

## AUDIT COMMITTEE

**MONDAY 7 FEBRUARY 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

Page No

1. **Apologies for Absence**
2. **Declarations of Interest and Whipping Declarations**  

At this point Members must declare whether they have an interest, whether personal or prejudicial, in any of the items on the agenda. Members must also declare if they are subject to their party group whip in relation to any items under consideration.
3. **Minutes of the Meeting held on 1 November 2010** 1 - 8
4. **Internal Audit: Quarterly Report 2010 / 2011 (To 31 December 2010)** 9 - 32  

To receive details of Internal Audit activity and performance during the 9 months to 31 December 2010.
5. **Internal Audit: Shared Audit Arrangements** 33 - 36
6. **External Audit Reports** 37 - 80  

To receive reports produced by External Audit as part of the annual audit plans.
7. **Feedback Report** 81 - 84  

To receive standard feedback report on issues and actions requests made at past meetings of the Committee.
8. **Work Programme 2010 / 2011** 85 - 88  

To review the current work programme and propose any future training needs.



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: Collins (Chairman), Newton (Vice Chair), Kreling, Simons, Stokes, Harrington and Goldspink**

**Substitutes: Councillors: Nash, Swift and Murphy**

**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 1 NOVEMBER 2010**

Present: Councillors Collins (Chairman), Newton (Vice Chair), Kreling, Simons, Stokes, Harrington and Goldspink

Officers in attendance: Paul Phillipson, Executive Director Operations  
Steve Crabtree, Chief Internal Auditor  
Kirsty Nutton, Financial Services Manager, Corporate Accounting  
Gemma George, Senior Governance Officer

Also in attendance: Chris Hughes, PricewaterhouseCoopers  
Councillor Seaton, Cabinet Member for Resources  
Councillor Sandford, Liberal Democrats

**1. Apologies for Absence**

There were no apologies for absence received.

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

Item 6 - Councillor Collins declared that he was a Governor at Bishop Creighton Primary School, but he did not have a personal or prejudicial interest.

**3. Minutes of the Meeting held on 6 September 2010**

The minutes of the meeting held on 6 September 2010 were approved as an accurate and true record.

**4. Minutes of the Meeting held on 27 September 2010**

The minutes of the meeting held on 27 September 2010 were approved as an accurate and true record.

**5. Regulatory of Investigatory Powers Act (2000) (RIPA) Quarterly Report July – September 2010 / 2011**

The Chief Internal Auditor presented a report to the Committee which outlined the revised Regulation of Investigatory Powers Act 2000 (RIPA) Policy.

This revised policy incorporated the changes to RIPA from April 2010 and provided an overview of the Council's use of RIPA powers over the period July to September 2010.

The Committee was advised that RIPA provided a statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' (CHIS) e.g. undercover agents. It also permitted public authorities to compel telecommunications and postal companies to obtain and release communications data, in certain circumstances. It also sought to ensure that any interference with an individual's right under Article 8 was necessary and

proportionate. In doing so, RIPA sought to ensure that both the public interest and the human rights of individuals were suitably balanced.

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

The Council had established strong governance around the use of RIPA and provided assurance to the citizens of Peterborough that the powers were only used where necessary and proportionate and in accordance with the law.

The Committee was further advised that the Compliance and Ethical Standards Manager had organised training for Peterborough City Council (PCC) Officers six months ago and the revised policy reflected the future training needs of both PCC Officers and elected Members who would, going forward, have a scrutiny role in the use of RIPA.

Members were invited to comment on the report and revised RIPA Policy and the following issues and observations were highlighted:

- Members questioned how many times RIPA had been used recently. Members were advised that RIPA had been used 4 times in the last 4 months for test purchase exercises.
- Members queried how it was decided when RIPA was to be utilised. Was it intelligence led? Members were informed that it was intelligence based however, it was also used routinely used around bonfire night.
- Members sought clarification as to the test purchasing process. The Director of Operations addressed the Committee and stated that test purchases were intelligence led and usually conducted over one night, over more than one premise, for more than one type of item e.g. alcohol and fireworks.
- A query was raised regarding whether there was any specific criteria used for choosing the children that took part in the test purchase sessions and also what processes were in place to protect them. The Director of Operations once again addressed the Committee and stated that the children used were volunteers and children of staff members. There was a dedicated team of adults around them at all times in order to protect them and if the children were required to enter a public house, an adult would be with them at all times. They would never be left alone and they would never undertake a test purchase session in an area near to where they lived.
- Members sought clarification as to whether there had been any major changes to the policy. Members were informed that there had been no major changes to the policy, it was a refresh in light of the previous inspection that had taken place and in it was also in line with new codes and guidance which had been recently published.

## **ACTION AGREED:**

The Committee received, considered and endorsed the report on the revised RIPA Policy and use of RIPA for the quarterly review period of 1 July 2010 to 30 September 2010.

### **6. Internal Audit: Quarterly Report 2010 / 2011 (To 30 September 2010)**

The Chief Internal Auditor presented a report to the Committee which set out the Internal Audit performance and progress with regards to the 2010 / 2011 Audit Plan, which had been approved at the Audit Committee meeting held on 29 March 2010.

The report was comprised of two sections which included:

- Appendix A - Progress of Audit Plan 2010 / 2011 (To 30 September 2010) and;
- Appendix B - Audit Reports Issued in Quarter 2: Limited / No Assurance

The Chief Internal Auditor provided the Committee with an overview of the report and highlighted the main areas of concern and the progress made against the Plan.

With regards to performance matters, the Committee was advised that previous issues with sickness had been reduced as two members of staff who had been off long term sick had now returned to work, however one had returned on reduced hours.

With regards to external work, the Committee was informed that Internal Audit had been in discussion with a number of authorities in relation to selling audit services to other areas of the public sector. Two small pieces of external work had been secured, one with a Leicestershire School and the other with another local authority. Progress on these pieces of work would be reported back to the Audit Committee in due course.

Members were invited to comment on the report and its appendices and the following issues and observations were highlighted:

- With regards to 'Systems Activity Financial Systems: Managed Audit' highlighted in Appendix A, Members expressed concern at the 'Accounts Payable – Central Controls' Audit, which had rolled forward from 2009 / 2010, having limited assurance. This was highlighted as a main area and could be open to fraud issues, therefore what assurance could be given going forward. Members were informed that the draft audit had been issued and the key weaknesses identified. As the audit had been identified as limited assurance, a further update on its progress would be brought back to the Audit Committee via the Executive Summary.
- Highlighted in Appendix A under 'Strategic and Operational Risks' was the 'Sale of goods on Ebay'. Members requested further clarification on this point and they were advised that there had been a request received from the Mayor's office and a further request received from another service area to sell surplus items on Ebay. This activity had always been resisted in the past however, guidelines for future use were to be

produced and it was highlighted that the Mayor's Office could possibly trial the process going forward.

- Highlighted in Appendix A under 'Contracts and Projects', Members queried why the PFI (Secondary School) Contract had been removed from the Plan. Members were informed that the Plan had been discussed with the Head of Corporate Services and at the time it had been felt that this contract could be postponed. Members were further informed that the contract would be included on the Plan for the forthcoming year as it had only been deferred and not deleted completely.
- In Appendix B, 'Audit Reports Issued: Opinion of Limited Assurance or No Assurance', Members queried why the three schools had only received limited assurance. Members were informed that with regards to the schools undertaking their self assessments, there were processes in place. However, Internal Audit had drilled down further and identified weaknesses. Initially the assessments had shown good work but in practice it had been identified that there were issues.
- Members expressed concern at the schools receiving limited assurance. The schools budget was one of the largest and progress remained slow, therefore what assurance could be given that issues, such as submitting requested documentation on time, would be looked into. Members were informed that the schools were all assessed on a three yearly cycle and they were to be revisited again. The previous issues highlighted were expected to be well embedded and well documented. Members were further advised that when the Financial Management Standards in Schools (FMSis) had been incorporated into the Internal Audit Programme, the schools had been assisted more than they should have been. This assistance had since been cut back as it had been identified that the processes should be embedded. The schools would not be credited if they received large amounts of assistance and therefore this could cause issues going forward.
- Members questioned whether specific reasons could be attributed to the schools failing to submit their evidence on time. Members were advised that it was difficult to pinpoint specific reasons for this, however the processes were starting to improve. The Cabinet Member for Resources addressed the Committee and stated that the Governors of the schools were becoming more attuned to the requirements of the assessments and they were challenging the managers.

The Committee congratulated the Internal Audit Team on the additional external work which had been undertaken and secured, however it was requested to be noted that core actions should not suffer in the stead of any additional works.

#### **ACTION AGREED:**

The Committee received the Internal Audit Update Report to 30 September 2010 and noted:

- (1) that the Chief Internal Auditor was of the opinion that based on the works conducted during the 3 months to 30 September 2010, internal control systems and governance arrangements remained generally sound;
- (2) the progress made against the plan and the overall performance of the section; and
- (3) the revision of the 2010 / 2011 Audit Plan

## **7. Annual Governance Statement – Update**

The Chief Internal Auditor submitted a report to the Committee which explained how the Council delivered good governance and reviewed the effectiveness of those arrangements.

The Annual Governance Statement (AGS), included within the Statement of Accounts for 2009 / 2010, was first presented to the Audit Committee in June 2010. Following its approval it was subject to audit and verification by PricewaterhouseCoopers (PwC). The AGS was subsequently endorsed within the report presented to the Audit Committee by PwC in September 2010.

Six months had elapsed since the original statement had been produced and a number of governance changes had occurred, or were in the process of changing across the Council, these changes were due to be reflected in the next Statement.

The Committee was advised that since March 2010, and the change in government, a number of issues potentially emanating from the new coalition government would have an impact on the governance arrangements within the Council in the current year and subsequent years. These included issues around constitutional areas and the spending review and austerity budget.

The Committee was further advised of the progress made on governance issues as identified in the Annual Governance Statement. Areas of specific improvement were highlighted and the progress made to date on each area.

One of the areas highlighted for improvement was sickness absence. With the reductions in the workforce, Members were advised that there was the potential for additional pressures on remaining staff to deliver services and if this was not carefully managed there may be an increase in sickness levels. Progress to date highlighted that there had been monthly reports submitted to the Corporate and Departmental Management Teams (DMTs) and there was the ongoing use of Occupational Health in order to coordinate return to work for officers who had been off for longer periods of time. Robust systems were also in place for managers to follow in order to monitor, act on and report absences.

