

ANNUAL INTERNAL AUDIT REPORT FOR THE YEAR ENDED 31 MARCH 2010

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EXECUTIVE SUMMARY

Introduction

The purpose of this report is to meet the Chief Internal Auditor annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at Paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate that opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit (or equivalent) judges particularly relevant to the preparation of the Annual Governance Statement;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

The Code of Practice also states at Paragraph 10.4.1 that:

"The Head of Internal Audit should provide a written report to those charged with governance timed to support the Annual Governance Statement."

Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirement of Regulation 4 of the Accounts and Audit Regulations 2006. These state:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

"The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices with (a) any statement of accounts it is obliged to publish in accordance with regulation 11, or (b) any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish in accordance with regulation 12."

Chief Internal Auditor: Opinion on the Effectiveness of Internal Control 2009 / 2010

This opinion statement is provided for the use of Peterborough City Council (the Council) in support of its Annual Governance Statement that is included in the statement of accounts for the year ended 31 March 2010.

Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Internal Control Environment

The Internal Audit Code of Practice states that the internal control environment comprises three key areas:

- Internal control;
- Governance; and
- Risk management processes.

Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

Review of Effectiveness

The Council have a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of internal control is informed by the work of the internal auditors and officers within the Council who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the Annual Letter and other reports.

Chief Internal Auditor Annual Opinion

Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2009 / 2010, including our assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2009 / 2010 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

Basis of Assurance

We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and additionally from our own internal quality assurance systems. This programme of work is outlined in **Appendix A**.

Our opinion is limited to the work carried out by Internal Audit based upon the strategic internal audit plan. Where possible we have considered the work of other assurance providers, such as external audit.

The audit work that was completed for the year to 31 March 2010 is listed at **Appendix A**, which lists all the audits and their results in terms of the audit assurance levels provided and the number of recommendations made. The level of assurance achieved on the systems audited is detailed below. This shows that 51.5% of the systems audited achieved an assurance level of significant or higher, compared to 57% last year. Although there appears to be a drop in assurance levels, our prioritisation of special investigations (which usually result in *limited* or *no assurance* gradings) has resulted in this area becoming a higher proportion of our work. This is especially so given the continuing reduction in Internal Audit staff numbers and the concomitant reduction in reports produced.

AUDIT ASSURANCE					RECOMMENDATIONS MADE		
Assurance Levels	Issued		%		Numbers		
	2009/10	2008/09	2009/10	2008/09		2009/10	2008/09
Full	2	5	4	8	Critical	5	8
Significant	27	30	47.5	49	High	140	129
Limited	23	17	40	27	Medium	209	189
No	5	10	8.5	16	Low	103	116
	57	62	100	100		457	442

A complete list of all audits and assurance against them can be found within **Appendix A**. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2010 / 2011 to confirm that they have been effectively implemented.

2009 / 2010 Year Opinion

From the Internal Audit work undertaken in 2009 / 2010 it is our opinion that we can provide **REASONABLE ASSURANCE** on the systems of internal control. Internal controls are fundamentally sound and accord with proper practice, subject to the implementation of any agreed recommendations.

The Assurance - Financial Systems



Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound, other than those reviews assigned "Limited Assurance".

The Assurance - Non-Financial



Our overall opinion is that internal controls within operational systems operating throughout the year are fundamentally sound, other than those reviews assigned "Limited Assurance".

In reaching this opinion, the whole programme of internal audit work undertaken was considered, together with arrangements for corporate governance and risk management. In addition, the year end review of Internal Audit as part of the Annual Governance Statement (AGS) process in April 2010, and the external auditor's review of Internal Audit, has provided a positive result.

As a result an **unqualified opinion** is provided.

The Systems of Internal Financial Control

The systems of internal financial control is based upon a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:

- Codes of practice and financial regulations;
- Standing Orders, financial regulations and schemes of delegation;
- Comprehensive budget systems;
- Regular reviews of periodic and annual financial reports which indicates financial performance against the forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Clearly defined capital expenditure guidelines; and
- Appropriate, formal project management discipline.

Our opinion of the effectiveness of systems of internal financial control is informed by our work documented in **Appendix A**, and the external auditors' management letter and other reports. From the above, I am satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant weaknesses identified within the detailed report. I am also satisfied that mechanisms are in place which would identify and address any material areas of weakness on a timely basis.

