

APPENDIX 1



**HEAD OF INTERNAL AUDIT
ANNUAL AUDIT OPINION
2011 / 2012**

ANNUAL REPORT

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1. **INTRODUCTION**

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit Committee and the Director of Strategic Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic efficient and effective use of resources. Internal Audit is part of the Strategic Resources Directorate. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year.
- 1.2 The purpose of this report is to meet the Head of Internal Audit (HoIA) annual reporting requirements set out in the CIPFA ¹Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at Paragraph 10.4 that the report should:
- Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
 - Disclose any qualifications to that opinion, together with the reasons for the qualification;
 - Summarise the audit work undertaken to formulate that opinion, including reliance placed on work by other assurance bodies;
 - Draw attention to any issues the Head of Internal Audit (or equivalent) judges particularly relevant to the preparation of the Annual Governance Statement;
 - Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
 - Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.
- 1.3 The Code of Practice also states at Paragraph 10.4.1 that:

"The Head of Internal Audit should provide a written report to those charged with governance timed to support the Annual Governance Statement".

Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirement of Regulation 4 of the Accounts and Audit Regulations 2011.

¹ CIPFA – Chartered Institute of Public Finance and Accountancy

2. **THE AUTHORITY FOR INTERNAL AUDIT**

2.1 The requirement for Internal Audit is driven from a number of items of legislation, namely:

- Local Government Act 1972 Section 151; and
- Accounts and Audit Regulations 2011.

2.2 **Local Government Act 1972 Section 151**

“Every Local Authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers has responsibility for the administration of those affairs”

The Council’s Constitution formally nominates the Executive Director of Strategic Resources as the authority’s Section 151 Officer who will rely on the work of the Internal Audit Service for assurance that the authority’s financial systems are operating satisfactorily.

2.3 **Accounts and Audit Regulations 2011 Section 4 – Responsibility for Financial Management**

“The relevant body is responsible for ensuring that the financial management of the body is adequate/effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and includes arrangements for the management of risk.

“The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control and shall include an Annual Governance Statement, prepared in accordance with proper practices with (a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or any accounting statement it is obliged to prepare in accordance with regulation 12”.

2.4 **Accounts and Audit Regulations 2011 Section 6 – Internal Audit**

“The relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Any officer or member of the relevant body must, if the body requires (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and (b) supply the body with such information and explanation as that body considers necessary for that purpose.

A large relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of the review referred must be considered, as part of the consideration of the system of internal control referred to in regulation 4, by the committee or body referred to in that paragraph.

2.5 This is supported by the Council’s Financial Regulations, which reflects Internal Audit’s statutory authority to review and investigate all areas of the Council’s activities in order to ensure that the Council’s interests are protected. The Terms of Reference for the Audit Committee adequately meets the requirements of the Accounts and Audit Regulations in relation to the Annual Governance Statement. The review of Internal Audit referred to in paragraph 2.3 has been conducted and included within this report.

3. **THE SCOPE OF INTERNAL AUDIT**

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

(Definition of Internal Audit: CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006).

- 3.2 The **control environment** comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing and monitoring the achievement of the organisations objectives;
- The facilitation of policy and decision making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage the risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the organisation and the reporting of financial management; and
- The performance management of the organisation and the reporting of performance management.

(Source: Statement of Internal Control in Local Government – Meeting the Requirement of the Accounts and Audit Regulations 2003 (CIPFA 2004)

- 3.3 **Controls** ensure that the processing procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identifies and corrects when something has gone wrong.

(Definition of Controls: CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006).

- 3.4 In order to ensure the ongoing effectiveness and accountability of the service, an annual report is provided to Members, which details Internal Audit activity in the previous financial year.

4. **REVIEW OF INTERNAL CONTROL**4.1 **Opinion 2011 / 2012**

The Code of Practice for Internal Audit in Local Government in the UK 2006 states that the HoIA must provide a written report to those charged with governance timed to support the Statement on Internal Control (now the Annual Governance Statement). This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies.

