PETERBOROUGH CITY COUNCIL

INTERNAL AUDIT OPERATIONAL PLAN 2009 / 2010

1 Introduction

1.1 This document sets out the division of responsibilities between managers and Internal Audit Services, and presents the Internal Audit Operational Plan for 2009 / 2010.

2 Division of Responsibilities

2.1 It is management's responsibility to manage the systems of the Council in a manner in which:

- Ensures the plans and intentions of the organisation are delivered, (including those outlined in plans, policies and procedures) and are in compliance with the laws / regulations under which the organisation operates);
- Ensures the reliability of data and information used either internally or reported externally;
- Safeguards the organisations resources; and
- Promotes efficient and effective operations.

2.2 Controlling is an integral part of managing operations and as such internal auditors independently review how efficient management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analyses and constructive recommendations. Management retain full ownership and responsibility for the implementation of any such recommendations.

3 Development of the Internal Audit Operational Plan

3.1 In developing the Annual Plan, it is important that audit resources are directed in line with the priorities of the Council taking into account an assessment of risk. In order to achieve this, a systematic assessment and planning methodology is used, as set out in the Audit Strategy.

3.2 The methodology results in a plan that is supportive of Directors in delivering the strategic priorities and corporate improvement priorities of the Council and provides a view of the overall internal control environment, a key part of Corporate Governance.

3.3   The table below summarises the planned allocation of productive days for 2009 / 2010.

INTERNAL AUDIT: ANNUAL PLAN 2009 / 2010	
	Audit Days
Systems Activity	174
Annual Governance and Assurance Framework	285
Strategic and Operational Risks	140
Schools and Colleges	152
Contract Audit / Partnerships / Project Management	100
Grant Certification	70
Corporate Support – • CIA Consultancy, Control Advice and Contingency • Other Audit Support Activities	 350 161
TOTAL PLANNED AUDIT DAYS	**1432**

It can be seen from the above table that the plan has been developed cover the main audit areas by categories rather than Directorates. This is to better demonstrate the coverage and the impact of the audit activities across the organisation. The individual audit reviews and service areas are analysed in greater detail in section 7 of this document.

4   Key Points

4.1   The plan is linked to the Corporate Objectives of the Council. All of the reviews undertaken are underpinned by the driving principle to be **"delivering value for money."** Where Governance, Contract and Partnership reviews are to be undertaken this will also cover the organisations four strategic priorities in part or in their entirety. Where appropriate, links to the Strategic Risk Register have been highlighted, together with the Assurance Framework.

4.2   Auditable activity areas assessed as a very high or high priority have been included in the 2009 / 2010 plan. Audits of all the main financial systems of the Council are undertaken on an annual basis as part of the managed audit approach with external audit.

4.3   Those areas not included in the plan this year will be considered for review on a cyclical basis in future years. However, it is anticipated that audits of low priority areas will not occur unless a risk assessment results in an increased priority level. Given the number of auditable areas (approximately 400), and the fact that we plan to, subject to available resource, audit all very high priority areas *and* all main financial systems on an annual basis, it would take 4 years to cover all auditable areas, and just over 3 years to cover all but low priority areas. Professional guidance suggests that the production of strategic plans covering this period of time is not best practice. This is because it results in insufficient audit time being directed at key risk areas for the Council, which may change from year to year.

4.4   The plan for 2009 / 2010 is not a static document. The Chief Internal Auditor reserves the right to amend plans in line with emerging risks and changing priorities as they occur throughout the year. Any major changes in the plan will be discussed with the Director of

Strategic Resources and then reported to the Audit Committee as part of the quarterly performance / monitoring reports for approval.

4.5   The following key points are of note:

4.5.1   External Works

The plan shows that we carry out work for external bodies, which generates income or savings. For 2009 / 2010 this work consists of the audit of grant claims on behalf of PwC, if required, (thus generating savings in the external audit fee), and the provision of an external assessment of the achievement of Financial Management Standards in Schools (which will generate income for the Internal Audit budget). The time allocated for FMSiS works is incorporated into the Schools and Colleges allocation.

