

APPENDIX A



**ANNUAL AUDIT OPINION
2012 / 2013**

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. 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. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.

2. **ARRIVING AT AN OPINION**

2.1 **Background**

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2012 / 2013. 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 but, where possible, we have considered the work of other assurance providers, such as External Audit.

2.2 **Risk Based Planning**

Internal Audit continues to embrace the risk assessment approach to audit. A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. During the course of the year the risks of the Authority are continually reviewed and used to update the plan. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. 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.

2.3 The Audit Review

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 adequacy of the control framework in place.
- 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 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.

2.4 Reporting

Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, grant reviews, involvement in working groups, review of National Fraud Initiative (NFI) reports and follow-ups. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

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 / failure to achieve key objectives.

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

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

3. OPINION 2012 / 2013

The Code of Practice for Internal Audit in Local Government in the UK 2006 (Code of Practice) states that the HoIA must provide a written report to those charged with governance timed to support 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 2012 / 2013 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 contract letting and management processes and Internal Audit has been working closely with management in these areas to improve key controls.

The overall conclusion based on our work 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 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.

*Chief Internal Auditor
June 2013*

4. **BASIS OF ANNUAL OPINION**

- 4.1 The audit work that was completed for the year to 31 March 2013 is detailed at the end of the report and lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. A summary of assurance levels is detailed below. This shows that **50%** of the systems audited achieved an assurance level of significant or higher (2011/12: **53%**; 2010/11: **68%**). The reducing proportion of higher assurance levels is likely to be the result of the change in focus of audit work over the years, rather than an indication of a downward trend in overall assurance.

AUDIT ASSURANCE						
Assurance Levels	Issued			%		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
Full	2	0	0	4	0	0
Significant	32	9	7	64	53	50
Limited	13	8	5	26	47	36
No	3	0	2	6	0	14
	50	17	14	100	100	100

RECOMMENDATIONS MADE			
	Numbers		
	2010/11	2011/12	2012/13
Low	87	53	8
Medium	157	88	41
High	78	41	63
Critical	5	0	4
	327	182	116

- 4.2 In addition to the audits detailed in the above table, further audit work was carried out, **including 5 follow-ups, 8 grant reviews and 23 pieces of consultancy work**. At the year end **7** audits were in various stages of completion and audit opinions relating to these will be reported during 2013 / 2014.

4.3 **Annual Governance Statement**

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.

4.4 **Risk Management and Business Continuity**

Risk management arrangements were reviewed during 2011 / 2012 and it was found that, although there was a risk framework and processes in place, there had been a loss of impetus over recent years. During 2012 / 2013 Internal Audit monitored the development of the strategy devised by the new Risk Management team within the Operations directorate. Whilst progress is being made, the key aspects of: cascading the process throughout the authority and developing robust reporting mechanisms is still underway. Going forward, there is also a need for the organisation to focus on business continuity. Internal Audit will continue to monitor developments in this area.

4.5 **Key Financial Systems**

A risk based 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 those key financial control systems evaluated are sound.

4.6 **External Activities**

Internal Audit has undertaken reviews on behalf of Vivacity Leisure Trust. The nature of the works undertaken are confidential between us and the client and are not included within the details below, nor incorporated into the Head of Internal Audit Annual Opinion.

4.7 Allegations of Fraud / Irregularity and Breaches of Code of Conduct

This has been an area of significantly increased activity for Internal Audit during the year and has been a large drain on the limited resources available. We allocated 52 days in the annual plan for this type of work (having spent 45 days in 2011 / 2012), but actually spent 259. This is not unusual across local authorities in the current climate, reflecting the impact of the need to reduce costs; both on staff morale and the adequacy of the Council's control environment. A number of reviews have been undertaken in partnership with the Governance Team and a number independently. Summary analysis shows that:

2012 / 2013 INVESTIGATIONS				
Department	Joint Review		Internal Audit only	
	Number	Status	Number	Status
Adult Social Care	1	Not proven	–	–
Childrens Services	1	Not proven	2	No Assurance
Operations	1	Proven	1	Not proven
Strategic Resources	–	–	1	Limited Assurance
Ongoing Investigations	2		2	

4.8 Limited and No Assurance reports

The audits listed below have resulted in a limited or no assurance opinion. Where the resultant reports have been issued as a final, executive summaries are provided within Section 7.