The internal control environment is fundamentally well established and continuing to operate well in practice even though 2011 / 2012 has been a challenging year for the organisation. There have been instances where the control environment was not strong enough or complied with sufficiently to prevent significant risks to the organisation. The area of most concern in the year has been in relation to payment processes and Internal Audit has been working closely with management in both these areas to improve key controls. Audit reports relating to these issues have been reported to Audit Committee during the year.

The overall conclusion is that Peterborough City Council has a **sound governance framework** from which those charged with Governance can gain reasonable assurance. Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, in the main, these controls continue to work well in practice although there are some areas where improvements are necessary.

However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The Assurance - Internal Control



Our overall opinion is that internal controls within financial systems operating throughout the year are **sound**, other than those reviews assigned "Limited or No Assurance". As a result, it is concluded that **reasonable assurance** can be provided.

4.2 How Internal Control is Reviewed

Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year the risks of the Authority has been continually challenged and used to form the basis of Internal Audit's operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands that arise. This risk based approach to audit planning results in a detailed range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:

- Governance reviews, including a review of key assurance frameworks and the Annual Governance Statement;
- Risk based reviews of fundamental financial systems that could have a material impact on the accounts, and other departmental systems;
- Fraud strategy work, responsive fraud and irregularity investigations;
- Contract, procurement, performance and project audits; and
- Audits of Council establishments.

There are three elements to each internal audit review.

- Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on the control environment.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to form a view on the extent to which the control environment, designed to mitigate risk, is being complied with.
- Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

To improve consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed.

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

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

5. **BASIS OF HEAD OF INTERNAL ANNUAL OPINION**

5.1 **Background**

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2011 / 2012. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit based upon the strategic Internal Audit Plan. Where possible we have considered the work of other assurance providers, such as External Audit.

5.2 The audit work that was completed for the year to 31 March 2012 is listed in **Appendix A**, which lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. The level of assurance achieved on the systems audited is detailed below. This shows that **53%** of the systems audited achieved an assurance level of significant or higher, compared to **68%** last year (and **52%** in 2009 / 2010).

AUDIT ASSURANCE				
Assurance Levels	Issued		%	
	2011 / 2012	2010 / 2011	2011 / 2012	2010 / 2011
Full	0	2	0	4
Significant	9	32	53	64
Limited	8	13	47	26
No	0	3	0	6
	17	50	100	100

RECOMMENDATIONS MADE		
	Numbers	
	2011 / 2012	2010 / 2011
Low	53	87
Medium	88	157
High	41	78
Critical	0	5
	182	327

5.3 A complete list of the audits and assurance ratings can be found in **Appendix A**. In addition to the audits detailed in the above table, further audit work was carried out, including 23 follow-ups and 13 memos giving advice and comment.

5.4 **Corporate Governance and the Annual Governance Statement**

In June 2007 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published Delivering Good Governance in Local Government: Framework. The Department for Communities and Local Government has determined that this guidance represents proper practice. Consequently, the Audit Committee should seek assurance that this guidance has been followed to compile the Annual Governance Statement (AGS). To help the Committee gain that assurance and to give some independent assurance that the AGS is free from material misstatement Internal Audit undertakes reviews of the key corporate governance systems.

Using the proper practice guidance issued by CIPFA as the basis, Internal Audit reviews the corporate governance evidence framework to confirm that there is evidence to indicate that policies, procedures and systems are in place for corporate governance to be effective within the Council. The Council

has demonstrated a firm foundation for this and Internal Audit remains of the opinion that the policies, procedures and systems are generally in place for good corporate governance.

