APPENDIX A

INTERNAL AUDIT MID-YEAR

PROGRESS REPORT 2017 / 2018

TO 30 SEPTEMBER 2017

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 Executive Director for 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.

1.2   The purpose of this report is to bring the Committee up to date with progress made against the delivery of the 2017 / 2018 Internal Plan, as at September 2017. The information included in the progress report will feed into and inform our overall opinion in the Annual Audit Opinion report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council.

1.3   Where appropriate each report we issue during the year is given an overall opinion based on four levels of assurance. To obtain this assurance, we look at the number and type of recommendations we make in each report and are summarised below:

AUDIT ASSURANCE OPINIONS	
Assurance	**Definitions**
Substantial	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There may be some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
Reasonable	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
Limited	The internal control system is poorly designed and / or there is significant non-compliance with controls, 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	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

1.4   Should an audit report identify **LIMITED** or **NO** assurance, then as a matter of course those areas are followed up. Our work is carried out to assist in improving control. **However management is responsible for developing and maintaining an internal control framework**.

1.5   Our recommendations are graded, dependent on the severity of the findings, see below:

RECOMMENDATION RATINGS		
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

2. **RESOURCES, PERFORMANCE AND OUTPUTS**

2.1 Resources

2.1.1 The role of Chief Internal Auditor has also been provided to Cambridge City Council (from January 2011) and South Cambridgeshire District Council (from July 2013) on a shared management arrangement, delivering financial savings to each Council. With the creation of the Combined Authority in March 2017 – which Peterborough are providing the audit service for – the decision was taken by the Service Director Financial Services in conjunction with the Chief Internal Auditor to inform the other Councils in early 2017 that Peterborough would withdraw from the existing arrangements by 30 September 2017 at the latest. This provided suitable opportunity for the other Councils to appoint a replacement. Whilst an appointment has been made, the successful candidate will not commence in that role until 18 December 2017. Peterborough have agreed to provide 1 day cover per week until that date, a reduction of 2 days per week from the previous agreement.

2.1.2 The Chief Internal Auditor is also charged with management responsibility for both the Insurance and the Investigations Teams at Peterborough City Council as well as overseeing / undertaking any Stage 2 Corporate Complaints reviews as deemed appropriate. During the first half of the year, the Insurance section has been re-structured, has had its corporate insurance software upgraded and steps are in train to re-tender for the Councils corporate insurance policies. Investigations have focussed on works in relation to staffing issues; blue badge misuse and Council Tax Reduction Scheme breaches. Further works have covered the National Fraud Initiative. Just under £9,000 has been identified to be recovered. The Annual Investigation Fraud report will provide further insight into this. The Chief Internal Auditor has reviewed 16 Stage 2 Complaints during the first six months, which have either resulted in referral back to department for further works to address the issues; referral back to Central Complaints as there is a conflict for the Chief Internal Auditor / other investigators to undertake the review; acceptance of the complaint and proposing how it can be rectified; or closure as all routes have been exhausted.

2.1.3 PCC Internal Audit provides audit services to Vivacity–Peterborough which is managed through a Service Level Agreement. The contract arrangements have been operational since 2010. These reviews are client confidential and as a result their outcomes are only available to Vivacity.

2.1.4 In addition to the external work provided to Vivacity Peterborough, Internal Audit have been requested to provide internal audit services to the new Combined Authority. This is primarily due to PCC's finance systems being utilised on behalf of the Combined Authority. A nominal amount of time was allocated from resources in the planning process and the time likely to be required for this year is 30 days. Any work undertaken is chargeable to the Combined Authority. These reviews are similarly client confidential and reports are only available to the Combined Authority.

2.1.5 The audit plan was compiled on the basis of 5.46 FTE being in post throughout the year. Since the approval of the plan, resources have reduced by 0.8 FTE due to a resignation and this post has remained vacant since April 2017. Approval is being sought to recruit to the post but in the interim days have been lost from the plan as a result. If the post is not filled this will result in a reduction of approximately 140 days

from the plan for the year. Future reviews will be prioritised and committee will be advised as part of our reporting processes where reviews have been assessed as not being undertaken or rolled forward to the following year.

2.2   Performance Indicators

2.2.1   Performance indicators set for the service are regularly monitored and reported through to Committee. The current status is as follows:

- There has been 100% acceptance of audit recommendations to date, against a target of 90%.
- Follow-ups carried out to date show that 91.5% of agreed recommendations have been implemented, against a target of 90%

2.2.2   A review of internal audit effectiveness is included within the plan and in progress. The review will self-assess processes against the Public Sector Internal Audit Standards (PSIAS) prior to an external assessment.

2.3   Audit Activities undertaken during the year to date

2.3.1   The progress of the 2017/ 2018 Annual Plan is documented below as **Appendix B**. To date 6 grant certifications have been completed and 12 audit projects have been finalised. There are 21 audit projects in progress, which includes 6 at draft report stage, with a further 15 audit projects left to be undertaken in the second half of the year subject to resources. In addition, there are a further 3 audit projects to commence for Vivacity.

