

## **AUDIT COMMITTEE**

**15 APRIL 2008**

### **INTERNAL AUDIT PROGRAMME 2007/2008**

Report from: Internal Audit

Author: Richard Humphrey, Audit Services Manager

#### **Summary**

To advise Members of progress towards achieving the internal audit programme for 2007/08.

#### **1. Budget and Policy Framework**

1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to take decisions regarding accounts and audit issues.

#### **2. Background**

2.1 Internal audit's work programme details the assignments to be carried out during the period of the plan. Historically, internal audit teams have produced a strategic audit plan that attempts to identify the total audit environment and then, on a cyclical basis, determined over what period of time every part of the audit environment is subjected to an audit review. For example, a risk assessment would determine which systems would be audited on an annual or cyclical basis. However, Medway Council's internal audit has an in-year assessment of risk that effectively makes a strategic (say, five-year) plan redundant. In short, unless the subject of an audit review is considered to be a key risk, there is little point in planning to provide audit coverage in three or four years' time.

2.2 The internal audit work programme for 2007/08 is derived from a number of sources, which are:-

- the Council's risk identification process, identified through the risk register, business and service plans,
- internal audit's view of risk,
- work requested by members, chief executive, chief finance officer, directors and other officers,
- predetermined audits that form part of an agreed arrangement with the external auditor,
- vacancy level within the internal audit team.

- 2.3 Progress on items in the approved 2007/2008 work programme is set out at Annex A. Audits removed from the current plan are shown at Annex B. These audits will be reconsidered for inclusion in the 2008/09 work programme as part of the planning process. Any changes to the plan are reported to this committee.
- 2.4 Audit work on main financial systems, work carried out on behalf of the external auditor, fraud and corruption, corporate governance and the annual assurance programme for schools are considered key activities and are given priority when resources are allocated. The plan is that all of the key assurance audits will be completed to meet the needs of the governance statement and external audit.

#### **4 Financial implications**

- 4.1 There are no financial implications arising directly from this report.

#### **5 Legal implications**

- 5.1 There are no legal implications arising directly from this report.

#### **6 Recommendations**

- 6.1 Members are asked to note progress in achieving the 2007/08 internal audit work programme.

#### **Lead officer contact**

Name Richard Humphrey  
Job Title Audit Services Manager  
Telephone: 01634 332355 Email: [richard.humphrey@medway.gov.uk](mailto:richard.humphrey@medway.gov.uk)

#### **Background papers**

None

**Internal Audit Programme 2007/08  
Progress Report**

| Directorate →   | Authority Wide | Community Services | Regeneration & Development | Children's Services                      | Business Support Department |
|---|----------------|--------------------|----------------------------|--|-----------------------------|
| <b>Activity ↓</b>   |                |                    |                            |  |                             |
| <b>Main Financial Systems – System Controls (Assurance Audits)</b>  |                |                    |                            |  |                             |
| Council Tax   |                |                    |                            |  | AC 04/08                    |
| Creditors   | F              |                    |                            |  |                             |
| Housing and Council Tax Benefit   |                |                    |                            |  | AC 04/08                    |
| Housing Rents   |                | AC 04/08           |                            |  |                             |
| Business rates (NNDR)   |                |                    |                            |  | AC 04/08                    |
| Payroll   |                |                    |                            |  | AC 04/08                    |
| Revenue Budgetary Control   |                | F                  |                            | F  |                             |
| Treasury Management   |                |                    |                            |  | AC 04/08                    |
| Financial Control in Schools comprising:-<br><ul style="list-style-type: none"> <li>• Primary Schools (pre FMSiS – budget management, salary payments, travel &amp; subsistence)</li> <li>• Secondary schools (reflecting changes following the introduction of FMSiS)</li> <li>• Primary Schools (tranche 1 of FMSiS)</li> </ul> (the above two audits will cover financial management, payroll, purchasing, income received, banking arrangements, petty cash, taxation, assets and information security) |                |                    |                            | AC 09/07<br><br>AC 04/08<br><br>AC 04/08 |                             |
| <b>Main Financial Systems – Monitoring Controls (Assurance Audits)</b>  |                |                    |                            |  |                             |
| Capital Budgetary Control   | AC 04/08       |                    |                            |  |                             |
| Council Tax   |                |                    |                            |  | F                           |
| Creditors   | F              |                    |                            |  |                             |
| Housing and Council Tax Benefit   |                |                    |                            |  | F                           |
| Housing Rents   |                | AC 04/08           |                            |  |                             |
| Business rates (NNDR)   |                |                    |                            |  | F                           |
| Payroll   | F              |                    |                            |  |                             |
| Treasury Management   |                |                    |                            |  | AC 04/08                    |
| <b>Fraud and Corruption assessments (Assurance Audits)</b>  |                |                    |                            |  |                             |
| Council Tax   |                |                    |                            |  | F                           |
| Creditors   | F              |                    |                            |  |                             |
| Housing and Council Tax benefits  |                |                    |                            |  | F                           |
| Housing Rents   |                |                    |                            |  | F                           |
| Business rates (NNDR)   |                |                    |                            |  | F                           |
| Payroll   |                |                    |                            |  | F                           |