Reports issued / previously discussed at Audit Committee 5 November 2012

- Travel and Subsistence
- Direct Payments
- Contracts Review
- Water City Festival

Reports for 24 June 2013

- School C
- Petty Cash
- VAT Self-billing

4.9 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.

Four critical recommendations were made in 2012 / 2013 (compared to none in the previous year) which required immediate attention, as follows:

- One related to the significant number of overdue case reviews within Adult Social Care. The action proposed was a restructuring of the Assessment and Care Management function, and the temporary introduction of external resource to complete all outstanding reviews. A recent report from Adult Social Care indicates a substantial reduction in the number overdue.
- Two related to poor financial control within a particular school (School A), and Children's Services are working with the school to produce an action plan.
- One related to poor control in the authorisation of payroll within another school (School C). The Headteacher has confirmed that this has been rectified.

An area of concern in the year has been in contract letting and management processes. Two audit reviews are currently in progress: one an investigation into the under-delivery of services in an Adult Social Care contract; the other a review of the selection and rotation of suppliers across the council as a whole. We will report the outcomes to Audit Committee in due course. Aside from these, we have been made aware of three instances of contract overspends requiring CMDN's (Cabinet Member Decision Notices) within Children's Services. All of the issues suggest that contracts may not be let or managed in the most effective way. This will be an area of focus for Internal Audit in 2013 / 2014.

5. **RESOURCING AND PERFORMANCE**

5.1 **Resourcing**

5.1.1 During 2012 / 2013, resources were made up as follows:

- Chief Internal Auditor. 1 officer. Full time post is split 50:50 with Cambridge City Council. NB: The available time provided for Peterborough will reduce further from July 2013 when South Cambridgeshire District Council joins the shared service.
- Group Auditor. 2 officers. 1.46 FTE
- Principal Auditor. 1 officer. 0.60 FTE. Postholder went on maternity leave from February 2013.
- Senior Auditor. 2 posts. 2.00 FTE. One post vacant.
- Auditor. 2 posts. 2.00 FTE. One post vacant.

5.1.2 The team held two vacant posts during the year. During the first 3 months of the 2012 / 2013, Internal Audit employed an agency auditor to undertake a number of key activities. Two further temporary placements were made in February / March 2013 to fulfil a number of key year end reviews. This provided 15 weeks worth of resource. It is planned to recruit to the vacancies in 2013 / 2014.

5.1.3 There has been increased demand on audit time for the following reasons:

- the transfer of the Adult Social Care Service, which has resulted in audit input to a variety unplanned requests for advice and review, as well as a number of planned audits
- an increased number of irregularity and unplanned investigations, which can be time consuming to complete
- requests for advice and guidance on controls in new and changing areas, particularly with the increasing use of mobile technology
- as the Council is more and more successful in bidding for grants, there is an increased requirement for audit assurance to be provided. Audit input has involved providing significant levels of advice on the completion of grant claims to ensure that assurance can be given, and therefore that grants monies are forthcoming.

5.1.4 The staffing levels within the team, along with the substantial demand for advice, consultancy and special investigation work, present a significant challenge for the Internal Audit team in providing adequate coverage of, and thus the ability to offer assurance on, the Council's control environment as a whole.

5.2 Performance

- 5.2.1 Despite the limited level of resources, we have achieved 87% of the original plan, whilst spending more than double the time than budgeted on unplanned work and 30% more time than budgeted on grant claim certification (due to increased demand). We have also achieved 100% coverage on key financial system audits.
- 5.2.2 All reports, plans and progress reports have been produced in accordance with agreed timescales and presented to Members via the Audit Committee. The Annual Governance Statement was and reviewed by External Audit without any adverse comments.
- 5.2.3 Customer feedback remains very positive with continued high levels of satisfaction demonstrated from our customer questionnaires in excess of our target. Additionally, Internal Audit services have been provided to external customers and positive comments received regarding the reviews undertaken. This work has generated additional funds for the Council through the Service Level Agreement.
- 5.2.4 The shared service arrangement with Cambridge City Council, which has delivered efficiency savings and improved performance, has continued. Following negotiations, from July 2013 South Cambridgeshire District Council will join the arrangement. This will result in a reduced presence of the Chief Internal Auditor on site.
- 5.2.5 The level of sickness within the team has continued to improve at 4.2 days per person during the year compared to 4.7 days per person at the same time last year.
- 5.2.6 As part of Internal Audit's long term strategy to further increase working efficiencies the team is continuing to develop the audit automated system currently in use. The system upgrade to VISION is currently in testing mode and is now scheduled to go live in July 2013. Once it is in place for Peterborough, we will look to roll the system out to Cambridge City Council and South Cambridgeshire District Council.