Members stated that the figures for sickness tended to be skewed by a small number of people being off sick for longer periods of time, therefore would it not be beneficial for a report to be produced which did not incorporate the figures for long term sickness. In response to this query, Members were advised that the monthly reports which were submitted to the DMTs separately identified short term and long term sickness.

A further area highlighted for improvement was effective recruitment checks. Members were informed that further procedures were required to cover the area of recruitment in order to ensure that all appropriate pre-employment checks were completed prior to employees commencing work. Quarterly reports were produced and circulated to all departments and there had been recent legislative changes which impacted on recruitment. A review had also been commissioned by Internal Audit and the findings were due to be reported back to the Audit Committee in due course.

Shared services and other delivery options were also highlighted as an area for improvement. The Council was embarking on a programme of shared services

and other delivery options which were expected to generate financial savings and other benefits. Progress to date involved a controlled programme which had been developed which would monitor the implementation and delivery of services through those arrangements. Governance arrangements had been adopted for the purpose of monitoring the ICT contract and other service provision had seen the Leisure Trust created in May 2010. There had also been an announcement on 14 October that there were two companies left in the running to form a strategic partnership to deliver household waste and recycling collection, street cleaning and grounds maintenance. Furthermore, there had been the marketing of back office functions to other councils. Robust governance arrangements would be required in order to ensure service delivery was met. Members commented that Shared Services was an area of focus and it needed to be monitored and progressed forward.

Grants were also highlighted as an area for improvement as were Neighbourhood Councils, Data Quality and Managing Resources.

With the agreement of the Committee, Councillor Nick Sandford from the Liberal Democrat Group questioned how, when it had been proposed to cut the budget for Neighbourhood Councils from £25,000 each to £0, the areas for improvement which had been highlighted and the progress made to date were consistent and relevant with the budget proposal? Councillor Sandford was informed that at the time of compiling the committee report, the proposed budget cuts for Neighbourhood Councils had not been put forward. In order to address the proposed changes, Neighbourhood Councils would be revisited.

**ACTION AGREED:**

The Committee:

- (1) noted the progress on the significant governance issues reported in the Annual Governance Statement 2009 / 2010, and;
- (2) considered whether additional areas of assurance were required.

**8. Feedback Report**

The Chief Internal Auditor submitted the latest Feedback Report for consideration.

Items which had been actioned and completed at previous Audit Committee meetings were highlighted and Members were informed that there were no outstanding items requiring follow up or further action.

**ACTION AGREED:**

The Committee noted the Feedback Report.

**9. Work Programme 2010 / 2011**

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2010 / 2011 for consideration and approval.

Members were advised that there were no training proposals highlighted for the next meeting of the Audit Committee. The Chairman of the Committee stated



that if any Member had any specific training requests they could contact him directly and he would relay the request to the Chief Internal Auditor.

**ACTION AGREED:**

The Committee noted and approved the 2010 / 2011 Work Programme.

7.00pm - 7.35pm  
Chairman

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

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

### INTERNAL AUDIT: QUARTERLY REPORT 2010 / 2011 (TO 31 DECEMBER 2010)

<b>RECOMMENDATIONS</b>	
<b>FROM</b> : John Harrison, Director of Strategic Resources	<b>Deadline date</b> : N/A
<p>Audit Committee is asked to :</p> <p>1. Receive the Internal Audit Update Report to 31 December 2010 and note in particular:</p> <p style="padding-left: 40px;">(a) that the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 31 December 2010, internal control systems and governance arrangements remain generally sound; and</p> <p style="padding-left: 40px;">(b) the progress made against the plan and the overall performance of the section.</p>	

#### 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 2010 / 2011 Audit Plan (Audit Committee approval: 29 March 2010).

#### 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 2010 / 2011 as at 31 December 2010.

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	<b>N/A</b>
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#### **4. OVERVIEW**

This report outlines the work undertaken by Internal Audit up to 31 December 2010, 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. **TWO** reports fall into this category for the quarter, details of which are included in **Appendix B**.

5.2 Based on the work carried out and finalised during the 2010 / 2011 (to 31 December 2010), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 100% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 97%).

#### **6. AUDIT PLAN 2010 / 2011**

##### **6.1 Progress against Plan**

6.1.1 **Appendix A** shows the Operational Plan that was agreed by the Audit Committee on 29 March 2010. It shows the audits that are due to be performed during 2010/2011 and the status of those audits. It includes audits brought forward from the previous year that have been finalised during 2010 / 2011. 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, 21 audit projects for 2009 / 2010 have been finalised together with a further 46 for 2010 / 2011. There are also 47 audit assignments that are either in draft or in various stages of review.

6.1.3 Progress against the revised plan 2010 / 2011 plan is 71.9% (compared with 74.8% to the 9 month period December 2009). This is primarily due to a member of staff reducing their contracted hours after the revised plan had been produced. Further pressures on the revised audit plan from January 2011 include the new shared service arrangements for the Chief Internal Auditor where time available will be reduced by 50% for the remainder of the financial year. A separate report is on the agenda covering these arrangements.

6.1.4 In addition to the reviews detailed in the Appendix, other work in the form of consultancy advice has been provided by Internal Audit which may not have resulted in the production of a formal report, and is therefore not separately listed.

##### **6.2 Other Performance Matters**

6.2.1 An average of 17.5 days sickness per person was lost during the 9 months to 31 December 2010, compared to a target of 3.75 days. Whilst higher than our target, this is a major reduction on last year's figure of 31.5 days per person at the same point in the year.

6.2.2 Removing the long term sickness figures from the equation gives an average of 2.5 days lost to sickness per person for this period, which is below the authority target.

- 6.2.3 The long term sickness of two members of the team has had a major impact on this performance indicator. The total number of productive days lost as a result of long term sickness during the year to date is 113 days and has had an impact on our ability to deliver the audit plan. Sickness has been actively managed in accordance with the Council's Attendance Policy and through Occupational Health where appropriate. The second team member has now returned to work and has opted for a reduction in hours to 0.68fte.

## **7. EXTERNAL WORK**

- 7.1.1 The Internal Audit Strategy for 2010/11 which was approved by the Audit Committee on 29 March 2010, detailed that '**Internal Audit has been charged with selling Audit Services to other areas of the Public Sector in the region, as part of the Manor Drive initiative.**' Internal Audit had been actively looking to target schools in neighbouring authorities as part of a marketing strategy but due to the changes introduced by the Coalition Government resulting in the abolition of the Financial Management Standard in Schools (FMSiS) initiative this will not now be possible until such a time that a new scheme is introduced. Internal audit will continue to discuss external business opportunities with neighbouring authorities as part of the shared service arrangements with Cambridge City Council and will advise accordingly regarding secured business.
- 7.1.2 We previously reported to Audit Committee that the team had secured two pieces of external work, one with a Leicestershire school and one with a local authority. Due to the FMSiS abolition reported above the work with the Leicestershire school will no longer be undertaken. Similarly, due to changes in working arrangements within the local authority we will not now be performing the audit work previously agreed. However a framework agreement is due to be produced between the two authorities and it is hoped that this will generate external business during 2011/12.
- 7.1.3 We will notify the Audit Committee of the progress of any external work undertaken, but will not state outcomes or provide copies of reports, as this work is commercially sensitive.
- 7.1.4 Whilst our Annual Audit Plan includes time for external work, any growth in this area will need to be carefully balanced with the need to provide an appropriate level of assurance to the Audit Committee, S151 Officer and senior management.

## **8. CONSULTATION**

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

## **9. 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.

## **10. REASONS FOR RECOMMENDATIONS**

The Council is subject to the Accounts and Audit (amendment) Regulations 2006 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.

## 11. ALTERNATIVE OPTIONS CONSIDERED

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

## 12. IMPLICATIONS

### 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.

### 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 (Amendments) 2006.

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.

## 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 (amendment) (England) Regulations 2006  
Internal Audit Business Plan 2010 / 2011  
Internal Audit Annual Plan 2010 / 2011

## APPENDICES:

<b>Appendix A</b>	Progress of Audit Plan 2010 / 2011 (To 31 December 2010)
<b>Appendix B</b>	Audit Reports Issued in Quarter 3: Limited / No Assurance

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.										
Main Accounting / Financial Accounting	Strategic Res					-	-	-	-	-	Removed from plan – reliance placed on PwC as part of final accounts
Accounts Payable	Strategic Res					-	-	-	-	-	In progress
Sundry Billing	Strategic Res					-	-	-	-	-	Removed from plan
Debt Recovery	Strategic Res					-	-	-	-	-	Due to commence Qtr2, but delayed until Qtr4 as central debt recovery function not yet in place.
Housing and Council Tax Benefits	Strategic Res					-	-	-	-	-	In progress
Council Tax	Strategic Res					-	-	-	-	-	In progress
Business Rates	Strategic Res					-	-	-	-	-	In progress
Cash / Banking	Strategic Res					-	-	-	-	-	Removed from plan. Awaiting closure of previous review.
Budgetary Control (Capital)	Strategic Res					-	-	-	-	-	In progress
Treasury Management	Strategic Res					-	-	-	-	-	Due to commence Qtr4
Payroll	Strategic Res					-	-	-	-	-	In progress
Fixed Asset Accounting	Strategic Res					-	-	-	-	-	Due to commence Qtr4

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Unplanned reviews 2010/11</b>											
Youth Offending Service – Imprest Account	Strategic Res		x			3	-	-	-	3	Memo issued
<b>SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT – Rolled forward from 2009/10</b>	<b>To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.</b>										
Benefits 2009	Strategic Res		x			1	2	-	-	3	Final issued
Cash and Banking 2009/10	Strategic Res		x			4	3	2	-	9	Final issued
Main Accounting System	Strategic Res		x			1	1	-	-	2	Final issued
Accounts Payable – Central Controls	Strategic Res			x		5	4	4	-	13	Final – Executive Summary to Audit Committee 07/02/2011



AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.										
Arrangements for production of AGS 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Assurance Framework	All					-	-	-	-	-	Awaiting approval of strategic risk register by CMT.
Annual Audit Opinion 2009/10	All					n/a	n/a	n/a	n/a	n/a	Audit Committee Report 07/06/2010
Anti Fraud Culture:	Reviews to reported individually throughout the year										
SI (Chi2120-02)	Chi Services				x	1	5	7	4	17	Draft issued
Internal Audit Effectiveness	All					-	-	-	-	-	Due to commence Qtr4
CAA / UoR Support	All					-	-	-	-	-	No longer required in current format - Work requirements to be reviewed in line with Government initiatives
Follow-Up Reviews	Individual reviews to be detailed throughout the year										
FMSiS follow-ups	Chi Services					-	-	-	-	-	17 currently in progress
The Voyager School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Jack Hunt School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
St John Fisher School	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Stanground College	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Orton St Johns Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Barnack Primary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final