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|---|----------------|--------------------|----------------------------|---------------------|-----------------------------|
| Activity ↓  |                |                    |                            |                     |                             |
| Treasury Management   |                |                    |                            |                     | F                           |
| <b>Corporate Governance Audits</b>  |                |                    |                            |                     |                             |
| Annual review (compliance with Cipfa/Solace requirements) 2006/07   | AC 09/07       |                    |                            |                     |                             |
| Risk Management 2006/07   | AC 09/07       |                    |                            |                     |                             |
| Prevention of Fraud and Corruption - overall arrangements 2006/07   | AC 09/07       |                    |                            |                     |                             |
| Annual review (compliance with 2007 published Cipfa/Solace requirements) 2007/08  | P              |                    |                            |                     |                             |
| Risk Management 2007/08   | F              |                    |                            |                     |                             |
| Prevention of Fraud and Corruption - overall arrangements 2007/08   | F              |                    |                            |                     |                             |
| Managing the risk of fraud (using the Cipfa publication checklist)  | F              |                    |                            |                     |                             |
| <b>Other Financial Audits</b>   |                |                    |                            |                     |                             |
| Creditors – duplicate payments check  | F              |                    |                            |                     |                             |
| Client financial affairs<br>Evaluate effectiveness of controls to ensure that only clients in genuine need are accepted by the CFA team, clients' assets, entitlements and debts are identified and recorded fully and accurately, monies are appropriately invested for optimum returns and all due income is obtained for clients, only valid payments are made out of clients' funds, all income and payments are properly accounted for and property, cash and records are handled and maintained securely. |                | AC 04/08           |                            |                     |                             |
| <b>Operational Audits</b>   |                |                    |                            |                     |                             |
| Loss of Key staff<br>Evaluate whether arrangements to identify, monitor, prevent and mitigate the loss of key staff are in place, operating and effective. This audit has been carried over from 05/06 and extended to include mitigating arrangements such as recruitment incentives and continuity planning identified in the 06/07 corporate risk assessment.  |                |                    | AC 09/07                   |                     | AC 09/07                    |
| Violent abuse of staff<br>Evaluate whether arrangements to identify, monitor, prevent and mitigate the incidence  | AC 09/07       |                    |                            |                     |                             |

**Internal Audit Programme 2007/08  
Progress Report**

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|--|----------------|--------------------|----------------------------|----------------------|-----------------------------|
| of actual and potential verbal and physical abuse against officers by customers are in place, operating and effective.   |                |                    |                            |                      |                             |
| Recruitment Vetting – Schools<br>Recruitment Vetting – non schools<br><br>Evaluate whether arrangements provide documentary evidence that CRB disclosures have been obtained where appropriate and results appropriately evaluated, and that checks of identity, qualifications and employment references have been completed. We will also review progress on extending CRB checks to cover all school staff, as approved by Employment Matters on 25/5/06. |                | AC 02/08           |                            | AC 02/08<br>AC 02/08 | AC 02/08<br>AC 02/08        |
| Agency/consultant staffing<br><br>Identify employment of external agency staff/ "consultants" and evaluate whether staff from the internal temp agency could have been used and whether alternative options such as overtime, acting up allowances and short term contracts offer better VFM.  | AC 09/07       |                    |                            |                      |                             |
| Non Webreq purchasing<br><br>Identify the nature and scope of non-WEBREQ ordering. Examine operational control over the use of non-WEBREQ orders and analyse the data to assess potential further scope for corporate procurement arrangements. Work to be undertaken in close liaison with that being conducted by Central Finance.   | AC 09/07       |                    |                            |                      |                             |
| Direct Payments<br><br>Examine arrangements for ensuring statutory compliance, that payments are only made to eligible adult social care and children's services clients and that the latter use the payments to procure appropriate and cost effective care services. The Community Services Director requested that the audit be extended to assess robustness of arrangements to cover requirements of impending "Individualised Budgets" scheme.         |                | AC 02/08           |                            | AC 02/08             |                             |
| Licensing<br><br>Examine arrangements for maintaining the required register, levying and collecting fee  |                |                    |                            |                      | AC 02/08                    |