2.3.2   There have been no finalised reports with a **LIMITED** or **NO** assurance rating to date. Audit Committee will be advised of any future reports falling within these categories as part of the audit committee timetable.

2.3.3   It is too early in the audit year to provide an opinion on the internal controls operating across the Council that have been subject to audit from the 2017 / 2018 audit plans and with the work undertaken in its infancy there are no significant issues to be brought to the Committees attention.

Steve Crabtree
Chief Internal Auditor
October 2017

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3   **PROGRESS AGAINST AGREED AUDIT PLAN**   **Appendix B**

Where audits are "shaded", these represent those jobs not started at 30 September 2017.

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.**								
Budgetary Control	All	**To Commence Quarter 4** A risk based review concentrating on budget management within one or more directorates, or on a major project. Focus to be on the risks highlighted of: • budget managers failing to forecast accurately • budget managers failing to manage budgets within control totals						
Payroll	Resources / Serco	**To Commence Quarter 4** A review of payroll arrangements both centrally and within departments to include starter, leavers and variations to pay.						
Accounts Receivable – Debt Recovery	Serco / Resources	**In Progress** – A follow on review of billing and debt recovery arrangements centrally and within specific departments to establish the effectiveness and progress of recovery arrangements since the previous review.						
HR IT System	Chief Executive	To commence if HR IT system modules are implemented. A review of the control framework during the design and implementation of a new HR IT system designed to enable self-service. Modules likely to be introduced include recruitment with others being reviewed as identified. Highlighted Risk: Failure to achieve potential benefits/business needed from IT investment.						

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK **Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement, as well as high level governance reviews.**								
Annual Governance Statement Review	All	**Completed** Presented as draft to Audit Committee on 26 June 2017 and final agreed by Audit Committee on 25 September 2017.						
Code of Corporate Governance	All	**Completed** Consultancy advice and the compilation of a new local Code of Corporate Governance and setting up a governance monitoring framework.						
Annual Audit Opinion / Progress Report	All	**Completed** Annual Opinion presented to Audit Committee on 26 June 2017 and Progress Report being presented on 20 November 2017.						
Annual Audit Plan	All	**To Commence Quarter 3** Establishment of the future plans for 2017 / 2018.						
Internal Audit Effectiveness / Audit Committee Effectiveness	All	**In Progress** Review of the internal audit service against the new Public Sector Internal Audit Standards and a best practice review of the Audit Committee.						
Annual Investigation Report		**Completed** Annual Opinion presented to Audit Committee on 26 June 2017						
Information Governance	All	**Ongoing** Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group. Key focus areas to date have been data storage, retention of documents and the implications of the Data Protection Act 2018.						

Risk Management	All	**Ongoing** Involvement in risk working group and any emerging issues.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
ANTI FRAUD CULTURE								
The Councils approach to assessing the controls and mitigating the risk of fraud								
National Fraud Initiative	All	**In Progress** Ongoing review of the data matches for the 2016 NFI exercise to include liaison with other authorities and external bodies. Examples of data sets include: Payroll, Blue Badges, Concessionary Travel, Right to Work, Personal Budgets, VAT etc. Majority of data matches have identified data quality issues. Where matches have identified irregular activity, just under £9,000 has been identified.						
Serious and Organised Crime	All	**To Commence Quarter 3/4** The Serious and Organised Crime (SOC) report was issued in December 2016 and makes various recommendations on the key areas subject to risk of organised crime. A collaborative approach is recommended and selected aspects of the report are to be reviewed: Facilitation of a self-assessment anti-fraud health check – High level review of the SOC check list covering a range of areas such as Strategy, Communication, Data Sharing, Risk Management. Review of Passenger Transport procurement and contract management arrangements – to include responsibility for DBS and safeguarding both at contract procurement and subsequent monitoring during the contract life. Taxi Licensing – Processes for the issuing of taxi licenses to include safeguarding and changes in licensing arrangements, Gifts and Hospitality / Officer and Member External Interests Register – Covering the processes in place to protect against 'Insider Threat' aspects of the SOC report.						

Fraud Register		**To Commence Quarter 3**
		Facilitation of the development of a fraud risk register
Corporate Fraud Policies		**In Progress (Draft)**
		New / updated policies have been established for Anti-Fraud and Corruption Strategy and an associated Policy; together with the Anti Bribery Policy; Money Laundering Policy; and the Council Tax Reduction Scheme Prosecution Policy. These are out for discussion and approval.
		Unplanned
		Corporate Criminal Offence legislation came into force in September 2017. Review undertaken as a self-assessment against standards and actions to ensure compliance.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
DELIVERING COUNCIL SERVICES THROUGH NEW WAYS OF WORKING								
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks								
Strategic Partnerships	Growth and Regeneration	**Reasonable**	0	1	2	1	4	A review of Skanska partnership management arrangements. - Final
Programme / Project Management	People and Communities	**In Progress** A review of project governance arrangements for Nene Park Academy Project to include compliance with corporate processes.						
Contracts	Growth and Regeneration	**In Progress** Materials Recycling Facility – A review of contract arrangements to include data collection, performance, income sharing. A joint exercise being undertaken with other Cambridgeshire authorities which is being co-ordinated by Peterborough.						