4.5.2   Main Financial Systems

IAS will continue to review the effectiveness of internal control within the Council's key financial systems and key non-financial systems, in accordance with agreed rolling programmes of audit work in these areas. We will co-ordinate our work with that of the external auditor (PwC) to ensure that reliance can be placed on the work provided by Internal Audit in accordance with PwC's three year rolling programme. This is demonstrated this year by adopting a key controls approach to some auditable areas and informing of PwC changes in process mapping.

4.5.3   Annual Governance and Assurance Framework

Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. IAS will continue to undertake reviews to support this process covering areas such as governance arrangements for managed and shared services, a review of the risk management process and business continuity. This area of audit activity also links into the assurance framework of the organisation where reviews will be undertaken to support the overall assurance framework.

4.5.4   Partnerships, Contracts and Projects

This area has been identified as a continuing risk, in light of the increasing number partnerships with external organisations. Internal Audit will review specific partnerships including those in the Local Area Agreement.

Contract activity will be based on the works channeled through the central procurement team and will look at the various stages of contract work (i.e. tendering arrangements, awarding of contracts, contract monitoring etc.).

4.5.5   Corporate Risks

The Corporate risk profile was last updated by Corporate Management Team in January 2009. A rolling programme of internal audits will take place of the adequacy and effectiveness of the control environment to mitigate the council's principal risks.

4.5.6   Anti-Fraud and Corruption Arrangements

The roles and responsibilities for fraud investigations continue to operate within the Memorandum of Understanding between Internal Audit and the Corporate Fraud Team. Internal Audit evaluates the control weaknesses that have allowed a fraud to take place or remain undetected, and provide recommendations to improve fraud prevention and detection. Internal Audit's role may also include involvement in major fraud investigations. The contingency element of the plan includes an allocation for both these aspects of

work. In addition to this, Internal Audit will be undertaking a review as part of the National Fraud Initiative.

4.5.7   Environmental Auditing

An increasing number of Local Authorities have either introduced Environmental Auditing to their organisations via their Internal Audit Teams or are exploring the possibility of undertaking such a role. During 2009 / 2010, Internal Audit intends to undertake two reviews regarding the management of 'green issues' and the impact of climate change for the Authority.

4.5.8   Corporate Support

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. Contingency time is included within corporate support for such events along with the provision for consultancy work that may be undertaken by the Chief Internal Auditor or other members of staff. Other activities are also included for Audit Committee support and External Audit liaison.

5   Reporting Protocols

5.1   At the conclusion of each individual audit a Draft Report and proposed Action Plan will be forwarded to the appropriate manager within the client department. Once agreement has been reached a Final Report and Action Plan will be forwarded to the relevant Chief Officer. In accordance with our reporting arrangements, all audit reports are brought to the attention of the Leader of the Council, Chief Executive, Director of Strategic Resources, and Chair of Audit Committee.

5.2   A quarterly progress report will be presented to the Audit Committee indicating the level of achievement against agreed targets and any major findings arising from the audit work undertaken. All audit reports with 'no' or 'limited' assurance will be shared with the Audit Committee in the form of an executive summary as part of this process.

5.3   An annual report will be prepared for Audit Committee in order to give assurance or otherwise to Members that they can rely on the internal control framework of the Council.

6   Performance Management

6.1   All work undertaken by IAS in delivery of the plan will be in accordance with its Audit Manual, which is based upon the professional standards required by CIPFA and IIA-UK. The objectives of the service for 2009 / 2010 and the Key Performance Indicators are reported in the Business Plan and are monitored through the Performance Management System.

7   Detailed Plan

7.1   Documented below is the full allocation of audit activity proposed with its link to the strategic risk registers and draft assurance framework where appropriate. It should be noted that some time is analysed as 'All' rather than by Directorate. It is planned that this work will impact on all directorates, hence increasing the dedicated time allocated for each department. It must be reiterated that the plan is also linked to the strategic priorities of the Council. All of the reviews undertaken are underpinned by a driving principle to be **delivering value for money**, although there will be cross-cutting reviews which will also cover the other four priorities.