Corporate Governance

In our opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA / SOLACE. The opinion is based upon:

- External audit judgements within the Corporate Area Assessment and Use of Resources;
- Internal audit work documented within **Appendix A**; and
- Our analysis provided to Audit Committee with the Annual Governance Statement on 7 June 2010.

Risk Management

Risk management is constantly evolving across the council, particularly in developing the assessment, evaluation and documentation of risks and controls and the focus of strategic risks has continued to improve during the year. In establishing our opinion, we have relied upon:

- The work of Internal Audit as described in **Appendix A**;
- Ongoing discussions held with the Resilience Team who are now responsible for the administration and management of the risk register; and
- Our analysis provided to Audit Committee with the Annual Governance Statement on 7 June 2010.

Chief Internal Auditor
18 May 2010

DETAILED REPORT

Introduction

This section is a report from Internal Audit detailing:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Chief Internal Auditor opinion on the authority's systems of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate an opinion;
- Comparison of the work undertaken during the 2009 / 2010 year against the original audit plans; and
- A brief summary of the audit service performance against agreed performance measures.

Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2009 / 2010, whilst no new significant weaknesses were identified for inclusion within the Annual Governance Statement, 5 critical recommendations were made in audit reports (compared to 8 in the previous year) which required immediate attention. These related to the audits of:

- Energy Payments;
- City Services SI (Con3195-03);
- Childrens Services SI (Chi2154-04);
- Jack Hunt Pool Refurbishment; and
- Purchasing Cards.

Key Issues

There is a range of key issues that are likely to be of significance for the 2010 / 2011 year and beyond, which Internal Audit need to be aware of. These include:

- The current economic climate, which adds to the financial pressures already on the council. This is impacting on income and expenditure, as well the public's need for council services;
- The possible impact on funding (DSG settlement) resulting from the recent change in Government;
- The management and governance arrangements with regards to the managed ICT service;
- The planned partnership arrangements of City Services;
- Other governance arrangements relating to partnerships and grants to include the recently created Leisure Trust;
- The ongoing planned changes to the delivery of some services to generate financial savings or income; and
- The reassessment of Primary schools to ensure FMSiS is embedded.

Qualifications to the Opinion

Internal Audit has had unfettered access to all areas and systems across the authority and has received appropriate cooperation from officers and members.

Other Assurance Bodies

In formulating our overall opinion on internal control, the Chief Internal Auditor has taken into account the work undertaken by the following organisations, and their resulting findings and conclusions:

- The annual letter from the authority's external auditors; and
- The auditors judgement by the Audit Commission (Use of Resources).

Internal Audit Assurance Levels and Recommendations

Appendix A details the level of assurances achieved on each audit as well as the number and priority of recommendations suggested and agreed. Where recommendations have not been accepted, these are separately reported to Audit Committee within quarterly reports. There is an ongoing programme of follow up work for all reports receiving a "limited" or "no" audit assurance to ensure that accepted recommendations will be implemented.

In order to assist management in using the reports, our opinions are categorised according to our assessment of the controls in place and the level of compliance with these controls. Recommendations are similarly categorised according to their level of priority.

AUDIT ASSURANCE LEVELS	
FULL	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.
SIGNIFICANT	The system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
LIMITED	There are weaknesses in the design of controls and / or consistency of application, 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	Controls are weak and/or there is consistent non-compliance, which can result in the failure of the system. 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.
RECOMMENDATIONS	
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

Summary of Audit Work Undertaken To Formulate the Opinion

Audit reports are issued to Managers which include an audit opinion as documented above. **Appendix A** at the end of this report highlights the status of each review undertaken, together with the appropriate opinion. A number of reports have been issued at the year end to departments in "draft" format and we are awaiting responses to the report and recommendations so that they can be finalised. It is very rare for the overall opinion to change so they have been included within appendix A for consistency.

Audit Committee has received quarterly reports throughout the year, and these have provided regular snapshots of the control environment. Where limited or no assurance was awarded on an audit, the Audit Committee have been provided with the Executive Summary of the audit report. **Appendix B** contains the summaries in relation to those audits not previously presented (those audits completed between January and March 2010).