**APPENDIX A**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
Energy Payments follow-up	City Services					-	-	-	-	-	In draft

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK – Rolled forward from 2009/10											
Follow-Up Reviews											
Discovery FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
John Clare FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Nene Valley FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Wittering FMSiS	Chi Services					n/a	n/a	n/a	n/a	n/a	Final
Bishop Creighton FMSiS	Chi Services					-	-	-	-	-	In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>OTHER GOVERNANCE ARRANGEMENTS</b>	<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.</b>										
Performance Management	All City Services					-	-	-	-	-	Removed from plan
Risk Management	All Operations					-	-	-	-	-	Due to commence Qtr4
Information Governance	All					-	-	-	-	-	Reports to Audit Committee will be through the Information Governance Group. Reduce scope of Information Security review and place reliance on PwC work in this area. No further Contact Point work as abolished by central govt.
Business Continuity	All Operations					-	-	-	-	-	Due to commence Qtr4. Focus on IT
Partnerships	Reviews to reported individually throughout the year										
Youth Offending Service	Chi Services					-	-	-	-	-	At review stage
<b>OTHER GOVERNANCE ARRANGEMENTS Rolled forward from 2009/10</b>	<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.</b>										
Information Governance - Contact Point Accreditation	Chi Services					n/a	n/a	n/a	n/a	n/a	Final Certification

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

STRATEGIC AND OPERATIONAL RISKS	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Regeneration / Sustainability	Asst Chief Executive					-	-	-	-	-	Removed from plan
Health & Safety	Operations		x			1	3	1	-	5	Final
Arms Length Management Organisation (ALMO) for City Services	City Services					-	-	-	-	-	Removed from plan
Environmental Management	Operations					2	4	6	-	12	Final
Safeguarding Children	Chi Services					-	-	-	-	-	Due to commence - delayed due to Ofsted inspection
Property Asset Management	Strategic Res					-	-	-	-	-	Removed from plan
Highways	Operations					-	-	-	-	-	Removed from plan
Agile Working Scheme	Strategic Res		x			5	6	1	-	12	Final issued
Travel & Subsistence	All					-	-	-	-	-	At review Stage
Attendance Management	All					-	-	-	-	-	Due to commence Qtr4
Concessionary Fares	Operations					-	-	-	-	-	Removed from plan
Asylum and Immigration Act	Strategic Res			x		-	2	2	-	4	Final – Executive Summary to Audit Committee 07/02/2011

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

<b>STRATEGIC AND OPERATIONAL RISKS (cont.)</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
Children in Care	Chi Services					-	-	-	-	-	Removed from plan
Financial Controls within Children's Services	Chi Services					-	-	-	-	-	Due to commence Qtr4
Procurement:											
Corporate Contracting											Removed from plan
Purchasing Cards	All			x		6	9	9	-	24	Draft issued
<b>STRATEGIC AND OPERATIONAL RISKS – Unplanned Reviews / Control Advice</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
(Loyalty) Spend Cards	Chi Services					n/a	n/a	n/a	n/a	n/a	2 memos issued
Interim Utility Billing Process	Strategic Res		x			2	-	-	-	2	Memo issued
Sale of goods on Ebay	Chief Exec Operations					n/a	n/a	n/a	n/a	n/a	2 memos issued
<b>STRATEGIC AND OPERATIONAL RISKS – Rolled Forward from 2009/10</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
SI (Chi2084-05)	Chi Services		x			-	1	2	-	3	Final

APPENDIX A

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

CONTRACTS AND PROJECTS	Dependent on risk, we review a sample of projects contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money.											
Project Management:												
Post Implementation Review	All											Removed from plan
Capital Gateway Processes	All					-	-	-	-	-		At review stage
Projects:												
CIA Consultancy – E-Payment Project Board	All					-	-	-	-	-		In progress
CIA Consultancy – Internet Project	All					n/a	n/a	n/a	n/a	n/a		Complete
CIA Consultancy – Museum Refurbishment	All					-	-	-	-	-		In progress
CIA Consultancy - Manor Drive Project												In progress
CIA Consultancy – Service Delivery	All					-	-	-	-	-		In progress
Contracts:												
PFI (Secondary School) contract	Chi Services											Removed from plan
CIA Consultancy – Green Waste	City Services					n/a	n/a	n/a	n/a	n/a		Final

**APPENDIX A**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

CONTRACTS AND PROJECTS – Rolled forward from 2009/10											
CIA Consultancy - Funds	City Services					n/a	n/a	n/a	n/a	n/a	Final



APPENDIX A

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
Grant Claim Certification:	Work on behalf of PwC (fee reduction)										
Teachers Pensions (TPA) TR17	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
Jack Hunt TPA	Chi Services	x				1	-	-	-	1	Final issued
Hampton College TPA	Chi Services		x			2	1	-	-	-	Final issued
Orton Longueville School	Chi Services		x			4	5	-	-	-	Final issued
FMSiS Section52 Outturn Return	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Certification and Memo
FMSiS Inventories Summary	Chi Services					n/a	n/a	n/a	n/a	n/a	Final memo
GAF Opportunity Peterborough Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final Memo
GAF3 Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Stroke Care Grant 2009/10	Strategic Res					n/a	n/a	n/a	n/a	n/a	Final memo
Economic Participation Programme	Chief Exec					n/a	n/a	n/a	n/a	n/a	Final memo
Womens Enterprise Centre	Operations										In progress
Future Jobs Fund and Migration Impact Fund	Strategic Res										At review stage
Leisure Trust	SLA in place between Internal Audit and Vivacity (income generating)										
	N/A					-	-	-	-	-	Two reviews commenced during Qtr3. A further two are due to commence in

**APPENDIX A**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
											Qtr4

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

EXTERNAL WORK	Work resulting income or a reduction in fees paid to other organisations.										
PCC FMSiS 2010/11:	23 Primary Schools and 1 Secondary School to be reassessed (fee reduction)										
Training delivered to schools	Chi Services					n/a	n/a	n/a	n/a	n/a	Complete
Southfields Junior	Chi Services		x			1	1	-	-	2	Draft issued
Thorpe	Chi Services		x			2	2	2	-	6	Final
Dogsthorpe Junior	Chi Services		x			4	2	1	-	7	Draft Issued
Leighton	Chi Services										At review stage
Hampton Hargate	Chi Services		x			-	3	-	-	3	Final
St Botolph's	Chi Services	x				-	-	-	-	-	Final
Fulbridge	Chi Services		x			1	4	-	-	5	Draft Issued
Marshfields	Chi Services		x			1	5	-	-	6	Draft Issued
Queens Drive	Chi Services		x			2	4	1	-	7	Draft Issued
Heritage Park	Chi Services		x			2	2	-	-	4	Draft Issued
Duke of Bedford	Chi Services										At review stage
Brewster	Chi Services										NFA due to FMSiS cancellation
Eye Primary	Chi Services		x			-	2	-	-	2	Draft issued
Orton Wistow	Chi Service										At review stage
Welland	Chi Service										At review stage

**APPENDIX A**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
Braybrook	Chi Services		x			2	5	-	-	7	Draft Issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	

EXTERNAL WORK - Rolled Forward from 2009/10	Work resulting income or a reduction in fees paid to other organisations.										
The Voyager FMSiS	Chi Services		x			3	2	1	-	6	Final issued
Barnack Primary FMSiS	Chi Services		x			1	5	-	-	6	Final issued
Dogsthorpe Infants FMSiS	Chi Services		x			3	5	-	-	8	Final issued
Hampton Vale FMSiS	Chi Services			x		1	4	3	-	8	Final – Exec Summary to AC 06/09/2010
Southfields Infants FMSiS	Chi Services		x			1	2	-	-	3	Final issued
The Beeches FMSiS	Chi Services			x		1	6	-	-	7	Final - Exec Summary to AC 01/11/2010
Welbourne Primary FMSiS	Chi Services			x			5	1	-	6	Final – Exec Summary to AC 06/09/2010
Winyates Primary FMSiS	Chi Services			x		1	2	3	-	6	Final - Exec Summary to AC 01/11/2010
Heltwate FMSiS	Chi Services			x		2	5	4	-	11	Final – Exec Summary to AC 06/09/2010
NeneGate FMSiS	Chi Services			x		1	3	3	-	7	Final - Exec Summary to AC 01/11/2010

**AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

<b>LIMITED ASSURANCE</b>		<b>Date To Audit Committee</b>
<b>Str5160-10</b>	Accounts Payable – Central Controls	07 February 2011
<b>Str5460-04</b>	Compliance with Immigration and Asylum Legislation	07 February 2011

## Report Str5160-10 Accounts Payable – Central Controls

### Executive Summary

The audit focused on the central aspects of the Accounts Payable function, which is predominately carried out by the Transactional Service's team. However the team are reliant on service teams to provide the correct information swiftly. Where service teams follow procedures, payments are made efficiently and promptly, however when there is an anomaly with an order or invoice, there can be substantial delays. The Transactional Services team has estimated there to be 2000 invoices on hold, some of which date back to 2007. During the audit it was noted that this number was reducing in anticipation of year-end.

The day-to-day processing takes priority. Any spare time is used to deal with queries, and is mainly reactive. Resources need to be allocated to resolve the issues, to ensure the correct financial position within the accounts, and to ensure a good working relationship with our vendors.

Three members of staff have the ability to create and amend vendors, set up and authorise payments, and process the pay-runs. This does not provide appropriate segregation of duties, and staff may be open to allegations of misuse.

It was noted that where issues are arising both the Purchase-to-Pay team and Transactional Services team have been actively involved in promoting the new processes via insite, training, and drop-in-sessions. It is disappointing therefore, that staff are still not following procedures.

From February 2010 all invoices received without an order number are being returned to the vendor, although this is an extreme measure, this should improve the situation regarding vendor validation, and ensure orders are valid and authorised.