AUDIT ACTIVITY 2009 / 2010	ALL	Strategic Resources	Assistant Chief Exec	Primary Care Trust	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register Risk	A F Ref	Assurance Framework Key Control Area
SYSTEMS ACTIVITY	To review the design and operation of key systems to asses whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council) are reviewed annually; others will be reviewed cyclically dependent on risk.										
Main Accounting / Financial Accounting		✓						8.01	Poor Financial Management	AF36	Financial management and strategy
Accounts Payable • Ordering / Receiving / Payments • Purchasing Cards -Central Controls - Directorate/Business Support Activity	✓	✓ ✓						8.01	Poor Financial Management	AF36	Financial management and strategy
								8.02	Procurement Strategy does not deliver	AF37	Procurement
Sundry Billing / Debt Recovery		✓						8.01	Poor Financial Management	AF36	Financial management and strategy
Housing and Council Tax Benefits		✓						-	-	AF36	Financial management and strategy
Council Tax		✓						-	-	AF36	Financial management and strategy
Business Rates		✓						-	-	AF36	Financial management and strategy
Cash / Banking		✓						-	-	AF36	Financial management and strategy
Budgetary Control (Revenue)			✓				✓	8.01	Poor Financial Management	AF36	Financial management and strategy
Budgetary Control (Capital)		✓						1.12	Impact of the Credit Crunch	AF12	Credit Crunch
								8.01	Poor Financial Management	AF36	Financial management and strategy

AUDIT ACTIVITY 2009 / 2010	ALL	Strategic Resources	Assistant Chief Exec	Primary Care Trust	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register Risk	A F Ref	Assurance Framework Key Control Area
SYSTEMS ACTIVITY	**CONTINUED**										
Treasury Management		✓						1.12	Impact of the Credit Crunch	AF12	Credit Crunch
								8.01	Poor Financial Management	AF36	Financial management and strategy
								8.08	Investments	AF43	Appropriate investment strategy
HR / Payroll			✓					1.02	Staff retention in key areas	AF02	Management of staff
								-	-	AF36	Financial management and strategy
Teachers Pensions Returns			✓		✓			-	-	AF36	Financial management and strategy
Asset Management • Fixed Asset Accounting • Capital Receipts / Asset Disposal Programme		✓						4.01	Schools Phase 2 and Building Schools for the Future	AF18	Gateway reviews of capital schemes
								8.01	Poor Financial Management	AF36	Financial management and strategy
								8.04	Asset Disposal Programme is not achieved	AF39	Estate utilization

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ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	**Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. In particular it is expected to assess its arrangements against the six principles of good governance as recommended by CIPFA / SOLACE.**										
Arrangements for production of AGS	✓	✓						8.03	Comprehensive Area Assessment (CAA)	AF38	CAA transition
								-	-	AF44-AF49	Good governance principles
								-	-	AF52	Effective corporate governance arrangements are embedded
Other Governance Arrangements ‑ICT Managed Service ‑PPCT ‑Shared Services		✓ ✓		✓				1.06	PCT Changes	AF06	PCT partnership working
								1.11	Governance Arrangements for Partnerships	AF11	Governance arrangements for partnerships
								1.13	Shared services	AF13	Transition to shared service functionality
Annual Audit Opinion		✓						8.03	CAA	AF52	Effective corporate governance arrangements are embedded
Annual Audit Planning and Review		✓						-	-	-	-
Anti Fraud Culture - National Fraud Initiative - Anti Fraud Liaison - Fraud Control Reviews	✓		✓ ✓					-	-	AF44-AF49	Good governance principles
Risk Management - Strategic - Operational	✓ ✓	✓						-	-	AF54	Risk management processes robust and embedded
								-	-	AF55	Risk management processes robust and embedded

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ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	CONTINUED										
Business Continuity and Disaster Recovery	✓							1.08	Major illness impact	AF08	Health and safety
								1.09	Business Continuity	AF09	Business continuity and resilience
								8.07	Corporate manslaughter	AF42	Health and safety coordination
Data Quality -links to LPSA	✓							1.05	Unable to meet LAA Targets	AF05	Local Area Agreements
								-	-	AF53	Effective performance management arrangements
								-	-	AF60	Data quality arrangements
Data Security	✓							1.13	Shared services	AF13	Revenues and Benefits data security arrangements
								-	-	AF59	Safeguarding electronic data
Internal Audit Effectiveness		✓						-	-	AF52	Effective corporate governance arrangements are embedded
								-	-	AF61	Audit recommendations implemented
Follow up Reviews	✓							-	-	AF61	Audit recommendations implemented
Assurance Framework	✓							8.03	CAA	AF52	Effective corporate governance arrangements are embedded
CAA / UoR Support		✓						8.03	CAA	AF52	Effective corporate governance arrangements are embedded