The AGS contains a number of assurances and opinions on the actual operation of the internal controls from Directors / Heads of Service and Internal Audit has placed reliance on these assurances in arriving at the opinion that policies, procedures and systems are in place for corporate governance to be effective within the Council. Directorate assurances on the adoption of, and compliance with, the corporate governance framework and their system of internal control would significantly enhance the assurance framework and provide further evidence to the Committee when challenging the AGS. In order to provide the Head of Audit with evidence, and the Committee with some additional independent assurance, that corporate governance controls are working in practice Internal Audit reviews the adequacy of central controls in key areas. Although Internal Audit has made a number of recommendations to further improve the systems of control the overall conclusion is that Peterborough City Council has a sound Governance Framework that those charged with Governance can gain assurance from, although there are some areas where improvements are urgently needed.

5.5 Risk Management

Risk management arrangements have been reviewed during 2011/ 2012. Whilst there is a risk framework and processes in place, and pockets of good practice, it is clear that there has been a loss of impetus over recent years. Responsibility for this area has recently changed within the Operations Directorate, and a review of the Risk Management Strategy and Policy is planned. Internal Audit will appraise plans and monitor progress as part of the 2012 / 2013 plan of audit work.

5.6 Key Financial Systems

An annual review of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment. As in previous years, the key financial systems subject to audit were agreed in advance with the authority's external auditors – PricewaterhouseCoopers - as they review this work and use this as a key source of assurance on the organisation. PricewaterhouseCoopers have reviewed our work on key financial systems and confirm that it meets their requirements in terms of timeliness, quality and supporting evidence.

Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, in the main, these controls continue to work well in practice although there are some areas, where improvements are necessary. In all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance.

5.7 Other Reviews

Appendix A provides a summary of other reports issued during the year. Areas of concern that have been raised during the year where limited assurance has been given relate to 8 audits. These cover the following areas:

- Payroll (Travel and Subsistence)
- Payroll (Travel and Subsistence follow up)
- Hampton Vale CC Processes
- S106 Developer Contributions
- Elective Home Education
- Registrar Office – Income Procedures
- Delivering Through Localities – Invoice Procedures
- Orton Wistow FMSIS

Throughout the year Internal Audit provide executive summaries of audit reports where assurance ratings are either No or Limited Assurance. Reports that fall into this category for the final quarter of 2011/ 2012 are detailed within **Appendix B** of this report. At the year end a number of reviews were in various stages of completion. Audit opinions relating to these will be reported during 2012 / 2013 as part of the agreed performance reporting timetable to the Audit committee.

5.8 **External Activities**

Internal Audit have undertaken reviews on behalf of Vivacity Leisure Trust. This has generated additional funds for the Council through the Service Level Agreement. The nature of the works undertaken are confidential between us and the client and are not included within the details below. The work has been well received by the client, and the agreement has been extended for another year.

5.9 **Allegations of Fraud and Irregularity**

The team has continued to work with the Governance Team on cases of suspected fraud where appropriate. There is a separate report to this committee covering fraud.

5.10 **Significant Control Weaknesses**

Internal Audit is required to form an opinion on the quality of the internal control environment which includes consideration of any significant risk or governance issues and control failures which arise.

No critical recommendations were made in audit reports (compared to 5 in the previous year) which required immediate attention.

5.11 **Key Issues**

There is a range of key issues that are likely to be of significance for 2012 / 2013 and beyond, which Internal Audit needs to be aware of. These include:

- the current economic climate which adds to the financial pressures already on the council. This is impacting on income and expenditure as well as the public's needs for council services;
- the impact of new legislation, for example the Localism Act, which devolves greater powers to local communities;
- information governance and the need to ensure that there are robust arrangements in place for the security of data;
- the return of Adult Social Care, and the need to ensure that policies and processes meet the Council's governance framework; and
- the need to reassess the appropriateness and effectiveness of the Risk Management Strategy.

