators – current performance as at 30th September 2011 and estimated Forecast Outturn**

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

- (a) capital expenditure plans are affordable,
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the period of the Medium Term Financial Plan. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy. The actual outturn for the Prudential Indicators for the financial year to date is detailed below.

The 2010 Code of Practice on Local Authority Accounting introduced a new accounting policy based on International Financial Reporting Standards (IFRS) which re-defines the categories of leases and those defined as operating leases are bought on to the Council's balance sheet. These leases include the long term plant and equipment leases and two investment property leases and these impact on the Council's capital financing.

The IFRS adjustment has no impact on the total expenditure of the Council, it instead changes the way this expenditure is accounted for and shown in the Council's accounts, which in turn impacts on Prudential Indicators.

The 2011/12 Prudential Indicators are shown below have been revised to include finance leases and the Council's performance to date against them. All performance is within the limits.

#### **1. Indicator One: Adoption of the CIPFA Code of Treasury Management in the Public Services**

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002, and the revised code in 2009. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

#### **2. Indicator Two: Estimates and actual Capital Expenditure 2011/12**

	<b>Indicator</b>	<b>As at Sept-11</b>	<b>Forecast Outturn</b>
2011/12 Capital Expenditure	£108.8m	£27.8m	£98.0m

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.



**3. Indicator Three: Estimates of actual capital financing requirements and net borrowing**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	Indicator	Leases	Revised Indicator	As at Sept-11	Forecast Outturn
2011/12 CFR	£266.4m	£3.5m	£269.9m	£234.0m	£258.8m

**4. Indicator Four: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream**

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

	Indicator	Leases	Revised Indicator	As at Sept-11	Forecast Outturn
2011/12 Financing costs to revenue stream	4.6%	0.5%	5.1%	4.7%	4.8%

This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure.

**5. Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on the Council Tax**

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done on the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year:

	Indicator	Leases	Revised Indicator	As at Sept-11	Forecast Outturn
2011/12 Incremental impact on Council Tax	£1.09	-	£1.09	£(27.49)	£(20.91)

The overall impact of the leases for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure. The difference between the indicator and the forecast outturn is because the Council's cash balances were greater than estimated at budget setting. This means the Council can amend the timing of borrowing and therefore incur less interest costs during the year.

**6. Indicators Six: External Debt Prudential Indicators**

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year.

This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

The Council have not taken out any new borrowing in 2011/12 to date. The £180.2m is broken down into £134.5m of long term borrowing, £39.9m PFI, £3.5m leases and £2.3m other long term liabilities.

	Indicator	Leases	Revised Indicator	As at Sept-11	Forecast Outturn
2011/12 Authorised limit for external debt	£378.8m	£3.5m	£382.3m	£180.2m	£194.6m
2011/12 Operational Limit for external debt	£279.0m	£3.5m	£282.5m	£180.2m	£194.6m

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

The Operational Limit is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the operational limit might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

The following indicators take into consideration the capital programme over the life of the MTFs and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure. The forecast outturn does not represent the actual debt position at year end.

#### 7. Indicator Seven: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

As no new borrowing has taken place this financial year the indicator is zero for variable rate borrowing

	Indicator	As at Sept-11	Forecast Outturn
2011/12 Upper limit for variable rate exposure	£56.6m	0	0

#### 8. Indicator Eight: Fixed Interest rate exposures

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio

to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

So far during this financial year no new borrowing has taken place, however given the forecast outturn for capital expenditure at £98.0m, the borrowing requirement for the remainder of the year is estimated to be an additional £14.4m.

	Indicator	As at Sept-11	Forecast Outturn
2011/12 Upper limit for fixed rate exposure	£338.9m	£136.8m	£151.2m

#### 9. Indicator Nine: Prudential limits for the maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	Upper Limit Estimate	Lower Limit Estimate	Actual Borrowing
Under 12 months	40%	0%	14.21%
1 - 2 years	40%	0%	0%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	85.79%

#### 10. Indicator Ten: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

The Executive Director - Strategic Resources has therefore sought the advice of Sector Treasury Services Ltd, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25 million. Consequently it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25 million for 2011/12 and later years.

The Council currently has no investments of more than 364 days.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 6
<b>7 November 2011</b>	<b>PUBLIC REPORT</b>

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Diane Baker, Head of Governance	☎ 452 559

**REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) REPORT FOR SECOND QUARTER OF 2011 – JULY TO SEPTEMBER 2011**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM</b> : Helen Edwards, Solicitor to the Council	<b>Deadline date</b> : N/A
Audit Committee is asked to	
1. Receive, consider and endorse this report on the use of RIPA for the second quarter of 2011 – July to September 2011	

**1. ORIGIN OF REPORT**

This report is submitted to the Committee as a scheduled report on the Council's use of RIPA in accordance with the established Work Programme 2011 / 2012.