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STRATEGIC AND OPERATIONAL RISKS	**Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.**										
Review processes in place to mitigate the impact of the credit crunch	✓							1.12	Impact of the Credit Crunch	AF12	Credit Crunch
Review arrangements for the creation of Arms Length Management Organisation (ALMO)			✓			✓		5.02	Creation of ALMO	AF31	ALMO
Arrangements to mitigate and adapt to the impacts of Climate Change							✓	6.03	Failure to mitigate and adapt to the impacts of Climate Change	AF34	Climate Change
Environmental Management - Data Collection (EMS)							✓	6.02	Environmental capital aspirations	AF33	Environmental management
								6.03	Failure to mitigate and adapt to the impacts of Climate Change	AF34	Climate Change
								8.05	Waste management and recycling	AF40	Recycling rates
Safe Recruitment to include CRB	✓				✓			4.04	Children staying safe	AF21	Child protection
								8.03	CAA	AF65	Safe Recruitment
Planning Obligations Scheme			✓					1.07	Implications of the Growth Agenda	AF07	Deliver Master Plan Regeneration Sustainability
EDRMS – review b/fwd from 2008/09 due to project delays		✓						-	-	AF59	Safeguarding electronic data

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STRATEGIC AND OPERATIONAL RISKS	**CONTINUED**										
Business Change / Transformation Programme	✓							8.04	Procurement Strategy does not deliver	AF37	Procurement
Key Theatre							✓	-	-	AF57	Effective governance
Social Care Placements					✓			-	-	AF57	Effective governance
Processes for Payments to Clients and VFM					✓			-	-	AF57	Effective governance
Clare Lodge					✓			-	-	AF57	Effective governance
Westcombe Industries						✓		-	-	AF57	Effective governance

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SCHOOLS & COLLEGES	**On a 3 year cyclical basis we carry out audits of schools to ensure that they are following correct financial procedures, and are complying with council policies. Internal Audit also act as the External Assessor for the Financial Management Standard in Schools (FMSiS).**										

Schools
  -   Voyager School
  -   Bushfield Community College Closure Arrangements
					✓ ✓			-	-	AF57	Effective governance

FMSiS
  - 23 Schools (Primary and Secondary)
 	
  - Quality Assurance of Central FMSiS data
					✓ ✓			-	-	AF57	Effective governance

PCAE					✓			-	-	AF57	Effective governance

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CONTRACT AUDIT / PARTNERSHIPS / PROJECT MANAGEMENT	**Dependent on risk, we review a sample of projects each year to test whether the council's governance arrangements are being followed and that contracts provide vfm**										
Reviews to include: Community Safety IT Project Reviews Investing in Communities Greater Dogsthorpe Partnership Agile Working Scheme Better Use of Property Assets Better Use of Property Assets Contracts Register	✓							1.05	Unable to meet LAA Targets	AF05	Local Area Agreements
								1.13	Shared services	AF13	Revenues and Benefits agile working arrangements for data security
								6.01	Highways infrastructure conditions	AF32	Highways contracts
								8.03	CAA	AF52	Effective corporate governance arrangements are embedded
								8.04	Asset disposal programme is not achieved	AF39	Estate utilization
								-	-	AF62	New ways of working

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GRANT CERTIFICATION	**Increasing, IA is being required by government departments to provide certification on grant claims. It is likely that the number of grant claims IA will be asked to certify will increase in future years.**										
L A A	✓							1.05	Unable to meet LAA Targets	AF05	Local Area Agreements
L P S A	✓							1.05	Unable to meet LAA Targets	AF05	Local Area Agreements
Grant Claim Certification (on behalf of PwC and Grants Team)	✓							-	-	-	-

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CORPORATE SUPPORT											
Consultancy & Control Advice	✓							-	-	-	-
Contingency for Rolled Forward Reviews / Unplanned Reviews	✓							-	-	-	-
Audit Committee Support		✓						-	-	-	-
PwC Liaison		✓						-	-	-	-
Strategic Resources Management		✓						-	-	-	-
Audit Management		✓						-	-	-	-