

APPENDIX A

**ANNUAL AUDIT OPINION
2013 / 2014**



ANNUAL REPORT

1. Introduction
2. Arriving at an Opinion
3. Opinion 2013 / 2014
4. Basis of Annual Opinion
5. Resourcing and Performance
6. Assurance Levels and Recommendations
7. Audit Reports Issued: Opinion of Limited Assurance or No Assurance

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 2013 / 2014. 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 and risk 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 (unless further recommendations are made). However the certification of grant work should indicate that at the point of approval, information being submitted to external organisation meets required criteria. 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 2013 / 2014

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 2013 / 2014 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 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 2014*

4. **BASIS OF ANNUAL OPINION**

- 4.1 The audit work that was completed for the year to 31 March 2014 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 **43%** of the systems audited achieved an assurance level of significant or higher (2012/13: **50%**; 2011/12: **53%**). 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. This is particularly notable where three reviews historically undertaken on an annual basis in conjunction with Price Waterhouse Coopers and frequently assessed with significant assurance have not been undertaken this year.

| AUDIT ASSURANCE | | | | | | |
|------------------|-----------|-----------|-----------|------------|------------|------------|
| Assurance Levels | Issued | | | % | | |
| | 2011/12 | 2012/13 | 2013/14 | 2011/12 | 2012/13 | 2013/14 |
| Full | 0 | 0 | 0 | 0 | 0 | 0 |
| Significant | 9 | 7 | 6 | 53 | 50 | 43 |
| Limited | 8 | 5 | 7 | 47 | 36 | 50 |
| No | 0 | 2 | 1 | 0 | 14 | 7 |
| | 17 | 14 | 14 | 100 | 100 | 100 |

| RECOMMENDATIONS MADE | | | |
|----------------------|------------|------------|------------|
| | Numbers | | |
| | 2011/12 | 2012/13 | 2013/14 |
| Low | 53 | 8 | 31 |
| Medium | 88 | 41 | 45 |
| High | 41 | 63 | 40 |
| Critical | 0 | 4 | 1 |
| | 182 | 116 | 117 |

- 4.2 In addition to the audits detailed in the above table, further audit work was carried out, including 4 follow-ups, 10 grant reviews, 7 pieces of consultancy work as well as 4 governance reports and the completion of NFI review work. At the year end 11 audits were in various stages of completion and audit opinions relating to these will be reported during 2014 / 2015 as part of the agreed performance reporting timetable to the Audit Committee.

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 at the end of 2013 / 2014 and work is due to be finalised early in 2014/15. From the review work undertaken there is evidence to support that progress has been made during the year with regards to risk. A risk management working group has been formed and has evolved with regards to membership. Representation within the group is aimed to include individuals from each directorate with knowledge of strategic and departmental risk. Whilst progress is being made, the key aspects of: cascading the process throughout the authority and developing robust reporting mechanisms is still underway. In addition to this the organisation is discussing risk with PCC Partners with a view obtaining risk registers in relation to service provision. Internal Audit will continue to monitor developments in this area and also Business Continuity during 2014 / 15.

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. During the year a change in work programme resulted in four reviews not being required to be undertaken by internal audit. This resulted in four other key financial systems being reviewed. 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 5 reviews on behalf of Vivacity Leisure Trust during the year and completed 4 from the previous year. The nature of the works undertaken are confidential between internal audit and the client and are not incorporated into or form part of the Head of Internal Audit Annual Opinion.

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

Ongoing liaison and partnership working has continued during the year with the Governance Team. Time for irregularity work has reduced considerably from the previous year where two reviews were resource intensive. Two reviews remain ongoing, primarily due to additional work being undertaken by external companies. Summary analysis shows that:

| 2013 / 2014 INVESTIGATIONS | | | | |
|----------------------------|--------------|---------|---------------------|------------|
| Department | Joint Review | | Internal Audit only | |
| | Number | Status | Number | Status |
| Adult Social Care | 1 | ongoing | 1 | Not proven |
| Communities | 1 | ongoing | | |
| | 2 | | 1 | |

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 for 30 June 2014

- School B
- School C
- Direct Payments Follow-up
- Travel and Subsistence Extra Follow-up
- Translation Services
- Payment Overpayment Recovery Process

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.

