PETERBOROUGH CITY COUNCIL

INTERNAL AUDIT OPERATIONAL PLAN 2010 / 2011

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 2010 / 2011.

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   It can be seen from the table below that the plan has been developed to 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 organization. The individual audit reviews and service areas are analysed in greater detail in section 6 of this document.

3.4   The table below summarises the planned allocation of productive days for 2010 / 2011.

INTERNAL AUDIT: ANNUAL PLAN 2010 / 2011	Audit Days
Systems Activity	95
Annual Governance and Assurance Framework	175
Other Governance	180
Strategic and Operational Risks	231
Contract Audit / Project Management	85
External Work (inc. FMSiS, Grant Certification)	177
Corporate Support – • CIA Consultancy, Control Advice and Contingency • Other Audit Support Activities	280 140
TOTAL PLANNED AUDIT DAYS	**1363**

4   Key Points

4.1   The plan is developed with the Corporate Objectives of the Council in mind. All of the reviews undertaken are underpinned by the driving principle to be **"delivering value for money",** but they also have an impact on the organisation's four strategic priorities.

4.2   The plan highlights how our work links to the risks identified by management in the Strategic Risk Register and to the assurance gaps identified in the Assurance Framework. Auditable activity is prioritised in these areas, but the plan also includes specific management requests for audit work. The methodology for determining the areas to be included in the plan is explained in section 7 of the Audit Strategy.

4.3   The number of planned audit days is based on a full complement of staff, which is 8.1 full time equivalents (FTE). Our current resourcing level is 7.1 FTE. Our resourcing plans are described in section 4 of the Audit Strategy. Any shortfall in resources will be managed by removing lower priority work from the plan and / or reducing the scope of some reviews. Changes made to the plan will be reported as stated in section 4.5 below.

4.4   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. 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.

4.5   The plan for 2010 / 2011 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, following consultation with the s151 officer. Any major changes in the plan will be discussed with those charged with governance and reported to the Audit Committee.

4.6   The following key points are of note:

4.6.1   External Works

The plan shows that we carry out work for external bodies, which generates income or savings. For 2010 / 2011 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 (FMSiS), which will generate income for the Internal Audit budget. We are also planning to market our services externally, in line with the Manor Drive project, in order that we may generate income for the authority. This is a long term project, but in 2010 /2011, our intention is to capitalize on our FMSiS expertise and to offer our services as an External Assessor to neighbouring authorities.

4.6.2   Main Financial Systems

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. We will adopt a key-control approach for these audits, but will review each of them in more depth over a three year period. In 2010 / 2011 the team will carry out a full review of Accounts Payable, Debt Recovery, Budgetary Control and Fixed Asset Accounting. 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.

4.6.3   Annual Governance

Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Internal Audit will continue to undertake reviews to support this process covering areas such as governance arrangements for managed and shared services (for example, the ICT Managed Service, the Leisure Trust and the PPCT), the risk management process, performance management and business continuity.

Other audit activity in this area is the work undertaken by Internal Audit in direct support of the production of the Annual Governance Statement. This includes the production of an Annual Audit Opinion and the compilation of an Assurance Framework.

4.6.4   Contracts and Projects

These areas have been identified as a continuing risk in light of their increasing number, their importance in relation to the Council's overall aims and objectives and their, at times, complex linkages and funding arrangements. Internal Audit will review specific projects, including the PFI (Secondary School) project. We will also carry out some themed audits, picking up on particular aspects of the project management process, such as the Gateway Review process and Post Implementation Reviews.

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.). We will focus this year on corporate contracting arrangements.

4.5.5   Strategic Risks and the Assurance Framework

The Strategic risk profile was last updated by Corporate Management Team in January 2009. The Assurance Framework was updated in October 2009. Our plan has been developed to test the adequacy and effectiveness of the control environment put in place to mitigate the council's principal risks, as identified in the Strategic Risk Register, and also to provide the assurance required on key controls, as identified in the Assurance Framework. The attached plan highlights the link between these two important documents and the work of Internal Audit.

4.5.6   Anti-Fraud and Corruption Arrangements

The roles and responsibilities for fraud investigations continue to operate in line with the Memorandum of Understanding between Internal Audit and the Compliance and Ethics Team. Internal Audit evaluates the control weaknesses that have allowed a fraud to take place or remain undetected, and provides recommendations to improve fraud prevention and detection. Internal Audit's role may also include involvement in major fraud investigations.

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 2010 / 2011 Internal Audit intend to undertake an in-depth follow-up of our 2009 / 2010 audit of the Council's response to the climate change agenda, and also to examine the proposed new Environmental Management Standard.

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, such as 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, Executive Director Resources, Cabinet Member for 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   Detailed Plan

6.1   Documented below is the audit activity proposed, with its link to the strategic risk registers and latest assurance framework, where appropriate. It should be noted that some time is analysed as 'All' rather than by Directorate, as this work will impact on all directorates.

