

PETERBOROUGH CITY COUNCIL**INTERNAL AUDIT: OPERATIONAL PLAN 2011 / 2012****1 Introduction**

This document sets out the division of responsibilities between managers and Internal Audit Services, and presents the Internal Audit Operational Plan for 2011 / 2012.

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 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. All of the reviews undertaken are underpinned by the driving principle of *delivering value for money*.

4 Audit Resources

4.1 As at March 2011, PCC currently delivers its service in-house with an establishment of 7.3 full time equivalents (FTE) comprising: Chief Internal Auditor (0.5 FTE); Group Auditors (1.3 FTE); Principal Auditor (1.0 FTE); Senior Auditors (2.5 FTE); Auditor (1.0 FTE) and Trainee Auditor (1.0 FTE). This compares with 8.1 FTE at March 2010. The change relates to the shared service arrangement with Cambridge City Council (CIA reduced 0.5 FTE), together with a reduction in hours by another member of staff (0.3 FTE).

- 4.2 Going forward resources will be further stretched with one officer leaving as part of the voluntary redundancy scheme (0.8 FTE) and another embarking on maternity leave (1.0 FTE). With one of the posts currently vacant (1.0 FTE), there will be a resource level of 4.5 FTE for 2011 / 2012.
- 4.3 It is uncertain at the time of writing whether the vacancy will be filled, or indeed when, therefore the audit plan has been compiled prudently based on the predicted resource levels of 4.5 full time equivalents (FTE). At this level, the plan provides for a minimum service in line with statutory requirements. Any shortfall in this resource level will be managed by reducing the scope of some audit reviews, as there is limited scope to remove audits completely from the plan.
- 4.4 For comparison, the plan also shows the additional work that could be carried out if the vacancy is filled for the full year, equating to 5.5 FTE for 2011 / 2012. If the vacancy is filled for part of the year, then a proportionate amount of extra work will be conducted.
- 4.5 It is worth pointing out that our consultation with Directors and Heads of Service has highlighted further work that could be carried out by Internal Audit, but which we have not included in the plan due to the limited resources available. The areas highlighted include: children's centres; third party adoption processes, mobile phones value for money study; electronic document management system, appeals processes and the Local Enterprise Partnership. These areas will be considered for review in future years.

5 Draft Audit Plan Overview

- 5.1 The table below summarises the planned allocation of productive days for 2011 / 2012.

| INTERNAL AUDIT: ANNUAL PLAN 2011 / 2012 | Audit Days | |
|---|------------------|----------------|
| | Vacancy unfilled | Vacancy filled |
| Systems Activity | 44 | 44 |
| Annual Governance and Assurance Framework | 150 | 150 |
| Strategic and Operational Risks | 100 | 280 |
| External Work | 70 | 70 |
| Corporate Support | 285 | 285 |
| TOTAL PLANNED AUDIT DAYS | 649 | 829 |

- 5.2 It can be seen from the table above that the plan shows the main audit areas by categories rather than directorates. This is to better demonstrate the coverage and impact of the audit activities across the organisation. The individual audit reviews and service areas are analysed in greater detail in section 8 of this document.
- 5.3 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.
- 5.4 The plan for 2011 / 2012 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.

6 Key Points

6.1 External Works

The plan shows that we carry out work for external bodies, which generates income. For 2011 / 2012 this work consists of provision of an audit service to Vivacity. 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.

6.2 Core Systems Assurance Work

Audits of all the main financial systems of the Council are undertaken on a cyclical basis as in consultation with external audit. We will adopt a key-control approach for these audits, but plan to review each of them in more depth over a three year period. Our work in this area will be affected by the proposed outsourcing of our main financial systems as part of the Manor Drive Project, which is due to commence in October 2011. Depending on how audit requirements are specified contractually, our focus on this area may change, but we do not envisage that it will diminish entirely.

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 partnerships, project management and information governance.

6.4 Strategic and Operational Risks

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 and to provide the assurance required on key controls. The impact of our reduced resource levels is greatest in this area of the plan.

6.5 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 Governance 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.

6.6 Contingency

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. The contingency provision included within the plan for such events has been significantly reduced in line with lower resource levels. In this time of change, it is not expected that the number of management requests will diminish; therefore we will introduce a prioritisation process and deal with them accordingly.

7 Reporting Protocols

7.1 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.

- 7.2 A half yearly 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.
- 7.3 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.

8 Detailed Plan

- 8.1 Documented below is the audit activity proposed, with its link to the strategic vision, where appropriate.

