

**APPENDIX A**



**ANNUAL AUDIT OPINION  
PROGRESS REPORT 2013 / 2014**

## 1. **INTRODUCTION**

1.1 The purpose of this report is to bring the Audit Committee up to date with progress made against the delivery of the 2014 / 2014 Internal Audit Plan as at 30 September 2013. This report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit;
- Advise the Committee of significant issues where controls need to improve to effectively manage risks;
- Advise of any planned changes to reviews, slippage or deletions to that originally agreed on 27 March 2013;
- Track progress on the delivery of agreed actions which will be reported as part of the annual reporting process; and
- Provide an update on performance indicators comparing actual performance against planned where measurable at this stage.

1.2 The information included in this progress report will feed into, and inform our overall opinion in the Annual Head of Internal Audit Report issued at the year-end. This opinion will in turn be used to inform the Annual Governance Statement (AGS) included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council.

1.3 Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

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

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

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

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

## **2 RESOURCING AND PERFORMANCE**

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

- Head of Internal Audit                      0.35 FTE                      NB. Reduced from 0.5 FTE in July 2013 due to South Cambridgeshire joining the shared service arrangement.
  
- Group Auditor                                      1.46 FTE
- Senior Auditor                                      1.00 FTE
- Auditor    1.00 FTE
  
- Principal Auditor                                      0.60 FTE                      On maternity leave since February 2013
- Vacant posts    2.00 FTE                      Recruitment to both posts planned for mid-year (1 FTE)

- 2.2 As at 30 September 2013, the recruitment process was underway with interviews due to be held during October. As the Audit Plan was compiled on the basis of recruitment being completed mid-year, there will be a pressure on the delivery of the plan due to time slippage. Delays in recruitment was primarily due to an initial advertisement in August not generating suitable applicants. This resulted in the posts being re-advertised during September. It should be further noted that if two appointments are not made there will be a further pressure on the plan for the remainder of the year. Audits will be risk assessed for priority or removal if this is the case.
- 2.3 During the first six months of the year, it should be noted that:
- A considerable amount of work has been undertaken with regards to both European and UK grant certification. Whilst an audit assurance rating is not provided in accordance with our normal audit reporting activities, assurance is seen to be satisfactory as a result of certifying the grant information. A considerable amount of time has been invested in the process often due to changing requirements from our European lead partners and staff changes locally within the organisation for all grants. Lessons learned meetings continue to be held after each European grant claim exercise with a view to making future claim processes more efficient but currently the time taken to complete the certification process is exceeding the budgeted time within the plan.
  - The Chief Internal Auditor commenced the further expansion of the shared service with South Cambridgeshire joining the arrangement in July. The Chief Internal Auditors time is now shared between three authorities with Peterborough City Council's share of time being approximately 1.5 days per week.
  - Some unplanned work has been requested and undertaken. This is detailed in the table within section 3 of this report.
  - The team continue to provide internal audit services to Vivacity under a service level agreement. Income received is held corporately by the authority.
  - Work has continued to progress on jobs carried forward from 2012/2013 with many having reached the draft stage or completed.
- 2.4 The level of sickness within the team is good with no reported sickness per person to September 2013 compared to 0.36 days per person at the same time last year.
- 2.5 Post audit customer satisfaction questionnaires continue to demonstrate that audit reviews are meeting the needs of the organisation with an average score of 4.5 / 5.00.
- 2.6 As part of Internal Audits long term strategic plan to further increase working efficiencies the team is continuing to develop the audit automated system currently in use. The system upgrade to VISION is on-going and training was received during September with a view to going live during the second half of the year. Project management of the process is being undertaken in conjunction with the existing system provider. Cambridge City Council are also planning to review whether they implement the system as part of the shared service arrangement once PCC are operational. Similarly, the Chief Internal Auditor intends to review whether South Cambridgeshire can benefit from the use of an automated solution. It is intended that PCC will act as the host system provider should the other teams look to implement VISION.