6. ASSURANCE LEVELS AND RECOMMENDATIONS 2012 / 2013

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
CORE SYSTEM ASSURANCE WORK	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.							
Housing Benefit	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	All jobs complete. A high level evaluation of controls was undertaken and found to be sound. The application of controls has not been tested.
Council Tax	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
NNDR	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Accounts Payable	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Accounts Receivable	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Payroll System	Strategic Resources	Significant	N/A	N/A	N/A	N/A	N/A	
Budgetary Control	Adult Social Care	-	-	-	-	-	-	This job has been replaced by Accounts Receivable and Accounts Payable, in liaison with PwC.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	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.							
Annual Governance Statement / Assurance Framework	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Annual Audit Opinion	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Annual Audit Plan	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 March 2013
Internal Audit Effectiveness	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Full report submitted to Audit Committee on 25 June 2012
Anti Fraud - National Fraud Initiative	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	In progress and on track with Audit Commission deadlines.
Information Governance	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Ongoing. Member of the Information Governance Board (Data Protection Group).
Project Governance	Corporate	-	-	-	-	-	-	Not completed due to increase in unplanned work.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	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.							
Risk Management	Corporate	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Internal Audit providing ongoing consultancy work as these policies are refreshed. Revised policies submitted to Audit Committee 5 November 2012
Adult Social Care Database - Frameworki	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Control advice given during development of system.
Integrated Community Equipment Store	Adult Social Care	Significant	0	1	4	1	6	Final issued.
Carbon Reduction Commitment	Operations	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued.
Direct Payments	Adult Social Care	Limited	1	7	4	0	12	Complete Executive Summary (No.#2) see below. Referred to Audit Committee 5 November 2012
School A: Primary	Children's Services	No Assurance	2	26	9	1	38	Draft issued. Childrens Services are working closely with the school to improve the control environment in relation to procedures and financial management.
School B: Primary	Children's Services							In progress
Partnership Performance (Enterprise)	Strategic Resources	-	-	-	-	-	-	Not completed due to increase in unplanned work.
Partnership Management (SERCO)	Strategic Resources	-	-	-	-	-	-	Not completed due to increase in unplanned work.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
FOLLOW UPS								
Duke of Bedford Primary School	Children's Services	N / A	N / A	N / A	N / A	N / A	N/A	Complete 5 out of 6 recommendations implemented.
Hampton Vale Primary School	Children's Services	N / A	N / A	N / A	N / A	N / A	N/A	Complete. Unable to verify implementation of recommendations while school reviewing processes and staff structure. Consideration for re-audit in 2013-14.
Direct Payments	Adult Social Care							In progress.
Travel and Subsistence (1)	Strategic Resources	Limited	0	3	3	0	6	Complete. All of previous recommendations implemented. Further 6 recommendations made. Executive Summary (No.#1) see below. Referred to Audit Committee 5 November 2012
Travel and Subsistence (2)	Strategic Resources							In progress. All of previous 6 recommendations implemented.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
GRANT CLAIM CERTIFICATION								
GAF 2011/12	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed Assurance Letter
Zecos (EU Grants) – 2 nd Claim	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed First Level Controller Approval
CTIE (EU Grants) – 1 st Claim	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed First Level Controller Approval
Disabled Facilities Grant	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed Assurance Letter
DFT (Local Plan Integrated Transport)	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed Assurance Letter
DFT (Local Transport Plan Highways)	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed Assurance Letter
Zecos (EU Grants) – 3 rd Claim	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed First Level Controller Approval
CTIE (EU Grants) – 2 nd Claim	Corporate	N / A	N / A	N / A	N / A	N / A	N / A	Completed First Level Controller Approval

