

AUDIT COMMITTEE	AGENDA ITEM No.5
7 SEPTEMBER 2009	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member(s) responsible:	Councillor Dalton, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Director of Strategic Resources Steve Crabtree, Chief Internal Auditor	☎ 452 398 ☎ 384 557

INTERNAL AUDIT - QUARTERLY REPORT 2009 / 2010 (TO 30 JUNE 2009)

R E C O M M E N D A T I O N S	
FROM : John Harrison, Director of Strategic Resources	Deadline date : N/A
Audit Committee are asked that :	
<p>1. The Internal Audit Update Report to 30 June 2009 be received and the Committee note in particular:</p> <p>(a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 30 June 2009, internal control systems and governance arrangements remain generally sound;</p> <p>(b) Progress made against the plan and the overall performance of the section; and</p> <p>(c) The future review and where appropriate revision of the 2009/2010 Audit Plan.</p>	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee as a routine planned report within the work programme of the Committee. It sets out Internal Audit performance and progress with regards to the 2009 / 2010 Audit Plan (Audit Committee approval: 30 March 2009).

2. PURPOSE AND REASON FOR REPORT

The purpose of this report is to inform the Audit Committee on Internal Audit activities and performance progress against the Annual Audit 2009 / 2010 as at 30 June 2009.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. OVERVIEW

This report outlines the work undertaken by Internal Audit up to 30 June 2009, progress against our plan and other issues of interest.

5. ASSURANCE OPINION

- 5.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **FULL**; **SIGNIFICANT**; **LIMITED**; and **NO ASSURANCE**. Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews will be included in an appendix to this report, once the audit review has been agreed and finalised. **FIVE** reports fall into this category for the quarter, details of which are included in **Appendix B**.
- 5.2 Based on the work carried out and finalised during the 2009 / 2010 (to 30 June 2009), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 100% of high / critical recommendations made to date have been accepted by management and programmed for implementation (against a target of 97%).

6. AUDIT PLAN 2009 / 2010

6.1 Progress against Plan

- 6.1.1 **Appendix A** shows all audits underway or completed in the first 3 months, with the exception of the Financial Management Standard in Schools (FMSiS) for 2009 / 2010 where reviews are at preliminary stages. The Appendix also includes reviews brought forward from the previous year that have been finalised during 2009 / 2010. In addition to the reviews detailed other activities of control advice have been provided by Internal Audit which may not have resulted in the production of a report. Audits that were not planned at the time of the Annual Audit Plan being approved are also included within the Appendix and are identified with an asterisk (*).
- 6.1.2 Progress against the 2009 / 2010 plan is 29.7% (compared with 29% to the 3 month period June 2008). Whilst the progress against the plan is commensurate with the previous year regarding the number of reviews undertaken, a number of unplanned jobs have been conducted which will reduce the amount of available contingency time for the remainder of the year.
- 6.1.3 The number of direct days achieved during the quarter is slightly higher than planned. This is despite one member of staff being on long term sick for the period. The introduction of annualised hours and a reduction in indirect activities have enabled this even though a significant number of days have been lost due to sickness. However, the indirect activities which include training are likely to be undertaken during the remainder of year and will therefore impact on the ability to deliver future planned direct days.
- 6.1.4 To date, 13 audit projects for 2008 / 2009 have been finalised together with a further 2 for 2009 / 2010. 6 other pieces of work have been completed where either no audit report was necessary, or a committee report was produced. There are also 23 reviews that are in various stages of review along the 23 schools subject to Financial Management Standards in Schools reassessment.

6.2 Responses to Audit Reports

Internal Audit continues to produce reminders in accordance with their Audit Charter (currently under review) to finalise reports in a timely manner. Audit Committee will be advised during the year where significant delays occur.

6.3 Status of Recommendations

Our current policy, as defined in our Audit Charter approved at Audit Committee on 6 November 2006, is to follow up the implementation of recommendations 6 months after the reports have been finalised. To date 83% of high/critical recommendations have been followed up against an annual target of 80%. Where services receive an annual review, e.g. very high risk areas or key financial systems such as benefits and national non-domestic rates, recommendations are reassessed during this review.