### Scope & Objectives

Internal Audit sought to establish that key controls were in place to ensure the following:

- Invoices are only paid where goods have been ordered and received
- Payments are only paid on receipt of a valid invoice.
- Invoices are paid in a timely manner
- All transactions are compliant with the Council's Financial Regulations and Contract Regulations
- Payments only made to valid vendors

Limited walkthrough testing was undertaken to ensure compliance with the above key controls. Some areas have been noted for further investigation in the full Accounts Payable Audit 2010/2011.

### Conclusion

Since the last full audit there have been numerous changes to the system, particularly the purchasing element of the system, which allow for enhanced controls. These include vendor validation and the requirement to raise orders prior to purchase of goods or services. However, there have been a significant number of instances where new processes have not been followed. Other areas of concern include limited segregation of duties and a lack of exception reporting. These control weaknesses increase the risk of error and fraud significantly.

The audit opinion is **Limited Assurance**.

## **Report Str5460-04 Compliance with Immigration and Asylum Legislation**

### **Executive Summary**

When this audit was conducted and the draft report issued, the Head of Shared Transactional Services was responsible for this function. However, between the draft report being issued and the response being received, responsibility had passed to the Head of Business Support. Since assuming this responsibility, the Head of Business Support has been working with the HR Administration team to realign the work that is done. The issues raised in this report will be addressed as part of this process.

The system dealing with employee identity checks that are required on an annual basis for staff that have a limited right to remain in the United Kingdom (UK) needs to be more robust to prevent the Council from inadvertently continuing to employ migrant workers after their right to work has expired. Apart from this, the current system in place for undertaking identity checks on all job applicants is sound provided that the prescribed procedures are followed. This means that adequate training must be provided to employing managers.

### Background

Since 27 January 1997, employers have had a duty to check that all new employees are entitled to work in the United Kingdom (UK). Undertaking this check gives the employer a defence against conviction or an excuse against payment of a civil penalty if they are later found to have employed an illegal migrant worker. The law on preventing illegal migrant working has occasionally been revised, and the latest legislation passed is the Immigration, Asylum and Nationality Act 2006, which came into force on 29 February 2008. This imposes civil penalties for breaches (maximum £10,000 per worker) but also extends to criminal prosecutions for knowingly employing illegal workers, for which the maximum penalties are an unlimited fine and/or two years imprisonment.

The pre-employment identity checks that employers should make (or have made) depend on the initial employment date of each individual, as the requirements are dependent on the legislation in force at the time of recruitment. Evidence should be retained on file of these checks, in the form of certified, dated copies of specified identity documentation (e.g. passport, full birth certificate). For most employees this initial check is sufficient but there are some migrants for whom an annual check is required to maintain immunity from penalties.

The prevention of illegal working can often raise race discrimination issues and employers must be careful not to use discriminatory recruitment practices. If a tribunal upholds a complaint of racial discrimination, there is no upper limit on the amount of compensation that the employer can be ordered to pay, so the best way to deal with this is to treat all job applicants in the same way at each stage of the recruitment process.

### **Scope & Objectives**

To identify if the Council is at serious risk of non-compliance with UK Border Agency Regulations:

- when recruiting new employees
- in respect of existing staff.



## **Conclusion**

Provided that the correct recruiting procedures are followed, there is no risk of the Council breaching either the UK Border Agency Regulations or the associated problem of breaching race discrimination laws for new employees and existing staff applying for new posts.

There is a risk that the correct identity check documentation is not held on file for all staff employed between 27 January 1997 and 31 January 2008 but as penalties only apply to illegal workers, this might not be significant. However, it is probably better to err on the side of caution, especially when financial penalties are imposed for employing illegal workers. If this were to happen, not only would a fine have to be paid at a time when budget cuts are necessary but there is also a reputational risk to the Council to be considered.

The audit opinion is **limited assurance**.

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

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

## INTERNAL AUDIT: SHARED AUDIT ARRANGEMENTS

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM : John Harrison, Executive Director: Strategic Resources</b>	<b>Deadline date : N/A</b>
The Committee is asked to note the arrangements put in place for the delivery of shared audit services between Peterborough City Council and Cambridge City Council.	

### 1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its agreed Work Programme for 2010 / 2011.

### 2. PURPOSE AND REASON FOR REPORT

2.1 This report sets out the case for establishing a shared Internal Audit service between Peterborough City Council (PCC) and Cambridge City Council (CCC). The report includes:

- A brief explanation of the national policy context for shared services;
- The vision for the service and how it will operate; and
- The challenges and benefits associated with the shared service.

2.2 This report is for Committee to consider under its Terms of Reference No. 2.2,4 *To consider reports dealing with the management of the providers of internal audit services.*

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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#### **4. SHARED SERVICE ARRANGEMENTS**

- 4.1 The environment within which local authorities (and internal audit) operates is changing rapidly. Comprehensive Spending Reviews have put a greater emphasis on “value for money” which is a product of both cost and service quality / quantity. The deterioration of the public finances place a greater focus on efficiencies.
- 4.2 A number of authorities are considering or have established shared services. Those relating to internal audit are mentioned below.
- South West Audit Partnership. Partnership between Somerset County Council and five District Councils. This has been in operation for a number of years and has already generated increased productivity (25%) and reduced costs (10%);
  - North Yorkshire and the City of York joint service;
  - Cambridgeshire County Council and Northamptonshire County Council.
- 4.3 Internal Audit services are essentially a people-based business. Whilst there may be opportunities for sharing information, knowledge and systems between the organisations, the success (or otherwise) of any shared service will be dependent on the audit staff.
- 4.4 The vision is for a high quality, vibrant, growing and efficient service that will act as a regional leader with a number of public sector clients. By establishing the shared service now, it will provide real opportunities to expand. The service will continually evolve and improve, making best use of new technology and working practices.
- 4.5 Initial discussions between the two authorities commenced in June 2010, with the onus on looking at the skills and expertise within the teams, any synergies in the working practices and processes employed, and the services provided (to who and how). With the departure of the CCC Head of Internal Audit in October 2010 together with the on-going need to secure efficiencies and better economies of scale provided an opportunity for both Councils to consider seriously a shared service approach.
- 4.6 In order to take forward, the authorities have entered into a Memorandum of Understanding with effect from 1<sup>st</sup> January 2011. This agreement has been sanctioned by both Legal and Human Resources (in both authorities) and is in accordance with s113 of the Local Government Act 1972. The key points from the agreement are:
- The current Chief Internal Auditor at PCC to become the Shared Head of Internal Audit for the two authorities;
  - There will be a 50:50 split of his time and cost between the two authorities. Similarly, savings identified will be split on the same basis;
  - While remaining an employee of PCC, the Shared Head of Internal Audit will be expected to follow CCC policies and procedures while undertaking their works;
  - Savings generated will look to be used to “pump prime” additional improvements in the service as identified through service/business plans as well as going back to the corporate pot to assist in meeting future budget pressures.

4.7 The benefits and challenges associated with the shared service:

<b>Benefits</b>	
More effective use of the total audit resource available to all participating authorities.	As a result of knowledge sharing, the quality of audit can improve both in relation to individual topics and more generally. Research and development work is undertaken once only and as a result can be done in more depth. Audit programmes and other audit resources will also only be developed once. In addition, best practice in terms of service delivery of front line services could be shared. Capacity can also be developed in specialist areas such as ICT, environmental auditing, partnerships etc.
Economies of scale in terms of management structure, working practices and systems.	Reduced management overheads.
Enhanced career development and career opportunities for staff.	With an expanded section, there is a potential greater opportunity for career progression. Additionally, the potential to gain experience in different areas of audit work provides the opportunity for broader personal development.
The new organisation could become more entrepreneurial in outlook.	This could include bidding for other contracts. This could drive costs down. Effectively, the Shared Service would become a Trading Organisation, able to increase its establishment of auditors to meet demands.
<b>Challenges</b>	
The major change could (if managed badly) result in a fall in morale and the loss of staff and / or increased turnover.	Internal audit is a knowledge based function. Both authorities have staff with high levels of technical / local service knowledge that would be difficult to adequately replace.
S.151 Officers will need to be satisfied the model will meet their requirements	Both Directors have been involved in the coordination of the shared service from the onset.
Timing. The change is happening while internal audit is undertaking an important role in relation to extensive changes taking place within each authority. Parallel changes may undermine its effectiveness in this role, at least for a period of time.	Nonetheless, the scale of change facing local government means that it would be unrealistic to exempt any service.
There may be conflicting demands from clients.	A method of prioritising clients' work that is time or resource constrained will have to be accepted by all parties, especially where key managers' and specialised staff's time is involved.

## 5. CONSULTATION

Discussions and agreement at both authorities has been held with:

- External Audit: Audit Commission (CCC) and PricewaterhouseCoopers (PCC);
- S.151 Officer: Directors of Resources (CCC) and Strategic Resources (PCC);
- Chief Executive, Leader of the Council, Cabinet Portfolio Holders.

## 6. ANTICIPATED OUTCOMES

Inform Audit Committee of collaborative arrangements put in place with Cambridge City Council to deliver and develop audit services.

## 7. REASONS FOR RECOMMENDATIONS

To notify Audit Committee of changes made to the provision of internal audit.

## 8. ALTERNATIVE OPTIONS CONSIDERED

None

## 9. IMPLICATIONS

### 9.1 Financial

There will be a salary saving generated as a result of the report.

### **BACKGROUND DOCUMENTS**

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

None

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

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Executive Director of Strategic Resources	☎ 452 398

## EXTERNAL AUDIT REPORTS

<b>RECOMMENDATIONS</b>	
<b>FROM :</b> PricewaterhouseCoopers	<b>Deadline date :</b> N/A
<p>The Committee is asked to consider, and endorse the final reports produced by External Audit in the following areas:</p> <ul style="list-style-type: none"> <li>(i) 2009 / 2010 Annual Audit Letter;</li> <li>(ii) Statement of Accounts 2009 / 2010: Report to Management; and</li> <li>(iii) Grant Claims: Annual Certification Report</li> </ul>	

### 1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its Work Programme for 2010 / 2011.

### 2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to introduce various reports from PricewaterhouseCoopers (PwC), the Council's external auditors, 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. EXTERNAL REPORTS

- 4.1 During the year, PwC have undertaken various reviews on behalf of the authority. The following reports have been received and agreed with senior management. PwC will be in attendance to discuss matters arising in each report.