PETERBOROUGH CITY COUNCIL: INTERNAL AUDIT PLAN 2011 / 2012

VISION FOR THE CITY

| STRATEGIC PRIORITIES | |
|-----------------------------|---|
| 1 | Creating the UK's Environment Capital |
| 2 | Creating strong and supportive communities |
| 3 | Delivering substantial and truly sustainable growth |
| 4 | Creating opportunities – tackling inequalities |
| 5 | Providing value for money underpins all of our activities |

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment which encompasses the systems of governance, risk management and internal control, by evaluating its effectiveness in achieving the organisation's objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, efficient and effective use of resources (*CIPFA Code of Practice for Internal Audit in Local Government 2006*).

PLAN WITHOUT VACANCY FILLED

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | | Directorate |
|---|-------------------|--|----------|------------------------------|---------------------|
| | | | Yes / No | Reason | |
| CORE SYSTEM ASSURANCE WORK | | | | | |
| Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems. These therefore feature in the plan every year. | | | | | |
| Housing Benefit | 5 | A review of key controls, in accordance with PwC requirements. | Yes | External Audit reliance work | Strategic Resources |
| Council Tax | 5 | A review of key controls, in accordance with PwC requirements | Yes | External Audit reliance work | Strategic Resources |
| NNDR | 5 | A review of key controls, in accordance with PwC requirements. | Yes | External Audit reliance work | Strategic Resources |
| Accounts Payable | 5 | Systems based approach considering key risk exposures. Testing to provide assurance that all payments are valid, accurate, and timely. | Yes | Major changes to system | Strategic Resources |
| Payroll | 5 | A review of key controls, in accordance with PwC requirements. | Yes | External Audit reliance work | Strategic Resources |
| Accounts Receivable – Debt Recovery Process | 5 | Systems based approach considering key risk exposures. Testing to provide assurance that all income due is identified, invoiced, collected and recorded accurately and timely. | Yes | Major changes to system | Strategic Resources |

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | Directorate | |
|---|-------------------|--|----------|---|-----------|
| ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK | | | | | |
| Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement, as well as areas that constitute key aspects of corporate governance, which are reviewed in line with risk levels. | | | | | |
| Annual Governance Statement Assurance Framework | ALL | Process and framework to feed into work on Annual Governance Statement, including the review recommendations made by Audit Commission in their annual letter and verify implementation (progress). | Yes | Corporate responsibility | Corporate |
| Annual Audit Opinion | ALL | Head of Internal Audit opinion on the state of governance and the internal control framework in place within Peterborough City Council. | Yes | Corporate responsibility | Corporate |
| Annual Audit Plan | ALL | A determination of the annual audit plan based on our own systematic risk assessment. This includes a review of corporate risk registers and the Medium Term Financial Plan, as well as consultation with Directors and Heads of Service. | Yes | Corporate responsibility | Corporate |
| Internal Audit Effectiveness | 5 | Review of the internal audit service against best practice guidelines. | Yes | Corporate responsibility | Corporate |
| Anti-fraud Culture | ALL | Investigation of matches from NFI. Evaluation of control weaknesses that have allowed a fraud to take place or remain undetected, and providing recommendations to improve fraud prevention and detection, in line with our Memorandum of Understanding with the Governance Team. | Yes | Corporate responsibility to protect finite resources | Corporate |
| Partnership Governance | ALL | Review overarching governance arrangements, including risk management, board make-up, training and partnership framework. Establishment of the key partnerships with which the Council engages. | Yes | Ensure Council position is protected | Corporate |
| Information Governance | 5 | Review the design and implementation of an integrated case management system within Children's Services, and also the controls around data gathering and sharing, to ensure that data relating to children is accurate and complete. A key control review of ICT controls. | Yes | Data integrity in safeguarding children External Audit reliance work | Corporate |
| Project Governance | ALL | To provide assurance that the Council's projects are managed in accordance with best practice. We will review projects across several portfolios. This will include, where appropriate, post-implementation reviews in order to evaluate whether benefits have been realised. | Yes | Ensure finite resources are appropriately managed | Corporate |

