

AUDIT COMMITTEE	AGENDA ITEM No. 8
8 FEBRUARY 2010	PUBLIC REPORT

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

INTERNAL AUDIT - QUARTERLY REPORT 2009 / 2010 (TO 31 DECEMBER 2009)

RECOMMENDATIONS	
FROM : John Harrison, Executive Director - Strategic Resources	Deadline date : N/A
Audit Committee are asked that :	
1. The Internal Audit Update Report to 31 December 2009 be received and the Committee note in particular: <ul style="list-style-type: none"> (a) That the Chief Internal Auditor is of the opinion that based on the works conducted during the 9 months to 31 December 2009, internal control systems and governance arrangements remain generally sound; and (b) Progress made against the plan and the overall performance of the section. 	

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 31 December 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 31 December 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. **NINE** 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 31 December 2009), the Chief Internal Auditor is of the opinion that the Council's internal control systems for those areas audited are generally sound. 95.2% 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 6 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 revised 2009 / 2010 plan is 74.48% (compared with 63.7% to the 9 month period December 2009). In accordance with the revised plan the scope of some programmed reviews will be reduced where possible but will still provide appropriate assurance on the control environment.

6.1.3 The percentage of direct days delivered to 31 December is 98.5% against a target of 100%. Despite figures being calculated to include the original plan for the six months to 30 September and the revised audit plan for quarter 3, performance is higher than would be expected, given that a significant number of days have been lost due to sickness. This is due to the introduction of annualised hours and a reduction in indirect activities.

6.1.4 To date, 20 audit projects for 2008 / 2009 have been finalised together with a further 39 for 2009 / 2010. 11 other pieces of work have been completed where either no audit report was necessary, or a committee report was produced. There are also 16 reviews that are in various stages of progress along with the 23 schools subject to Financial Management Standards in Schools reassessment of which 3 are in draft.

6.2 Responses to Audit Reports

Internal Audit continues to produce reminders in accordance with their Audit Charter (revised Audit Charter presented for approval elsewhere on this meeting's agenda) to finalise reports in a timely manner. Audit Committee will be advised during the year where significant delays occur.

6.3 Status of Recommendations

6.3.1 Our current policy, as defined in our Audit Charter, is to follow up the implementation of recommendations 6 months after the reports have been finalised. To date 80% 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%. Performance up to December 2009 remains at 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 4.5 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 31.5 days sickness per person was lost during the 9 months to 31 December 2009, compared to an annual target of 5 days per person. This is a major increase on last year where sickness was 8.0 days per person as at 31 December 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 5.25 days per person which is less than the previous years figure detailed above. The member of staff reported as long term sick during the year to date is due to commence a phased return to work during Q4 and will continue to be monitored by Occupational Health during this transitional period.

6.4.4 An average of 6.5 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 / 2010 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. CONSULTATION

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

8. 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.

9. 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.

10. ALTERNATIVE OPTIONS CONSIDERED

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

11. 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 31 December 2009)
Appendix B	Audit Reports Issued in Quarter 3: Limited / No Assurance

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 31 DECEMBER 2009

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

(*) denotes additional works to the original audit plan.

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHIEF EXECUTIVES DEPARTMENT										
Economic Participation Programme Review			*		-	4	4	-	8	Final
Economic Participation Programme 2007 / 2008 Follow Up					n/a	n/a	n/a	n/a	n/a	Final
SI (Cex1006-08) *					n/a	n/a	n/a	n/a	n/a	Final
Mayoral Allowances *					n/a	n/a	n/a	n/a	n/a	Memo
Private Sector Housing Grants *					n/a	n/a	n/a	n/a	n/a	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

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 					-	-	-	-	-	
AMVC		x			-	-	3	3	6	Draft
Orton St Johns Primary		x			-	-	7	-	7	Draft
Castor Primary	x				-	-	-	2	2	Final
CHILDRENS SERVICES: OTHER ACTIVITIES										
Bushfield School Closure		x			-	1	-	-	1	Final
The Voyager			x		-	11	4	4	19	Final
SI (Chi2325-02) *			x		-	-	3	-	3	Final
SI (Chi2154-02)				x	-	13	3	3	19	Final
Heltwate Financial Controls*					n/a	n/a	n/a	n/a	n/a	Final memo
Building Schools for the Future*		x			-	-	1	-	1	Final
CRB policy in schools *					n/a	n/a	n/a	n/a	n/a	Final
Contact Point					-	-	-	-	-	In progress
PCAE			x		-	10	9	1	20	Draft. Extension granted.