**2. PURPOSE AND REASON FOR REPORT**

The purpose of this report is to provide an update of the Council's use of RIPA powers during the second quarter, July to September 2011. This report is to be considered in accordance with its Terms of Reference 2.2.15 - *To monitor council policies on "raising concern at work" and the anti fraud and anti corruption strategy and the Council's complaints process.*

**3. BACKGROUND**

3.1 The Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' (CHIS) e.g. undercover agents. It now also permits Public Authorities to compel telecommunications and postal companies to obtain and release communications data, in certain circumstances. It seeks to ensure that any interference with an individual's right under Article 8 is **necessary and proportionate**. In doing so, RIPA seeks to ensure both the public interest and the human rights of individuals are suitably balanced.

3.2 Council officers and external agencies working on behalf of Peterborough City Council must comply with RIPA and any work carried out must be properly authorised by one of the Council's Authorising Officers. The powers contained within the Act can only be used for the purpose of preventing or detecting crime or preventing disorder.

3.3 The Council has established strong governance around the use of RIPA and provides assurance to the citizens of Peterborough that the powers are only used where necessary and proportionate and in accordance with the law.

3.4 The following table provides a breakdown of the use of RIPA between July 2011 and September 2011.

<b>Date of authorisation</b>	<b>Type of Covert Surveillance</b>	<b>Reason</b>	<b>Outcome</b>
26.07.2011	Covert	Test purchasing	Two sales of alcohol to a person under the age of 18 were identified.
10.08.2011	Covert	Test Purchasing	Three sales of alcohol and one sale of tobacco to a person under the age of 18 were identified.
12.09.2011	Covert	Test Purchasing	One case of unauthorised street trading identified.

#### **4. CONSULTATION**

Consultation has taken place between the following parties:

- Solicitor to the Council;
- Executive Director of Operations (as the Senior Officer with oversight for RIPA); and
- Chief Internal Auditor.

#### **5. ANTICIPATED OUTCOMES**

That the Audit Committee continues to be informed of the necessary and proportionate use of RIPA across the Authority.

#### **6. REASONS FOR RECOMMENDATIONS**

There are no recommendations contained within this report.

#### **7. ALTERNATIVE OPTIONS CONSIDERED**

The option is not to present an annual or quarterly report, which details the use of RIPA. This could result in a lack of assurance and a potential lack of support from the Audit Committee. Failure to report usage for Member review contravenes the RIPA Codes of Practice.

#### **8. IMPLICATIONS**

The implications of this report are that the Council will become more aware of RIPA and its value to the Council's many enforcement teams. The Council has already created a positive profile and has been congratulated on its adherence to the legislation by the Office of Surveillance Commissioners.

#### **9. BACKGROUND DOCUMENTS**

(Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985)

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 7.1</b>
<b>7 November 2011</b>	<b>PUBLIC REPORT</b>

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Diane Baker, Head of Governance	☎ 452 559

### 1. ORIGIN OF REPORT

This report is submitted to the Committee as a scheduled report on the Council's use of RIPA in accordance with the established Work Programme 2011 / 2012.

### 2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to provide an update of the outcomes of the individual use of RIPA powers used in 2010-2011 following the request by the Audit Committee at the meeting on the 26<sup>th</sup> September 2011. An update was also requested

### 3. BACKGROUND

3.1 The following table provides a breakdown of the Council's use of RIPA between April 2010 and March 2011 and is updated to include the outcomes of the authorisations.

Please note Test Purchasing refers to the testing of age restricted goods such as alcohol, tobacco and fireworks, at premises throughout the City.

Date of authorisation	Type of Covert Surveillance	Reason	Outcome
24.05.2010	Covert	Test purchasing	One sale of alcohol to a person under the age of 18 was identified. The seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
24.05.2010	Covert	Test purchasing	Three sales of alcohol to a person under the age of 18 were identified. Each seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
28.06.2010	Covert	Trading Standards Operation	Locations and an individual pertinent to the operation were

			identified. The operation led to the prosecution of two individuals for offences relating to counterfeit DVDs and their distribution. Both received 12 month suspended sentences.
13.07.2010	Covert	Test purchasing	Three sales of alcohol to a person under the age of 18 were identified. Each seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
13.07.2010	Covert	Test purchasing	One sale of alcohol to a person under the age of 18 was identified. The seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
17.08.2010	Covert	Test purchasing	Three sales of tobacco from a vending machine to a person under the age of 18 was identified. Each seller was issued with a warning letter along with education and advice .
03.09.2010	Covert	Test purchasing	Three sales of alcohol to a person under the age of 18 were identified. Each seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
18.10.2010	Covert	Fly Tipping	Surveillance was commenced however the cameras being used were lost to vandalism and arson. The decision was made to cancel the surveillance as a result and the operation was terminated.
22.10.2010	Covert	Test purchasing	Three sales of alcohol to a person under the



			age of 18 were identified. Each seller was issued with a £60 Penalty Notice by Cambridgeshire Police.
22.10.2010	Covert	Test purchasing	Two sales of fireworks to a person under the age of 18 were identified. Written warnings were issued to the sellers.
09.12.2010	Covert	Test purchasing	Four sales of alcohol to a person under the age of 18 were identified. Each seller was issued with a fixed penalty notice by Cambridgeshire Police.