Key points to note include:

- All departments have received audit coverage during the year, so as to establish the control environment across the whole organisation.
- A major investment of our time involves undertaking work on behalf of Children's Services to ensure that all schools meet the new Financial Management Standards in Schools. All schools need to comply with these standards and there is a three year rolling programme in place to deliver this. In 2009 /2010, 9 Secondary Schools were reassessed, and with the exception of one school, all have provided appropriate evidence to support the standards which we have verified. Of the remaining secondary school it will be further assessed once structure changes are embedded. It is therefore not classified as failed at this point in time. In addition to the secondary schools, 12 Primary and 2 Special Schools have been assessed for the first time. These results have been referred to the Department for Children, Schools and Families and the schools will be accredited.
- Liaison between the Corporate Investigations Team and Internal Audit has continued. Where fraud and mis-management has occurred, Internal Audit have reviewed the relevant procedures, highlighted the control weaknesses that have lead to the fraud, and recommended improvements. This area of work is treated as a high priority and, by its nature, can be time-consuming.
- Major financial systems have been reviewed and, in the main, assurance levels have remained at the *significant* level. The new Purchasing Cards system review which rolled forward from 2008 / 2009 was awarded a *no assurance* grade. The lack of a defined owner has contributed significantly to a poor control environment. However, significant progress has been made during 2009 / 10 with regards to the implementation of the audit report recommendations which has provided some assurance that processes have and continue to improve. A further review of Purchasing Cards is programmed for 20010 / 2011 during quarter 1.
- Arrangements for risk management across the council changed during the year and now forms part of the Resilience Team. A strategy has been developed and this was presented to Audit Committee on 7 September 2009. Internal Audit will review the risk management process during 2010 / 2011 once the strategy has been embedded within the organisation. Regular refreshes of the corporate risks are made against the assurance framework to ensure that steps / processes are in place to mitigate risks.

Internal Audit Performance

All our performance indicators are documented within **Appendix C**. Key areas to note are:

Better than target

- Feedback for each audit is collected via Post Audit Questionnaires (PAQ). Our average score was 4.34 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. This score is consistent with 2008 / 09 results.
- An average of 5.8 days training has been provided to each auditor, compared to a target of 5 days. This includes 'on the job' training, training for professional qualifications, audit technical update seminars and internal training such as the Leadership Programme. In addition, Chief Internal Auditors from each local authority in Cambridgeshire staged an 'Away Day' for all auditors in November. This was to share ideas and best practice across the county.
- The proportion of direct days to the revised audit plan is 103%, slightly higher than the target of 100%. This primarily due to the revision of the audit plan in September where direct days were amended for one officer who was long term sick. The individual returned during quarter 4 enabling more days to be delivered than planned. This additional time was utilised to undertake some external work for Cambridgeshire County Council Schools in undertaking FMSIS assessments. This resulted in the generation of income for the authority.
- 100% of critical and high recommendations made were agreed, reflecting the high quality of audit reports.

On Target

- The length of time from completion of field work to issue of a draft report is on target at 10 days. This target reduced in 2009 / 2010 from 15 days and therefore shows good improvement in reducing the amount of time to issue draft reports.

Areas for improvement

- 91% of critical and high recommendations were implemented, against a target of 100%. This has increased slightly from 89% last year. The lack of 100% implementation may reflect differing priorities of staff during a time of change, especially where service delivery methods are being altered, or where staff reductions have occurred as the recommendations had been originally accepted..
- The average figure for the proportion of audits completed to timescale is 84.6%, below our target of 93% but an increase on the previous year of 82%. However, performance has improved each quarter from 72% to 100%.
- An average of 37.34 days sickness per person was lost during the year, compared to a target of 5 days. There have been two officers on long term sickness (LTS) within the team which has been actively managed in accordance with the Council's Attendance Policy and through Occupational Health. Both officers have now returned to work and are working to contracted hours. Sickness levels per person excluding the LTS cases equate to 4.68 days per person which is within target range.

