

APPENDIX 1



**HEAD OF INTERNAL AUDIT
INTERNAL AUDIT PROGRESS REPORT
2012 / 2013
AS AT 30 SEPTEMBER 2012**

PROGRESS REPORT

1. Introduction
2. Resourcing and Performance
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 progress made against the delivery of the 2012 / 2013 Internal Audit Plan as at 30 September 2012. 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 26 March 2012;
 - 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:

AUDIT ASSURANCE	
Assurance	Definitions
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:

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS		
Status	Definitions	Implementation
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 AND PERFORMANCE

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

- Permanent Staff (Fte) 3.90
- Head of Internal Audit (share) 0.50
- Vacant Posts 2.10

- 2.2 During the first six months of the year, it should be noted that:

- A member of staff has returned from maternity leave on a part-time basis (0.6 fte). This reduction in time had been factored into the audit plan at the start of the year so there is initially no impact on the audit plan. However, a member of staff is due to go on maternity leave in quarter 4 which was not known at the time of the audit planning process resulting in the loss of time of up to 30 days, which will have an impact on the delivery of the plan.

- The team continues to carry vacant posts, the current position being 2.10 (FTE). During the first 3 months of the financial year, Internal Audit employed an agency auditor to undertake a number of key activities for 9 weeks and they were recruited throughout the appropriate recruitment framework. They finished their placement at the end of June 2012.
- The ongoing vacancy situation will result in the teams' inability to deliver a vast proportion of the additional plan which was previously agreed at Audit Committee on 26 March 2012 as subject to resources. Efforts are being made to recruit permanently to the vacant posts.
- Increased demand on audit activities is also evident as a result of the transfer of the Adult Social Care Service where a significant amount of previously unplanned audit days have been undertaken to date within this directorate. This is in addition to the audit work in the audit plan agreed with their management team. The demand on audit activities may also be exasperated further as a result of more services migrating back to PCC in the form of Public Health during October 2012. Whilst the impact of this is not yet known, the audit team in its current form are under resourced in being able to provide assurance for the whole organisations' control environment whilst a higher proportion of time is required assisting with emerging issues from the new / transferring service areas.
- Furthermore, as the Council is more and more successful in bidding for grants, there is an increased requirement for audit assurance to be provided on these.

- 2.3 The level of **sickness within the team has continued to improve** at 0.36 days per person to September 2012 compared to 0.67 days per person at the same time last year.
- 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 5.00 / 5.00.
- 2.5 **As part of Internal Audits long term strategic plan to further increase working efficiencies the team is continuing to develop the audit automated system currently in use.** The system upgrade to VISION is forecast to be implemented and commence from April 2013. Project management of the process is being undertaken in conjunction with the existing system provider. Cambridge City Council are also intending to implement the system as part of the shared service arrangement where PCC will act as the host system provider. Furthermore, the Chief Internal Auditor is in ongoing talks with another council for them to be brought into the "pooled" arrangements.
- 2.6 The Chief Internal Auditor is in the process of reviewing the performance indicators for the service in order to provide tangible measures to evaluate the service against.

3 PROGRESS AGAINST AGREED AUDIT PLAN

Where audits are “shaded”, these represent all jobs not started at 30 September 2012.

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
CORE SYSTEM ASSURANCE WORK							
Housing Benefit	Work is scheduled for Qtr 4						
Council Tax	Work is scheduled for Qtr 4						
NDR	Work is scheduled for Qtr 4						
Accounts Payable	Work is scheduled for Qtr 3						
Payroll System	Work is scheduled for Qtr 3						
Payroll – Teachers Pensions	This job has been removed from the Audit Plan following a reassessment of the risks and full agreement with PwC.	N/A	N/A	N/A	N/A	N/A	N/A
Budgetary Control	Work is scheduled for Qtr 4						