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CHILDRENS SERVICES: FOLLOW UPS										
Abbotsmede FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Eyrescroft FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Gladstone FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Matley FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
West Town FMSiS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
Bushfield School Closure					n/a	n/a	n/a	n/a	n/a	Final
Orton Longueville – Cashless System					n/a	n/a	n/a	n/a	n/a	Final
Education Psychology					-	-	-	-	-	In progress
St John Fisher					-	-	-	-	-	In progress
Old Fletton FMSiS					n/a	n/a	n/a	n/a	n/a	Final
Oakdale FMSiS					n/a	n/a	n/a	n/a	n/a	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

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	Final
Discovery			x		-	2	7	2	11	Final
John Clare			x		-	1	6	4	11	Final
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	Final
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	-	10	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

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										
Stanground St Johns			x		-	2	4	-	6	Final
St Thomas More		x			-	-	1	4	5	Final
The Phoenix			x		-	3	5	2	10	Final
Wittering			x		-	2	7	2	11	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CITY SERVICES										
Procurement *					-	-	-	-	-	In progress
Energy Payments *					-	-	-	-	-	In progress
SI (Con3195-03) *				*	2	1	-	-	3	Final. Deferral - pending internal procedures.
Property Design and Maintenance Contracts					-	-	-	-	-	In progress
CITY SERVICES Rolled forward 2008 / 2009										
Budgetary Control			*		-	4	6	2	12	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

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	Final
SI (Env4396-01) *			x		-	7	-	-	7	Final
Blue Badges *			x		-	3	3	-	6	Final
Key Theatre		x			-	2	6	9	17	Final
Climate Change			x		-	6	4	2	12	Draft
SI (Con3325-01) *			x		-	-	2	2	4	Draft
Walton Community Association *					n/a	n/a	n/a	n/a	n/a	n/a
Leisure Trust Creation *					-	-	-	-	-	In progress
Museum Follow up					n/a	n/a	n/a	n/a	n/a	Final
Street Lighting Follow Up					n/a	n/a	n/a	n/a	n/a	Final
OPERATIONS Rolled Forward 2008 / 2009										
Jack Hunt Pool Refurbishment *				x	1	12	9	2	24	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
STRATEGIC RESOURCES										
LSVT VAT Shelter Usage *		x			-	-	2	-	2	Final
Invoice Fraud -Insurance Claim Recovery *					n/a	n/a	n/a	n/a	n/a	NFA anticipated
Teachers Pensions Arrangements 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
National Fraud Initiative					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	Analysis to be used to develop Audit Strategy 2010
SI (Con3325-01) *			x		-	1	-	-	1	Draft memo
Benefits 2009/10					-	-	-	-	-	In progress
Main Accounting System 2009/10					-	-	-	-	-	In progress
Treasury 2009/10					-	-	-	-	-	In progress
SI (Str5470-19) *					n/a	n/a	n/a	n/a	n/a	Final memo
SI (Str5470-20) *					n/a	n/a	n/a	n/a	n/a	Final memo
BACS Processing - Payroll*			x		-	2	4	-	6	Final

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
STRATEGIC RESOURCES (Continued)										
Taxation Systems - Bailiff Interface*					n/a	n/a	n/a	n/a	n/a	Draft
Bank Imprest F/Up					n/a	n/a	n/a	n/a	n/a	Final memo
Creditor Payments*					n/a	n/a	n/a	n/a	n/a	Final memo
Purchasing Card Procedures					-	-	-	-	-	Ongoing
Central Security *					n/a	n/a	n/a	n/a	n/a	n/a
Rolled Forward 2008 / 2009										
Payroll					-	-	16	6	22	Final
Purchasing Cards				*	1	3	9	4	17	Final
Debtors			*		-	3	6	1	10	Final
ICT										
ECAF (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