6. INTERNAL AUDIT PERFORMANCE 2011 / 2012

6.1 Achievements During 2011 / 2012

The major achievements of Internal Audit for 2011 / 2012 are as follows:

- 100% of high and critical audit recommendations made in 2011 / 2012 have been accepted
- Customer feedback remains very positive with continued high levels of satisfaction demonstrated from our customer questionnaires in excess of our target;
- Annual reports, audit plans and regular progress reports presented to Members via the Audit Committee;
- The Annual Governance Statement was produced in accordance with agreed timescales and reviewed by External Audit without any adverse comments;
- Internal Audit services have been provided to external customers and positive comments received regarding the reviews undertaken;
- Successful conclusion of a number of irregularity and unplanned investigations;
- The continued shared service arrangement with Cambridge City Council which was look to deliver efficiency savings, improved performance and ultimately look to expand the business.

6.2 Ensuring Quality

Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers. We actively monitor our performance in a number of areas and encourage feedback from customers. All our work is undertaken in accordance with our quality management system. A customer satisfaction questionnaire is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are based on the percentage of those assessments that are 3 (satisfactory) or above. The results of the questionnaires are reported to the Audit Management Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. Analysis of the returned surveys highlights consistently high 4 and 5 scoring for the 'overall conclusion of the audit undertaken' which demonstrates value is being gained by the organisation.

These results are again extremely encouraging, particularly as the nature and complexity of work undertaken by Internal Audit continues to change. The Council is continually developing more robust systems for identifying and evaluating the significant risks to their objectives. Internal Audit is expected to give a number of assurances on the internal control environment to both internal and external clients not just on financial but operational, service and reputational risks. The staffing skills and resources within Internal Audit are continually adapting to these changes.

Internal Audit is a professional discipline and as such it is desirable that all staff should have an appropriate qualification or be undertaking training to gain such a professional qualification. All of our staff are either professionally qualified or have qualifications appropriate to the roles undertaken. This professional training approach is being actively enhanced by both in-house training and individual officers undertaking Continuing Professional Development in their own time. This investment in staff will continue to result in even better audit performance in future years, ensuring that the Section will be able to react positively to the changing demands being placed on the audit profession.

6.3 Continuing Professional Development

In a rapidly changing environment it is important that all Internal Auditors are kept abreast of the latest audit and accounting methodologies, changes in legislation and best practice as well as changes to the public sector arena so they have the necessary skills and knowledge to perform their role to a high standard. This is done via Continuing Professional Development (CPD) which the Section continues to support and promote. During the period a number of in-house training courses have been provided covering key developments in the profession and within the sector. In addition, external CPD events such as CIPFA seminars and IIA events continue to be well attended by Internal Audit staff. The Code of Practice for Internal Audit in local Government in the UK 2006 states that Internal Audit staff have a personal responsibility to undertake a programme of CPD to maintain and develop their competence. At Peterborough, evidence of professional training and development activities must be retained and individual / group training needs identified. Much of this CPD is done in officers own time showing a personal commitment to continual improvement of the Team.

6.4 Performance Indicators

All our performance indicators are documented within **Appendix C**. Key areas to note are:

Better than target

- Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score was 4.43 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports. This score is consistent with 2010 / 2011 results.
- An average of 5.3 days training has been provided to each auditor, compared to a target of not less than 5 days. This includes 'on the job' training, training for professional qualifications, audit technical update seminars and internal training such as the Leadership Programme. In addition, Chief Internal Auditors from each local authority in Cambridgeshire staged an 'Away Day' for all auditors in November. This was to share ideas and best practice across the county. Similarly a group training session was arranged with Cambridge City Council as a result of the shared service arrangement to look at working processes.
- 100% of critical and high recommendations made were agreed, reflecting the high quality of audit reports.
- An average of 4.7 days sickness per person was lost during the year, compared to a target of 5 days, despite a period of long term sickness. Excluding this gives an average for the team of 2 days per person. There has been an improving trend in sickness levels over the past two years (the average was 6 last year and 22 in the previous year) Due to the small size of the team, any sickness has a big impact on the ability to deliver the plan.