Appendix	Report	Issue Date
A	2009 / 2010 Annual Audit Letter	November 2010
B	Statement of Accounts 2009 / 2010: Report to Management	December 2010
C	Grant Claims: Annual Certification Report	January 2011

#### 4.2 **2009 / 2010 Annual Audit Letter (Appendix A)**

The External Auditor and the Audit Commission Relationship Manager produce an Annual Audit Letter reviewing the Council's arrangements and progress in relation to the Audit of the Accounts. The draft report was submitted to Cabinet in December 2010.

#### **Statement of Accounts 2009 / 2010: Report to Management (Appendix B)**

This sets out various control and systems issues identified during the course of their audit work.

#### **Grant Claims: Annual Certification Report (Appendix C)**

Annual report into the review and verification of grant claims across PCC.

### 5. **CONSULTATION**

The various appendices have been discussed, and actions agreed by senior management at various times before being finalised. In addition, Cabinet have discussed and approved their content.

### 6. **ANTICIPATED OUTCOMES**

Acknowledgement of the works undertaken by External Audit and to endorse the Action Plans they have produced in consultation with senior management.

### 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)

None



Government and Public Sector

# Peterborough City Council

2009/10 Annual Audit Letter

November 2010

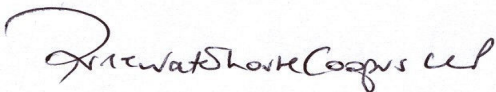
The Members  
Peterborough City Council  
Town Hall  
Bridge Street  
Peterborough  
PE1 1HQ

November 2010

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2009/10 audit.

Yours faithfully



PricewaterhouseCoopers LLP

**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Peterborough City Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of Peterborough City Council. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

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# Introduction

## The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2009/10 audit work we have undertaken at Peterborough that is accessible for Council Members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit opinion for 2009/10 financial statements, incorporating the conclusion on Value for Money; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are those that we consider are most significant for the Council and a summary of the key recommendations that we have made can be found in Appendix A.

## Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

# Audit findings

## Accounts

We audited the Council's accounts in line with International Standards on Auditing (UK & Ireland) and issued an unqualified audit report on 28 September 2010.

The Council has established a good track record of preparing quality draft accounts and working papers and we were pleased again with their quality this year. There were a small number changes to the draft accounts approved by the Council in June 2010. The most significant matter to bring to your attention, and which was included in our Report to those charged with governance (ISA UK&I) 260), concerns adjustments made in respect of the Council's Schools Private Finance Initiative ("PFI") scheme. Reductions of £8.1m and £7.6m were made to the balance of finance lease liabilities at 31 March 2009 and 31 March 2010 respectively. These were technical accounting adjustments and there is no impact on the General Fund Balance.

Next year, the accounts for local government will be prepared under a new accounting framework (International Financial Reporting Standards – IFRS) which has already been adopted by Central Government and the Health Service. The Council faces some specific challenges to implement the changes, particularly in dealing with the more complex requirements for accounting for fixed assets, leases and capital expenditure. The Council will need to monitor its implementation plan carefully over the next eight months to avoid missing the June 2011 deadline for the approval of accounts.

## Use of Resources

We assess the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources based on criteria issued by the Audit Commission and issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 28 September 2010.

Following the government announcement that the Audit Commission's process for comprehensive area assessment (CAA) is to be abolished, all work on Use of Resources for CAA ceased at the end of May. Therefore we cannot report Use of Resources scores, as this work was not completed. However, we had completed the majority of the work on the assessment prior to May and we have reported on the main issues arising on the work we had undertaken to the point work ceased.

In overall terms, our view was that the Council was making good progress in implementing the recommendations arising from the previous year's Use of Resources exercise against the three themes assessed under the Use of Resources Framework. 'Managing Finances' remained an area of strength, but we noted that the Council must ensure that the data supporting performance indicators is robust and supported by audit trails.

## Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement which is consistent with guidance on: 'Delivering Good Governance in Local Government'. We reviewed the Statement to consider whether it complied with the guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

## Summary of recommendations in this Annual Audit Letter

Page	Recommendation	Management Response	Target Implementation Date
5	The Council will need to monitor its IFRS implementation plan carefully over the next eight months to avoid missing the June 2011 deadline for the approval of accounts.	<p>Since February 2009, the Council has been reporting IFRS progress to the Audit Committee, with the most recent update report taken on the 6 September 2010.</p> <p>A detailed project plan is being followed, with the first key deadline of the end of December 2010 being the date when the balances pre 1 April 2010 will be restated by. These revised balances will then be audited by PwC in late January / early February.</p> <p>After the Christmas break, action will commence on closing the 2010/11 accounts on the new IFRS basis as part of the Council's closure routine.</p>	<p>31 December 2010 - Pre-1 April 2010 balances restated</p> <p>Late January 2011 to early February 2011 - PwC Audit of restated pre-1 April 2010 balances</p> <p>January 2011 to March 2011 – preparation for full 2010/11 IFRS based accounts closure</p> <p>30 June 2011 – completion of fully compliant IFRS based Statement of Accounts</p>
5	The Council must ensure that the data supporting performance indicators is robust and supported by audit trails.	<p>Building on previous year's work the data quality agenda is now actively governed by the Strategic Governance Board. However, due to the demise of the CAA and the national indicators, the annual data quality audit has been put on hold for this year until the partnership has finalised its outcome based indicators going forward. Some of these measures are likely to include national indicators where appropriate.</p> <p>The recent restructure of the Strategic Improvement team has included a Data Quality Manager post who will ensure that the data supporting performance indicators is robust and supported by audit trails.</p> <p>This will be done as the role will be the Data Quality lead and will embed the principles outlined in the Data Quality Strategy, ensure that all relevant stakeholders are engaged with the production of quality data and information and be responsible for maintaining the integrity of the performance information system ensuring that all information is recorded accurately and effectively by all users of the system across multiple departments and different locations.</p>	<p>Dates are determined upon how soon outcome based measures are developed and agreed. These should be completed by end of March 2011, ready for the new financial year and scrutiny.</p>

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Government and Public Sector

December 2010

**Peterborough City Council  
Statement of Accounts 2009/10**

**Report to Management**

**Final**

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John Harrison  
Peterborough City Council  
Town Hall  
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Peterborough  
PE1 1FB

December 2010

Dear John

**Peterborough City Council: Report to Management 2009/10**

Please find enclosed our Report to Management, summarising those issues arising from the audit in 2009/10.

Yours faithfully



Julian Rickett

For and on behalf of PricewaterhouseCoopers LLP

Copies to:

*Helen Edwards*  
*Steven Pilsworth*  
*Steve Crabtree*  
*Kirsty Nutton*  
*Jo Hall*  
*Andy Cox*

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies' which applies to the 2009/10 audit. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive Summary

## The purpose of this report

This report outlines the matters we consider should be brought to the attention of management. This includes those findings identified during our review of the underlying Information Technology General Controls, which took place in June and July 2010, to support the statutory audit process. In addition, we have included in the report those issues identified during our interim and final audit work at the Council. We will discuss with management in due course the procedure for following up this report.

The matters included in this report are those that came to our attention as a result of our normal audit procedures. Consequently our comments should not be expected to include all possible internal control weaknesses that a more extensive investigation might identify. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any other third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to take this opportunity to thank your staff for their assistance and the co-operation extended to us during the course of this review.

## Categorisation of Findings

Each recommendation has been allocated a priority rating to reflect the degree of importance in the context of Peterborough City Council's internal controls. The definition of ratings is as follows:

Priority	Definition
High	Significant weaknesses that could undermine the effectiveness of the system of internal controls or have a significant impact on business operations and must therefore be addressed immediately.
Medium	Weaknesses that could reduce the effectiveness of the system of internal controls or could disrupt business operations, but which are not fundamental. They should be addressed as soon as possible.
Low	Improvements that represent best practice or opportunities to enhance efficiency or control. The finding will not necessarily imply inadequate control.

## Summary of Information Technology Controls (“IT Control”) findings in 2010

This section summarises the recommendations we have made as a result of our audit work in 2010 in relation to IT Controls.

The findings detailed in the report are summarised as follows:

No.	Summary of Finding	Priority		
		High	Medium	Low
1	Financial systems an Academy systems teams can process transactions		✓	
2	User Change documentation – Academy		✓	
3	New User Authorisation to ResourceLink		✓	
4	Periodic Review of user access rights within ResourceLink			✓
5	Disaster recovery of financial systems			✓

Progress against findings from the 2008/09 report are summarised below:

No.	High Level Finding	Addressed	Partially addressed	Not addressed
1	Lack of periodic review of user access rights within Oracle Financials	✓		
2	Lack of evidence over new user authorisation to Oracle Financials	✓		
3	Use of generic, privileged user ID’s			✓
4	Lack of evidence that leavers are removed from Oracle Financials	✓		
5	Lack of change management systems testing documentation	✓		
6	Lack of handover of technical documentation	✓		
7	Lack of testing of Oracle Financial patches	✓		
8	Lack of review and documentation of ICT policies		✓	
9	Lack of periodic testing of backup media			✓
10	Lack of Disaster Recovery testing over Oracle Financials		✓	

## Summary of other Internal Control findings

This section summarises the recommendations we have made as a result of our audit work in relation to internal controls identified during our interim and final audit work at the Council in 2010.