3.2 The Council's Regulatory Services have provided the following information regarding the approach to fly tipping

They have investigated a total of 1167 reports of fly tipping. In call of these cases, an officer attends the scene to remove any and all evidence which may lead to identifying a person. If there is reasonable cause to suspect a person of involvement or knowledge of the fly tipping then that person will be interviewed under caution to establish what if anything they can tell Council officers regarding the incident.

The Council has taken a firm stance on fly tipping and will, where possible, seek to prosecute offenders. In the current financial year, five people have been prosecuted for fly tipping. A further case is due in court in November 2011 and two other files are being considered. The Council has also "cautioned" 30 people and recovered a total of £2682.13 in clearance costs from those people.

The Council is also examining other methods of dealing with offenders such as using the Duty of Care legislation on a householder under Section 34 of the Environmental Protection Act 1990. This means that if the Council finds a householder's waste in a fly tip and that householder is unable to provide an account of how that waste got there or who the waste was passed onto then the householder can be held liable. The Council is also using Section 46 of the Environmental Protection Act 1990 in relation to householders who leave excess waste out on bin collection days or leave bins in the street allowing access to them by other members of the public resulting in waste deposited in the locality. This involves the service of a notice on the householder which strictly outlines the how to use the bin scheme, a breach of that notice results in a £100 Fixed Penalty Notice. The Council is also begun to look at deploying CCTV equipment in hotspots around the city using RIPA powers.

**4. REASONS FOR RECOMMENDATIONS**

There are no recommendations contained within this report.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 7.2
<b>7 NOVEMBER 2011</b>	<b>PUBLIC REPORT</b>

Committee Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Strategic Finance	Tel: 452398 Tel: 384564

**UPDATE TO THE EXTERNAL AUDIT REPORT TO MANAGEMENT - INTERIM AUDIT 2010/11 ACCOUNTS**

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> John Harrison, Executive Director Strategic Resources	<b>Deadline date :</b> N/A
The Committee is asked to consider the Management Update to the Report to Management: Interim Audit 2010/11 produced by PricewaterhouseCoopers (PwC)	

**1. ORIGIN OF REPORT**

- 1.1 The 'Report to Management - Interim Audit of the 2010/11' was presented to the Audit Committee on 26<sup>th</sup> September, and at this meeting the Committee requested an update as to the management progress against the PwC recommendations.

**2. PURPOSE AND REASON FOR REPORT**

- 2.1 The report forms part of the presentation of various reports through out the year from PricewaterhouseCoopers (PwC), the Council's external auditors. There reports are presented in accordance with the Committees' Terms of Reference – 2.2.6 *To consider the external auditors annual letter, relevant reports, and the report to those charged with governance.*

**3. TIMESCALE**

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	N/A
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**4. KEY ISSUES**

- 4.1 During the year, PwC have undertaken various reviews on behalf of the authority. The Interim Audit report contains various control and system issues identified during the course of their work.
- 4.2 Each recommendation was agreed with senior management and actions against each recommendation noted. Appendix 1 provides an updated commentary for each recommendation since the report was originally produced in August 2011.

4.3 All recommendations have either now been met, or are in progress with deadlines for completion identified.

## **5. CONSULTATION**

The Report to Management and action plan has been shared with the Corporate Management Team, and actions agreed by senior management at various times before being finalised.

## **6 ANTICIPATED OUTCOMES**

Acknowledgement of the attached report which updates the progress made in meeting the remaining outstanding recommendations within the Report to Management on the Interim Audit of the 2010/11 accounts.

## **7 REASONS FOR RECOMMENDATIONS**

Audit Committee to note the contents of the report and to comment on issues identified within the various commissioned works.

## **8 ALTERNATIVE OPTIONS CONSIDERED**

None.

## **9 IMPLICATIONS**

Implications have been identified separately in each agreed Action Plan.