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED								
Contract Letting - Supplier Selection and Rotation	Strategic Resources	Limited	0	3	8	2	13	Draft issued.
Conflict of Interest – alleged irregularity	Adult Social Care							In progress Review of possible conflict of interest between an employee and a contractor.
Direct Payments – alleged irregularity	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Investigation into concern that monies are being spent inappropriately. Not proven, but arrangement now ceased.
Contract Management – alleged irregularity	Adult Social Care							In progress. Investigation into alleged under-delivery of contracted services.
New Suppliers	Adult Social Care	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued
Governance Review	Chief Execs	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Request for Chief Internal Auditor to undertake an independent investigation into a corporate complaint within another section
School C - Special Payroll Review	Children's Services	No Assurance	1	9	4	3	17	Final issued Executive Summary (No.#5) see below. Referred to Audit Committee 24 June 2013
Children's Services Special Review	Children's Services							In progress.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED (continued)								
Petty Cash – alleged irregularity	Children's Services	Limited	0	1	8	1	10	Final issued Executive Summary (No.#7) see below. Referred to Audit Committee 24 June 2013 Investigation into missing monies - not proven.
Purchasing via E-bay	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued
Gifts and Hospitality for Schools	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Memo issued
Contract overspends	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 3 Memos issued
Translation Services	Children's Services							In progress
Sale of obsolete items	Children's Services	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 2 memos issued
Contract Tendering – alleged irregularity	Operations	N/A	N/A	N/A	N/A	N/A	N/A	Complete Executive Summary (No.#3) see below. Referred to Audit Committee 5 November 2012 Referral made to Police for action
Water City Festival – alleged irregularity	Operations	N/A	0	3	1	0	4	Complete Executive Summary (No.#4) see below. Referred to Audit Committee 5 November 2012

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
UNPLANNED (continued)								
VAT Self Billing	Strategic Resources	Limited	0	10	0	0	10	Final issued. Executive Summary (No.#6) see below. Referred to Audit Committee 24 June 2013
Accounts Payable queries	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 4 memos issued
Document Retention	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. 2 memos issued
Partnerships	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Procedural review.
Contract Standing Order Review	Chief Execs	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Input to Contract regulations review by Legal Services.
Web-based systems Access Controls	Strategic Resources							In progress
Payroll Overpayment Recovery Process	Strategic Resources							In progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
EXTERNAL WORK								
Vivacity	External	N/A	N/A	N/A	N/A	N/A	N/A	Commercially sensitive. This work does not form part of the Head of Internal Audit opinion.
Development of client base	External	N/A	N/A	N/A	N/A	N/A	N/A	Following discussions with the Chief Internal Auditor and proposals as to how the service could be managed, South Cambridgeshire District Council will be joining Shared Service arrangement in July 2013. SCDC currently use an external provider.

7. **AUDIT REPORTS ISSUED AS FINALS: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

	AUDIT ACTIVITY	ASSURANCE RATING	DATE TO AUDIT COMMITTEE
1.	Travel and Subsistence	Limited	5 November 2012
2.	Direct Payments	Limited	5 November 2012
3.	Contracts Tendering Review	Limited	5 November 2012
4.	Water City Festival	Limited	5 November 2012
5.	School C Payroll Review	No Assurance	24 June 2013
6.	VAT Self-Billing	Limited	24 June 2013
7.	Petty Cash	Limited	24 June 2013

Audit Title 1	Travel and Subsistence
Scope	A Travel and Subsistence audit report was previously issued where there were 4 high graded recommendations and agreed actions. It is our normal practice to follow up final reports after six months of issue but a three monthly follow up was requested in this instance by Cllr. Seaton. This review has been undertaken in order to gain assurance that agreed actions in the report have been implemented satisfactorily.
Findings and Conclusions	<p>Overall there has been little change in the payroll control framework between the original report and this follow-up review. The key issues can be categorised as follows:</p> <p>Corporate Compliance It was disappointing to note that, even following a reminder being published on Insite some employees continue to complete their claims incorrectly and that these claims are then authorised by managers who have not undertaken the required checks. It was evident from the testing that a key area for non-compliance with the Travel and Subsistence Policy is within Children's Services, and this will be raised by the Executive Director of Strategic Resources with the Corporate Management Team.</p> <p>Systems Administration Both the original audit and this follow-up revealed errors made by payroll staff when processing claims. Human error is to be expected in any system, but it is important that the controls already in place to mitigate against such risks are operated effectively.</p> <p>New developments since the inception of the Peterborough Serco Strategic Partnership will ensure that a more robust stance on non-compliance is taken. This and implementation of the recommendations within this report will improve the control framework to a satisfactory standard.</p>