On Target

- Internal Audit continues to deliver reviews professionally. No adverse feedback during the year relating to complaints.

Areas for improvement

- 85% of critical and high recommendations were implemented (target 100%). This is slightly lower than 91% last year. The lack of 100% implementation is primarily due to differing priorities of staff during a time of change, especially where service delivery methods are being altered, or where staff restructuring has occurred.

APPENDIX A

ASSURANCE LEVELS AND RECOMMENDATIONS 2011 / 2012

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: Planned Reviews 2011/12	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 over a three year cycle; others will be reviewed periodically dependent on risk.										
Accounts Payable	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued
Accounts Receivable	Strategic Res										In progress
Housing and Council Tax Benefits	Strategic Res										In progress
Council Tax	Strategic Res		x			5	5	1	0	11	Draft issued
Business Rates	Strategic Res		X			4	2	1	0	7	Draft issued
Payroll	Strategic Res										In progress
Payroll – Travel and Subsistence	Strategic Res			x		0	3	3	0	6	Draft Issued
SYSTEMS ACTIVITY FINANCIAL SYSTEMS: Unplanned reviews 2011/12											
Business Support – Imprest Accounts	Strategic Res		x			6	2	4	0	12	Final issued
Register Office – income procedures	Strategic Res			x		0	8	4	0	12	Draft issued
Routewise Invoicing Procedures	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
SYSTEMS ACTIVITY											
FINANCIAL SYSTEMS: Unplanned reviews 2011/12											
Orton Wistow School credit card procedures	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo Issued
Accounts Payable – management of the supplier database	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Various memos issued
SYSTEMS ACTIVITY											
FINANCIAL SYSTEMS:- Rolled forward from 2010/11											
Council Tax	Strategic Res		x			2	1	1	0	4	Final issued
Business Rates	Strategic Res		x			2	3	1	0	6	Final issued
Payroll	Strategic Res		x			6	5	0	0	11	Final issued
Payroll – Travel/Subsistence	Strategic Res			x		0	0	4	0	4	Final issued
Delivering Through Localities – invoice procedures	Chi Services			x		0	4	1	0	5	Two memos issued
School Credit Card Procedures:	Chi Services			x		1	5	6	0	12	Final issued
<ul style="list-style-type: none"> • Hampton Vale - combined with Financial Management Standards in Schools (FMSiS) follow up • Schools Finance (Children's Services) 		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK: Planned Reviews 2011/12	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.										
Annual Governance Statement 2010/11	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Annual Audit Opinion 2010/11	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Annual Audit Plan 2011/12	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:26 March 2012
Internal Audit Effectiveness	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Audit Committee:27 June 2011
Anti Fraud Culture	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Liaison with Fraud team to identify control gaps highlighted by frauds I regular activity. Has resulted in a number of joint investigations which are reported separately.
National Fraud Initiative	All	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Coordinated through Investigations Team. Internal Audit reviewed outputs in relation to supplier payments. Completed.
Partnership Governance	Chief Execs										In progress
Information Governance	Chief Execs										Rolled forward to 2012 / 2013 – separate group to be set up to oversee
Project Governance	All										Rolled forward to 2012 / 2013
Risk Management	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued to assist In progress / repositioning of risk strategy, and further work planned for 2012 / 2013.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
STRATEGIC AND OPERATIONAL RISKS: Planned Reviews 2011/12	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Carbon Reduction Commitment	Operations		x			5	13	3	0	21	Final issued
Localism Bill	All										Rolled forward to 2012 / 2013 due to approval of Act through Parliament later in the year
Opportunity Peterborough / Peterborough Development Partnership	Chi Services										In progress
SERCO – partnership management	Strategic Res										Rolled forward to 2012 / 2013. Number of formal meetings already in place to establish current arrangements
Project Delivery – Manor Drive Initiative	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Chief Internal Auditor involvement in project review from the validation of bids leading up to the eventual SERCO partnership. Complete.
Section 106 Developer Contributions	Operations			x		2	8	2	0	12	Final issued
Elective Home Education	Chi Services			x		6	8	5	0	19	Final issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary	
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total		
STRATEGIC AND OPERATIONAL RISKS: Unplanned Reviews / Advice 2011/12	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.											
Marshfields School	Chi Services											At review stage
Tendering Procedures - selection and rotation of contractors	Strategic Res											In progress
Contract Standing Order Review	Chief Execs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Contract regulations under review by Legal Services. On-going challenge role.
STRATEGIC AND OPERATIONAL RISKS: Rolled Forward from 2010 / 2011												
Bishop Creighton Governor Complaint	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued
Orton Wistow FMSiS	Chi Services			x		2	7	3	0	12		Final issued
Duke of Bedford FMSiS	Chi Services		x			3	5	1	0	9		Final issued
Other FMSiS follow-ups: <ul style="list-style-type: none"> • Winyates • St Augustine's • Woodston • Welbourne • Hampton College • The Beeches • Dogsthorpe Infants 	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Finals issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total	
STRATEGIC AND OPERATIONAL RISKS: Follow-ups 2011/12	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Agile Working (Benefits team)	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued
Right to Work	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued
Health and Safety	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued
Youth Offending Service	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued
Future Jobs Fund	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final issued
Purchasing Cards	Strategic Res										In progress
Energy Billing	Strategic Res										In progress
Schools - FMSiS <ul style="list-style-type: none"> • Hampton Hargate • Southfields • Braybrook • Queens Drive Infants • Eye • Heritage • Thorpe • Marshfields • Dogsthorpe Juniors • Duke of Bedford • Welland 	Chi Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Finals issued