## **10 BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Report to Management – Interim Audit 2010/11

## **11 APPENDICES**

- Appendix 1 – Management Update to the Report to Management 2010/11

## Outstanding Recommendations from Report to Management - Interim Audit for the 2010/11 Accounts

### Appendix A: ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1	<p><b>Password controls for Oracle are not compliant with best practice and/or Government Code of Conduct.</b></p> <p>The minimum length for passwords should be 7 characters in line with best practice and/or the Government Code of Conduct. For Oracle the minimum password length is 6 characters.</p>	Increase the minimum length of password for Oracle from 6 characters to at least 7 characters.	Low	<p>Management considers that as this is a low priority, the current passwords are controlled (renewals forced and no repeats, and a mix of numbers and letters required),. The Council will review if a future system upgrade plan provides a suitable opportunity.</p> <p><b>Responsible Office:</b> Gavin Diaper, ORACLE Manager</p>
<p><b>Update October 2011</b> In progress, no further update.</p>				

### Appendix B: Update on 2009/10 ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
2	<p><b>Financial systems and Academy systems teams can process transactions</b></p> <p>Staff performing administrative activities for these systems, such as changing user access permissions in the Oracle Financials ledger system and the Academy revenues and benefits system, also have the ability to process financial transactions.</p> <p>System administrators should not process</p>	The Council should identify and review changes to user accounts, to ensure that the risk of segregation of duties being compromised is mitigated.	Medium	<p><b>Partially Agreed</b></p> <p><b>Action:</b></p> <p>With the move to the new structure for Shared Transactional Services the segregation of duties relating to Accounts Payable will be in place.</p> <p>For the Academy system (Council Tax / Business Rates / Housing Benefit) it is not possible to fully segregate duties, due to the work requirements of the systems team, this is a known and accepted risk, currently reviewing processes to</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	financial transactions, as they are in a position to override segregation of duties controls. For example staff could grant themselves access to both process and approve purchase orders, change supplier account details, or create a bogus user account to override existing controls, and reverse the changes afterwards to mask this			ensure risk is minimised. <b>Owner:</b> D Moss, Operational Support Manager J Cox, Systems & Support Team Leader <b>Timescale:</b> 31 January 11
<b>Update October 2011</b>				
<p>In respect to both the capita (academy) system and the oracle financial system, the Council has reviewed changes to user accounts to ensure that there is segregation of duties. In respect of the former, this is already in place whilst in respect of the latter, this is due to be in place by the end of November 11. For both systems, and the system admin role, the Council has granted permission to those colleagues undertaking this role which means that there is not full segregation of duties. However, this is an accepted risk as the very nature of system admin requires that those undertaking the role have an enhanced level of system access. In addition to this, it is understood by those involved, that there is clear guidance in place that must be adhered to at all times and that if they deviate from it the matter becomes a disciplinary one. Finally whilst all transactions put through on the oracle financial system are preserved and are fully auditable (only Serco have the access to delete them) the position regarding the capita system is different. In respect to this system, there remains the risk, albeit a mitigated one, that the transaction(s) could be removed due to a level of system access in place within the service, however as previously stated this has been fully reviewed and is an accepted risk.</p>				
5	<p><b>Periodic review of user access rights within ResourceLink</b></p> <p>A quarterly review of user access rights in ResourceLink was performed until the HR Shared Services Manager left the Council. No such review has been performed since November 2009.</p> <p>This increases the risk that Officers with incompatible duties may exist within ResourceLink, without being detected. Furthermore, inactive and/or terminated staff</p>	Periodic reviews of user access rights should be performed (at least annually). This will help to ensure that user access levels remain commensurate with current job roles. Any access levels that are deemed inappropriate should be immediately	<b>Low</b>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Procedure for system access (granting and access level) for all systems used within Shared Transactional Services to be reviewed, with all access requests being retained for future reference.</p> <p><b>Owner:</b> D Moss, Operational Support Manager J Cox, Systems &amp; Support Team Leader <b>Timescale:</b> 31 December 10</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	could retain access to the application. These risks increase the Council's exposure to inappropriate, unauthorized or fraudulent activity	removed		
<b>Update October 2011</b>				
A 'user access rights' review regarding the ResourceLink (payroll) system has been re-instated. It is to be conducted half-yearly; the first of these reviews is to be completed by the end of October 11.				
6	<p><b>Disaster recovery of financial systems</b></p> <p>Disaster Recovery testing of the Academy revenues and benefits system has not been performed and no disaster recovery plan was available.</p> <p>There is an increased risk that in the event of a disaster recovery situation being invoked, these systems will not be successfully reinstated promptly.</p>	<p>The disaster recovery plan for the Academy system should be formalised and tested.</p> <p>Formal testing of disaster recovery plans should be performed periodically and after system or infrastructure changes to ensure they are fit for purpose.</p>	<b>Increased to Medium in this report due to the passing of time</b>	<p><b>Agreed</b></p> <p><b>Action:</b> Disaster recovery plan for the new Shared Transactional Service is being formulated. This requirement will be discussed with Serco with a view to formalising the actions required to re-instate the Academy system and ensure adequate testing of the disaster recovery plan is undertaken.</p> <p><b>Owner:</b> D Moss, Operational Support Manager</p> <p><b>Timescale:</b> 31 March 11</p>
<b>Update October 2011</b>				
The whole area of disaster recovery has been reviewed in respect of this system and the other systems used in the service, however there is no written disaster recovery plan for the capita system. Certain scenarios have been considered / discussed around the capita system, and these will be fully documented by the end of November 11. This will show the impact and provide an appropriate course of action to be taken. In addition to this, information has been provided to Serco and the resilience team as part of the wider DR work that is being undertaken. In terms of the resilience around				