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
ANNUAL GOVERNANCE / ASSURANCE ACTIVITIES							
Annual Governance Statement Assurance Framework	Complete Full report submitted to Audit Committee on 25 June 2012	N / A	N / A	N / A	N / A	N / A	N / A
Annual Audit Opinion	Complete Full report submitted to Audit Committee on 25 June 2012	N / A	N / A	N / A	N / A	N / A	N / A
Annual Audit Plan	Work is scheduled for Qtr 4 and is due to be reported to Committee on 25 March 2013						
Internal Audit Effectiveness	Complete Full report submitted to Audit Committee on 25 June 2012	N / A	N / A	N / A	N / A	N / A	N / A
Anti-fraud Culture: • National Fraud Initiative	Ongoing work to combat fraud. Work is coordinated by the Governance Team for all data sets which are submitted to the Audit Commission for data matching. Internal Audit review data matches in relation to creditor payments. Data output is due to be released in Qtr 4						
Information Governance	On going in conjunction with the Information Governance Board						
Project Governance	Commencement date to be determined						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
STRATEGIC and OPERATIONAL RISKS							
Risk Management and Business Continuity	In progress. Internal Audit is providing ongoing consultancy work as these policies are refreshed. The new policies are due at Audit Committee in November 2012.						
Adult Social Care Database - FRAMEWORKI	In progress. A new client system is being introduced. Internal Audit are providing an ongoing critical friend role						
Schools: Welland Primary School	Audit work completed. At review stage						
Schools: Fulbridge Primary School	Due to commence. At planning stage						
Partnership Performance Arrangements <ul style="list-style-type: none"> Enterprise – PI monitoring/ Data quality 	Work is scheduled for Qtr 3						
Partnership Management <ul style="list-style-type: none"> SERCO ICT / Manor Drive Managed Service 	Work is scheduled for Qtr 3						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
EXTERNAL WORK							
Vivacity As part of our Service Level Agreement, we have been commissioned to undertake a series of 8 reviews during the year	2011/12 3 Reviews rolled forward – complete 2012/13 1 at review stage 2 at planning stage	N / A	N / A	N / A	N / A	N / A	N / A

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
OTHER CORPORATE SUPPORT: Carry Forward Activities							
Business Rates	In draft. Awaiting agreement of recommendations.						
Council Tax	In draft. Awaiting agreement of recommendations.						
Supplier and Selection Rotation	In draft. Awaiting agreement of recommendations.						
Travel and Subsistence	Completed. Further follow up review due in November 2012 Details set out in Section 4 below.	Limited	0	3	3	0	6

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
OTHER CORPORATE SUPPORT: Grant Claim Certification							
GAF 2011/12	Completed Assurance Letter	N / A	N / A	N / A	N / A	N / A	N / A
Zecos (EU Grants) – 2 nd Claim	Completed First Level Controller Approval	N / A	N / A	N / A	N / A	N / A	N / A
CTIE (EU Grants) – 1 st Claim	Completed First Level Controller Approval	N / A	N / A	N / A	N / A	N / A	N / A
Disabled Facilities Grant	Completed Assurance Letter	N / A	N / A	N / A	N / A	N / A	N / A
DFT (Local Plan Integrated Transport)	Completed Assurance Letter	N / A	N / A	N / A	N / A	N / A	N / A
DFT (Local Transport Plan Highways)	Completed Assurance Letter	N / A	N / A	N / A	N / A	N / A	N / A
Zecos (EU Grants) – 3 rd Claim	Work is scheduled for Qtr 4	N / A	N / A	N / A	N / A	N / A	N / A
CTIE (EU Grants) – 2 nd Claim	Work is scheduled for Qtr 4	N / A	N / A	N / A	N / A	N / A	N / A

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
OTHER CORPORATE SUPPORT: Follow Up Provision							
Duke of Bedford Primary School	In progress						
Hampton Vale Primary School	In progress						

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
OTHER CORPORATE SUPPORT: Requested Work Contingency							
ADULT SOCIAL CARE							
Direct Payments	Complete Details set out in Section 4 below.	Limited	1	7	4	0	12
Conflict of Interests	In progress						
Personal Budgets	In progress						
Contracts Review	In progress						
New Suppliers Audit Advice	Memo	N / A	N / A	N / A	N / A	N / A	N / A
CHIEF EXECUTIVES							
Governance Review	In progress						
CHILDRENS SERVICES							
School Review	At review stage						
Purchasing via E-bay	Memo	N/A	N/A	N/A	N/A	N/A	N/A
Gifts and Hospitality for Schools	Memo	N/A	N/A	N/A	N/A	N/A	N/A
Contracts overspends	3 Memos	N/A	N/A	N/A	N/A	N/A	N/A
Sale of obsolete items	2 memos	N/A	N/A	N/A	N/A	N/A	N/A