AUDIT ACTIVITY	Department	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Commentary / Revised Audit Plan	
		Full	Significant	Limited	No	Low	Medium	High	Critical	Total		
GRANT CLAIM CERTIFICATION												
Teachers Pensions (TPA)	Strategic Res / Chi Services											
<ul style="list-style-type: none"> • The Beeches • Paston Ridings • St John Fisher • Ken Stimpson • City College 			x			2	2	1	0	5	Final issued	
			x			1	2	0	0	3	Final issued	
			x			1	3	0	0	4	Final issued	
			x			1	1	0	0	2	Final issued	
			x			4	1	0	0	5	Final issued	
Growth Area Fund GAF Grant 2010/11	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Growth Area Fund GAF Grant 2010/11 - Opportunity Peterborough	Strategic Res	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Interreg - ZECOS Grant Claim	Operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Memo issued. Monies spent in accordance with grant	
Economic Participation Programme	Chief Exec		x			0	0	0	0	0	Final issued	
EXTERNAL WORK	Work resulting in income.											
Leisure Trust	SLA in place between Internal Audit and Vivacity (income generating)										Outcomes are commercially sensitive.	

APPENDIX B

AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE		Date To Audit Committee
	None	

LIMITED ASSURANCE		Date To Audit Committee
1.	Delivering through Localities – Invoice Procedures	7 November 2011
2.	Section 106: Developer Contributions	25 June 2012
3.	Payroll (Travel and Subsistence)	25 June 2012
4.	Payroll (Travel and Subsistence follow-up)	25 June 2012
5.	Hampton Vale Credit Card Processes	25 June 2012
6.	Elective Home Education	25 June 2012
7.	Register Office – Income Procedures	25 June 2012
8.	Orton Wistow FMSiS	25 June 2012

To ensure transparency of our activities, the Audit Committee is provided with a précis of Executive Summaries where the audit opinion is considered to be No or Limited Assurance. These are detailed below.