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | Directorate | |
|---|-------------------|---|----------|---|---|
| STRATEGIC and OPERATIONAL RISKS | | | | | |
| Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks. | | | | | |
| Carbon Management | 1, 5 | A follow-up of previous audit report and a review of data quality ready for its submission at the end of June (in relation to the Carbon Reduction Commitment and carbon trading). | Yes | Ensure finite resources are appropriate managed | Operations |
| Localism Bill | ALL | A review of the impact on service delivery that this new legislation will bring, particularly in relation to financial control and governance. A pilot scheme passing budgets and accountability to Neighbourhood Councils to specify services at a local level will be reviewed. | Yes | Service delivery and financial control implications | Operations |
| Schools | 2, 4, 5 | A replacement to the FMSiS standard is being consulted upon currently. It is expected that Chief Financial Officers will be required make a statement that they have a system of audit in place which gives them adequate assurance over schools' standards of financial management and the regularity and propriety of their spending. | Yes | Ensure finite resources are appropriate managed | Children's Services |
| OP / PDP | 3 | The redefinition of the roles of Peterborough Development Partnership and Opportunity Peterborough will be reviewed, including working relationships and their distinct governance arrangements. | Yes | Growth Agenda delivery | Chief Execs |
| Partnership Management | ALL | A review of client management arrangements for ICT service delivery. | Yes | Ensure Council position is protected | Strategic Resources |
| Project delivery | ALL | Acting as a critical friend in current projects to review service delivery arrangements (The Manor Drive project and Alternative Learning Services). | Yes | Service delivery, financial and reputational risks | Children's Services & Strategic Resources |

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | Directorate | |
|---|-------------------|---|----------|-------------------------|---|
| EXTERNAL WORK Work which generates an income for the Council. | | | | | |
| Vivacity | - | Work agreed as part of a service level agreement | Yes | Contractual requirement | - |
| Other | - | Contingency for external work which may be won during the course of the year. | Yes | Business need | - |

| OTHER RESOURCE PROVISIONS (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. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete. | | | | | |
| Carry Forward Activities | ALL | | Yes | | Corporate |
| Follow Up Provision | ALL | | Yes | | Corporate |
| Fraud / Irregularity Contingency | ALL | Time is included within the plan for undertaking proactive counter fraud-work, together with reactive work where suspected irregularities have been detected. | Yes | | Corporate |
| Requested Work Contingency | ALL | Allowance exists to provide flexibility within the audit plan - for time spent on providing risk and control advice to officers, management and members; and ad hoc requests and consultancy work | Yes | | Corporate |
| Grant Claim Certification | 5 | Teachers Pension Arrangements, Economic Participation Programme, 16-19 funding arrangements. | Yes | | Corporate |
| Committee Support | - | Production of reports and attendance at Council committees and boards (for example the Strategic Governance Board). | Yes | | Corporate |

ADDITIONAL WORK POSSIBLE WITH VACANCY FILLED

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | Directorate |
|---|-------------------|--|----------|--|
| STRATEGIC and OPERATIONAL RISKS | | | | |
| Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks. | | | | |
| S106 Developer Contributions | 3, 5 | To give assurance that the Council is complying with legal requirements in its request for funding from developers, and in how the money is spent on community projects. | | Management request Operations |
| Contracting | 5 | To review specific aspects of the contracting process across a variety of contracts. This will include the process for dealing with conflicts of interest and also authorisation controls. | | Ensure finite resources are appropriate managed Corporate |
| Neighbourhood Councils | 2 | Reviewing the outcomes of the Neighbourhood Councils restructure; the risks associated with moving to omni-competent staff; the process of information sharing with our partners; and compliance with legislation. | | Management request Operations |
| Community Buildings | 2 | To review responsibilities with regard to the ownership, management and operation of community buildings. | | Management request Operations |
| Clare Lodge | 5 | Review of financial controls prior to it becoming a trading unit. | | Management request Children's Services |
| IT Security | ALL | To look at email controls, particularly in relation to data security and email content. | | Information governance Corporate |
| Internet Usage | 5 | An analysis of staff internet usage to ensure that it is being used appropriately within working hours. | | Ensure finite resources are appropriate managed Corporate |
| Elective Home Education | 2, 4 | Review of new policy and process controls to ensure quality assurance of EHE activity. | | Management request Children's Services |
| Buyback Arm – School Improvement | 5 | Act as a critical friend in supporting the project team to develop buy-back options for all schools including Academies, ready for Apr 2012. | | Management request Children's Services |

| SERVICE / SYSTEM | COUNCIL OBJECTIVE | AUDIT SCOPE | Critical | Directorate |
|---|-------------------|---|----------|---|
| STRATEGIC and OPERATIONAL RISKS | | | | |
| Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks. | | | | |
| Placement Strategy | 2, 4, 5 | To review the effectiveness of the process of placing children in appropriate establishments, including value for money and contractual processes. | | Management request Children's Services |
| Learning Disability Services | 2, 4, 5 | This service is transferring back to the Council from the PCT. We will look at key financial and governance controls. | | New Service Adult Social Care |
| Health and Safety | ALL | Last year we looked at the Council's responsibilities towards staff. This year we will cover responsibilities towards the public, focusing on the safety of streetworks and highway improvements. | | Corporate manslaughter risk Operations |

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