ASSURANCE LEVELS AND RECOMMENDATIONS: 1 APRIL 2009 - 31 MARCH 2010

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			x		-	4	4	-	8	Final
Economic Participation Programme 2007 / 2008 Follow Up					n/a	n/a	n/a	n/a	n/a	Final
Economic Participation Programme 2008 / 2008 Consultancy / Training *		x			-	-	-	1	1	Memo
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

APPENDIX A (continued)

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 CFO FMSIS Assurance Statement 2008 / 2009					n/a	n/a	n/a	n/a	n/a	Final
AMVC FMSIS 2009 / 2010		x			-	-	3	3	6	Draft
Hampton College FMSIS 2009 / 2010		x			-	-	2	2	4	Draft Review
Jack Hunt FMSIS 2009 / 2010		x			-	1	2	-	3	Draft Review
Ken Stimpson FMSIS 2009 / 2010		x			-	-	5	2	7	Draft Review
Kings School FMSIS 2009 / 2010		x			-	-	2	2	4	Draft
Orton Longueville FMSIS 2009 / 2010					n/a	n/a	n/a	n/a	n/a	To be re-assessed during 2010 / 2011
St John Fisher FMSIS 2009 / 10		x			-	-	3	1	4	Draft
Stanground College FMSIS 2009 / 2010		x			-	1	3	1	5	Draft
The Voyager FMSIS 2009 / 2010										Draft Review
Barnack Primary FMSIS 2009 / 10										In progress
Castor Primary	x				-	-	-	2	2	Final
Dogsthorpe Infants FMSIS 2009 / 2010										Draft Review
Hampton Vale FMSIS 2009 / 2010										Draft Review

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			Critical	RECOMMENDATIONS MADE				Status	
	Full	Signif	Limit		No	High	Med	Low		Total
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS 2009 / 2010 Continued										
Southfield Infants FMSIS 2009 / 2010										Draft Review
St Augustines Primary FMSIS 2009 / 2010		x			-	4	4		8	Draft
St Johns (Orton) Primary FMSIS 2009 / 2010		x			-	7	-		7	Final
The Beeches FMSIS 2009 / 2010										Draft Review
Watergall Primary FMSIS 2009 / 2010			x		-	4	1	3	8	Draft Report
Welbourne Primary FMSIS 2009 / 2010										Draft Review
Winyates Primary FMSIS 2009 / 2010										Draft Review
Woodston Primary FMSIS 2009/ 2010		x			-	2	3	2	7	Final
Heltwate FMSIS 2009 / 10										Draft Review Stage
NeneGate FMSIS 2009 / 2010										Draft Review

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low		Total
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 (Chi2154-04) *				x	-	13	3	3	19	Final
SI (Chi2084-05) *										Draft Review
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
Retrospective Orders *										In progress
Contact Point Accreditation										In progress
PCAE			x		-	10	9	1	20	Finalised during April

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
CHILDRENS SERVICES: FOLLOW UPS											
Abbotsmeade FMSIS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
All Saints FMSIS 2008 / 2009					n/a	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	n/a	Final
Gladstone FMSIS 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
John Clare FMSIS 2008 / 2009					-	-	-	-	-	-	In progress
Longthorpe FMSIS 2008 / 2009					n/a	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	n/a	Final
Middleton Primary 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Nene Valley 2008 / 2009					-	-	-	-	-	-	Review Stage
Newark Hill 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Newborough 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			RECOMMENDATIONS MADE					Status		
	Full	Signif	Limit	No	Critical	High	Med	Low		Total	
CHILDRENS SERVICES: FOLLOW UPS Continued											
Norwood 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Northborough 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Parnwell 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Peakirk cum Glington 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Sacred Heart 2008/ 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
The Pheonix 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
St Thomas More 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Stanground St Johns 2008 / 2009					n/a	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	n/a	Final
Wittering FMSIS 2008 / 2009					-	-	-	-	-	-	In progress
Bushfield School Closure					n/a	n/a	n/a	n/a	n/a	n/a	Final
The Voyager					n/a	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	n/a	Final
Education Psychology					n/a	n/a	n/a	n/a	n/a	n/a	No further action

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low		Total
CHILDRENS SERVICES: FOLLOW UPS Continued										
St John Fisher Compliance Follow up					n/a	n/a	n/a	n/a	n/a	Final
Old Fletton FMSIS					n/a	n/a	n/a	n/a	n/a	Final
SI (Chi2154-04) Follow up					n/a	n/a	n/a	n/a	n/a	Final
Oakdale FMSIS					n/a	n/a	n/a	n/a	n/a	Final
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