One critical recommendation was made in 2013 / 2014 (compared to four in the previous year) which required immediate attention. This related to the significant number of overdue invoices in relation to translation services. The action proposed was to address the administrative approach in relation to the raising of purchase orders and subsequent receipting and monitoring of services. The effectiveness of processes introduced will be reviewed as part of a follow-up audit to be undertaken in 2014/15 in accordance with internal audit protocols.

4.10 Summary Activities

Section 6 identifies the work undertaken and concluded in the year. Activities, not reported separately within the report, include:

- Governance and Assurance. Reviews of IA Effectiveness and the Annual Governance Statement were completed to schedule and issued to Audit Committee.
- National Fraud Initiative. Work concluded during the year in partnership with the Governance Team to assess, evaluate and investigate the data discrepancies provided by the Audit Commission. Further information is recorded on the annual fraud report.
- Grant Claims. There has continued to be an increase in the level of requirement for Internal Audit to review and certify claims which is due to continue into 2014/15. There has been a noted improvement with regards to the quality of documentation retained and provided from within the organisation for some claims during the year. However, ongoing changes to requirements from Lead Partners in relation to European funding continues to make certification for those grants resource intensive.

- Team members participate in working groups such as risk management and information governance within the organisation as well as liaising on a regular basis with the Governance and ICT Client Services Team. In addition to this quarterly attendance at Cambridgeshire Audit Group is undertaken to discuss emerging audit issues in sharing best practice to improve efficiency.

5. **RESOURCING AND PERFORMANCE**

5.1 **Resourcing**

5.1.1 During 2013 / 2014, resources were made up as follows:

- Chief Internal Auditor. 1 officer. Full time post is split 40:40:20 with Cambridge City Council and South Cambridgeshire District Council (SCDC). NB: The available time provided for Peterborough reduced from 50:50 during July 2013 when SCDC joined the shared service.
- Group Auditor. 2 posts. 1.46 FTE
- Principal Auditor. 1 post. 0.60 FTE. Post holder has been on maternity leave for the duration of 2013/14.
- Senior Auditor. 2 posts. 2.00 FTE. One post remained vacant until January 2014 (1.25 FTE available during the year).
- Auditor. 1 post. 1.00 FTE.

5.1.2 The team held two vacant posts during the year. A recruitment exercise was undertaken mid-year and following a re-advertisement an appointment was made of a Senior Auditor. The post was filled during January 2014, later than planned but will place the team in a stronger resource position moving into 2014/15. In addition to this, one team member was on maternity leave for the duration of the year and is due to return during April 2014.

5.1.3 There continues to be increased demand on audit time for the following reasons:

- With structural changes along with the integration of services such as Adult Social Care and Public Health into the organisation where historic audit history is unknown, a number of planned audits have been undertaken as well as audit input into a variety unplanned requests for advice and review.
- Requests for advice and guidance on controls in new and changing areas, particularly with the increasing use of mobile technology and system changes / upgrades in improving efficiencies and value for money.
- As the Council is becomes more successful in bidding for grants, there is an increased requirement for audit assurance to be provided. The amount of grant certification has increased further this year as a result. Audit input has involved providing significant levels of advice on the completion of grant claims to ensure that assurance can be given, therefore ensuring that grants monies are forthcoming and timely.

5.1.4 The staffing levels within the team which has been markedly reduced this year, along with the not insubstantial demand for advice, consultancy / investigation work, has presented a significant challenge for the Internal Audit team. This is particularly 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. Where reviews were not delivered this was mainly due to revised external audit work programmes where work was not required (4 reviews) and changes in priority resulting in reviews being replaced with other audits from the reserve list (5 reviews). Where reviews are still considered to be pertinent they have been rescheduled to be undertaken during 2014/15. Similarly, along with unplanned activities additional time has been taken than budgeted for grant work. This is primarily due to increased demand where two unscheduled additional reviews were undertaken.