No.	Observation and Risk	Recommendation	Priority	Management Response
	DR for shared transactional services, there are 30 officers who are able to work from home (permanently and on an ad-hoc basis), in addition to this, thin client is being rolled out across the service, which will enable officers to work from any location and have the same access to the systems (including capita).			

### Appendix C: Update on 2008/09 ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
7	<p><b>Use of generic and privileged user ID</b></p> <p>The ICT Senior Systems engineer does not have a unique ID on the UNIX Oracle Financial Database server, instead this user logs onto this server using the privileged generic ORAMAST User_ID.</p> <p>This may lead to the inability to trace transactions or changes made to critical financial data, applications, and systems to an individual user for accountability and resolution. .</p>	<p>Inability to trace transactions or changes made to critical financial data, applications, and systems to an individual user for accountability and resolution.</p> <p>A unique personal User_ID should be created on the UNIX Oracle Financial Database server. This account can be given the privileges of the generic ID needed by the Senior Systems Engineer, using a system tool such as Sudo when required.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b> Unique user id to be created to improve accountability.</p> <p><b>Owner:</b> P Dickman</p> <p><b>Timescale:</b> Oct 2009</p>
<p><b>Update October 2011 - Now met</b></p> <p>This has now been completed and the Council complies with the recommendations that a unique user ID is created to improve accountability.</p>				



No.	Observation and Risk	Recommendation	Priority	Management Response
8	<p><b>Review and documentation of ICT policies.</b></p> <p>Some policy documents, such as the ICT security policy have not been updated for several years. In addition, some documents do not detail when the policy was last updated and who the document owner is.</p> <p>An out of date ICT security policy increases the likelihood that relevant information integrity risks may not be adequately addressed.</p>	<p>As a matter of best practice, key policy documents should be reviewed on an annual basis and documentation should clearly identify when the last update was made and who the document owner is.</p>	<p><b>Increased to Medium due to the passing of time.</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Some policies have been reviewed and updated as part of the compliance with Government Connect. Other policies will be reviewed as part of the ICT Managed Service project.</p> <p><b>Owner:</b> M Gregson</p> <p><b>Timescale:</b> Sept 2009 – Dec 2009</p>
<p><b>Update October 2011</b></p> <p>The ICT Client Team are currently reviewing all ICT Policies in line with the new front and back office functions being introduced by the Council and Serco. The Members ICT Policy and the Mobile Phone Policy have recently been amended and are awaiting final approval, and work is underway to complete the review of the remaining policies by year end.</p>				
9	<p><b>Periodic testing of backup media containing financially significant data.</b></p> <p>No formal proactive testing of UNIX backup media is performed; as such there is an increased risk that financial data may be irrecoverable in the event of system failure.</p> <p>However, the risk of any loss of financial data is significantly reduced as all financial data is replicated in real time to an off site third party location.</p> <p>There is an increased risk over the potential loss of data or inability to access data as required.</p>	<p>Formal periodic testing should be performed on all backup media containing financial data to ensure that financial data can be recovered if required.</p>	<p><b>Increased to Medium due to the passing of time.</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Operational procedures will be reviewed and updated as part of the ICT Managed Service project</p> <p><b>Owner:</b> M Gregson</p> <p><b>Timescale:</b> Dec 2009</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Update October 2011 - Now met</b>				
The centralised backup regime introduced in 2011 incorporates regular testing of the backups which are also verified at the point of backup. The testing involves a testing a selection of backups to ensure restores can be performed. This is based on the tape drives used to ensure that we don't have a situation with a faulty drive rendering a set of backups unusable..				