The findings detailed in the report are summarised as follows:

No.	High Level Finding	Priority		
		1	2	3
1	Documentation to validate payroll controls not available		✓	
2	Unallocated receipts		✓	
3	Property database does not accurately reflect rental amounts agreed with tenants		✓	
4	Cross Keys Homes cash included in Council accounts		✓	
5	Outstanding cheques not reviewed		✓	
6	Fixed asset useful economic lives not updated			✓
7	Creditor and debtor reconciliations not reviewed			✓
8	Imprest account reconciliations performed at the incorrect date			✓

Progress against findings from the 2008/09 report are summarised below:

No.	High Level Finding	Addressed	Partially addressed	Not addressed
1	Contract register not kept up to date		✓	
2	Lack of evidence for checks regarding new suppliers	✓		
3	Issues with payroll reconciliation	✓		

## Appendix A: ITGC Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1.	<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 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.</p>	<p>The Council should identify and review changes to user accounts, to ensure that the risk of segregation of duties being compromised is mitigated.</p>	<p><b>Medium</b></p>	<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 ensure risk is minimised.</p> <p><b>Owner:</b> D Moss, Operational Support Manager</p> <p>J Cox, Systems &amp; Support Team Leader</p> <p><b>Timescale:</b> 31 January 11</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
2.	<p><b>User change documentation - Academy</b></p> <p>Changes to user accounts, such as creating a new account or modifying the access rights of an existing account, must be authorised by a change request form from a known approver. We sampled 25 changes to Academy user accounts made during 2009/10. For 15 changes, the Council could not provide appropriate evidence of authorisation to support the change.</p> <p>Management explained that users are never granted access to Academy without appropriate authorisation. In practice, the request can take the form of an email. However, in the 15 cases noted above, evidence was not located and we were unable to evidence the operation of the control.</p> <p>Weak controls around changes to user access increase the risk of unauthorised access to data, with a commensurate risk of fraud and/ or error.</p>	<p>Change request forms authorising all new or changes to user access control rights should be retained in a manner that retains a clear audit trail. Email requests could be saved in an electronic format, such as a PDF file and stored in a shared area, to provide audit evidence.</p> <p>This will demonstrate that the control is 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>	<b>Medium</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</p> <p>J Cox, Systems &amp; Support Team Leader</p> <p><b>Timescale:</b> 31 December 10</p>



No.	Observation and Risk	Recommendation	Priority	Management Response
3.	<p><b>New user authorisation to ResourceLink</b></p> <p>From a sample of five new system users added to the ResourceLink payroll system within the year, there was no evidence that one had been authorised appropriately.</p> <p>Weak controls around changes to user access increase the risk of unauthorised access to data, with a commensurate risk of fraud and/ or error.</p>	<p>The authorisation form for new users should be retained in a manner that ensures a clear audit trail is available for all account changes.</p> <p>This will demonstrate that the control is 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>	<b>Medium</b>	<p><b>Agreed</b></p> <p><b>Action:</b> 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 and J Cox, Systems &amp; Support Team Leader</p> <p><b>Timescale:</b> 31 December 10</p>

4.	<p><b>Periodic review of user access rights within ResourceLink</b></p> <p>A quarterly review of user access rights in Resource Link 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 Resource Link, without being detected. Furthermore, inactive and/or terminated staff could retain access to the application. These risks increase the Council's exposure to inappropriate, unauthorized or fraudulent activity.</p>	<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 removed.</p>	<p><b>Low</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> 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</p> <p>J Cox, Systems &amp; Support Team Leader</p> <p><b>Timescale:</b> 31 December 10</p>
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No.	Observation and Risk	Recommendation	Priority	Management Response
5.	<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>	Low	<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 2011</p>

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

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
1.	<p><b>Periodic review of user access rights within Oracle Financials</b></p> <p>There is currently no formalised process in place over the periodic review of user access rights for the Oracle Financials application.</p> <p>Staff with incompatible duties may exist within Oracle Financials without being detected, thereby increasing exposure to inappropriate, unauthorised or fraudulent activity.</p> <p>Inactive and/or terminated staff could retain access to the critical Oracle Financials application, thereby increasing exposure to inappropriate, unauthorized, or fraudulent activity.</p>	<p>Periodic reviews, at least annually, should be performed in conjunction with the business over the Oracle Financials application. This will help to ensure that user access levels remain commensurate with current job roles. Upon review any access levels that are deemed inappropriate should be immediately removed.</p>	High	<p><b>Agreed</b></p> <p><b>Action:</b> Introduce procedure to ensure user access rights are reviewed at least annually.</p> <p><b>Owner:</b> J Hall</p> <p><b>Timescale:</b> Jan 2010</p>	<p>Reviews have been performed including reviews of inactive accounts and access rights to ensure permissions are appropriate to role, including access to amend critical devices, access the infrastructure remotely and access confidential data.</p> <p><b>This issue has been addressed.</b></p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
2.	<p><b>New user authorisation to Oracle Financials</b></p> <p>From a sample of 15 new users added to Oracle Financials within the audit period, 11 did not have the appropriate approval e-mail attached to the new user form. As such appropriate evidence of authorisation does not exist for these 11 samples.</p> <p>It was explained by the Oracle Systems Team that users are never granted access to Oracle Financials without appropriate e-mail authorisation, however, due to the sometimes complex nature of Oracle Financials new user set ups e-mail approvals are often difficult to locate once the new user set up is complete.</p> <p>This may lead to an increased risk of unauthorised access by business users or IT users to data that causes data destruction or improper amendment of records.</p>	<p>Management should improve the process over new user and change requests to Oracle Financials. The e-mail authorisation for new user and changes to access must be attached to the new user request form in all cases.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance.</p> <p><b>Owner:</b> J Hall</p> <p><b>Timescale:</b> Oct 2009</p>	<p>In our testing of changes made to Oracle users all changes were supported by the appropriate form and authorised in line with policy.</p> <p><b>This issue has been addressed.</b></p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
3.	<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>This issue has not been addressed.</b></p> <p><b>Updated management response:</b></p> <p><b>Agreed</b></p> <p><b>Action:</b> Unique user id to be created to improve accountability. This is now being pursued aggressively with Serco for completion ASAP.</p> <p><b>Owner:</b> R Mardell</p> <p><b>Timescale:</b> December 2010</p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
4.	<p><b>Leavers from Oracle Financials</b></p> <p>Evidence could not be provided to confirm that all leavers within the audit period have been 'End Dated' within the Oracle Financials application. Although the Oracle Systems Team receive a monthly report of leavers from HR, from which appropriate Oracle users are 'End Dated' within the application, these reports were only available for review for 3 out of the 12 months during the financial audit period.</p> <p>Moreover the Oracle systems team are aware of users who have left and were not included within the HR monthly leavers list.</p> <p>Inactive and/or terminated staff could retain access to critical financial systems and applications, thereby increasing exposure to inappropriate, unauthorized, or fraudulent activity. Additionally, there is an increased risk of inappropriate or unauthorized transactions or changes to data.</p>	<p>Management must ensure that the monthly reports received from HR are annotated with the actions performed and retained indefinitely. Moreover, the process should be strengthened to ensure that all leavers are included within the monthly HR leavers list.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Staff involved with process are to be made aware of the required procedure and random checks performed to ensure compliance.</p> <p><b>Owner:</b> J Hall</p> <p><b>Timescale:</b> Oct 2009</p>	<p>No exceptions were noted during testing of leavers from the Oracle users - all changes were supported by the appropriate form and authorised in line with policy.</p> <p><b>This issue has been addressed.</b></p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
5.	<p><b>Change management systems testing documentation</b></p> <p>For the AP phase 2 change selected for testing, system testing documentation is not available due to sudden departure of the third party contractor performing the changes.</p> <p>Lack of system testing documentation increases the risk that adequate testing is not performed for changes affecting mission critical applications or systems. Lack of testing increases the risk that system stability, processing, and data quality are not in line with management expectations.</p>	<p>Management should ensure that all documentation relating to system changes performed by contract staff are stored on the PCC network, and thereby available to PCC at all times. Management should perform periodic review of change documentation to ensure it is in line with management expectations.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b> No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder.</p> <p><b>Owner:</b> P Dickman / J Hall</p> <p><b>Timescale:</b> Oct 2009</p>	<p>No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.</p> <p><b>This issue has been addressed.</b></p>



No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
6.	<p><b>Handover of technical documentation</b></p> <p>There are known weaknesses over the quality and management of technical documentation for changes made to Oracle Financials, as documentation is not always provided to ICT by contractor staff making changes.</p> <p>As technical documentation is not always created the required handover to PCC ICT staff is often not performed. As such, ICT personnel do not always have a clear technical understanding of changes that are made to IT systems, making the ongoing support of the application after such changes more difficult.</p> <p>Lack of technical documentation after system changes increases the risk over the inability to access data as required, arising from excessive systems downtime (resulting in inability to recover the situation and accurately record the backlog of transactions).</p>	<p>When system changes are performed by contractor staff, management must ensure that adequate technical documentation is always produced. This documentation must then be given to the appropriate ICT support staff via a robust handover process, including technical training where deemed necessary.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b> No changes made will be implemented without documentation being available and checked for completeness. Documentation will be filed in a designated network folder.</p> <p><b>Owner:</b> J Hall / P Dickman</p> <p><b>Timescale:</b> Oct 2009</p>	<p>No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.</p> <p><b>This issue has been addressed.</b></p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
7.	<p><b>Testing of Oracle Financial patches.</b></p> <p>For 1 of the 2 Oracle Financials system patches sampled for testing, management were unable to provide evidence that the patch was tested prior to implementation to the production environment.</p> <p>This may lead to the increased risk of potential loss of data or inability to access data as required, arising from excessive systems downtime if system patches are not tested prior to implementation to the production environment.</p>	<p>Management must ensure that adequate testing is performed over all Oracle Financials systems patches prior to implementation to the production environment.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> No Oracle patches will be implemented without adequate evidence of testing will be filed in a designated network folder.</p> <p><b>Owner:</b> J Hall / P Dickman</p> <p><b>Timescale:</b> Oct 2009</p>	<p>No exceptions were noted from testing – documentation was available in a network folder as per our recommendation.</p> <p><b>This issue has been addressed.</b></p>

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>Low</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>This issue has been partially addressed.</b></p> <p>We noted that some documents, such as the Oracle disaster recovery plan have been updated.</p> <p><b>Updated management response:</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. A gradual process of re-writing outdated policy documents is currently underway.</p> <p><b>Owner:</b> R Mardell / Serco</p> <p><b>Timescale:</b> Completion by June 2011</p>
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No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
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>Low</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>	<p><b>This issue has not been addressed.</b></p> <p>Formal testing of restores from all backup media are not performed. However, it is now the responsibility of Serco to ensure that data can be recovered.</p> <p><b>Updated management response:</b></p> <p><b>Action:</b> The responsibility for this activity now lies with Serco, as such they need to ensure that PCC data can be recovered. Between now and October 2011 a re-working of the backup strategy and process will make this more transparent and simpler to test.</p> <p><b>Owner:</b> R Mardell / Serco</p> <p><b>Timescale:</b> October 2011</p>

10.	<p><b>Disaster recovery over Oracle Financials.</b></p> <p>A full DR test over Oracle Financials has yet to be performed. However, as all Oracle DR documentation is near completion, discussions with the user community over a full DR test for the Oracle e-suite of applications have commenced with full DR testing to be performed by October 2009.</p> <p>There is the risk that in the event of a disaster recovery situation being invoked, IT systems will not be successfully reinstated on a timely basis.</p>	<p>Management should ensure that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 is continued through to completion</p>	<p><b>Low</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> Some testing of the disaster recovery has taken place in Aug and Sept. Testing to be completed in October.</p> <p><b>Owner:</b> P Dickman / J Hall</p> <p><b>Timescale:</b> Oct 2009</p>	<p><b>This issue has been partially addressed.</b></p> <p>Disaster Recovery testing has been performed both the Oracle and ResourceLink (payroll) systems.</p> <p>No similar testing has been performed for the Academy (revenue and benefits) system.</p>
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## Appendix C: Internal Control Findings