AUDIT ACTIVITY	ALL	Strategic Resources	Assistant Chief Exec	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register Risk	A F Ref	Assurance Framework Key Control Area

SYSTEMS ACTIVITY FINANCIAL SYSTEMS: MANAGED AUDIT	To review the design and operation of key systems to assess whether they are fit for purpose and allow the s151 officer to make his statement included in the Annual Accounts, on the reliability of the supporting financial systems. The fundamental systems - those which are critical to the operation of the council - are reviewed annually; others will be reviewed periodically dependent on risk.									
Main Accounting / Financial Accounting		✓					8.01	Poor financial management	AF36	Financial management and strategy
Accounts Payable		✓					8.01	Poor financial management	AF36	Financial management and strategy
Sundry Billing		✓					8.01	Poor financial management	AF36	Financial management and strategy
Debt Recovery		✓					8.01	Poor financial management	AF36	Financial management and strategy
Housing and Council Tax Benefits		✓					8.01	Poor financial management	AF36	Financial management and strategy
Council Tax		✓					8.01	Poor financial management	AF36	Financial management and strategy
Business Rates		✓					8.01	Poor financial management	AF36	Financial management and strategy
Cash / Banking		✓					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
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
Payroll		✓					1.02	Staff retention in key areas	AF36	Financial management and strategy
Fixed Asset Accounting		✓					8.01	Poor financial management	AF36	Financial management and strategy

AUDIT ACTIVITY	ALL	Strategic Resources	Assistant Chief Exec	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register Risk	A F Ref	Assurance Framework Key Control Area

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.									
Arrangements for production of AGS	✓						8.03	Comprehensive Area Assessment	AF38	CAA transition
									AF44 - AF49	Good governance principles
									AF52	Effective corporate governance arrangements are embedded
Assurance Framework	✓						8.03	Comprehensive Area Assessment	AF52	Effective corporate governance arrangements are embedded
Annual Audit Opinion	✓						8.03	Comprehensive Area Assessment	AF52	Effective corporate governance arrangements are embedded
Anti Fraud Culture	✓						-	-	AF44 - AF49	Good governance principles
									AF55	Management of principal risks
Internal Audit Effectiveness	✓	✓					-	-	AF52	Effective corporate governance arrangements are embedded
									AF61	Audit recommendations implemented
Follow-Up Reviews	✓						-	-	AF61	Audit recommendations implemented
CAA / UoR Support	✓	✓					8.03	Comprehensive Area Assessment	AF52	Effective corporate governance arrangements are embedded

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OTHER GOVERNANCE ARRANGEMENTS	Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. Areas that constitute key aspects of corporate governance are reviewed in line with risk levels.									
Performance Management	✓				✓		-	-	AF53	Effective performance management arrangements
							8.05	Waste Management and Recycling	AF40	Waste Management & Recycling
							-	-	AF60	Data Quality
Risk Management	✓					✓	-	-	AF54	Risk management processes robust and embedded
Information Governance	✓	✓		✓			-	-	AF59	Safeguarding electronic data
									AF60	Data quality
Business Continuity	✓					✓	1.08	Major illness impact	AF08	Health and safety
							1.09	Business continuity	AF09	Business continuity and resilience
Partnerships	✓	✓	✓	✓		✓	1.11	Governance arrangements for partnerships	AF11	Governance arrangements for partnerships
							1.06	PCT changes	AF06	PCT partnership working

AUDIT ACTIVITY	ALL	Strategic Resources	Assistant Chief Exec	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register — Risk	A F Ref	Assurance Framework — Key Control Area
STRATEGIC AND OPERATIONAL RISKS								**Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.**		
Regeneration / Sustainability			✓			✓	1.07	Implications of the growth agenda	AF07	Deliver Master Plan
							-	-	AF64	Housing Strategy
							3.01	Limited community cohesion	AF17	Community cohesion and engagement
Health & Safety						✓	1.08	Major illness impact	AF08	Health and safety
							8.07	Corporate manslaughter	AF42	Health and safety coordination
Arms Length Management Organisation (ALMO) for City Services					✓		5.02	Creation of ALMO	AF31	ALMO
Environmental Management						✓	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
Safeguarding Children				✓			4.04	Children staying safe	AF21	Children staying safe
Property Asset Management		✓					8.01	Poor financial management	AF36	Financial management and strategy
							8.04	Asset disposal programme is not achieved	AF39	Estate utilization
Highways						✓	6.01	Highways infrastructure conditions	AF32	Accommodating growth & managing congestion

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STRATEGIC AND OPERATIONAL RISKS (continued)	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.									
Procurement	✓	✓					8.02	Procurement Strategy does not deliver	AF37	Achievement of efficiencies and savings and improving VFM
Agile Working Scheme		✓					-	-	AF62	New ways of working
							1.13	Special Purpose Vehicles	AF13	SPVs / Shared Services
Travel & Subsistence	✓	✓					8.01	Poor financial management	AF36	Financial management and strategy
Attendance Management	✓						1.01	Lack of staff capacity / skills to meet the corporate change programme across the Council.	AF01	Staff capacity and skills
Concessionary Fares						✓	1.12	Impact of the credit crunch	AF12	Credit crunch
							8.01	Poor financial management	AF36	Financial management and strategy
Asylum and Immigration Act		✓					8.03	CAA	AF65	Safe recruitment
Children in Care				✓			4.11	Failure to deliver duties in relation to equality and diversity	AF28	Equality and Diversity
Financial Controls within Children's Services				✓			8.01	Poor financial management	AF36	Financial management and strategy

AUDIT ACTIVITY	ALL	Strategic Resources	Assistant Chief Exec	Children Services	City Services	Operations	Risk Ref	Strategic Risk Register Risk	A F Ref	Assurance Framework Key Control Area
CONTRACTS AND PROJECTS	**Dependent on risk, we review a sample of projects contracts each year to test whether the council's governance arrangements are being followed and that contracts provide value for money.**									
Project Management	✓						-	-	-	-
Projects	✓						-	-	AF58 AF49	Management of PFI Engaging with local people to ensure robust pubic accountability
Contracts	✓						8.01	Poor financial management	AF36	Financial management and strategy
EXTERNAL WORK	**Work resulting income or a reduction in fees paid to other organisations.**									
FMSiS: Re-assessments				✓			-	-	-	-
Grant Claim Certification (on behalf of PwC)	✓						-	-	-	-
Leisure Trust						✓	1.13	Special Purpose Vehicles	AF13	SPVs / Shared Services

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