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|--|----------------|----------------------|----------------------------|---------------------|-----------------------------|
| income, maximising income and cost recovery. This audit will also examine arrangements for monitoring and pursuing unauthorised qualifying activities and compliance with licence conditions to assess their effectiveness in achieving stated objectives.   |                |                      |                            |                     |                             |
| Section 106 agreements<br>Examine arrangements for identifying qualifying developments, quantifying financial contributions and maintenance payments due and monitoring, recording and reporting their receipt and disbursement. The audit will also ascertain details of any proposed changes to these responsibilities and arrangements resulting from adoption of the draft Developer Contributions guide |                |                      | AC 04/08                   |                     |                             |
| Procurement of goods and services – Housing<br>Examine procurement activity for 2005 to 2007, concentrating on a sample of contractors to assess whether goods, services and works are procured at competitive prices and in line with the council's financial and contract rules and to assess the effectiveness of arrangements for ensuring goods and services are appropriately delivered and charged.   |                | AC 02/08             |                            |                     |                             |
| Local area agreement<br>Audit and certify 2007/08 return to central government. This work will be carried out in May/June 2008   | P              |                      |                            |                     |                             |
| Adult disability care – service planning<br>Examine arrangements for forecasting the client base and the care needs of learning disabled and vulnerable adults, given the availability of data on emerging demands from SEN and children in care.  |                | DR                   |                            | DR                  |                             |
| BVPI 2006/07 – verification checks<br>Checks on the accuracy and robustness of reported PI and supporting documentation for specified "high risk" PIs in preparation for external audit.<br><ul style="list-style-type: none"> <li>• Housing &amp; homelessness</li> <li>• Highways</li> <li>• Libraries</li> </ul>  |                | AC 02/08<br>AC 02/08 | AC 02/08                   |                     |                             |

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|--|----------------|--------------------|----------------------------|---------------------|-----------------------------|
| <b>Activity ↓</b><br>Extended school services<br>Examine the directorate's awareness and involvement in extended school services established by individual schools and its arrangements for disseminating statutory and professional guidance on proper procedures for operating such services to ensure service users(children) are protected and mitigate potential reputational risks to the council. |                |                    |                            | AC 04/08            |                             |
| BVPI 2007/08*<br>Checks on the accuracy and robustness of reported PI and supporting documentation for specified "high risk" PIs in preparation for external audit.  | F              |                    |                            |                     |                             |
| <b>Follow up audits</b> (an earlier audit had raised concerns over the control environment)  |                |                    |                            |                     |                             |
| Events – financial control   |                | AC 04/08           |                            |                     |                             |
| Medway Tunnel – management of operational risks  |                |                    | AC 04/08                   |                     |                             |
| Imprest Accounts - financial control   |                | AC 02/08           |                            | AC 02/08            |                             |
| Mobile phones - management of operational risks  | AC 04/08       |                    |                            |                     |                             |
| Disabled Facilities Grants – council house adaptations   |                | AC 09/07           |                            |                     |                             |

**Key**

AC mm/yy = date reported to Audit Committee

P = Planning stage

F = fieldwork in progress

DR = draft report issued,

✓ = work planned in that area

\* = addition to plan

**Notes**

## 1. Assurance audits

These audits provide the S151 officer with an annual assurance of the operation of key controls within the main financial systems. This category also includes work carried out on behalf of the external auditor. Other systems in this category are audited on a risk/cyclical basis, unless the previous year's assessment was unsatisfactory.

## 2. Corporate Governance

This covers the basic work required to support the annual assurance statement, although the largest contributing factor are the results from audits on operational controls, which are listed under that specific heading.

Annual audits on the Corruption Prevention Systems and Risk Management are also deemed necessary to respectively feed into the Monitoring Officer's report to the Standards Committee and ensure the council's arrangements are sufficiently robust to achieve high CPA scores.