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			Critical	RECOMMENDATIONS MADE				Status
	Full	Signif	Limit		No	High	Med	Low	
CHILDRENS SERVICES: FINANCIAL MANAGEMENT STANDARD IN SCHOOLS									
Rolled Forward from 2008 / 2009 Continued									
Parnwell Primary		x			-	2	2	4	Final
Peakirk-cum-Glinton			x		-	8	2	11	Final
Sacred Heart RC Primary			x		-	5	-	10	Final
Stanground St Johns			x		-	4	-	6	Final
St Thomas More		x			-	1	4	5	Final
The Phoenix			x		-	3	2	10	Final
Wittering			x		-	7	2	11	Final

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL			RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low		Total
CITY SERVICES										
Procurement *		x			-	-	1	1	2	Final
Energy Payments *				x	1	11	3	2	17	Final
SI (Con3195-03) *				x	2	1	-	-	3	Final. Deferral – The report will be issued to Audit Committee following the completion of a number of internal procedures.
Property Design and Maintenance Contracts					-	-	-	-	-	In progress
CITY SERVICES										
Rolled forward 2008 / 2009										
Budgetary Control			x		-	4	6	2	12	Final

APPENDIX A (continued)

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	Final
SI (Con3325-01) *			x		-	-	2	2	4	Final
Walton Community Association Consultancy*					n/a	n/a	n/a	n/a	n/a	n/a
Leisure Trust Creation *					n/a	n/a	n/a	n/a	n/a	Final
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

APPENDIX A (continued)

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	No further action	
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 used to develop Audit Strategy 2010 agreed by Audit Committee March 2010	
SI (Con3325-01) *			x		-	1	-	-	1	Draft memo	
Benefits 2009/10		x			-	2	1	1	3	Draft Review	
Main Accounting System 2009/10		x			-	2	2	2	4	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	

APPENDIX A (continued)

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	n/a	n/a	Final memo
Bank Imprest F/Up					n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final memo
Creditor Payments*					n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final memo
Purchasing Card Procedures					n/a	n/a	n/a	n/a	n/a	n/a	n/a	Final
Council Tax 2009 / 10		x			-	-	3	-	-	3	3	Final
NNDR 2009 / 10		x			-	-	1	-	-	1	1	Final
Cash and Banking		x										Draft Review
Accounts Payable – Central Controls												Draft Review
Central Security *					n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rolled Forward 2008 / 2009												
Payroll					-	-	16	6	-	22	22	Final
Purchasing Cards				x	1	3	9	4		17	17	Final
Debtors			x		-	3	6	1		10	10	Final

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE						Status
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
ICT											
ECAF (Children's Services IT systems) *					-	-	-	-	-	-	NFA
IT Governance – CIA consultancy					-	-	-	-	-	-	Complete
ICT Managed Service – CIA consultancy					n/a	n/a	n/a	n/a	n/a	n/a	n/a
CORPORATE ACTIVITY / CROSS CUTTING REVIEWS											
Assurance Framework – half year review					n/a	n/a	n/a	n/a	n/a	n/a	Committee Report
Assurance Framework – annual review					n/a	n/a	n/a	n/a	n/a	n/a	Committee Report
Audit Charter					n/a	n/a	n/a	n/a	n/a	n/a	Committee Report
Audit Committee Handbook - revision					n/a	n/a	n/a	n/a	n/a	n/a	Committee Report
Strategic Governance Board – CIA Consultancy					n/a	n/a	n/a	n/a	n/a	n/a	Final
Risk Management - Consultancy					n/a	n/a	n/a	n/a	n/a	n/a	Final
Recruitment / CRB			x		-	8	1	1	1	10	Final

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
Grants:											
DoH Stroke Care	x				n/a	n/a	n/a	n/a	n/a	n/a	Final
GAF Opportunity Peterborough 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Final
Final Account Statements 2009 / 2010:											
Annual Governance Statement 2009 / 2010					n/a	n/a	n/a	n/a	n/a	n/a	In progress
CAA / Use of Resources					n/a	n/a	n/a	n/a	n/a	n/a	CIA strategic co-ordination
Audit Opinion 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Committee report
Final Account Statements 2008 / 2009:											
Annual Governance Statement 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Committee report
CAA / Use of Resources					n/a	n/a	n/a	n/a	n/a	n/a	CIA strategic co-ordination
Audit Opinion 2008 / 2009					n/a	n/a	n/a	n/a	n/a	n/a	Committee report