6.4 Other Performance Matters

- 6.4.1 Our productive time (chargeable days) target is 80% where performance up to June 2009 is 71%. Whilst this is lower than target - due to the effect of long term sickness - the impact has been partially mitigated by the reduction of indirect time during the period.
- 6.4.2 Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score to date is 4.4 against a target of 3.75 (the highest score being 5), reflecting the high opinion our audit clients have of auditor conduct and the quality and usefulness of reports.
- 6.4.3 An average of 10 days sickness per person was lost during the 3 months to 30 June 2009, compared to a target of 1.5 days. This is a major increase on last year where sickness was 1.18 days per person as at 30 June 2008. This is due to long term sickness and the impact on average figures as the team has reduced to 7.1 FTE from 9.3 FTE in 2008 / 2009. Absence levels excluding long term sickness are 0.6 days per person Occupational Health have advised that the long term sickness will continue into Quarters 2 and 3 and this will have a major impact on the delivery of the Audit Plan for the remainder of the year. Where appropriate, sickness is being actively managed in accordance with the Council's Attendance Policy and through Occupational Health if appropriate.
- 6.4.4 An average of 0.63 days training has been provided to each auditor so far this year (annual target of not less than 5 days per auditor). This includes 'on the job' training, internal corporate training, training for professional qualifications and audit technical update seminars. Corporate initiatives introduced during 2008 / 2009 in relation to the Learning Academy (Cohort 2010), will continue during 2009 along with other training activities.
- 6.4.5 The length of time from completion of field work to issue of a draft report is currently on line with target days.

7. REVISION OF THE 2009 / 2010 AUDIT PLAN

- 7.1 As detailed within section 6 of this report it is known that the delivery of the audit plan is at risk due to resourcing issues relating to sickness. This is also impacted by a vacant Trainee Auditor post within the team where it is uncertain when the recruitment process will commence.
- 7.2 In view of the above and the continuing requests by management for unplanned work the audit plan will be reviewed and amended if appropriate to ensure that business needs can be achieved. Where funding is permitted the possibility of additional resources will also be explored. Any revisions to the Audit Plan will be presented to the Audit Committee for approval.

8. CONSULTATION

This report and the accompanying appendices have been issued to the Section 151 Officer for consideration.

9. ANTICIPATED OUTCOMES

That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

10. REASONS FOR RECOMMENDATIONS

The Council is subject to the Accounts and Audit (amendment) Regulations 2006 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. This report and associated papers demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

11. ALTERNATIVE OPTIONS CONSIDERED

The alternative of not providing an Internal Audit service is not an option.

12. IMPLICATIONS

12.1 Corporate Strategy (relevance to):

Internal Audit, through its central monitoring role, has an essential part to play in the application of sound financial management and corporate governance principles throughout the organisation. In addition it endeavours to promote quality systems and to ensure that there is an effective, efficient and economical use of all resources available to the Council.

Internal Audit reviews the risk management process that is integral in the setting of priorities within the Council and ultimately the Corporate Strategy. A corporate risk management process is now in place and work continues to be undertaken to embed further a risk management culture throughout the Council. Corporate risk registers were first introduced in October 2003 and these are continuing to evolve. These registers should reflect the risks associated with the key priorities identified in the Corporate Strategy. The Internal Audit plan for 2009 / 2010 has been produced with reference to the Corporate Risk Register to ensure, where possible and appropriate, Internal Audit review those areas considered to be of most risk. The annual audit plan will continue to be reviewed to ensure it is in line with the risk registers, and as a consequence that the audit programme is closely linked to the Corporate Strategy.

There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006
Accounts and Audit (amendment) (England) Regulations 2006
Internal Audit Business Plan 2009 / 2010
Internal Audit Annual Plan 2009 / 2010

APPENDICES:

Appendix A	Progress of Audit Plan 2009 / 2010 (To 30 June 2009)
Appendix B	Audit Reports Issued in Quarter 1: Limited / No Assurance

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

The table below provides a summary of the assurances assigned to each of the reviews and the status of the recommendations made

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
CHIEF EXECUTIVES DEPARTMENT											
Economic Participation Programme Review											At review stage
Economic Participation Programme 2007 / 2008 Follow Up					n/a	n/a	n/a	n/a	n/a	n/a	Final memo issued.
SI (Cex1006-08) *					n/a	n/a	n/a	n/a	n/a	n/a	Final memo issued
Private Sector Housing Grants *											Work in progress