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 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.

5.2.4 100% of high and critical audit recommendations made in 2014 / 2015 have been accepted.

5.2.5 The shared service arrangement with Cambridge City Council, which has delivered efficiency savings and improved performance, has continued. Since July 2013 South Cambridgeshire District Council have joined the arrangement. This has resulted in further efficiency savings with reduced presence of the Chief Internal Auditor at the PCC site.

5.2.6 In addition to the shared service arrangement the Chief Internal Auditor has taken over the management responsibility of the Insurance Team during the year. The team is presently based at Manor Drive with plans in place to relocate to the Town Hall during 2014/15.

5.2.7 The level of sickness within the team has continued to improve with 1.85 days per person (0.7%) reported during the year compared to 4.2 days per person at the same time last year. This is also below the corporate target of 3% for employees (8 days).

5.2.8 As part of Internal Audits long term strategy to further increase working efficiencies the team has continued with the further development of its automated software during the year. The system upgrade to VISION took place during the year and went live in January 2014 for all new reviews. This was behind our initial schedule due to various technical issues outside of the team's control. Benefits have already been recognised with greater functionality for offsite working. The next phase for 2014/15 will be to roll the system out to both Cambridge City

Council and South Cambridgeshire District Council. The Chief Internal Auditor will determine the schedule for this subject to the appropriate approval and infrastructure being in place within the respective councils.

6. ASSURANCE LEVELS AND RECOMMENDATIONS 2013 / 2014

Where audits are "shaded", these represent all jobs not started at 31 March 2014.

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|-----------------------------------|--|-----------------|----------------------|------|--------|-----|-------|---|
| | | | Critical | High | Medium | Low | Total | |
| CORE SYSTEM ASSURANCE WORK | 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. | | | | | | | |
| Housing Benefit | Serco/ 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 |
| Council Tax | Serco/ 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 |
| NNDR (Business Rates) | Serco/ 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 |
| Accounts Payable | Serco/ Resources | Significant | 0 | 5 | 7 | 5 | 17 | In draft |
| Payroll | Serco/ Resources | Significant | 0 | 2 | 2 | 2 | 6 | In draft |

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|---|--|-----------------|----------------------|------|--------|-----|-------|---|
| | | | Critical | High | Medium | Low | Total | |
| CORE SYSTEM ASSURANCE WORK (Continued) | 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. | | | | | | | |
| Teachers Pensions | Childrens Services/ 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 | | | | | | | Fieldwork complete. Report being prepared. |

| 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 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 th 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 | N/A | N/A | N/A | N/A | N/A | N/A | Complete. Presented to Audit Committee on |
| 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 | N/A | N/A | N/A | N/A | N/A | N/A | Liaison – ongoing NFI Initiative – Completed within Audit Commission deadlines. 3 reviews detailed in table below |
| 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 | |
| STRATEGIC AND OPERATIONAL RISKS | Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks | | | | | | | |
| Information Governance | All | | | | | | | On going |
| Adult Social Care – Compliance with new eligibility criteria | Adult Social Care | | | | | | | Audit re-scheduled within 2014/15 plan. |
| Adult Social Care Database | Adult Social Care | Limited | 0 | 6 | 3 | 2 | 11 | In draft. |
| Schools: | | | | | | | | |
| School B | Childrens Services | Limited | 0 | 8 | 10 | 4 | 22 | Complete Report to Audit Committee 06 2014 |
| School C | Childrens Services | Limited | 0 | 2 | 4 | 5 | 11 | Complete Report to Audit Committee 06 2014 |
| Partnership Management | Resources | | | | | | | Audit re-scheduled within 2014/15 plan. |
| Web-based systems Access Controls | Resources | Limited | | | | | | At review stage |
| EXTERNAL WORKS | Work which generates income for the council | | | | | | | |
| Vivacity | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 4 reviews completed from 2012/13. 5 reviews completed from 2013/14. |