Audit Title 2	Direct Payments
Scope	<p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • Assess the adequacy and effectiveness of controls over the set-up, payment and ongoing monitoring of Direct Payments to care service users. • Undertake a full systems based review of the process for issuing and monitoring Direct Payments made to care service users to ensure that the process provides accountability for public funds being used.
Findings	<p>From our audit testing there is evidence that one out of fourteen Direct Payment cases checked was not subject to an annual reassessment. At the time of the audit, the latest "Monthly Breach Report" on overdue care reassessments indicated that out of a total of 5102 care cases managed by the ASC team, 58 had an overdue reassessment greater than one year.</p> <p>Direct Payments Policy and Procedures are currently in draft form and have not yet been finalised and approved. The Policy and Procedures are required to outline the framework for which Direct Payment packages are to be managed and maintained to help ensure that service users receive appropriate care without financial abuse of the funding they receive.</p> <p>A completed and signed Direct Payment Agreement contract was not available for review in 64% of case files checked as part of this audit (not held on the paper file or the electronic RAISE system).</p> <p>At the time of the audit there was evidence of a significant backlog of submitted financial records awaiting review by the Adult Social Care Placement & Client Income Team (161 service user records as at 18/05/12). Arrangements are being made to recruit a temporary Direct Payments Monitoring Officer dedicated to reviewing records and pursuing outstanding expenditure information. This post will initially last for 12 months, and will be reviewed with the possibility of a permanent position being created.</p> <p>Audit testing of case files revealed that there is evidence that some service users are not submitting any financial records (7%) or insufficient financial records (64%). There is also evidence of expenditure that does not support the required care package for which Direct Payment funding should be used (28%)</p> <p>The RAISE case file system provides an effective communication link between personnel checking the Direct Payment expenditure records and Care Support staff who liaise directly with service users. The RAISE system is effective at recording electronic case file notes.</p>

Audit Title (continued)	2 Direct Payments
Conclusions	<p>Adult Social Care management need to ensure that case reassessment timescale breaches are reported, monitored and actioned to ensure statutory requirements for care case reviews are fulfilled. Without adequate care reassessments taking place, Adult Social Care management are unable to demonstrate that they are fulfilling their responsibilities for providing ongoing appropriate social care.</p> <p>Recent Direct Payment applications are supported by completed and signed Direct Payment Agreement contracts, but there appears to be an historic issue for older cases where signed Agreements were not always obtained.</p> <p>ASC management need to improve the way in which submitted financial records are assessed to ensure that Direct Payment expenditure evidence is subject to timely review. This is important for identifying and escalating instances of potentially inadequate care provision and/or financial abuse of the Direct Payment funding.</p> <p>Due to the extent of the issues arising from this audit, and due to the statutory breach implications, limited assurance is provided over the control environment for managing and monitoring Direct Payment care packages.</p> <p>The audit opinion is Limited Assurance.</p>

Audit Title 3	Contracts Tendering Review
Scope	Internal Audit was requested to undertake a review where it had been identified that an ex-employee was involved in producing tender documentation for a company. Concerns were raised regarding unauthorised access to information which could have resulted in an unfair advantage being gained by the company. The review was to establish if information had been gained by unfair means and whether the company should be excluded from the tendering process.
Findings	<p>It was established that:</p> <ul style="list-style-type: none"> • Unauthorised access had been gained to PCC's web-based archive system by an ex-employee; • The administrator of the system had not been advised of the individuals resignation and access rights had therefore not been removed; • Information had been viewed or downloaded from historic tendering exercises detailing information pertinent to the current tendering exercise; • The current system prevented tender submissions being viewed prior to the tender closure date and it was therefore not possible to access the current tendering exercise information therefore the tendering process had not been compromised other than for the one company who obtained an advantage by having access to archived information. <p>Analysed information and the resultant findings were passed to the police who agreed to formally investigate the case. The outcome was an admission of guilt, resulting in a formal caution being issued and the company's withdrawal from the tendering exercise.</p>
Conclusions	<p>The review highlighted control issues surrounding web-based systems in operation where access can be obtained without the need to first access PCC's portal. Whilst ex employees access rights are normally removed from PCC's main systems there appears to be a breakdown in administrators overseeing web-based systems being advised when staff leave the organisation.</p> <p>The audit opinion is Limited Assurance.</p> <p>A further piece of work has now commenced to establish whether this issue is widespread and to ensure that controls are strengthened to avoid future issues of this type.</p>