#### Appendix D: Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1	<p><b>Random data quality checks for council tax and NNDR are not being completed.</b></p> <p>Random data quality checks have not been completed since 1/11/2010 for Council Tax or NNDR due to the demands being placed on resource after the restructure. Prior to that data quality checks were being completed with no exceptions noted.</p>	Resume the random data quality checks for council tax and NNDR as soon as possible.	Medium	<p><b>Agreed</b></p> <p><b>Owner:</b> D Moss, Operational Support Manager</p>
<b>Update October 2011</b>				
Weekly council tax checks re-commenced in February 11 upon the completion of comprehensive legislative training that was delivered to all processing and technical staff in the income team. These checks now also focus on other arrears of risk, which have been identified, i.e. class F and class L exemptions. Between February 11 and March 11, a total of 193 accounts were checked, whilst between April 11 and September 11 a total of 806 accounts were checked. In addition to this, further checks have been completed in respect of colleagues working in customer services, for NNDR work. The majority of the work, since 1 November 10, has been done by an experienced officer who is on a temporary contract (appointed by the head of service) thereby minimising the risk of work being undertaken by inexperienced officers. The same officer has started to deliver legislative training to all the processing and technical staff within the income team, with the plan to commence NNDR checks by January 12, once a new procedure manual has been finalised, agreed, and the training completed.				

No.	Observation and Risk	Recommendation	Priority	Management Response
2	<p><b>VOA reconciliations to Academy (NNDR) do not reconcile to the number of heriditaments.</b></p> <p>The total rateable value from the Valuation Office report agrees to the Academy figure (including reconciling items). This is the key value that requires to be agreed, however in completing the reconciliation the number of properties should also be agreed.</p>	<p>Reconcile the number of heriditaments on Academy to the number on the Valuation Office report on a weekly basis.</p>	<p><b>Low</b></p>	<p><b>Agreed</b>  <b>Owner:</b> D Moss, Operational Support Manager</p>
<p><b>Update October 2011 - Now met</b>  All NNDR schedules received from the VOA are fully checked and reconciled on a weekly basis; this is in respect to both the total rateable value (RV), and the total number of heriditaments.</p>				
3	<p><b>Reconciliations completed within Council Tax, NNDR and Housing Benefit are not being reviewed.</b></p> <p>There are a number of reconciliations completed within CT, NNDR and HB. These are completed in a timely manner and monitored by the member of staff completing them, however there is no review of the reconciliations by senior member of staff.</p> <p>Within CT the following reconciliations should be reviewed and evidenced as reviewed; raising of demands reconciliation, daily payments reconciliations and the Oracle to Academy reconciliation.</p> <p>Within NNDR the following reconciliations</p>	<p>All reconciliations completed by staff should be reviewed and evidenced as reviewed by a more senior member of staff.</p>	<p><b>Low</b></p>	<p><b>Agreed</b>  <b>Owner:</b> D Moss, Operational Support Manager</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>should be reviewed and evidenced as reviewed; raising of demands reconciliation, daily payments reconciliations and the Oracle to Academy reconciliation.</p> <p>Within Housing Benefit the following reconciliations should be reviewed and evidenced as reviewed; the payment run reconciliation and the Academy to General Ledger reconciliation.</p>			
<p><b>Update October 2011 - Now met</b></p> <p>The three different areas of reconciliation detailed continue to be undertaken in a timely manner. Since November 10 reconciliations are checked by a senior officer, either by a senior systems and support officer if the reconciliation was completed by a systems and support officer, or by the systems and support team leader if the reconciliation was completed by the senior systems and support officer.</p>				