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|--|--|-----------------|----------------------|------|--------|-----|-------|--|
| | | | Critical | High | Medium | Low | Total | |
| GRANT CLAIM CERTIFICATION | Certification of claims in relation to UK and European funding requirements | | | | | | | |
| Zero Carbon (ZECOS) - European Funding | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | 4th grant claim certification complete First Level Controller Assurance |
| Cleantech Incubator Europe (CTIE) – European Funding | Opportunity Peterborough/ Resources | Grant Certified | N/A | N/A | N/A | N/A | N/A | 3 rd grant claim certification complete First Level Controller Assurance |
| Disabled Facilities Grant | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | Annual certification complete Assurance Letter |
| DFT – Local Plan Integrated Transport | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | Annual certification complete Assurance Letter |
| DFT – Local Transport Plan Highways | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | Annual certification complete Assurance Letter |
| GAF | Communities | Grant Certified | N/A | N/A | N/A | N/A | N/A | Annual certification complete Assurance Letter |
| Zero Carbon (ZECOS) - European Funding | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | 5th grant claim certification complete First Level Controller Assurance |
| Cleantech Incubator Europe (CTIE) -European Funding | Opp. P'borough / Resources | Grant Certified | N/A | N/A | N/A | N/A | N/A | 4 th grant claim certification complete First Level Controller Assurance |
| Local Sustainable Transport Fund Grant 2012/13 | Growth and Regeneration | Grant Certified | N/A | N/A | N/A | N/A | N/A | Annual certification complete Assurance Letter |
| FOLLOW UP ACTIVITIES | | | | | | | | |
| Westcombe: VAT Self Billing Arrangements | Resources | Significant | N/A | N/A | N/A | N/A | N/A | Memo issued. Previous recommendations implemented. |
| ICES Follow Up + | Adult Social Care | N/A | N/A | N/A | N/A | N/A | N/A | Memo issued |
| Gladstone Primary School Follow up | Childrens Services | Significant | 0 | 0 | 2 | 0 | 2 | Memo Issued. |

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|--|---|-------------------|----------------------|------|--------|-----|-------|--|
| | | | Critical | High | Medium | Low | Total | |
| OTHER RESOURCE PROVISION | 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. | | | | | | | |
| Direct Payments Follow Up | Adult Social Care | Limited Assurance | 0 | 7 | 4 | 7 | 18 | Complete To audit committee 06 2014 |
| Travel and Subsistence Extra Follow Up | Resources | Limited Assurance | 0 | 4 | 3 | 3 | 10 | Complete To audit committee 06 2014 |

| 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. | | | | | | | |
| CARRY FORWARD ACTIVITIES - 2012/13 cont: | | | | | | | | |
| Translation Services | Serco / Communities | No Assurance | 1 | 5 | 3 | 2 | 11 | Complete To Audit Committee 06 2014 |
| Payroll Overpayment Recovery Process | Resources | Limited Assurance | 0 | 1 | 7 | 1 | 9 | Complete To Audit Committee 06 2014 |
| Conflict of Interest – Alleged irregularity | Adult Social Care | N/A | N/A | N/A | N/A | N/A | N/A | Complete |
| Contract Management – Alleged irregularity | Adult Social Care | | | | | | | On going. Following work completed internally an external investigation has commenced by the contract supplier. Investigation into alleged under-delivery of contracted services. |
| School A: Primary | Children's Services | NFA | | | | | | The school has subsequently transferred to an Academy and the trustees are addressing the findings and recommendations independently to resolve the control environment issues identified. |

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|--|---|-----------------------|----------------------|------|--------|-----|-------|--|
| | | | Critical | High | Medium | Low | Total | |
| UNPLANNED ACTIVITIES | 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 | | | | | | | |
| Troubled Families Certification | Communities | 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 | Communities | N/A | N/A | N/A | N/A | N/A | N/A | Completed. 2 memos issued following scope change, covering: 1) A review of processes and procedures to align with future grant claims. 2) re-validation of the October Claim |
| 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 | Resources | Significant Assurance | N/A | N/A | N/A | N/A | N/A | Audit Committee Request Complete. Memo issued |
| Whistleblowing Investigation: Alleged Irregularity | Communities / Governance | | | | | | | Initial review of documentation received. Liaison ongoing with an appointed external investigator. |
| Consultancy Rates | Resources | N/A | N/A | N/A | N/A | N/A | N/A | Joint exercise with Client Services. Internal Audit to undertake Data analysis. Complete. |
| Atlas Benefit Changes | Serco/ Resources | N/A | N/A | N/A | N/A | N/A | N/A | Review of process changes and control advice. Memo |