### 3. Other financial audits

This category includes audits on financial activities, which have been identified as:

- High risk by the council's risk management system and/or internal audit's own risk analysis.
- Generating specific concerns by directorates and /or internal audit.

### 4. Operational Audits

These audits provide assurance that appropriate controls are in place and operating to mitigate the strategic and operational risks affecting individual corporate or directorate activities. For the 2007/08 audit programme, operational risks have been identified and selected from the following sources:

- Risks identified by the corporate risk management system.
- Risks identified by internal audit's own scored audit risk analysis.
- Risks and areas of concern identified by CMT or directorates



**Internal Audit Programme 2007/08  
Deferred Work**

| Directorate →  | Authority Wide | Community Services                              | Regeneration & Development | Children's Services                             | Business Support Department |
|--|----------------|---|----------------------------|---|-----------------------------|
| Activity ↓   |                |   |                            |   |                             |
| <b>Main Financial Systems – System Controls, Monitoring Controls and Fraud and Corruption Assessment (Assurance Audits)</b>  |                |   |                            |   |                             |
| Debtors (RAISE)  |                | New system not yet operational                  |                            |   |                             |
| Financial Control in Schools comprising:-<br>• Primary Schools (tranche 3 of FMSiS) - financial management, payroll, purchasing  |                |   |                            | Insufficient resources                          |                             |
| <b>Other Financial Audits</b>  |                |   |                            |   |                             |
| RAISE - residential care & fostering payments<br><br>Evaluate the effectiveness of controls over the 'creditor payments' module of the RAISE care management system to confirm that payments to care providers and foster parents, generated through the system, are accurate, timely and relate to services provided to Medway clients. Interface and reconciliation procedures with Integra will also be examined to confirm that all payments appear accurately and promptly in the Council's main financial records. |                | System not operational in 07/08. Defer to 08/09 |                            | System not operational in 07/08. Defer to 08/09 |                             |
| Supporting people<br><br>Ascertain overall policy and responsibility for the 'Supporting People' programme and monitoring of providers, examine and test arrangements for evaluating applications for support, authorisation of service provision, processing of payments/income and review budget management processes.   |                | Defer to 08/09. Insufficient resources          |                            |   |                             |
| Lessee charges for property maintenance<br><br>Establish the effectiveness of consultation with residents who have purchased properties within Council-owned blocks of flats etc when overall improvement works on the buildings are planned, examine and test arrangements for charging these residents with an accurate apportionment of the costs incurred.   |                | Defer to 08/09. Insufficient resources          |                            |   |                             |
| Adult disability care – pooled budgets   |                | To be carried out                               |                            |   |                             |

**Internal Audit Programme 2007/08  
Deferred Work**

| Directorate →<br>Activity ↓  | Authority Wide   | Community Services | Regeneration & Development | Children's Services   | Business Support Department |
|--|--|--------------------|----------------------------|---|-----------------------------|
| Ascertain the arrangements for funding of care for clients with disabilities, provided jointly by the Council and the NHS in a pooled budget under section 31 of the Health Act 1999 (since replaced by section 75 of the National Health Service Act 2006), assess the effectiveness of controls to ensure that all funding due from both parties has been provided, pooled budgets are managed effectively and overspends are apportioned accurately and equitably between the two bodies. |  | by external audit  |                            |   |                             |
| <b>Operational Audits</b>  |  |                    |                            |   |                             |
| BVPI 2007/08 – mid year verification checks<br><br>Checks on the accuracy and robustness of reported PI for specified "high risk" PIs (including those in housing and homelessness) and the supporting data. The audit will examine the systems used to produce the PIs and control the quality of the data from which they are derived.   | Cancelled. Output from 06/07 exercise deemed to be sufficient.                                   |                    |                            |   |                             |
| Money Laundering<br><br>Ascertain responsibility and arrangements for ensuring compliance with the Council's statutory obligations under the Proceeds of Crime Act 2002 and Money Laundering Regulations 2003 and assess whether those arrangements are sufficiently comprehensive and robust to mitigate the risk of failure to comply with the legislation.  | Recent guidance invalidates audit work. To be considered as part of the 2008/09 planning process |                    |                            |   |                             |
| Schools procurement<br><br>General creditor payment data held by individual schools will be analysed to identify the nature and scope of common purchasing and the potential savings from further consortium procurement arrangements.   |  |                    |                            | The data obtained from schools was not sufficiently robust to enable any meaningful analysis. |                             |