### 3 PROGRESS AGAINST AGREED AUDIT PLAN

Where audits are "shaded", these represent all jobs not started at 30 September 2013.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>CORE SYSTEM ASSURANCE WORK</b>	<b>Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.</b>							
Housing Benefit	Serco/Strategic Resources							To commence Qtr3
Council Tax	Serco/Strategic Resources							To commence Qtr4
NNDR (Business Rates)	Serco/Strategic Resources							To commence Qtr4
Accounts Payable	Serco/Strategic Resources							To commence Qtr4
Payroll	Serco/Strategic Resources							To commence Qtr3
Teachers Pensions	Childrens Services/Strategic Resources	NFA	NFA	NFA	NFA	NFA	NFA	External Audit reliance work.  Changes to review programme has resulted in no work required from Internal Audit – no further action
Purchasing Cards	All							At review stage

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK</b>	<b>To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed over a three year cycle; others will be reviewed periodically dependent on risk.</b>							
Annual Framework and Annual Governance Statement Review	All	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Presented and agreed by Audit Committee on 24 <sup>th</sup> June 2013
Annual Audit Opinion	All	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Presented to Audit Committee on 24 June 2013
Annual Audit Plan	All							To commence Qtr3
Internal Audit Effectiveness / Audit Committee Effectiveness	All	N/A	N/A	N/A	N/A	N/A	N/A	Complete. Presented to Audit Committee on 24 June 2013
Anti-Fraud Culture	All							NFI Initiative - Nearing completion and on track with Audit Commission deadlines.
Information Governance	All							Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group  On-going

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks</b>							
Information Governance	All							
Adult Social Care – Compliance with new eligibility criteria	Adult Social Care							
Adult Social Care Database	Adult Social Care							At planning stage
Schools:								
Gladstone Primary School	Childrens Services							In draft
The Beeches Primary School	Childrens Services							In draft
Partnership Management	Strategic Resources							
<b>EXTERNAL WORKS</b>	<b>Work which generates income for the council</b>							
Vivacity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4 reviews completed from 2012/13. 4 audits in progress or at planning stage.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>GRANT CLAIM CERTIFICATION</b>	<b>Certification of claims in relation to UK and European funding requirements</b>							
Zero Carbon (ZECOS) - European Funding	Operations	Grant Certified	N/A	N/A	N/A	N/A	N/A	4th grant claim certification complete
Cleantech Incubator Europe (CTIE) – European Funding	Opportunity Peterborough/ Strategic Resources	Grant Certified	N/A	N/A	N/A	N/A	N/A	3 <sup>rd</sup> grant claim certification complete
Disabled Facilities Grant	Operations	Grant Certified	N/A	N/A	N/A	N/A	N/A	Annual certification complete
DFT – Local Plan Integrated Transport	Operations	Grant Certified	N/A	N/A	N/A	N/A	N/A	Annual certification complete
DFT – Local Transport Plan Highways	Operations	Grant Certified	N/A	N/A	N/A	N/A	N/A	Annual certification complete
GAF	Operations	Grant Certified	N/A	N/A	N/A	N/A	N/A	Annual certification complete
Zero Carbon (ZECOS) - European Funding	Operations							5th grant claim – certification to commence Qtr4
Cleantech Incubator Europe (CTIE) -European Funding	Opp.P'borough / Strategic Resources							4 <sup>th</sup> grant claim – certification to commence Qtr4
<b>FOLLOW UP REQUEST</b>								
Westcombe: VAT Self Billing Arrangements	Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Memo issued. Previous recommendations implemented.



AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>OTHER RESOURCE PROVISION</b>	<b>Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.</b>							
School A: Primary	Children's Services	No Assurance	2	26	9	1	38	Draft issued.  Children's Services are working closely with the school to improve the control environment in relation to procedures and financial management.
Direct Payments Follow Up	Adult Social Care	Limited Assurance						In Draft
Travel and Subsistence Follow Up	Strategic Resources							At review stage
Contract Letting - Supplier Selection and Rotation	Strategic Resources	Limited Assurance	0	3	8	2	13	Draft issued. To be revisited now that Contract Rules have been revised and approved.
Conflict of Interest – Alleged irregularity	Adult Social Care							In progress  Review of possible conflict of interest between an employee and a contractor.
Contract Management – Alleged irregularity	Adult Social Care							In progress.  Investigation into alleged under-delivery of contracted services.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>							
CARRY FORWARD ACTIVITIES - 2012/13 cont:								
Translation Services	Children's Services	No Assurance						In draft
Web-based systems Access Controls	Strategic Resources							At review stage
Payroll Overpayment Recovery Process	Strategic Resources	Limited Assurance						In draft

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>UNPLANNED ACTIVITIES</b>	<b>Internal Audit provides control and risk advice to officers/management/members as a result of changing risks. This audit activity covers review work that is additional and was not specified as part of the original audit plan</b>							
Troubled Families Certification	Childrens Services	Grant Certified	N/A	N/A	N/A	N/A	N/A	Completed. Verification to be undertaken annually in the future.
Troubled Families Process review	Childrens Services							A review of processes and procedures to align with future grant claims. Management request. To commence Qtr3
HIV / AIDS Charity Governance Arrangements.	Adult Social Care	NFA	NFA	NFA	NFA	NFA	NFA	Management request. Work commenced and subsequently suspended due the NHS retaining ownership of the account. ASC advised and no further action required.
Westcombe Industry Scrap Waste Stock	Strategic Resources	Significant Assurance	N/A	N/A	N/A	N/A	N/A	Audit Committee Request Complete. Memo issued
Whistleblowing Investigation: Alleged Irregularity	Operations							Initial review of documentation received with a view to appointing an external investigator.
Consultancy Rates	Strategic Resources							Joint exercise with Client Services. Internal Audit to undertake Data analysis. In progress.
Atlas Benefit Changes	Serco/Strategic Resources	N/A	N/A	N/A	N/A	N/A	N/A	Review of process changes and control advice. Memo

**RESERVE LIST: SUBJECT TO RECRUITMENT TO VACANT POSTS**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>CORE SYSTEM ASSURANCE WORK</b>	<b>Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.</b>							
Main Accounting System	Strategic Resources							Review of key controls to incl. feeder system input and reconciliations.
Fixed Asset Accounting	Strategic Resources							To identify controls in operation for the identification of assets, disposal and arrangements for inclusion on the fixed asset register, to include appropriate accounting processes.
Sundry Billing and Debt Recovery	Serco/Strategic Services							Ensure finite resources are appropriately managed.
Budgetary Control	Various							Review of arrangements in place for two areas within the organisation.
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>							
Partnerships	All							Review of client management arrangements/performance delivery
Project Governance	Children's Services							Provide assurance that projects are managed in accordance with best practice. This will include, where appropriate, post-implementation reviews in order to evaluate whether benefits have been realised

**RESERVE LIST: SUBJECT TO RECRUITMENT TO VACANT POSTS (continued)**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>							
Risk Management and Business Continuity	All							Review the effectiveness of processes in place as a result of organisation / responsibility changes.
Fuel Cards	Strategic Resources							Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid and accurate.
Carbon Management	Operations	NFA	NFA	NFA	NFA	NFA	NFA	Data quality review prior to submission of information regarding carbon reduction commitment and carbon trading return  Data review not required therefore no further action.
Contracting (see below)	Various							To review specific aspects of the contracting process across a variety of contracts.
Enterprise Bus Contract								Member request. In progress
Schools	Childrens Services							Review of school processes.  2 additional schools

**RESERVE LIST: SUBJECT TO RECRUITMENT TO VACANT POSTS (continued)**

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS Cont:</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>							
ICT Projects	Serco / All departments							Review of controls and processes in developing automated systems
Electronic Call System	Adult Social Care							Review of risk management processes in place to align with organisation changes
Re-ablement	Adult Social Care							ASC management request to review processes and controls for reablement outcomes
Public Health	Operations							Review integration of new service area
RAISE	Childrens Services							Review the access arrangements to ensure appropriate data security and conflict of interests managed