| | | | | | | | | |
|-----------------------------------|---------------------------|-----|-----|-----|-----|-----|-----|--|
| William Law Out of School Club | Academy | N/A | | | | | | Consultancy work was undertaken prior to the school undertaking management of the out of school provision. |
| Petty Cash Insurance Arrangements | Serco/ Childrens Services | N/A | N/A | N/A | N/A | N/A | N/A | Memo issued. |

RESERVE LIST: SUBJECT TO RECRUITMENT TO VACANT POSTS

| AUDIT ACTIVITY | Department | ASSURANCE LEVEL | RECOMMENDATIONS MADE | | | | | COMMENTARY |
|--|--|-----------------|----------------------|------|--------|-----|-------|--|
| | | | Critical | High | Medium | Low | Total | |
| CORE SYSTEM ASSURANCE WORK | 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. | | | | | | | |
| Main Accounting System | Resources | | | | | | | Review of key controls to incl. feeder system input and reconciliations. |
| Fixed Asset Accounting | 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/ Resources | | | | | | | Fieldwork complete. At review stage |
| Budgetary Control | Various | | | | | | | Review of arrangements in place for two areas within the organisation. |
| STRATEGIC AND OPERATIONAL RISKS | Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks. | | | | | | | |
| 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 | |
| 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 and Business Continuity | All | | | | | | | At review stage. Review the effectiveness of processes in place as a result of organisation / responsibility changes. |
| Fuel Cards | Resources | | | | | | | At review stage. Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid and accurate. |
| Carbon Management | Growth and Regeneration | 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 | Enterprise/ Resources | Significant | N/A | N/A | N/A | N/A | N/A | Member request. Memo issued. |
| 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 | |
| STRATEGIC AND OPERATIONAL RISKS Cont: | Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks. | | | | | | | |
| ICT Projects | Serco / All departments | | | | | | | Review of controls and processes in developing automated systems |
| Electronic Call System | Adult Social Care | | | | | | | At review stage. 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 | Communities | | | | | | | Review integration of new service area |
| RAISE | Childrens Services | | | | | | | Review the access arrangements to ensure appropriate data security and conflict of interests managed |

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

| | AUDIT ACTIVITY | ASSURANCE RATING | DATE TO AUDIT COMMITTEE |
|----|--|-------------------------|--------------------------------|
| 1. | School B | Limited | 30 June 2014 |
| 2. | School C | Limited | 30 June 2014 |
| 3. | Direct Payments Follow-up | Limited | 30 June 2014 |
| 4. | Travel and Subsistence Extra Follow-up | Limited | 30 June 2014 |
| 5. | Translation Services | No Assurance | 30 June 2014 |
| 6. | Payroll Overpayment Recovery Process | Limited | 30 June 2014 |

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|---------------------------------|--|
| Audit Title 1 | Primary School B |
| Scope | The purpose of the audit was to conduct a risk based internal audit review informed by the school's completed Financial Value Standard. The scope covered primarily governance, payroll, purchasing, the budget and cash collection. |
| Findings and Conclusions | <p>The key issues arising from the audit review are as follows:</p> <ul style="list-style-type: none"> • Purchase orders are not always raised where appropriate. The payments are processed via the 'non-order route'. • The administration of the payroll showed a lack of evidence to demonstrate that authorisation processes had been undertaken. • Financial reporting can be improved by the inclusion of the annual budget figures on the reports to compare to actual figures to date. • A late declaration of pecuniary interest leading to inappropriate authorisation of payments • A lack of control over cash collection <p>New financial procedures have recently been approved by the governors. When the procedures are operational and have become embedded in school, many of the observations in this report will be addressed.</p> |

Actions in relation to this audit have been agreed and progress is being made to resolve issues arising. A follow up review was requested by the school to be undertaken three months after the finalisation of the previous report. This has been undertaken and the implementation of recommendations were found to be in accordance with the management action plan.