Audit Title 4	Water City Festival
Scope	Internal Audit was asked to review the governance arrangements in place within the Operations Directorate for the procurement and payment of special events, in particular the delivery of the Peterborough City Water Festival.
Findings	The cost for the delivery of the event was expected to be in the region of £15,000, excluding sundry costs, and would be borne within the city events budget. Due to the unique nature of the event – there was no other provider – contract regulations stipulate that an exemption report would be required as there would be no competition / quotation received. While the event was known for sometime, there were numerous delays in producing this exemption report. In addition, there was also a lack of information relating to the supplier. This then hindered the payment process.
Conclusions	<p>Poor governance arrangements have been in place for organising and managing the event and while there are appropriate processes in place across the Council these have not been followed to ensure transparency of decisions etc.</p> <p>A number of recommendations have been made in the report and a consideration should be given as to whether or not disciplinary action should be initiated.</p> <p>The audit opinion is Limited Assurance.</p>

Audit Title 5	School C Payroll Review
Scope	<p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • Review payroll controls in operation at the school to ascertain their effectiveness, and to make recommendations on how controls could be improved • Review claims for additional payments to ensure they had been appropriately authorised <p>The scope included: starters and leavers, deductions, variations to pay, pay run processes, transfer of information to and from the provider, and security of data.</p>
Findings	<p>The payroll processes operated in school do not demonstrate an effective separation of duties. Both the Headteacher and Finance Manager have the ability to process and authorise the payroll independently and testing demonstrated that system had been compromised in the following ways:</p> <ul style="list-style-type: none"> • Approximately one-third of claim forms (18) submitted via the EPM portal for variations to pay (e.g. additional hours, supply hours, or mileage) since March 2012 had not received written authorisation from the Headteacher. 12 instances occurred during the 2012 summer holiday. There were also numerous instances of retrospective authorisation (i.e. after the claims were entered to the portal); • In addition to claims not being authorised in writing, 5 examples were also identified where claim forms had not been produced to support the payment. • The Finance Manager has made five claims for additional payment since July 2011. Of these two appear to have been authorised appropriately prior to payment, two were authorised retrospectively, and one mileage claim has been paid without any authorisation; • Whilst EPM have confirmed that a password has been issued to the previous Headteacher they have similarly commented that there has never been any log on registered into the payroll portal. Audit trail detail obtained has identified that portal activity has been limited to the Finance Manager. As the Finance Manager does not routinely print off and save payroll reports outside of the portal, it suggests that the previous Headteacher could not have viewed them and therefore not have had the ability to authorise the payroll for payment as correct. • The payroll portal is web-based, and usernames are based on generic e-mail addresses. As the original Headteacher's username was reassigned to her replacement, and the password has never been changed, the two former Headteachers could in theory both still access the portal. • Current payroll processes and responsibilities at the school were not documented.
Conclusions	<p>There should be separation of duties between officers able to process data and those able to authorise the payroll. Whilst it was understood that verbal management authorisation for the payroll was common practice, there is limited evidence to support that this has taken place and the school is therefore exposed to risks of error, fraud and does not protect the staff involved from allegations of impropriety. The audit opinion is No Assurance.</p>