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS 2009 / 2010										
FMSiS Arrangements (to be identified individually throughout year as work progresses) 23 Schools comprising <ul style="list-style-type: none"> • 9 Secondary Schools, • 12 Primary Schools; and • 2 Special Schools 										In planning / fieldwork stages
CHILDRENS SERVICES: OTHER ACTIVITIES										
Bushfield School Closure										Fieldwork in progress
The Voyager										Fieldwork in progress
CHILDRENS SERVICES: FOLLOW UPS										
Gladstone FMSiS 2008 / 2009										In progress
Matley FMSiS 2008 / 2009										In progress
Orton Longueville – Cashless System										In progress
Education Psychology										In progress
St John Fisher										In progress

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS										
Rolled Forward from 2008 / 2009										
Bishop Creighton			x		-	2	6	6	14	Draft
Discovery			x		-	2	7	2	11	Draft
John Clare			x		-	1	6	4	11	Draft
Longthorpe Primary		x			-	1	2	2	5	Final
Middleton			x		-	3	3	2	8	Final
Nene Valley		x			-	-	3	2	5	Final
Newark Hill		x			-	1	3	2	6	Final
Northborough			x		-	3	1	1	5	Draft
Norwood		x			-	3	2	1	6	Final
Parnwell Primary		x			-	-	2	2	4	Final
Peakirk-cum-Glinton			x		-	1	8	2	11	Final
Sacred Heart RC Primary			x		-	5	5	0	10	Final
Stanground St Johns			x		-	2	4	-	6	Final

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS Rolled Forward from 2008 / 2009										
St Thomas More		x			-	-	1	4	5	Final
The Phoenix			x		-	3	5	2	10	Final
Wittering			x		-	2	5	2	9	Draft

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CITY SERVICES Rolled forward 2008 / 2009										
Budgetary Control			x		-	4	6	2	12	Draft

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
OPERATIONS										
Central Library Follow Up					n/a	n/a	n/a	n/a	n/a	In progress
OPERATIONS Rolled Forward 2008 / 2009										
Jack Hunt Pool Refurbishment *				x	1	12	9	2	24	Final
Museum Follow up					n/a	n/a	n/a	n/a	n/a	Final

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
STRATEGIC RESOURCES											
LSVT VAT Shelter Usage *											In progress
Invoice Fraud -Insurance Claim Recovery *					n/a	n/a	n/a	n/a	n/a	n/a	In progress
Teachers Pensions Arrangements 2008 / 2009											In progress
National Fraud Initiative					n/a	n/a	n/a	n/a	n/a	n/a	Final – Results provided to Audit Commission via online portal
CIPFA Benchmarking 2009					n/a	n/a	n/a	n/a	n/a	n/a	Data provided and draft report awaited

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
STRATEGIC RESOURCES (Continued) Rolled Forward 2008 / 2009										
Payroll					-	-	-	-	-	At review stage
Purchasing Cards				*	1	3	9	4	17	Draft
Debtors			*		-	3	6	1	10	Draft
ICT										
ECAF and Contact Point (Government Initiative - Children's Services IT systems) *										In progress
ICT Managed Service – CIA consultancy					n/a	n/a	n/a	n/a	n/a	n/a

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 30 JUNE 2009

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
CORPORATE ACTIVITY / CROSS CUTTING REVIEWS											
Recruitment / CRB											In progress
Grants:											
GAF 2008 / 2009											In progress
Final Account Statements 2008 / 2009:											
Annual Governance Statement 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final - committee report June 2009 and inclusion in the Statement of Accounts
CAA / Use of Resources					n/a	n/a	n/a	n/a	n/a	n/a	CIA strategic co-ordination of data collection together with liaison with External Auditors
Audit Opinion 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final - committee report June 2009
TOTAL RECOMMENDATIONS MADE					2	51	93	43	189		

APPENDIX B**AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

LIMITED ASSURANCE		Date To Audit Committee
Chi2125-07	Middleton Primary	07 September 2009
Chi2136-01	Peakirk cum Glinton	07 September 2009
Chi2139-01	Sacred Heart RC	07 September 2009
Chi2145-01	Stanground St Johns	07 September 2009
Chi2182-01	The Phoenix	07 September 2009

FMSiS: Standard Executive Summary

The Financial Management Standard in Schools (FMSiS) process has been embedded into the Internal Audit programme and following external assessment the school has met the requirements of the Standard. The school submitted evidence required in order to support stated procedures and processes in meeting the Standard.