Audit Title	1. Delivering through Localities – Invoice Procedures Memo and Action Plan
Scope	The purpose of the Internal Audit review was to review the internal controls within the purchasing process as a result of the delay in payment of two invoices at the request of the Assistant Director, Education and Resources. This delay in payment to the supplier was as a result of the invoices remaining unprocessed due to a breakdown in procedures with regards to the Oracle system.
Findings	<ul style="list-style-type: none"> • Oracle procedures are not always followed with regards to receipting of goods and use of delivery notes resulting in timing issues; • A general housekeeping exercise regarding requisitions needs to be undertaken to ensure accurate information is recorded within the system; • There is a requirement to address any training needs to ensure a consistent approach across teams
Conclusions	The control environment has been assessed as having LIMITED Assurance.

Audit Title	2. Section 106 Developer Contributions
Scope	The purpose of the audit was to give assurance that the council is complying with legal requirements in its request for funding from developers and in how the money is spent on community projects.
Findings	<ul style="list-style-type: none"> • The provision of information on income received and outstanding debts is not provided efficiently, and there is uncertainty in the debt collection process, thus reducing the effectiveness of income collection. • There is a no process to ensure that monies are spent in accordance with S106 agreements, as required by statute. In the event of a legal challenge, a lack of evidence to demonstrate that S106 monies have been spent in accordance with the agreement, could result in a requirement to refund the monies. • There is a lack of written guidance available to staff detailing the criteria for spending S106 monies to ensure that legal requirements are met. • Procedural guidelines have not been updated since 2009.
Conclusions	There are processes and controls in place for determining contributions. However, there is a weakness in the procedures for collecting outstanding debts. More importantly, there is also a weakness in providing evidence to show how the money has been spent which could be an issue if the authority was challenged on this point.

Audit Title	3. Payroll (Travel and Subsistence)
Scope	The purpose of the audit was to ensure that our Peterborough City Council procedures are robust. We looked at the accuracy/validity/completeness/timeliness of the payment of travel and subsistence expenses.
Findings	<ul style="list-style-type: none"> • Travel and subsistence guidance notes had not been updated since 2006 • Staff do not always complete forms properly, or provide receipts, and managers continue to authorise such forms and Payroll to process them for payment. • There were some errors found in the payment of incorrect mileage rates.
Conclusions	The review of the sample of travel and subsistence claims showed that employees are not always completing and submitting their claims in accordance with the council's Travel and Subsistence Guidance. Claims appear to have been authorised by managers who have not performed checks to ensure they have been completed accurately or in accordance with the policy. There are also instances whereby previous years' mileage rates have been paid to staff.

Audit Title	4. Payroll (Travel and Subsistence follow-up)
Scope	A Travel and Subsistence audit report was issued in July 2011. There were 4 High graded recommendations and agreed actions. It is our normal practice to follow up final reports after six months of issue but a three monthly follow up was requested in this instance by Cllr. Seaton. This review has been undertaken in order to gain assurance that agreed actions in the report have been implemented satisfactorily.
Findings	<p>Corporate Compliance Employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively.</p>
Conclusions	<p>Overall there has been little change in the payroll control framework between the original report in July 2011 and this follow-up carried out in November 2011.</p> <p>Corporate Compliance It was disappointing to note that, even following a reminder being published on Insite in July 2011, some employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks. It was evident from the testing that a key area for non-compliance with the Travel and Subsistence Policy is within Children's Services, and this will be raised by the Executive Director of Strategic Resources with the Corporate Management Team.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively. The forthcoming Payroll 2011/12 audit will review the operation of this control and report the outcome in due course.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p>

Audit Title	5. Hampton Vale Credit Card Processes
Scope	The follow up was conducted to assess progress made against recommendations from the previous FMSiS review, and to evaluate credit card procedures.
Findings	<ul style="list-style-type: none"> • Previous recommendations not yet fully implemented include: profiling of budgets, the need to delegate authority for budget approval; completion of an inventory and completion of a contract register. • Issues relating to the use of procurement cards include: security of the cards, the lack of a procedural document and the need for segregation of duties and approvals of expenditure under £50.
Conclusions	As a result of the major staffing changes at the school over the past year there had been little or no progress made against the original recommendations made. It is hoped that a period of stability will allow the school to implement the new or restated recommendations in order to strengthen its controls over the financial environment. This is particularly important in relation to the GPC since this is relatively new to the school, and there are significant weaknesses in current processes.