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total	
CORPORATE ACTIVITY / CROSS CUTTING REVIEWS										
Assurance Framework					n/a	n/a	n/a	n/a	n/a	Committee Report
Audit Charter					n/a	n/a	n/a	n/a	n/a	Committee Report
Recruitment / CRB			x		-	8	1	1	10	Final
Grants:										
DoH Stroke Care	x				n/a	n/a	n/a	n/a	n/a	Final
GAF 2008 / 2009	x				n/a	n/a	n/a	n/a	n/a	Final
Final Account Statements 2008 / 2009:										
Annual Governance Statement 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final - committee report
CAA / Use of Resources					n/a	n/a	n/a	n/a	n/a	CIA strategic co-ordination of data collection together with liaison with PwC
Audit Opinion 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final - committee report June 2009

TOTAL RECOMMENDATIONS MADE

4	122	165	76	367
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FULL YEAR 2008 / 2009

8	129	189	116	442
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AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE			Date To Audit Committee
1	Con3006-03	Jack Hunt Pool Refurbishment	08 February 2010
2	Chi2154-02	SI – Procurement Review	08 February 2010
3	Con3325-01	Flare – Access Rights and Data Quality	08 February 2010

LIMITED ASSURANCE			Date To Audit Committee
4	Chi2085-01	The Voyager	08 February 2010
5	Str5460-03	Recruitment / CRB Policies	08 February 2010
6	Str5470-18	BACS Processing	08 February 2010
7	Con3166-03	Budgetary Control	08 February 2010
8	Chi2105-01	Bishop Creighton FMSiS 2008/09	08 February 2010
9	Chi2158-01	Discovery FMSiS 2008/09	08 February 2010

Report 1: Executive Summary

The Head of Strategic Finance requested a review of the Jack Hunt Pool refurbishment processes, as there were concerns around the governance process. The Client (Cultural Services), and the Client Agent (Property Design and Maintenance) have clear roles within the contract process, however these were not adhered to. The Client has responsibility for ensuring that all contracts follow contract regulations; however this was not the case as outlined below. The Client Agent in its advisory capacity should have ensured that the contract met with all Council regulations, this was not done. All the officers involved in this process were experienced officers, who were aware of contract regulations, having carried out a number of similar projects. It is of concern that these errors were allowed to happen, and management should consider what action should be taken in relation to the officers involved.

Investigation of the contract processes, revealed fundamental errors, which has resulted in key contract regulations not being followed for example:

- This Contract was not included on the forward plan, despite the estimate being over the £500,000 threshold;
- A Cabinet Member Decision Notice (CMDN) had not been prepared, despite the contract estimate being over the £500,000 threshold;
- Budget was not available for the full estimate, prior to going out to tender;
- Planning was undertaken at a late stage, and a decision was made to close the pool prior to going out to tender, and approving the budget. The lowest tender bid was found to be £73,000 higher than officers originally estimated. A review undertaken by the Head of Asset Management indicated the estimate had not included, or had under estimated contingency, preliminary and day works; and
- It has not been clear where the funding for the professional fees is being provided from. Although this is an internal charge, it is still a cost to the project, and the appropriate budget will need to be made available to support the expenditure.

It was also identified that the budget originally identified for the funding of the programme was no longer available. This was despite the closure of the pool in anticipation of the refurbishment taking place. The work was agreed to go ahead, due to the commitment of the Council to the public and the reputational risk for not doing so. The audit identified a number of elementary errors that resulted from poor budgetary control. Understanding of the new Oracle system at the time of close-down coupled with the lack of communication and reporting in City Services finance resulted in the error. This was further exacerbated by local records being held for monitoring purposes that were not routinely reconciled to Oracle.

The pool closed on 12th December 2008. As at 19th February 2009, works had not commenced resulting in the re-opening of the pool being delayed.

Conclusion

There has been a catalogue of errors regarding this project, the outcome resulting in the significant delay to the re-opening of the pool, additional loss of income during this period and the risk of adverse publicity to the Council. A number of officers were involved in the process, and it is disappointing to find the issues were not identified at the earliest opportunity.

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 **NO ASSURANCE**.

Report 2: Executive Summary

The review highlighted a number of control issues at the primary school relating to:-

- Procurement and Payments
- Budget Submission and Budgetary Control
- Governance
- Assets and Cash Security; and
- School Funds (School Private Funds)

The School should have been subject to a FMSiS review in 2008 / 2009 but this was not undertaken due to Ofsted issues and the view that the school would not meet the standard at that time. The School have been re-scheduled for review during 2009/ 2010. Based on the audit findings Internal Audit will assess the School's progress against the observations and recommendations made and as a result, will assess whether the External Assessment process may go ahead.