APPENDIX A (continued)

ASSURANCE LEVELS AND RECOMMENDATIONS

AUDIT ASSIGNMENT	ASSURANCE LEVEL				RECOMMENDATIONS MADE					Status	
	Full	Signif	Limit	No	Critical	High	Med	Low	Total		
External Work:											
FMSIS Cambridgeshire County Council 8 Primary Schools					n/a	n/a	n/a	n/a	n/a	n/a	Final
					n/a	n/a	n/a	n/a	n/a	n/a	

TOTAL RECOMMENDATIONS MADE 2009 / 2010

5	140	209	103	457
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AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

NO ASSURANCE		Date To Audit Committee
Con3115-01	Energy Payments	07 June 2010

LIMITED ASSURANCE		Date To Audit Committee
Env4030-02	Climate Change	07 June 2010
Chi2410-04	PCAE	07 June 2010

Note, there are other reports with Limited or No Assurance identified in Appendix A above which have been reported throughout the quarterly performance reports.

Report 1: Energy Payments

Introduction

The payment and monitoring of energy and other utility bills is managed by Facilities Management, within the Property, Design and Maintenance division of Peterborough City Services. From 1 February 2010 responsibility has transferred to Asset Management, part of the Strategic Property section within Strategic Resources.

Following discovery of large duplicate payments to the electricity supplier E.on, Internal Audit were asked to review the processes for paying and recording energy bills, and establish why PCC failed to identify the duplicate payments to E.on before they were made, and whether any other significant duplicate payments had been made.

Background

In May 2009 PCC received a series of invoices from the electricity supplier E.on to cover electricity supply charges owed for the Regional Pool from December 2005 to October 2006, and from October 2007 onwards. These totalled £602,673.08. Invoices covering December 2005 to October 2006 were paid, totalling £112,301.57 in June 2009. However the remainder of the debt was disputed due to the rates charged by E.on. Business Support (Operations) established, despite categorical assurances from E.on to the contrary, that the £112,301.57 paid in June 2009 duplicated payments made to E.on in 2005 and 2006 under the old bulk billing system. In November 2009 E.on gave PCC 48 hours notice of disconnection of electricity supply to the Regional Pool unless payment of the remaining £490,371.51 was forthcoming. Immediate payment was made to secure supply. E.on have confirmed that that they have received the original and duplicate payments, and therefore the account is substantially in credit. This credit remains to be repaid.

It was discovered that notice was given to Eastern Shires Purchasing Organisation (ESPO) in February 2007 that PCC wished to withdraw the Regional Pool's electricity supply from the corporate supply contract with E.on effective from October 2007. However a replacement contract was not put in place at the time and E.on continued to supply electricity to the Regional Pool. Comparison of the Regional Pool's average monthly electricity charges paid immediately before cessation of the contract and the retrospective bills received in May 2009 shows the non-contract bills on average 119.4% higher. A new supply contract for the Regional Pool has been negotiated with E.on, backdated to October 2007. It is understood that this should see a substantial refund to PCC. Prior to this agreement, losses on the Regional Pool's electricity bills were estimated at £330,000.

Major Findings

During the audit it was found that:

- There is no up to date central record of utility bills that can be consulted to ensure that bills have not already been paid. The TEAM database where Facilities Management record utility bills has not been updated on a regular basis for at least three years.
- Checks conducted on invoices received are inadequate prior to approval for payment
- Other duplicate payments have been made to E.on although the amounts involved are not significant. Nonetheless these highlight weaknesses in processes.
- All invoices are now individually processed. A bulk billing system was in place at one stage with E.on, although this later failed. No bulk billing system was introduced when the corporate electricity supply contract moved to Scottish & Southern Electric.

- As billing records are incomplete insufficient readily accessible data exists for most of those customer-facing sites above 1000m² in size to achieve anything other the lowest possible energy efficiency rating on the Display Energy Certificates that are now a statutory requirement. This presents a significant reputational risk to PCC's aspiration to be the Environment Capital.
- Details of gas and electricity consumption for PCC's sites has not been readily available to the Climate Change Team which has meant that in order to prepare for the Carbon Reduction Commitment they have had to approach ESPO to obtain the required data rather than obtain it in-house.
- Little faith can be placed in E.on's own practices since evidence has been found of inappropriate duplicate billing, billing for sites for which it knows PCC is not liable (e.g. Landlords Lighting Accounts), overestimating meter readings, and failure to record payments to the correct accounts in a timely manner.