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### Appendix E: Update on 2009/10 Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
4	<p><b>Payroll</b></p> <p>We noted several instances of missing documentation during our testing of payroll controls.</p> <p>We noted two instances in relation to authorisation of payroll starters, two of missing change documentation and two missing mileage claim forms. Additionally, there is no evidence of review for two of three payroll analysis reports selected for testing, which detail all payments to be</p>	<p>The Council should ensure that all documentation is retained in relation to amendments to the payroll system.</p> <p>It should be ensured that evidence of review of the payroll analysis report and exception report are retained.</p> <p>This will demonstrate that</p>	<b>Medium</b>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Process to be put in place to ensure that payroll analysis reports and exception reports are signed off by a Payment Team Leader and held within the I@W Document Management System.</p> <p>The use of the document management system for Payroll is being reviewed and will be expanded to ensure all documents are captured and retained within the system.</p> <p><b>Owner:</b> C Hipkin, Interim Payments Manager</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>made each month. Two of three exception reports have also not been evidenced as reviewed.</p> <p>There are increased risks that I) new starters and changes could be fraudulently processed without appropriate authorisation and II), errors could arise in the payroll run without review of the analysis and exception reports.</p>	<p>the controls are in place and enable us, as auditors, to increase the level of reliance we can place on system controls and reduce the amount of audit work we need to carry out on the system.</p>		<p>A Clow, Payments Technical Team Leader <b>Timescale:</b> February 2011</p>
<p><b>Update October 2011</b></p> <p>The use of the EDRM system within payroll for the processing of daily work is now embedded and from October 11 will be extended to include the retention of payroll reports, held as separate document types. The reports are signed off by two technical officers and the technical team leader.</p>				
5	<p><b>Unallocated receipts</b></p> <p>Unallocated receipts on the debtors" ledger are not reviewed regularly. When auditing the Aged Debtors Listing, we noted that there was a credit balance of £358,000 relating to unallocated receipts. £173,000 of this balance is over one year old.</p> <p>If receipts are not allocated promptly, there is a possibility that debts may not be appropriately chased.</p>	<p>Unallocated receipts should be reviewed and allocated promptly.</p>	<b>Medium</b>	<p><b>Agreed Action:</b></p> <p>Shared Transactional Services have from 1 November taken over the allocation of unidentified income from the cash office. The current processes and procedures are being reviewed and revised and are looking to ensure that all unidentified receipts are resolved on a regular basis – daily wherever possible. A further exercise will be undertaken by the income team to review the unallocated receipts currently shown in the system.</p> <p><b>Owner:</b> S Pleszkan, Head of Shared Transactional Services C Crockett, Income Technical Team Leader D Moss, Operational Support Manager <b>Timescale:</b> February 2011</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Update October 2011</b>				
No further action has been taken in respect of this point since the last update that was given in June 11. However, this has been identified as a priority and an action plan is to be drawn up and agreed by the end of October 11 with a view to addressing the unallocated credits in the month of November 11. A further update will be given at this time.				
6	<p><b>Property database</b></p> <p>The property database does not accurately reflect rental amounts agreed with tenants. In all four cases tested, the data held in the property database did not agree to the supporting lease agreement. In the current year, this only affected the disclosure of rentals received which was amended in the final draft of the accounts. We understand that the Council in looking to integrate the property database into Oracle. Errors such as those noted above would then impact upon the amounts invoiced to tenants.</p>	Changes to the property database and also the submission of the work request forms should be reviewed regularly.	<b>Medium</b>	<p><b>Agreed Action:</b></p> <p>The Council are in the process of implementing a new asset management database (from 'The Technology Forge') which integrates all of the Council's property information into a single data source.</p> <p>The Council's Financial Accounting Team are currently reviewing all property leases with regards to the work required for implementation of IFRS for the 2010/11 Statement of Accounts. Therefore all property lease data will have been reviewed, and a better understanding of the data contained in the database will be available.</p> <p><b>Owner:</b> J Robinson-Judd, Head of Asset Management</p> <p><b>Timescale:</b> 31.01.11</p>
<b>Update October 2011</b>				
The property asset, estates, condition and energy data have been loaded into the new system, tested and is now in use. The remaining areas to be completed; the capital accounting data, Key Performance Indicator reporting and accounting interfaces are in progress and are planned to be completed before the end of the year.				

No.	Observation and Risk	Recommendation	Priority	Management Response
8	<p><b>Outstanding cheques</b></p> <p>No review of old outstanding cheques is performed.</p> <p>Cheques could be raised in error twice if a review of old cheques is not performed.</p>	<p>A review of outstanding cheques should be performed regularly, with cheques reissued or cancelled as appropriate.</p>	<p><b>Medium</b></p>	<p><b>Agreed - Action:</b></p> <p>The Accounts Payable (AP) process is being reviewed and a schedule put in place following the implementation of the new Shared Transactional Services.</p> <p>A process is already in place for out of dates cheques for payment of Housing Benefit, and for refunds of Council Tax or Business Rates.</p> <p><b>Owner:</b> S Pleszkan, Head of Shared Transactional Services</p> <p>C Hipkin, Interim Payments Manager</p> <p><b>Timescale:</b> March 2011</p>
<p><b>Update October 2011</b></p> <p>The process currently in place for Housing Benefit payments and refunds for both Council Tax and Business Rates is being implemented for AP cheques. From October 11 a monthly report is being produced listing all cheques that have not been cashed and are out of date (6 months old). The outstanding cheques are either reissued or cancelled. Responsibility for this task currently sits with payment technical officers, but will be reviewed to see whether this should in future sit within the systems and support team.</p>				