The audit opinion is **NO ASSURANCE**

Report 3: Executive Summary

During a review of the Flare system Internal Audit observed that text and action diary entries within Flare are editable and that Flare audit log entries do not record the exact changes that have been made to Flare records. This presents a risk that information may be lost from Flare, which may have an impact on customer service.

Internal Audit recommended that:

- the Flare access rights of all current users are reviewed so that users are only given access to those records that are appropriate.
- evidence is kept in all cases to support the deletion of Flare Records, perhaps by asking for all deletion requests to be made by e-mail.
- while Flare remains in place, password changes are forced on a periodic basis.

The audit opinion is **NO ASSURANCE**

Report 4: Executive Summary

The school has reported a significant budget deficit of £304,549 at the closure of the 2008/09 financial year. However, the school's current prediction is that by March 2011 they will be reporting a surplus balance in the region of £25,082.

The staffing structure is under review, as the current structure is a result of encompassing the two closing schools rather than meeting the actual needs of the school, which the re-structure will address. This will result in significant financial savings which is integral to the school's ability to recover from their current budget deficit situation. Governors and staff have recognised the difficult budget position and instigated actions to address the situation in order to maintain effective financial control and reduce costs to live within budget constraints. This has been demonstrated by an increased frequency of finance committee meetings.

The school is confident of the accuracy of the multi year budget information produced, now that historic budget information is available and processes are becoming more established, as procedures evolve. It is important that budget predictions and outcomes are continued to be monitored closely in order to identify any issues arising at the earliest opportunity that may have an impact on achieving future targets.

Conclusion

The Finance Manager has worked hard on a five year budget plan and commented that estimates made are realistic.

The school has acknowledged their budget deficit and actions to resolve the situation have been instigated to improve budget monitoring and control, procedures and processes and also to reduce costs.

Governors continue to be involved in ensuring the school is operating effectively and are currently meeting on a monthly basis to ensure close scrutiny of the budget.

Observations and recommendations for improvement of financial management have been included within Appendix 1 of this report.

Audit Opinion

The audit opinion is **Limited Assurance**.

Report 5: Executive Summary

There is currently no recruitment and selection policy, as the document with this title that can be found in the Employee Information area of Insite is a procedural document, entitled 'Recruitment and Selection Procedure'. However, there is a draft policy that has not yet been adopted because the formal procedures for approving the policy have not yet taken place. With no official policy in place, the perceived recruitment policy anomalies identified during the review are ambiguous because there is nothing to measure compliance against.

The Recruitment and Selection Procedure was approved in 2004 and cannot be relied upon to reflect current procedures because there have been a number of changes made during the last five years.

Although it states quite clearly in a number of places within the Recruitment and Selection Procedure that all those involved in the recruitment process must have successfully completed the City Council's Fair and Effective Recruitment training course, it was found that this course has not been available for a considerable period, although it was not possible to determine when it was last offered. In the current draft policy, this is no longer a mandatory requirement. Training will be based on individual needs but all managers will need to be familiar with the policy and have the necessary skills to work within it.

The current Criminal Records and Employment of Ex-Offenders Policy was issued in 2008, but there is a draft policy going through the approval process that incorporates necessary updates e.g. the introduction of the Vetting and Barring Scheme. It will also be important to have assurance that all posts requiring a Criminal Records Bureau check are identified in the establishment list.

There needs to be a tightening up of the procedures in respect of Asylum and Immigration Act checks to ensure that the Council fully complies with this legislation when staff are recruited. There is a further issue about the Council having to comply with the Act in relation to all staff employed after 27 January 1997 that must also be addressed.

Conclusion

Although a **limited assurance** rating was given, this is based on the length of time that inadequate policies and procedures have been in place for recruitment. The need to review, revise/rewrite policies and procedures had already been recognised before this audit commenced but progress has been slower than anticipated due to other major projects that have impacted heavily on available time (i.e. job evaluation and redundancies).

Responsibility for HR policies in general now lies within the remit of the HR Manager (Improvement Projects), who inherited the previous policies that were large and not particularly user friendly documents. A new approach has been introduced whereby the 9 departmental HR Business Partners are involved in the process with the 2.5 fte policy development staff to ensure that current issues are adequately addressed

and the documentation is reduced to a minimum. It is expected that the new recruitment policies and procedures will be in place by the end of February 2010, which will resolve the documentation issues raised in the main body of the report.