Audit Title	6. Elective Home Education
Scope	The purpose of the audit was to ensure the EHE service is compliant with government guidance and in particular covers their responsibilities for safeguarding home educated children and that this is reflected in PCC's EHE Policy.
Findings	<ul style="list-style-type: none"> • Visits to home educated children were not conducted in a timely manner • A new policy has been written, but requires further work to make it as robust as possible. • The Local Authority Guidelines suggest that deadlines should be set for each part of the process, but the PCC policy does not include deadlines for all aspects. • Staff should be suitably trained, but a lack of training logs meant that we could not give assurance in this area.
Conclusions	This is a difficult area, as there is no statutory provision which gives council officers the right to meet and monitor those children whose parents have decided to educate them at home. The EHE service for PCC has been through a period of uncertainty. Now that new processes are in place and a draft policy has been written, the service is improving and will continue to do so if the changes made become embedded in EHE process.

Audit Title	7. Register Office – Income Procedures
Scope	<ul style="list-style-type: none"> To identify the current income procedures To test compliance with these procedures and, if necessary, recommend ways to make the collection and banking system more robust
Findings	<p>Non-compliance with Financial Regulations, such as:</p> <ul style="list-style-type: none"> Cashing up is not completed every day Non-council receipt books are used Not all income is accounted for on day of receipt There is no evidence of transfer of monies from one person to another
Conclusions	The non-compliance with Financial Regulations was unintentional and results from the historic way in which the General Register Office used to instruct register offices to account for their activities. However, as a result of this audit review, it has been made clear that register offices are now accountable to local authorities. As such, the income procedures can be streamlined to comply with the Council's requirements and simplify the current practices.

Audit Title	8. Orton Wistow FMSiS
Scope	Orton Wistow Primary School previously met the requirements of the Financial Management Standard in Schools during 2007-08. The purpose of the reassessment was to obtain reasonable assurance that adequate controls and procedures are in place to ensure the school's compliance with the standard has been maintained and to make observations and recommendations for improvement.
Findings	<ul style="list-style-type: none"> Actions have been taken outside of the documented scheme of delegation in the area of budget approval and purchasing. Version control for the 2010-13 budget submission was poor.
Conclusions	The Office Manager worked hard to complete the self-assessment and provided plenty of supporting documents for review prior to and during the External Assessment visit. Implementation of the recommendations in this report will strengthen financial controls at the school.

APPENDIX C**PERFORMANCE INDICATORS 2011 / 2012**

Performance Indicator	Annual Target	Actual	Comments
Customers Opinion			
Average rating Post Audit Questionnaire rating	> 3.75	4.4	A series of questions are asked (refer to 6.2). lowest overall score was 4.00, highest 4.86.
Does external audit place reliance on the work of Internal Audit?	Yes	Yes	
Number of complaints received in relation to the service	Nil	Nil	
Process Related			
Does IA comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006?	Yes	Yes	
%age of critical / high priority recommendations agreed	97 %	100%	
%age of critical / high priority recommendations implemented	100 %	85%	This area will be further explored. Some implementations were not possible due to structural changes. However, due to this being identified in previous years, has resulted in increased follow up work.
Organisational Development			
Number of audit training days per auditor	> 5 days	5.3	
Working days lost to sickness per FTE	5 days	4.7	This "target" is for monitoring purposes only. It is not seen as a benchmarking for Peterborough.
Proportion of staff qualified (CIPFA / IIA)	25%	49%	

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