Further details of these and other findings relating to utility billing can be found in the main body of this report, along with recommendations to address the substantial weaknesses identified.

Audit Opinion

The audit opinion is No Assurance.

Conclusion

Failure to keep complete, accurate and up-to-date records of paid utility bills has led to a number of duplicate payments, with the duplicates relating to the Regional Pool being an extreme example. Unless satisfactory actions are taken it is possible that similar situations will arise in future. It is noted that responsibility for logging paid utility bills has now transferred from the Facilities Management team to the Asset Management team, although the issues raised in this report pre-date the transfer. It is imperative that adequate resources are provided to tackle the backlog of paid invoices, and to ensure that records can be kept up-to-date.

Although this review has looked solely at electricity billing, there are a number of issues that could equally apply to gas and water billing. The current utility bill processes are labour-intensive, requiring a lot of manual input by the Transactional Services team, and by the Facilities Technician. More efficient ways of dealing with utility bills must be found, along with a more robust checking system to ensure that all utility payments made are appropriate.

REPORT 2: Climate Change

Executive Summary

Reducing Greenhouse Gas emissions is a global issue, and Peterborough City Council (PCC) has demonstrated its commitment to a low carbon economy in order to address Climate Change in a number of ways. For example, PCC has set the strategic priority of 'Creating the UK's Environment Capital,' signed up to the Nottingham Declaration on Climate Change, developed a Climate Change Strategy and recruited a Climate Change Team. However, Climate Change is a fast paced environment, as legislation and the requirements to demonstrate progress evolve. In light of this, Climate Change is likely to remain on the Corporate Risk Register.

Addressing Climate Change has the commitment and support of officers with appropriate seniority within PCC, which will assist in encouraging and developing initiatives, and driving forward change. A Carbon Management Project Board has been put in place and the Executive Director of Operations is the Chair. This is a Director level group and meetings are held monthly. In addition there is also a Carbon Management Team.

Good progress is being made by the Climate Change Team in respect of managing compilation and submission of NI 185 & 186, raising awareness amongst PCC employees, local businesses and residents and identifying future initiatives to reduce emissions throughout business and the community. There was also evidence of effective partnership working. This momentum should be maintained to establish Peterborough as the UK's Environment Capital.

Key issues arising from this review were that PCC needs to establish an accurate baseline Carbon (C) footprint in order to be able to effectively monitor emissions, implement initiatives for the greatest return and participate in the Carbon Reduction Commitment, (CRC).

Scope & Objectives

The purpose of the review was to assess the extent of the arrangements in relation to Climate Change, as highlighted on the Corporate Risk Register.

The risks associated with Climate Change were highlighted as:-

- Insufficient commitment to Climate Change
- Action taken does not mitigate / minimise impacts of Peterborough City Council, and the Local Authority Area (to include local businesses and residents)
- Significant social and environmental impacts, affecting reputational and credibility issues
- Political and legal requirements in relation to Climate Change are not met

Conclusion

Following discussion and review of PCC's approach to Climate Change, it has been established that actions are still required in order to record and monitor C emissions appropriately in order to report against NI 185 and participate effectively in CRC.

It should be noted that throughout the review the commitment and enthusiasm of the Climate Change Team in ensuring that the city of Peterborough achieves its targets for Climate Change, and aspirations of becoming the UK's Environment Capital, was evident. The Climate Change Team should be commended for their hard work and achievements in the short time period they have existed.

The following risk was highlighted and discussed with the Climate Change Team Manager, however this has not been examined as part of this review, and as such is not detailed separately in the body of the report:

- Planning to adapt to Climate Change, NI 188, is currently led by Opportunity Peterborough. Risk assessments are being undertaken, and these will be incorporated into PCC's Risk Management process.

Climate Change is likely to remain on the Corporate Risk Register, and as such an annual Internal Audit review against progress will be considered in the annual planning process, which will include a review of the framework of measures implemented by the local partnership Opportunity Peterborough.

Audit Opinion

The audit opinion is Limited Assurance.