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
OTHER CORPORATE SUPPORT: Requested Work Contingency							
OPERATIONS							
Contracts Review	Complete Information provided to Cambs Police for action Details set out in Section 4 below.	N/A	N / A	N / A	N / A	N / A	N / A
Peterborough Water City Festival	Complete Details set out in Section 4 below.	N/A	0	3	1	0	4
Supplier Record amendments / queries	3 memos	N/A	N/A	N/A	N/A	N/A	N/A
STRATEGIC RESOURCES							
Web based systems access controls	In progress						
Access to One Time Payments Log	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
ADDITIONAL WORK POSSIBLE WITH VACANCY FILLED							
CORE SYSTEM ASSURANCE WORK							
Main Accounting System							
Fixed Asset Accounting							
Purchasing Cards							
Budgetary Control							
STRATEGIC and OPERATIONAL RISKS							
ASC: Integrated Community Equipment Store	In draft						
Public Health	Risk assessed with client	N/A	N/A	N/A	N/A	N/A	N/A
Project Delivery							
Carbon Management	In progress						
Staff Loans	In planning						
Contracts							
ERDM	In planning						
Schools							
ASC: Performance Management							
ASC: Risk Management and Business Continuity							
ASC: Policies and Procedures							
Welfare Reform							

AUDIT ACTIVITY	STATUS	ASSURANCE OPINION	AGREED ACTIONS				
			Critical	High	Medium	Low	Total
ADDITIONAL WORK POSSIBLE WITH VACANCY FILLED: Continued							
STRATEGIC and OPERATIONAL RISKS							
Integrated Case Management System / RAISE							
Oracle system / R12 upgrade							
Private, Voluntary and Independent Financing							
CRB Checks							
IT Licensing							
IT Security							
Internet Usage							
Transparency Agenda							
Learning / Disability Partnership	Commenced Deferred until 2013 /14 due to timing of service transfer and available data.	N/A	N/A	N/A	N/A	N/A	N/A
Managing Attendance							
Co-commissioning arrangements with the Voluntary Sector							
Telecom charges							
EXTERNAL WORK							
Development of client base	Ongoing Chief Internal Auditor discussions with other authorities						

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:

Audit Title	Travel and Subsistence
Scope	A Travel and Subsistence audit report was previously issued where there were 4 high graded recommendations and agreed actions. It is our normal practice to follow up final reports after six months of issue but a three monthly follow up was requested in this instance by Cllr. Seaton. This review has been undertaken in order to gain assurance that agreed actions in the report have been implemented satisfactorily.
Findings and Conclusions	<p>Overall there has been little change in the payroll control framework between the original report and this follow-up review. The key issues can be categorised as follows:</p> <p>Corporate Compliance It was disappointing to note that, even following a reminder being published on Insite some employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks. It was evident from the testing that a key area for non-compliance with the Travel and Subsistence Policy is within Children's Services, and this will be raised by the Executive Director of Strategic Resources with the Corporate Management Team.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p>

Actions in relation to this audit have been agreed and progress is being made to resolve satisfactorily. A further follow up review is programmed to commence in November 2012