Appendix G4 details the areas within the school and evidence assessed that are satisfactory. Appendix G4 also highlights areas that are unsatisfactory and issues for improvement that have not warranted failure of the Standard are detailed within Appendix 2.

The school should continue to meet the requirements of the standard, and undertake the self assessment process regularly in order to demonstrate sound financial management and value for money are achieved.

The 'Guide to Further Best Practice in Financial Management' (G3B) details the non essential elements of the Standard, and the school should now monitor their progress against these criteria.

Recommendations made will be assessed against progress during September 2009, as part of a follow up review process.

Scope and Objectives

Year 2 primary schools are expected to comply with the Standard by March 2009.

The purpose of the audit was to obtain reasonable assurance that adequate controls and procedures are in place to meet the requirements of the DCSF FMSiS, and make observations and recommendations for improvement.

FMSiS comprises five subject elements which are:- Leadership & Governance; People Management; Policy & Strategy; Partnerships & Resources and Processes

Methodology

The school submitted a self assessment for review. An external assessment was conducted by examining the responses to the assessment and evidence submitted. A visit to the school was also undertaken.

Discussions were held with the following personnel:- Headteacher; Finance Manager; Education Finance, Peterborough City Council and Governors Services, Peterborough City Council

Audit Opinion

This audit was conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government that requires compliance with relevant auditing standards. The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion. The audit opinion is LIMITED ASSURANCE.

Chi2125-01: Conclusion

The school's re-submission of their G4 FMSiS Assessment Tool 2008/09 was completed sufficiently to allow an External Assessment visit early in the Autumn term. Communication with the Internal Audit Team was good and the Finance Manager responded promptly to requests for additional information, including provision of documentation forwarded from the Clerk to the Governors. This has resulted in Middleton Primary School meeting the requirements of the FMSiS by the deadline. The audit opinion is Limited Assurance. This is due to three 'High' graded recommendations and the poor quality of the first submission of the G4 FMSiS Assessment Tool 2008/09.

Chi2136-01: Conclusion

The school did not submit their G4 FMSiS Assessment Tool 2008/09 in a timely manner, in order to commence the External Assessment process. However, the Internal Audit visit to the school was well received and productive. The Headteacher and Office Manager were committed to passing the Standard and requests for additional information were responded to promptly. This has resulted in Peakirk-cum-Glinton Primary School Passing the FMSiS.

Chi2139-01: Conclusion

The Business Manager left at the end of the financial year without submitting outstanding evidence required for the completion of the external assessment. Therefore, the school was categorised as a 'conditional pass' on 31st March 2009. However, the new incumbent made a considerable effort to ensure the items that remained outstanding were submitted in advance of the 20 day deadline and The Sacred Heart RC Primary School has now met the requirements of the FMSiS.

Chi2145-01: Conclusion

The school did not submit their G4 FMSiS Assessment Tool 2008/09 in a timely manner, in order to commence the External Assessment process. This was because there was a change in Headship at the start of the financial year. An Internal Audit visit was made to the school to advise on the completion of the document. However, the new Headteacher and Finance Assistant were committed to passing the Standard and requests for additional information were responded to promptly. This has resulted in Stanground St. Johns Primary School Passing the FMSiS.

Chi2182-01: Conclusion

The school was categorised as a 'conditional pass' on 31st March 2009, however considerable efforts were made to ensure the items that remained outstanding were submitted in advance of the 20 day deadline. A change in finance staff during the year did not affect the school's commitment to achieving the Standard, and The Phoenix School has now met its requirements.

The role of governors is an important one, as they have collective responsibility in the context of how the school is run and should therefore fulfil the role of providing the school with strategic direction, and as such it is important that they understand their responsibilities. The external assessment has resulted in a number of recommendations in the report which relate to the school's governors. This is reflected in the audit opinion of 'Limited Assurance.'

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