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| Audit Title 2 | Primary School C |
| Scope | The purpose of the audit was to conduct a risk based internal audit review informed by the school's completed Financial Value Standard. The scope covered primarily payroll, purchasing and the budget. |
| Findings | <p>The main findings arising from the audit review were:</p> <ul style="list-style-type: none"> • The award of the printing contract was not recorded in governors' minutes. There is therefore no evidence or assurance to support that the contract was awarded in accordance with the school's scheme of delegation. • The Headteacher's authorisation to start new employees on the payroll and staff contractual changes is not evidenced. Also, no checks are conducted on the payroll before it is authorised to be processed. On one occasion it was found that the Headteacher had added a new starter and also processed the pay run. There is a risk therefore that errors in pay may be made and not detected. Also, the risk of fraudulent activity is not mitigated. • Testing found that delivery notes are not retained in accordance with school policy, therefore goods received cannot be verified if queried. Similarly it was found that orders are not generally raised for capital items. |
| Conclusions | Generally, the audit review showed that controls are in place and working effectively in some of the areas covered. However, issues raised particularly in relation to payroll and procurement processes has resulted in the limited audit opinion. Implementation of the recommendations in the report will enhance the controls already in place. |

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| Audit Title 3 | Direct Payments Follow-up |
| Scope | The purpose of the audit was to ensure there has been satisfactory progress in implementing the actions agreed by management during the previous audit. |
| Findings | <p>It was established that significant progress has been made in the following areas:</p> <ul style="list-style-type: none"> • The backlog of overdue care assessment reviews has reduced substantially. However it was not possible to verify the figures provided as at the time of follow up, the new case management system, Frameworki (FWI), had no report equivalent to the one produced from Raise at the time of the previous audit • A DP Monitoring Officer was appointed in October 2012, initially on a one year fixed term contract, but has now been made permanent • DP case files have been reviewed, and the DP monitoring spreadsheet (Master Client Sheet) greatly enhanced so that, at a glance, it is possible to identify where cases are missing signed DP agreements, or have other concern indicators. • It is understood that a programme to recover excessive bank account balances arising from unspent DPs had already recouped in excess of £230k by the time of the follow up. • Identification of clients with third party payee arrangements <p>Analysis of the monitoring spreadsheet at the time of the review found a number of areas for improvement. From the current and ongoing DP cases it was noted that:</p> <ul style="list-style-type: none"> • 83% of service users had at least one concern or issue to be resolved. This percentage has remained pretty constant since October 2012. • 30% of service users were still without a signed DP Agreement on their case file, thus their agreement to receive DPs is not evidenced. Testing has indicated that new DP arrangements are supported by signed agreements, and that it was existing cases at the time of the last audit that remained largely unresolved • 17.1% of service users had been on the scheme more than 3 months and had never submitted any sets of financial records. • 54.5% of service users had submitted financial records for monitoring which were still to be reviewed. • 63.7% of service users had bank statement closing balances that exceeded four times their weekly DP rate, and thus are considered to have excessive account balances in line with the DP procedures document. • One service user that had been found during the previous audit to have an overdrawn bank balance, was now found to be significantly further overdrawn, despite concerns having been raised by ASC Finance to the care team months earlier. |