Commercial Activities		**In Progress** A review of governance arrangements for the Peterborough Investment Partnership.

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**								
Registrars	Resources	**Substantial**	n/a	n/a	n/a	n/a	n/a	**Complete** Review of certificate stocks and finances as part of the HMG Security Policy Framework
Energy Management System								**Completed** Consultancy advice regarding SystemsLink and associated business case.
Health and Safety								**Unplanned - In Progress** A review of Health and Safety internal governance arrangements.
Highways Asset Management System								No longer required. Review of the data quality and completeness of the Asset Management Valuation Toolkit has been suspended.
Information Governance								**In progress** A review of our compliance with ICO requirements focussing on some specific areas. In particular we will look at: • Data Sharing • Freedom of Information.

School Places	People and Communities		**To Commence Quarter 3** A review of one aspect of mitigating actions to monitor in year admissions and trends around numbers leaving the city, in particular processes and forms being developed to improve data collection
Schools			**To Commence Quarter 3 / 4** Themed reviews of a variety of schools. For example, SEN funding or selected categories from the Schools Financial Value Standard self-assessment.
Carbon Reduction Commitment	Growth and Regeneration	Annual Certification	**Completed** Annual data validity audit and a review of changes to methodology with regards to a new automated system for data collection. Associated memos relating to operating processes are in draft.
Blue Badges Follow up	Resources		**To Commence Quarter 4** A review of processes for issuing and cancelling permits.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	COMMENTARY
GRANT CLAIM CERTIFICATION **Certification of claims in relation to UK and European funding requirements**			
Bus Service Operators 2016 / 2017	Growth and Regeneration	Certified	A grant to support bus services, including community transport services.
Local Transport Funding Grant 2016 / 2017	Growth and Regeneration	Certified	This grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.

Local Sustainable Transport Grant 2016 / 2017	Growth and Regeneration	Certified	A scheme to help local authorities to cut carbon emissions and create local growth.
Disabled Facilities Grant 2016 / 2017	People and Communities	Certified	Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.
Troubled Families	People and Communities		**In progress** Results based funding to support families meeting certain criteria. Verification of a sample of claims prior to one of the claim submissions in 2017, and a review of Outcomes Plan and procedures. Work is ongoing throughout the year.
Rogue Landlords	People and Communities	No longer required	Outputs based funding covering criteria such as inspection numbers, street surveyed and enforcement actions.
Carbon Reduction Commitment	Growth and Regeneration	Certified	Carbon Reduction Commitment. Annual data validity audit and a review of changes to methodology with regards to a new automated system for data collection.
NCLT Grant 2017	People and Communities		**To commence in Quarter 3** The National College for Leading and Teaching Grant 2017 – Work undertaken on behalf of Hampton Hargate School which includes certification of bursaries, school to school support and core grant funding.
Bourges Boulevard Phase 1	Growth and Regeneration		**Unplanned – In progress** Certification of grant funding received from GCGP and the appropriateness of funding application.
Junction 20	Growth and Regeneration		**Unplanned – In progress** Certification of grant funds awarded through the Growth Deal Programme and appropriateness of funding application.
Direct Debit Competition	Resources / Serco	Audit Verification	**Unplanned - Complete.** Adjudication and verification of the competition draw process.

EXTERNAL WORKS	Work which generates income for the council
Combined Authority	See 2.1 1 review in progress.
Vivacity	See 2.1 2 reviews completed and 3 reviews in progress

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.**								
CARRY FORWARD ACTIVITIES								
Highways Asset Management System	Resources	**Reasonable**	0	0	2	1	3	**Final** A review of the Highways Network Asset Code prior to the CIPFA/LASAAC Code Board withdrawing the scheme.
Winyates Primary School follow up	People and Communities							**Draft.** In discussions with school prior to finalisation.
Accounts Payable	Serco / Resources							**In draft**
Information Governance	Governance	**Reasonable**	0	4	8	5	17	**Final**

								A review using the Information Commissioner's Office online self-assessment
Blue Badges	Resources							**Draft** A review of the processes for issuing and cancelling permits.
Recruitment Checks / Disclosure and Barring.	Governance / Serco							A review to ensure that there is a robust process in place for recruitment checks and for monitoring that contractors fulfil responsibilities. **In draft** awaiting update following external PSN assessment
Cyber Security	Resources / Serco							**In progress** Awaiting update from an external review prior to determining further action.
FOLLOW UP PROVISION								
Local Offer	People and Communities	N/A	n/a	n/a	n/a	n/a	n/a	**Complete** Management action plan has been implemented and is regularly monitored
Carbon Reduction Commitment Follow-up	Growth and Regeneration	N/A	n/a	n/a	n/a	n/a	n/a	**Complete**
Statutory Testing follow - up	Growth and Regeneration / NPS		**In progress**					
Schools Statutory Testing	People and Communities / NPS		**In progress**					