Audit Title	Direct Payments
Scope	<p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • Assess the adequacy and effectiveness of controls over the set-up, payment and ongoing monitoring of Direct Payments to care service users. • Undertake a full systems based review of the process for issuing and monitoring Direct Payments made to care service users to ensure that the process provides accountability for public funds being used.
Findings	<ul style="list-style-type: none"> • From our audit testing there is evidence that one out of fourteen Direct Payment cases checked was not subject to an annual reassessment. At the time of the audit, the latest "Monthly Breach Report" on overdue care reassessments indicated that out of a total of 5102 care cases managed by the ASC team, 58 had an overdue reassessment greater than one year. • Direct Payments Policy and Procedures are currently in draft form and have not yet been finalised and approved. The Policy and Procedures are required to outline the framework for which Direct Payment packages are to be managed and maintained to help ensure that service users receive appropriate care without financial abuse of the funding they receive. • A completed and signed Direct Payment Agreement contract was not available for review in 64% of case files checked as part of this audit (not held on the paper file or the electronic RAISE system). • At the time of the audit there was evidence of a significant backlog of submitted financial records awaiting review by the Adult Social Care Placement & Client Income Team (161 service user records as at 18/05/12). Arrangements are being made to recruit a temporary Direct Payments Monitoring Officer dedicated to reviewing records and pursuing outstanding expenditure information. This post will initially last for 12 months, and will be reviewed with the possibility of a permanent position being created. • Audit testing of case files revealed that there is evidence that some service users are not submitting any financial records (7%) or insufficient financial records (64%). There is also evidence of expenditure that does not support the required care package for which Direct Payment funding should be used (28%) • The RAISE case file system provides an effective communication link between personnel checking the Direct Payment expenditure records and Care Support staff who liaise directly with service users. The RAISE system is effective at recording electronic case file notes.

Conclusions	<p>Adult Social Care management need to ensure that case reassessment timescale breaches are reported, monitored and actioned to ensure statutory requirements for care case reviews are fulfilled. Without adequate care reassessments taking place, Adult Social Care management are unable to demonstrate that they are fulfilling their responsibilities for providing ongoing appropriate social care.</p> <p>Recent Direct Payment applications are supported by completed and signed Direct Payment Agreement contracts, but there appears to be an historic issue for older cases where signed Agreements were not always obtained.</p> <p>ASC management need to improve the way in which submitted financial records are assessed to ensure that Direct Payment expenditure evidence is subject to timely review. This is important for identifying and escalating instances of potentially inadequate care provision and/or financial abuse of the Direct Payment funding.</p> <p>Due to the extent of the issues arising from this audit, and due to the statutory breach implications, limited assurance is provided over the control environment for managing and monitoring Direct Payment care packages.</p>
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Audit Title	Contracts Review
Scope	Internal Audit was requested to undertake a review where it had been identified that an ex-employee was involved in producing tender documentation for a company. Concerns were raised regarding unauthorised access to information which could have resulted in an unfair advantage being gained by the company. The review was to establish if information had been gained by unfair means and whether the company should be excluded from the tendering process.
Findings	<p>It was established that:</p> <ul style="list-style-type: none"> • Unauthorised access had been gained to PCC's web-based archive system by an ex-employee; • The administrator of the system had not been advised of the individuals resignation and access rights had therefore not been removed; • Information had been viewed or downloaded from historic tendering exercises detailing information pertinent to the current tendering exercise; • The current system prevented tender submissions being viewed prior to the tender closure date and it was therefore not possible to access the current tendering exercise information therefore the tendering process had not been compromised other than for the one company who obtained an advantage by having access to archived information. <p>Analysed information and the resultant findings were passed to the police who agreed to formally investigate the case. The outcome was an admission of guilt, resulting in a formal caution being issued and the company's withdrawal from the tendering exercise.</p>
Conclusions	<p>The review highlighted control issues surrounding web-based systems in operation where access can be obtained without the need to first access PCC's portal. Whilst ex employees access rights are normally removed from PCC's main systems there appears to be a breakdown in administrators overseeing web-based systems being advised when staff leave the organisation.</p> <p>A further piece of work has now commenced to establish whether this issue is widespread and to ensure that controls are strengthened to avoid future issues of this type.</p>

Audit Title	Water City Festival
Scope	Internal Audit was asked to review the governance arrangements in place within the Operations Directorate for the procurement and payment of special events, in particular the delivery of the Peterborough City Water Festival.
Findings	The cost for the delivery of the event was expected to be in the region of £15,000, excluding sundry costs, and would be borne within the city events budget. Due to the unique nature of the event – there was no other provider – contract regulations stipulate that an exemption report would be required as there would be no competition / quotation received. While the event was known for sometime, there were numerous delays in producing this exemption report. In addition, there was also a lack of information relating to the supplier. This then hindered the payment process.
Conclusions	Poor governance arrangements have been in place for organising and managing the event and while there are appropriate processes in place across the Council these have not been followed to ensure transparency of decisions etc. A number of recommendations have been made in the report and a consideration should be given as to whether or not disciplinary action should be initiated.

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

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