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| Conclusions | <p>While good progress has been made in most areas (e.g. the improved monitoring spreadsheet, finalisation of the DP procedures document, and recovery of some excess balances), the improved spreadsheet now reveals the extent of the issues relating to DP agreements. As stated above 83% have at least one issue to be resolved; and it is difficult to gain assurance that public funds are being appropriately spent whilst these issues remain.</p> <p>Some of the issues identified by the spreadsheet, such as overdrawn or excessive balances, or inappropriate expenditure, may indicate that care needs are not being met. Such issues are identified during the monitoring process, and reported to care teams, although it was often unclear during testing what action care teams were taking to resolve the issues. At the time of follow up, the high level statistics in the Finance team's monitoring spreadsheet had not been shared with the care teams or their senior management, although it is understood that this information is now being reported.</p> <p>The key priorities will be for the Finance team to clear the backlog of unaudited financial records, and to ensure they continue to report concerns as they are identified; and for care teams to ensure that they document their actions or responses to those concerns, and communicate them to the Finance team.</p> <p>The audit opinion is Limited Assurance based on findings at October 2013. Management comments received in response to recommendations suggest significant further progress has been made since this report was issued in draft, with a number of recommendations already implemented, which indicates that a higher assurance rating would be found in the event of a future audit.</p> |
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| Audit Title 4 | Travel and Subsistence Extra Follow-up |
| Scope | The purpose of the audit was to gain assurance that agreed actions in the previous report have been implemented satisfactorily. A further sample of claims was selected. The claims were subjected to testing in order to gain assurance that the PCC Travel and Subsistence policy is adhered to. In addition we reviewed reports compiled by Serco detailing those expense claims not complying with policy in March to July 2013. |
| Findings | A review of the previous Travel and Subsistence follow-up report found that all of the agreed actions had been implemented satisfactorily. However, non-compliance with the Travel and Subsistence policy by officers and managers remains. Errors detected by the Shared Transactional Services team within Serco (who process expenses claim forms for payment) result in 7-10% of claims being returned. Certain errors, notably those relating to the accurate calculation of mileage, do not form part of Serco's routine checks. Our testing showed a 40% error rate in mileage claims, all of which had incorrect mileage calculations. Although our sample was limited, our results indicate that the error rate <i>could</i> be significantly higher than 7-10%. |
| Conclusions | There is clearly still room for improvement in compliance with the PCC Travel and Subsistence policy and this report concentrates on the actions required to deal with the main errors. This includes the need to issue a targeted statement on Insite, as well as continued monitoring of error rates which are reported to directors. |

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

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| Audit Title 5 | Translation Services |
| Scope | During May 2013, PCC was threatened with legal action due to a number of unpaid translation services invoices which were stated as £78,441. Internal Audit were asked to examine how and why this situation had occurred and to recommend suitable solutions to address the backlog to ensure that the same solution does not arise again. |
| Findings | <p>The main findings from the review are:</p> <ul style="list-style-type: none"> • Corporate guidance on the translation and interpretation service provided no advice on receipting against the POs or the specific difficulties associated with this contract (e.g. lack of direct evidence of each telephone translation call made). Guidance can be enhanced to assist those using the service, and thereby improve the payment process. • It is understood that Children's Services social care teams are the main users of the service. Their admin tasks, such as raising POs, are performed by Business Support Officers. Discussion with social workers found that although they knew POs need to be raised, there was a lack of awareness of the need to receipt against those POs, and the impact of not doing so. • Invoices for face-to-face translation services typically include multiple clients, multiple dates, and references to multiple POs. An invoice only needs one related PO not to be properly receipted, or to be disputed, to ensure that the whole invoice will go on-hold unpaid. CPU stated that ALS/Capita were asked not to bill in that fashion, but they have continued to do so. • The telephone translation service is subcontracted to Language Line (LL), and ALS/Capita invoices for this service are based on the information provided by LL. The invoices do not quote POs, nor until very recently identify who made the calls (other than by directorate). • Limited comparison of corporate phone records for calls to the ALS/Capita phone number to telephone translation invoices found some items billed which did not appear in VOIP or mobile phone records, thus calling into question the legitimacy of some of the charge. • Another temporary contract for translation services was agreed with The Big Word to run from January 2013 for six months, running simultaneously with the ALS/Capita contract. This was due to concerns over the quality of service provided by ALS/Capita, and it was intended that The Big Word would be used by Children's Services in preference to ALS/Capita. Examination of invoice records for the Big Word had found in excess of £12,000 worth of invoices on hold, with similar issues. A blanket PO for £15,000 was raised retrospectively in April 2013 on behalf of Children's Services, but by 14th May 2013 only £1356.45 had been receipted against it. There appears to be no guidance on Insite regarding this specific contract, and there is a risk of similar situation occurring with this supplier. |