## Appendix F: Update on 2008/09 Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
12	<p><b>Contract Register</b></p> <p>The Council maintains a contract register listing details for significant contracts in excess of £50,000. The Legal Department should be advised of any new contracts, and rely on officers making them aware of any new contracts.</p> <p>However, there is no formal mechanism in place to ensure that all contracts are reported to the Legal Department, and no other proactive completeness checks are carried out to ensure the register is kept up to date.</p> <p>There is a risk that all contracts may not be identified and included on the register.</p> <p>This is particularly an issue given the requirements surrounding financial instruments, whereby the Council will need a full and complete list of contracts to assist in identifying any financial instruments.</p>	<p>The Council should use the new contract management tool to ensure that all contracts are recorded on a central database, and that this is maintained and updated appropriately.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The contract register will be automated from 1 November 2009. All procurement activity of £5K and over (this may be adjusted to £10K and over) is intended to be captured on the new system. The Corporate Procurement Unit has identified Procurement Champions within each directorate (the respective Heads of Business Support) who will be responsible for maintaining the Contract Register on behalf of their department. In addition, to support the Procurement Champions, Procurement Agents have been identified and are to be trained to collate and upload data relating to contracts onto the system. Training and guidance will be extended to procuring officers across the Council through a communications programme. As part of the implementation of Phase 2 of the Contract Register, the system used by Legal Services for collation of contract information (currently manual) will be added to the Contract Register. This will provide a central database of all detail relating to any particular contract. This, together with the actions highlighted above, will ensure details are kept up to date.</p> <p><b>Owner:</b> Corporate Procurement Unit (Andy Cox)</p> <p><b>Timescale:</b> From 1 Oct to 31 Mar 2010</p>



**Update October 2011**

The exercise of identifying the 80% of the Council's spend by supplier has been completed and where contracts were identified as not being on the Contracts Register, these have now been uploaded. Work continues to be undertaken with each directorate with training having been given to a number of officers on how to enter details in the Contract Register. In addition, guidance has been produced so that officers can train themselves. The Operation Directorate has acted as a pilot in entering all their contracts on the register, with the Children's Services Directorate being the next department in adopting the register in the roll out. Meetings have also been held with Legal Services to look at the feasibility of having a single register and are ongoing.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 8
<b>7 NOVEMBER 2011</b>	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

## **WORK PROGRAMME 2011 / 2012**

### **1. ORIGIN OF REPORT**

This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report provides details of the proposed Work Programme for the Municipal Year 2011 / 2012 together any training needs identified.

### **2. UPDATE**

#### **2.1 Work Programme**

The Work Programme (**Appendix A**) is based on previous years meeting dates / agendas. The programme will be refreshed in consultation with senior officers and the Committee membership throughout the year.

Before the next meeting of the Committee (6 February 2012), there will be a training session provided to Audit Committee Members on "*An overview of the risk management process and how it is used by Corporate Management Team to established the Council's strategic risks*".

## WORK PROGRAMME FOR 2011 / 2012

Date	Work Programme	Key Officer
6 June 2011	First meeting of the Audit Committee in the Municipal Year. It is proposed that following Full Council, subject to changes in membership from previous years, the meeting will be set aside to provide an overview of the Committee and the roles and responsibilities of Members. This will include training / guidance in relation to: <ul style="list-style-type: none"> <li>• Internal Audit and External Audit;</li> <li>• Risk Management;</li> <li>• Finance Standards and Final Accounts Closure;</li> <li>• Governance, Fraud and Investigations.</li> </ul>	Steve Crabtree
27 June 2011	Internal Audit: Annual Report 2010 / 2011 Review of Effectiveness of Internal Audit Fraud: Annual Report 2010 / 2011 Annual Governance Statement Statement of Accounts 2010 / 2011 Feedback Report	Steve Crabtree Steve Crabtree Diane Baker Steve Crabtree Steven Pilsworth
5 Sept 2011	MEETING CANCELLED DUE TO INSUFFICIENT BUSINESS. RE-ALLOCATED ACROSS FUTURE MEETINGS	
26 Sept 2011	External Audit: Report To Management Audit of Statement of Accounts Investigatory Powers Act: Progress Report Q1 Feedback Report	Steven Pilsworth / PwC Steven Pilsworth / PwC Diane Baker
7 Nov 2011	Internal Audit: Half Year Update 2011 / 2012 Treasury Management Update Investigatory Powers Act: Progress Report Q2 Feedback Report	Steve Crabtree Steven Pilsworth Diane Baker
6 Feb 2012	External Audit: Annual Audit Letter External Audit: Grant Claims Annual Certification Risk Management Strategy Risk Management: Strategic Risks Feedback Report	Steven Pilsworth / PwC Steven Pilsworth / PwC Stuart Hamilton Stuart Hamilton
26 Mar 2012	Investigatory Powers Act: Progress Report Q3 Internal Audit: Strategy and Audit Plan 2012 / 2013 External Audit: Audit Plan Feedback Report	Diane Baker Steve Crabtree PwC

Each meeting may be supplemented by additional reports deemed appropriate for the Committee. This could relate to specific work requests for Internal Audit or External Audit; changes made to Financial Regulations or Contract Regulations; or other governance or legislation which impacts on the work of the Committee.