No.	Observation and Risk	Recommendation	Priority	Management Response
1.	<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 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 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 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>	Medium	<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 A Clow, Payments Technical Team Leader</p> <p><b>Timescale:</b> February 2011</p>
2.	<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</p>	<p>Unallocated receipts should be reviewed and allocated promptly.</p>	Medium	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Shared Transactional Services have from 1 November taken over the allocation of unidentified income from the cash office. The</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>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>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</p> <p><b>Timescale:</b> February 2011</p>
3.	<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.</p> <p>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>	<p>Changes to the property database and also the submission of the work request forms should be reviewed regularly.</p>	<b>Medium</b>	<p><b>Agreed</b></p> <p><b>Action:</b> 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>

No.	Observation and Risk	Recommendation	Priority	Management Response
4.	<p><b>Cash balance</b></p> <p>The income bank reconciliation includes a balance which relates to Cross Keys Homes of £204k. Rental income is receipted for the Council and Cross Keys Homes through the Spectrum system. The cash is receipted directly into the respective bank accounts and therefore the Council should not account for the full amount which has been receipted through Spectrum as this cash does not belong to the Council. We noted that an opposing debit entry is made so the balance sheet is not overstated.</p>	<p>A formal mechanism should be put in place to ensure that Cross Key Homes balances are not included within Council balances.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The bank reconciliation process has been amended to better reflect this process.</p> <p>As from 1 August 2010 the Council no longer collects cash from Cross Key Homes to which means that this transaction is no longer generated, and procedures have been implemented to ensure that the balance transferring via our system is not taken into the year end balances</p> <p><b>Owner:</b> K Nutton, Corporate Accounting Manager</p> <p><b>Timescale:</b> 30.06.11</p>
5.	<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</b></p> <p><b>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 C Hipkin, Interim Payments Manager</p> <p><b>Timescale:</b> March 2011</p>



No.	Observation and Risk	Recommendation	Priority	Management Response
6.	<p><b>Fixed assets</b></p> <p>During our audit of Fixed Asset revaluations undertaken in 2009/10, we noted that in five out of 27 instances the Fixed Asset Register ("FAR") had not been correctly updated to show the revised useful economic life of assets following the valuation undertaken.</p> <p>For the assets selected, we noted this did not impact on the depreciation charge as they were for assets not depreciated, for example, land and some investment assets.</p> <p>There is a risk that in future the useful economic life for assets which are depreciated is not updated correctly resulting in an incorrect depreciation charge in the Income &amp; Expenditure account.</p>	<p>After the outputs from a valuation exercise are obtained, the Capital Accountant should ensure the relevant asset information is updated for all correct useful economic lives, even for non-depreciating assets.</p>	Low	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>An extra step has now been introduced to the Asset Register review procedures which include the sample testing of the valuation update entries to cross check back to the valuers original valuation report.</p> <p>The Council will also investigate the control procedure in place for use in the new asset management database currently being implemented by Strategic Property.</p> <p><b>Owner:</b> K Nutton, Corporate Accounting Manager</p> <p><b>Timescale:</b> by 30.06.11</p>
7.	<p><b>Creditor and debtor reconciliations</b></p> <p>The monthly creditor and debtor control account reconciliations have been performed promptly. We also noted in our audit that there were performed correctly. However, they have not been reviewed.</p> <p>Notwithstanding the fact that the reconciliations were correctly performed, failure to review the control account reconciliations in a timely manner may delay the identification of errors in the</p>	<p>The monthly creditor and debtor control account reconciliations should be reviewed on a timely manner.</p>	Low	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The Oracle Programme Manager now has formal responsibility to complete the reviews, which are completed on monthly basis.</p> <p><b>Owner:</b> J Hall, Oracle Programme Manager</p> <p><b>Timescale:</b> Monthly from 01.04.10</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	reconciliation and make resolving errors more difficult.			
8.	<p><b>Imprest (petty cash) accounts</b></p> <p>We identified that reconciliations for Children's Services Imprest accounts have been performed at mid-April rather than 31<sup>st</sup> March. Furthermore, two Imprest accounts which Children's Services believed had been closed prior to year end, were in fact confirmed by the bank as still open with positive cash balances. One imprest account reconciliation could not be located.</p> <p>Petty cash is, by its nature, subject to a risk of misappropriation.</p>	<p>The Council should ensure that all accounts are reconciled to the bank statements at the year-end date, and that evidence of these reconciliations are retained.</p>	<p><b>Low</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The Council now has the facility in house to generate the bank statements and will ensure all relevant parties are informed of this. Children's Services Finance team will also update procedure notes and training information to emphasize that reconciliations are to be completed as at 31<sup>st</sup> March.</p> <p>Throughout 2010/11 the Children's Service finance team, working with the corporate finance team, have been thoroughly reviewing and reconciling petty cash and imprest accounts to ensure a smoother process at financial year end.</p> <p><b>Owner:</b> F Chapman, Children's Service Finance Manager</p> <p><b>Timescale:</b> 31.03.11</p>

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

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
1.	<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>	<p><b>This issue has been partially addressed.</b></p> <p>We understand from the Procurement team that work is still ongoing to ensure that the contracts register is complete.</p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
2.	<p><b>New Suppliers</b></p> <p>Currently, per the Council procedure notes, procurement staff are required to check company validity on the Companies House website and on Google prior to setting up a new supplier.</p> <p>However, on reviewing Supplierforce (procurement system) for confirmation that these checks had been carried out, it became apparent that there is no function on the system to confirm the checks have taken place. In addition, no manual evidence is retained.</p> <p>Discussion with staff identified that checks have only been made on a sample basis, rather than for each new supplier. Consequently, the Council is at risk from illegitimate suppliers being set up on the Supplierforce system.</p> <p>It is understood that there are other checks performed as part of the new supplier process that mitigate the extent of the risk of illegitimate companies being set up, including completion of the Supplier Data Health Check.</p>	<p>Staff should be reminded of the procedural guidance in place at the Council around the set up of new suppliers.</p> <p>All new suppliers should be checked for validity, and evidence of this check should be retained to ensure an appropriate audit trail is retained.</p>	<p><b>Medium</b></p>	<p><b>Agreed</b></p> <p><b>Action:</b> The system (Supplierforce) will have the functionality to record when these checks have taken place and against which vendors.</p> <p><b>Owner:</b> Procurement team.</p> <p><b>Timescale:</b> From Sep 2009</p>	<p>During our audit we noted that these checks are now evidenced on Supplierforce.</p> <p><b>This issue has been addressed.</b></p>

No.	Observation and Risk	Recommendation	Priority	Management Response	2009/10 Update
3.	<p><b>Payroll Reconciliations</b></p> <p>Review of the payroll reconciliations identified a number of reconciling items which were several months/years old. As at the year end, a balance of £37k (gross figure) consisted of items over four months old.</p> <p>Although the value of these reconciling items is immaterial in relation to the statement of accounts as a whole, best practice suggests these should be cleared in a prompt/timely manner. We are aware the Council has a process in place to attempt to clear these items, including reviewing the payroll interface with Oracle to prevent errors occurring in the first instance.</p>	The Council should endeavour clear reconciling items in a timely manner.	<b>Low</b>	<p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The Financial Accounting Team are devising a set of corporate accounting performance indicators, which include the main bank account reconciliations. The indicators will cover items such as the number of reconciling items, age of items, value of items, etc, and be reported to the Corporate Accounting Manager on a quarterly basis. The financial accounting team are working more closely together with the Payroll team, with both teams clearing reconciling items a within the following month. A view to the more historic items will be taken by the beginning of October, as some have been cleared since this audit report was written.</p> <p><b>Owner:</b> Corporate Accounting Manager</p> <p><b>Timescale:</b> Oct 2009</p>	<p>Our audit of payroll reconciliations in 09/10 did not identify any issues.</p> <p><b>This issue has been addressed.</b></p>

*In the event that, pursuant to a request which Peterborough City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Peterborough City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Peterborough City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Peterborough City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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The Members of the Audit Committee  
Peterborough City Council  
Town Hall  
Bridge Street  
PETERBOROUGH  
PE1 1HG

January 2011

Ladies and Gentlemen

### **Annual Certification Report**

We are pleased to present our Annual Certification Report summarising the results of our 2009/10 certification work. We look forward to presenting it to members on 7 February 2011.

The purpose of this report is to provide an overview of the results of certification work we have undertaken at Peterborough City Council between March 2010 and December 2010 that is accessible for members and other interested stakeholders.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and use of resources.

### **Scope of work**

Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them.

Certification work is not an audit but a different kind of assurance engagement. This involves applying prescribed tests, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

The Audit Commission is required by law to make certification arrangements for grant paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. PricewaterhouseCoopers certifies claims and returns as they arise throughout the year to meet the audited claim/return submission deadlines set by grant paying bodies, in accordance with our role as appointed auditors to the Council.

### **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the

responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

**Results of Certification work**

During the period March 2010 to December 2010 we certified 6 claims and returns. Of these, 4 were qualified although none were amended. We note that the qualifications on these claims were generally minor in nature or did not result in the amount of grant payable to the Council decreasing.

The Council continues to monitor grant income centrally in Strategic Finance. A quality review arrangement also exists that provides a check on grant claims before they are submitted to us for audit. These arrangements ensure that the grant claim certification process at the Council is efficient; there were no significant issues in 5 of the 6 claims and returns noted above. The comments in the rest of this report concerning Housing and Council Tax Benefits grant claim grants should be set in the context of a process, described above, that from an audit perspective is generally robust.

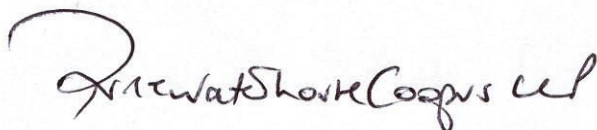
We experienced some issues in the certification of Housing and Council Tax Benefits grant claim. In carrying out our testing in relation to rent allowances, it has been noted that the Council do not, in every case, establish the liability for rent by confirming that the claimant is making payments. The Council maintains that it is not a requirement to establish a liability for rent by verifying actual payments have been made and therefore accepts a current tenancy agreement as sufficient evidence. We requested clarification on this issue from the Audit Commission and were informed to bring this matter to the attention of the Department of Work and Pensions by laying out the facts in our qualification letter.