Conclusions

When the ALS contract was set up, there seems to have been a lack of recognition of how the service would actually be used by departments. Typical users of the service are not involved in day-to-day purchasing, have no access to the iProc system to either raise the PO or record receipt of service, and seem to have been unaware of the impact of not recording receipt. It is imperative that, whatever solutions are put in place for this and other future contracts, expected processes are discussed with service user representatives to identify likely issues, and are then properly documented and briefed to all service users. It is vital that invoice payment arrangements within departments, including the use of POs, are properly considered when any future corporate contracts are let.

It was explained to Internal Audit that while ALS/Capita's face-to-face translation invoices are compliant with the terms of the contract, their telephone translation invoices, by not quoting relevant PO numbers, are not. It was further explained that this was due to insufficient information being provided by Language Line to ALS/Capita. It was stated that unsuccessful attempts were made to get ALS/Capita to comply with the invoicing arrangements detailed in the contract, but ALS/Capita were unable to do so. This seems to have been accepted on the grounds that alternative service providers would be significantly more expensive, and there would be no willingness for increased costs given the financial pressures faced by PCC. More recent telephone translation invoices have shown improvement in the amount of information provided, with each invoice detailing calls relating to only one PIN, and quoting the names any service team associated with that PIN. Further negotiation should take place with ALS/Capita to cease the current arrangement of consolidated invoices for face-to-face translations. This will assist in getting invoices paid in a timely and efficient manner.

Although most of the unpaid invoices owed to Capita at the time of their ultimatum have been resolved, it was noted in July that most Capita invoices dated May 2013 remained unpaid for reasons similar to those given above. This gives cause for concern that, in the absence of a proper process for dealing with these transactions, supported by appropriate and timely guidance and training, a significant further backlog will build up again. At 4th September 2013, the total value of overdue unpaid invoices on the Oracle system owed to Capita and The Big Word stood at approximately £15,400 and £49,100 respectively. The Big Word's invoices dated as far back as January 2013, i.e. from the beginning of the contract. It is important that accounts with Capita and The Big Word are resolved quickly to prevent further threats of legal action.

The Director for Communities has taken on responsibility for creating and driving forward corporate processes for dealing with translation and interpretation service invoices. It is important that key stakeholders are engaged to ensure that processes are workable. Consideration should be given to whether use of POs is practical for translation and interpretation services, or whether an exempt invoice process is more appropriate. If POs are considered appropriate, a further decision is required on whether to leave responsibility for the POs with service teams and risk similar problems recurring, or whether centralisation (e.g. within each directorate's finance team) is a better option to ensure that receipt of service is substantiated and receipt recorded within the iProc system.

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| Audit Title 6 | Payroll Overpayment Recovery Process |
| Scope | <p>The purpose of the audit was to:</p> <ul style="list-style-type: none"> • review the most recent PCC policy for the recovery of overpayments • To review the process for dealing with payroll overpayments, particularly large ones, and make recommendations for improvements. Payroll Overpayments may occur as the result of a processing error or from timing issues due to the late receipt of information from employees. <p>The audit did not look at the mechanisms for identifying overpayments, as this is covered in other audit reviews.</p> |
| Findings | <p>Main Findings</p> <ul style="list-style-type: none"> • The guidelines do not cover all aspects and scenarios with regard to overpayment recovery, and as a result the guidelines are not always followed. • There have been delays in collecting overpayments as a result of delays in communicating with staff who have been overpaid. • An analysis of the current overpayments log showed that the majority of cases occur due to late notification by line managers to payroll and very few overpayments are due to error. • The Payroll and HR Support Manager reviews the overpayments log each month but there is no evidence to support this. |
| Conclusions | <p>Whilst guidance has been put in place, there are some areas that could be enhanced to ensure that the recovery of overpayments is carried out in a consistent and timely manner resulting in the limited audit opinion.</p> |

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