REPORT 3: PCAE

Executive Summary

The relationship between Peterborough City Council (PCC) and the College needs to be more robust from both sides.

No evidence has been supplied to show that terms of reference for sub-committees have been approved by the Governing Board. [Evidence has subsequently been received that sub-committee terms of reference were approved in December 2007.]

No evidence has been supplied to demonstrate that the delegated powers exercised by the Principal have been authorised by the Governing Board.

PCC's Contract Regulations are sometimes breached when appointing contractors to undertake minor works at the College because an in-house quotation is not always requested as well as the external quotation.

The final budget for 2008/09 was not submitted for approval to the Finance Sub-Committee or the Governing Board and the final budget for 2009/2010 has not yet been approved, although the draft budget was agreed in principle by the Finance Sub-Committee in September 2009 (for the year starting at the beginning of August 2009 and ending at the end of July 2010).

The College is in breach of HMRC's regulations because VAT has not been paid on the catering element of external room hire bookings. The VAT underpayment since April 2006 will have to be calculated and paid to HMRC.

At the time the audit work was conducted, the Finance Manager had the login details for some members of her staff for operational purposes, contrary to PCC's Password Policy. This specific issue has now been addressed.

Scope & Objectives

To review the governance arrangements and systems of financial administration in place at the College.
To evaluate if these controls are in accordance with the appropriate regulations.

Conclusion

Governance arrangements in general need to be improved by having the necessary authorisations in place, which is the reason for the limited assurance rating being awarded. The fact that the College has a Governing Board that meets regularly and relies on its sub-committees for decision making demonstrates that there are protocols, albeit that they have not been formally documented and agreed by the Governing Board.

Exception reporting is used in audit reports, so areas of good practice are not commented upon in the main body of the report. However, it is pleasing to report that the systems and controls within the Finance Team have greatly improved overall since the last full audit was undertaken in 2007.

Audit Opinion

The audit opinion is **limited assurance**.

PERFORMANCE INDICATORS 2009 / 2010

Performance Indicator	Annual Target	Actual	Comments
Customers Opinion			
Average rating Post Audit Questionnaire rating	> 3.75	4.34	PAQ issued to all clients on completion of an audit. Maximum score 5
Does the external auditor place reliance on the work of Internal Audit?	Yes	Yes	There are no adverse comments within the Annual External Audit report regarding internal audit
Number of complaints received in relation to the service	Nil	Nil	Standard target of Nil.
Number of compliments received about the service	4	2	Standard set at one per quarter
Process Related			
Percentage of audit days delivered compared with the original audit plan	100 %	103 %	The use of annualised hours and the return of an officer from long term sick has enabled the number of days to be delivered as higher than target.
Average number of days between fieldwork completion and issue of draft audit report	10 days	10 days	This target level reduced during 2009 / 2010 and therefore demonstrates an improvement in the issuing of draft reports.
Percentage of planned audits completed to timescale	93 %	84.6 %	There has been an improvement each quarter from 72% to 100%, but the figure reported here is an average.
Percentage of Internal Audit work for joint / external business	7 %	7.2 %	There is a potential to expand coverage to other organisations.

PERFORMANCE INDICATORS 2009 / 2010

Performance Indicator	Annual Target	Actual	Comments
Process Related (continued)			
Does IA comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006?	Yes	Yes	Based on an annual benchmarking exercise utilising 192 questions. Full compliance on 186 areas.
Does the council comply with CIPFA best practice for Audit Committees and meet CAA standards?	Yes	Yes	Annual assessment from CAA
Has the Council established an effective assurance framework?	Yes	Yes	Annual assessment from CAA
Percentage of critical / high priority recommendations agreed	97 %	100 %	Managers reserve the right to accept the risks within their service
Percentage of critical / high priority recommendations implemented	100 %	91 %	Based on the follow-ups carried out in the year.
Percentage of critical / high priority recommendations followed up within 6 months of final report issued	70 %	78.2 %	Above target and an increase from 55% in 2008 / 2009.
Organisational Development			
Number of audit training days per auditor	> 5 days	5.8	Commitment to ongoing training
Working days lost to sickness per FTE	5 days	37.4	Use of Occupational Health to manage long term sickness of two officers.
Proportion of staff qualified (IIA/CIPFA)	25%	37.5 %	Three fully qualified. Two other officers registered with the IIA.