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| <i>COMMITTEE</i>           | <b>AUDIT SUB-COMMITTEE</b>                      |
| <i>DATE</i>                | <b>30 SEPTEMBER 2004</b>                        |
| <i>TITLE OF REPORT</i>     | <b>OUTCOMES OF INTERNAL AUDIT ACTIVITY</b>      |
| <i>RESPONSIBLE OFFICER</i> | <b>Richard Humphrey, Audit Services Manager</b> |

**1. PURPOSE OF REPORT**

- 1.1 To advise members of the outcomes of Internal Audit activity as defined in the 2003/04 audit work programme.

**2. RECOMMENDATIONS**

- 2.1 Members are asked to note the outcome of Internal Audit's work.

**3. BACKGROUND**

- 3.1 This report contains the outcome of Internal Audit's work as set out in the 2003/04 audit work programme.

- 3.2 Generally, Internal Audit reports identify areas where improvement in the control process should be made. However, there is no standard within the internal audit profession of grading the overall control environment. Furthermore, even where recommendations are prioritised, the recipient of the report has no indication of how well the overall control process is operating.

- 3.3 To address this, Medway Council's Internal Audit has introduced a grading system so that managers have a clear understanding of the operation of the control environment in their area. The audit opinion is set at one of four levels and is formed on completion of the audit testing and evaluation stage but **before** management implement any of the recommendations.

- 3.4 All audit reports containing recommendations designed to improve the control process are presented with an action plan, which has been agreed with management and specifies the action to be taken, by whom and when. This agreed management action plan is incorporated in the issued final audit report.

- 3.5 Where control is assessed at the lowest level, ("Unsatisfactory"), follow up work will be undertaken within six months.

- 3.6 Where an "Unsatisfactory" opinion has been given, management may have already taken action on the recommendations but this will be confirmed or not at the six monthly review.

3.7 This report details work completed since the last report to members.  
The format of the annexes is as follows: -

Annex A Definition of Audit Opinions

Annex B Schedule of completed audit work showing the audit opinion provided and Directorates covered (Exempt)

Annex C Summary information on financial systems audits (Exempt)

Annex D Summary information on completed risk assessed and requested audits (Exempt)

3.8 The information contained within annexes B to D are not available for publication as they contain sensitive information as detailed in the exempt summaries report later in the agenda.

3.9 In addition to the work set out on the exempt annexes, Internal Audit has also responded to requests to provide advice on control issues to managers.

#### **4. FINANCIAL AND LEGAL IMPLICATIONS**

4.1 There are no financial or legal implications arising from this report.

#### **5. CONCLUSIONS**


5.1 There are no major concerns to report on the operation of control.

#### **6. BACKGROUND PAPERS**

6.1 None

#### **CONTACT POINT**

Richard Humphrey - audit services manager

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**DEFINITIONS OF AUDIT OPINIONS**

**Good** Controls are in place to ensure the achievement of service objectives, good financial management and to protect the Authority against loss. Compliance with the control process is considered to be good and no significant or material errors or omissions were found.

**Satisfactory** Key controls exist to enable the achievement of service objectives and obtain good financial management. However, occasional instances of failure to comply with the control process were identified and opportunities to strengthen the control system still exist.

**Adequate** Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system, and losses could occur. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk of loss to the Authority.

**Unsatisfactory** Controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected. Failure to improve controls could lead to a decline in financial integrity and lead to an increased risk of major loss or embarrassment to the Authority.