Exception reporting is used within audit reports, so areas where good practices have been identified are excluded. During this audit it has been noted that:

- The system currently in operation relies on the calibre of the staff in the HR Transactions team and the appropriate advice that they provide to recruitment panels about procedures that have changed but have not been updated in the corporate documentation.
- Matters relating to criminal records bureau checking have been kept up to date.

Audit Opinion

The audit opinion is **Limited assurance**.

Report 6: Executive Summary

The Council's payroll service sits within Shared Transactional Services as part of the Manor Drive initiative for Strategic Resources. There are currently seven payrolls run each month - 6 monthly and 1 weekly - which are all generated through the Bankers Automated Clearing Services (BACS) process. Payroll runs are staggered throughout the month to ensure an even flow of information/workload.

At the end of October 2009, the pay date for PCC employees (28th unless a weekend or bank holiday and then reverts to the previous working day) was missed by the BACS transfer, resulting in all employees being paid one day late. Steps were introduced by management to ensure that any hardship cases or bank charges incurred would be honoured.

As a result of the delay, the Executive Director of Strategic Resources requested a review of the processes in place and to recommend any changes required to prevent this happening in future.

Conclusions

The key observations of the investigation are:

- Incorrect processing date entered onto email template forwarded to ICT;
- Checking of information not thorough enough and failed to identify the incorrect processing date, by both parties involved. However this is not implicitly spelt out in the procedures;
- Automated BACS file not queried before being released as approved;
- Limited approvers within ICT following staff leaving, which could impact on future deadline completions;
- No notification / awareness of changes made to BACS file;
- BACS contacts not readily available to make emergency changes; and
- Payroll have now identified how the processes can be simplified and this is recommended to be adopted, subject to software requirements being met.

If the system is correctly preset with pay dates, the payroll would have gone through by default as no one checked dates.

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**. However, if the new procedures are adopted, significant assurance can be warranted.

Report 7: Executive Summary

City Services is primarily the trading arm of Peterborough City Council (PCC) but the Cost Centres for each contract do not include apportioned overheads to identify if a contract is making a profit or loss. Budgets are not split out between contracts, again making it difficult for budget holders to evaluate performance of contracts. The loss of some contracts for example the Cross Keys Homes Maintenance contract will result in a noticeable reduction in contribution towards overhead costs.

Conclusion

The Finance team are hard working and conscientious. They are aware of their environment, and tailor their service to budget holders' needs. Part of Oracle re-implementation was to revise the coding structure of PCC. This has enhanced the reporting facilities through Oracle. However, there are issues relating to the information contained in the reports for Budget Managers:

- a) Budgets are not loaded for individual contracts.
- b) Overheads are not allocated within individual contracts.
- c) Oracle reports are altered, after being run.
- d) Reports to budget holders are issued three weeks after month end due to c above.
- e) Budget monitoring returns are not completed by Budget Holders due to delays at c and d.

The current processes have been put in place to meet budget holders needs, and because of time constraints; however with the re-implementation of Oracle, all financial information should be held on the system.

There was a large debt relating to invoices not being raised for schools, spanning a number of years. Once this was identified, the Finance team worked with Property Services to rectify this. At the time of this review, the debt had reduced significantly to approximately £8k. By introducing some recommended controls, this should limit the risk of a similar situation occurring.

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**.

Report 8, 9: Standard Schools 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.

Report 8 Conclusion

The school was categorised as a 'conditional pass' on 31st March 2009 as items of evidence were outstanding. The Finance Officer ensured those remaining items were received on the penultimate day before the 20 day extension period elapsed. Bishop Creighton Primary School has now met the requirements of the Standard.

The review found responsibilities delegated by the Governing Body as an area of weakness, with a lack of evidence that the Governing Body had approved powers assumed by the Resources Committee. This has prompted a number of recommendations, of which two were rated as high priority. This is reflected in the audit opinion of '**Limited Assurance.**'

Report 9 Conclusion

The school was categorised as a 'conditional pass' on 31st March 2009, as there were outstanding queries. However the school submitted the required evidence in advance of the 20 day extension deadline. Discovery Primary School has now met the standard.

During the external assessment it was noted that there were widespread inconsistencies in stated limits of authority for the Finance Committee and Headteacher for expenditure and virements, which have resulted in a two high priority recommendations in the report. This is reflected in the audit opinion of '**Limited Assurance.**'