Audit Title 6	VAT Self-Billing
Scope	<p>The objective of the audit was to:</p> <ul style="list-style-type: none"> • To review the context for using self billing arrangements; • To verify the process followed for delivery of the service; • To identify potential gaps in the process and to make appropriate recommendations to improve. <p>It is outside of the scope to quantify the cost of VAT in dispute, if any, and this analysis would be undertaken by Finance.</p>
Findings	<p>The key findings identified during the review were:</p> <ul style="list-style-type: none"> • Self billing agreement expired at the end of the calendar year and (as at 28 February 2013) has not yet been renewed. Based on the information on the HRMC website, this would be classed as a breach of the terms of the use of the agreement and could also result in a punitive fine; • Although remittance schedules should be provided on a timely basis by the customer this has not always been followed. Since the early identification of the concern, efforts are made to chase these up in order to allow for appropriate reconciliation; • There is no separation between payments relating to goods provided through the self billing arrangement and those provided through additional orders. Without the BACS remittance schedules being always provided, there is an inability to reconcile. In addition, those payments relating to separate orders will also include VAT; • Analysis of the electronic summaries provided suggest that there are anomalies in the calculation of tax. Figures recorded equate to 17½%, but this should be 20% from January 2011. (Note this is an issue for Perkins to resolve); • There is limited monitoring of income other than the “bottom line” position; • Early disclosure of a potential VAT under payment is required to HMRC; and • Going forward, as a consequence of the under payment of VAT there will be a need to review the financial viability of the service.

Audit Title 6 (continued)	VAT Self-Billing
Conclusions	<p>VAT self-billing arrangements are used where the customer is in a better position to determine the amount and value of the goods supplied. For it to operate effectively there needs to be appropriate processes in place in order for output tax to be declared correctly between the customer and the supplier. This arrangement has to be updated on an annual basis.</p> <p>From the records available, Westcombe Engineering has used self-billing prior to the service returning to the Council and this has continued under the stewardship of City Services through to the current day within Strategic Resources. It has not been possible to review the VAT issue prior to February 2009 as records relating to the previous operations were removed by the receivers, a separate entity not part of this HMRC issue.</p> <p>Arrangements are such that the customer (Perkins) prepares invoices based on the goods obtained from the supplier (Westcombe). Payments are made direct to the Council through the BACS system and coded to Westcombe Engineering. This approach should reduce the need to raise invoices by Westcombe. For this to be effective there is a requirement for the customer to provide appropriate information to back up the payments. This includes details of the goods received, the goods paid for, and the appropriate split of VAT.</p> <p>While this has operated for a number of years there has been limited need to review the arrangements. Goods have been provided and income received. VAT has been at a standard 17½%. Income received has been recorded in the ledger and the bottom line income position monitored and has been in line with expectations. From January 2011, VAT was increased to 20%.</p> <p>The level of debt outstanding on Accounts Receivables was queried as the customer had intimated that monies had been paid, thus suggesting that they had not been posted correctly to the accounts. Remittance advice received were reviewed and verified against the ledger. It was concluded that income was not having VAT deducted at point of posting by the cash office i.e. recording income gross rather than nett. As a result income levels were overstated. From additional analysis undertaken by Finance, it would suggest that this also covered the previous periods with the VAT rate of 17½%.</p> <p>From interrogation of the records held there are a number of invoices which appear outstanding and these need to be verified with Perkins to ascertain the true financial position. Comprehensive information is required from Perkins to verify this and for going forward. Once the list of all goods issued and paid is established, should there be an under payment of VAT, this will enable the Council to liaise with HMRC to make an early declaration into the payment of additional VAT. In accordance with VAT regulations, this additional payment could go back up to 4 years, together with any associated interest recovery. The current exposure shows a VAT adjustment of £504,011-73 made up of £395,804-48 prior year and £108,207-25 for 2012 / 2013.</p> <p>The audit opinion is Limited Assurance.</p>

Audit Title 7	Petty Cash
Scope	A review of petty cash was undertaken following a report that approximately £1,000 had gone missing from the Children's Social Care petty cash tin. This has also been referred to the Senior Corporate Compliance Officer for special investigation and reported to the police. The purpose of the audit was to review the current procedures for the administration of the petty cash for Children's Social Care to ensure that the risk of theft is minimised.
Findings	The main areas for improvement were: <ul style="list-style-type: none"> • Improving security of the cash tin and associated keys • Minimising the number of staff with access to the cash tin • Improving compliance with existing controls, such as spot checks, reconciliations and handover procedures • Reviewing the level of cash held
Conclusions	The Children's Social Care petty cash account is administered by Serco. The recommendations made, whilst improving the control environment, will not prevent theft from occurring. However, they seek to reduce the likelihood of theft, the level of any loss, and increase the chances of detecting who may have taken the money. The audit opinion is Limited Assurance.

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