Our testing also highlighted some missing audit trails; a review of 47 cases identified four cases where the claimants had not dated the signed claim form, and one further case where the claimant had not dated the signed claim form and their partner had not signed or dated the claim form. This does not affect the subsidy claim and so these five cases have not been classed as errors for subsidy purposes, but it is best practice to provide a full audit trail.

Testing of modified schemes identified an error affecting two cases as a result of incorrect input of data by the Council. In both instances, the error did not affect the amount claimed as in both cases the claimant was in receipt of full benefit. The grant claim is therefore not affected.

All deadlines for submission of audited claims/returns were met. We also continue to work successfully with Internal Audit in respect of the Teachers' Pension Return. Fees for certification work are summarised in Appendix A.

Yours faithfully



PricewaterhouseCoopers LLP



## Appendix A: Certification Fees

The certification fees for each claim are set out below. An asterisk indicates that the claim was qualified:

<b>Claim/Return</b>	<b>2008/09 Fee (£)</b>	<b>2009/10 Fee (£)</b>
Housing and Council Tax Benefits	19,000 *	21,000*
Housing and Council Tax Benefits – Additional work in respect of 2008/09	-	3,200*
Sure Start	5,000	5,000
Disabled Facilities	2,500	2,500*
East of England Development Agency – Peterborough Regional Partnership	7,000	4,000
Teacher's Pension Return	5,000 *	4,800*
National Non Domestic Rates return	6,000	6,000
ERDF Grants (20 grant claims split across both years)	30,500 *	-
<b>Total</b>	<b>75,000</b>	<b>46,500</b>

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

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

## FEEDBACK REPORT

### 1. ORIGIN OF REPORT

This is a standard report to Audit Committee which forms part of its agreed work programme.

### 2. PURPOSE AND REASON FOR REPORT

This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

### 3. FEEDBACK RESPONSES

Feedback items are set out in the following appendices:

- **Appendix A** - items have been actioned and agreed at subsequent Audit Committee meetings.
- **Appendix B** – outstanding items, not yet actioned / agreed by Committee.

**AUDIT COMMITTEE: RECORD OF ACTION TAKEN (COMPLETED / AGREED BY COMMITTEE)**

**MUNICIPAL YEAR: MAY 2010 - APRIL 2011**

DATE ISSUE RAISED	SUBJECT / ITEM	AUDIT COMMITTEE COMMENTS	OFFICER RESPONSIBLE	ACTION TAKEN	SIGN OFF DATE																		
<b>7 June 2010</b>	Agenda Item 5: Fraud & Irregularity Annual Report 2009 / 2010	To provide figures of how many blue badge applications were being dealt with on a yearly basis.	Diane Baker	Blue badge statistics show that for the last full year, and the first 2 months of the new year: <table border="1" data-bbox="1310 523 1977 790"> <thead> <tr> <th></th> <th>2009 / 2010</th> <th>Apr'10-May'10</th> </tr> </thead> <tbody> <tr> <td>New Applications</td> <td>968</td> <td>121</td> </tr> <tr> <td>Renewals</td> <td>2,131</td> <td>325</td> </tr> <tr> <td><b>ISSUED</b></td> <td><b>3,099</b></td> <td><b>446</b></td> </tr> <tr> <td>Refused</td> <td>68</td> <td>4</td> </tr> <tr> <td><b>Total Applications</b></td> <td><b>3,167</b></td> <td><b>450</b></td> </tr> </tbody> </table>		2009 / 2010	Apr'10-May'10	New Applications	968	121	Renewals	2,131	325	<b>ISSUED</b>	<b>3,099</b>	<b>446</b>	Refused	68	4	<b>Total Applications</b>	<b>3,167</b>	<b>450</b>	<b>28 June 2010</b>
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<b>Total Applications</b>	<b>3,167</b>	<b>450</b>																					
<b>28 June 2010</b>	<b>THERE WERE NO REQUESTS FOR FURTHER INFORMATION FOLLOWING THIS MEETING</b>				<b>6 Sept 2010</b>																		
<b>6 Sept 2010</b>	Agenda Item: 10 Internal Audit Quarter 1 Progress Report	To provide further information regarding whether the limited assurance provided for a number of schools was down to a lack of evidence being available or rather something being wrong / missing.	Steve Crabtree	All schools had met the requirements of the Financial Management Standards in Schools with appropriate processes and procedures in place and were accredited. However, additional works carried out to determine how these were being followed identified a number of shortcomings which could not be evidenced.	<b>27 Sept 2010</b>																		
<b>6 Sept 2010</b>	Agenda Item: 12 Internal Audit Quarter 1 Progress Report	To implement actions in order to raise the profile of Internal Audit within members and the wider community.	Steve Crabtree	Discussions will be held with Democratic Services to look at providing information / training at other council committees, together with providing regular updates to members through the monthly bulletins.	<b>27 Sept 2010</b>																		
<b>27 Sept 2010</b>	<b>THERE WERE NO REQUESTS FOR FURTHER INFORMATION FOLLOWING THIS MEETING</b>				<b>1 Nov 2010</b>																		

**AUDIT COMMITTEE: RECORD OF ACTION TAKEN (OUTSTANDING)**

**MUNICIPAL YEAR: MAY 2010 - APRIL 2011**

<b>DATE ISSUE RAISED</b>	<b>SUBJECT / ITEM</b>	<b>AUDIT COMMITTEE COMMENTS</b>	<b>OFFICER RESPONSIBLE</b>	<b>ACTION TAKEN</b>	<b>SIGN OFF DATE</b>
<b>1 Nov 2010</b>	Agenda Item: 7 Annual Governance Statement	To provide a report highlighting a further breakdown of the sickness figures and not including long term sickness figures.	Steve Crabtree	A request has been submitted to Human Resources to obtain details for service areas.	

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

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

## **WORK PROGRAMME 2010 / 2011**

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

This is a standard report to Audit Committee which forms part of its agreed work programme. This standard report summarises the proposed Work Programme for the Municipal Year 2010 / 2011 together any training needs identified.

### **2. UPDATE**

#### **2.1 Training**

Any specific training is normally provided prior to each committee meeting - at the request of the Chair it is proposed that this starts at 18.00. There are no training proposals at present for the next meeting (28 March 2011).

#### **2.2 Work Programme**

The Work Programme was endorsed at the last meeting (1 November 2010), and is refreshed at every Audit Committee meeting. The Programme for 2011 / 2012 will be presented at the next meeting.

Last Updated: 24 January 2011

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>REGULAR AGENDA ITEMS</b>								
<b>Member Training</b> (Future needs to be determined prior to each meeting)		Audit Cttee overview	Final Accounts	Risk Mgmt	Account Closure	–	–	✓
<b>Feedback Report</b>		✓	✓	✓	✓	✓	✓	✓
<b>Audit Committee: Work Programme</b>		✓	✓	✓	✓	✓	✓	✓

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>ACCOUNTS</b>								
<b>Statement of Accounts / Summary Accounts 2009 / 2010</b> (incorporating Annual Governance Statement)	Steven Pilsworth	–	✓	–	–	–	–	–
<b>Audit of Statement of Accounts</b>	PwC Steven Pilsworth	–	–	–	✓	–	–	–
<b>International Financial Reporting Standards</b>	Steven Pilsworth	–	–	✓	–	–	–	✓



Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011
<b>INTERNAL AUDIT / EXTERNAL AUDIT ACTIVITY</b>								
Internal Audit: Annual Report 2009 / 2010	Steve Crabtree	✓	Meeting set aside to scrutinise the Councils draft accounts	-	Meeting set aside to scrutinise the Councils final accounts following External Audit review	-	-	-
Internal Audit: Progress Report: Quarterly	Steve Crabtree	-		✓		✓	-	
Internal Audit: Strategy and Plan 2011 / 2012	Steve Crabtree	-		-		-	✓	
Internal Audit: Miscellaneous Commissioned Reports (Additional works outside agreed Audit Plan)	Steve Crabtree	-		-		✓	✓	
External Audit: Reports (subject to availability)	PwC Steve Crabtree Steven Pilsworth	-		-		✓	✓	
External Audit: Audit Plan	PwC Steve Crabtree Steven Pilsworth	-		-		-	✓	
NEW ITEM: CIFPA Consultation Document: The Role of the Head of Internal Audit	Steve Crabtree	-		✓		-	-	
NEW ITEM: Audit Commission Abolition	Steve Crabtree	-		✓		-	-	

Activity Area	Responsible Officer	7 June 2010	28 June 2010	6 Sept 2010	27 Sept 2010	1 Nov 2010	7 Feb 2011	28 March 2011		
<b>REGULATORY FRAMEWORK</b>										
Draft Annual Governance Statement	Steve Crabtree	✓	Meeting set aside to scrutinise the Councils draft accounts	–	Meeting set aside to scrutinise the Councils final accounts following External Audit review	–	–	–		
Annual Governance Statement: Progress	Steve Crabtree	–		–		✓	–	–		
Assurance Framework	Steven Crabtree	–		–		–	–	–	✓	
Audit Committee: Annual Report	Steve Crabtree	✓		–		–	–	–	–	
Fraud: Annual Report 2009 / 2010	Diane Baker	✓		–		–	–	–	–	
Regulation of Investigatory Powers Act	Diane Baker	–		✓		–	–	–	✓	
Risk Management Strategy	Stuart Hamilton	–		✓		–	–	–	–	
Strategic Risk Register: Risk Profiles	Stuart Hamilton	–		Deferred – not agreed at CMT		–	–	–	✓	–
Treasury Management Strategy / Update	Steven Pilsworth	–		✓		–	–	–	–	–
Use of Resources	Steven Pilsworth	–		–		–	–	–	✓ *	–
Comprehensive Area Assessment	Steven Pilsworth	–		–		–	–	–	✓ *	–
Strategic Governance Developments	Steve Crabtree Diane Baker	–		Information Governance		–	–	–	–	–
Miscellaneous Financial Reports Review of other reports / policies as appropriate E.g. Changes to Contract Regulations, Financial Regulations, Accounting Policies etc.	Steven Pilsworth Steve Crabtree	–		–		–	–	–	✓	✓

\* Following the establishment of the coalition government, these items are expected to be deleted.