

**AUDIT COMMITTEE**  
**25 SEPTEMBER 2008**  
**INTERNAL AUDIT PROGRAMME**

Report from: Internal Audit

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**Summary**

To advise Members of the 2008/09 work programme and to monitor the outcome of the 2007/08 programme.

**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 – 2008/09 Programme**

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 2008/09 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 The proposed programme is set out at Annex A. Progress of audits will be reported to this committee during the year. 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.
- 2.5 For 2008/09, there is a change in the amount and scope of work to be carried out to assist the external auditor. The number of audits has increased but we are not now required to carry out the monitoring control work requested by the previous external auditor. The net impact is an increase in the work that we will carry out on behalf of the external auditor.
- 2.6 Of the key financial systems, Treasury Management, capital budgetary control and revenues budgetary control will not be subject to any internal audit work in 2008/09. Treasury Management and revenue budgetary control were audited in 2007/08 with sound financial control operating. Capital budgetary control is due for cyclical coverage in 2009/10.

### **3. Background – 2007/08 Programme**

- 3.1 The outturn of the 2007/2008 work programme is set out at Annex B. This annex shows that all planned work has been completed and reported to this committee.

### **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 approve the 2008/09 programme and to note the completion of the 2007/08 internal audit work programme.

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### **Background papers**

None

Internal Audit Programme 2008/09					Annex A
Activity ↓	Directorate →	Contributes to External Audit	Contributes to IA Annual Report	Contributes to Annual Governance Statement	Contributes to Other
<b>Main Financial Systems (System Controls) – Assurance audits</b>					
Bank reconciliation		✓	✓	✓	
Cash Control		✓	✓	✓	
Cash receipting		✓	✓	✓	
Council Tax		✓	✓	✓	
Creditors		✓	✓	✓	
Debtors (RAISE)		✓	✓	✓	
General Ledger		✓	✓	✓	
Housing Benefits		✓	✓	✓	
Housing Rents		✓	✓	✓	
NNDR (Business Rates)		✓	✓	✓	
Payroll		✓	✓	✓	
Sales ledger		✓	✓	✓	
<b>Fraud and Corruption assessments ) – Assurance audits</b>					
Council Tax		✓	✓	✓	
Creditors		✓	✓	✓	
Debtors (RAISE)		✓	✓	✓	
General Ledger		✓	✓	✓	
Housing Benefits		✓	✓	✓	
Housing Rents		✓	✓	✓	
NNDR (Business Rates)		✓	✓	✓	
Payroll		✓	✓	✓	
Sales ledger		✓	✓	✓	
<b>Other Financial Audits</b>					
RAISE system payments – residential care and fostering. Examination of arrangements for paying amounts due to external providers of residential, nursing and domiciliary care and foster carers, via the new RAISE system.			✓	✓	
Supporting People Examination of arrangements for providing and recording the “supporting people” services supplied			✓	✓	

## Internal Audit Programme 2008/09

Activity ↓	Directorate →	Contributes to External Audit	Contributes to IA Annual Report	Contributes to Annual Governance Statement	Contributes to Other
to qualifying clients and ensuring compliance with specified guidance and available funds.					
Corporate Credit & Trade Cards Examination to establish the extent of corporate credit and trade cards and arrangements for identifying and controlling their use.			✓	✓	
Theatres (financial & asset management) A "health check" examination of the main financial and asset management systems operating at the Brook and Central theatres.		✓	✓	✓	
Commercial Property Income Examination of arrangements for identifying and charging for properties designated for commercial letting to ensure occupation and income is maximised.		✓	✓	✓	
Homelessness-Rental Income Examination of arrangements for charging and collecting top-up contributions and payments from clients not on housing benefit and ensuring receipt of the latter from those clients that are.			✓	✓	
Internet Bankline Examination and assessment of the control exerted by proposed arrangements for operating this new facility.			✓	✓	
Parking Income Examination of arrangements for processing, monitoring and controlling the collection of income from car park machines and the issue of excess charges and penalty notices.		✓	✓	✓	
Building Control Income Examination of arrangements for processing, monitoring and controlling the collection of income due from applications for building control approval.		✓	✓	✓	

## Internal Audit Programme 2008/09

Activity ↓	Directorate →	Contributes to External Audit	Contributes to IA Annual Report	Contributes to Annual Governance Statement	Contributes to Other
Schools Assurance work Assessment of schools, using control self assessment technique, to assist CFO in forming opinion whether schools are meeting Dfes FMSIS standard.			✓	✓	S52 outturn statement
Interreg 4 grant claim process Audit of claim			✓	✓	
Youth Opportunity Fund Examination of processes for approving grant allocations and monitoring its subsequent use by recipient groups.			✓	✓	
<b>Corporate Governance Audits</b>					
Annual review (compliance with 2007 published Cipfa/Solace requirements)		✓	✓	✓	
Risk Management		✓	✓	✓	
Prevention of Fraud and Corruption - overall arrangements		✓	✓	✓	
<b>Operational Audits</b>					
Deangate Ridge – VFM Examination of arrangements for recording, monitoring and controlling expenditure and income transactions at this facility and an assessment of the income-generating capability of operating arrangements currently applied to its various activities.			✓	✓	
Private Sector Housing Grants Examination of arrangements for quantifying and assessing entitlement to home renovation and empty property grants; and ensuring payment of only satisfactorily-completed and qualifying works and grant recovery, in the event of post payment non-compliance with specified grant conditions.			✓	✓	
Highways Maintenance Contract Examination of arrangements for ensuring works ordered via this contract are comprehensively specified, effectively procured and monitored and accurately paid.			✓	✓	

## Internal Audit Programme 2008/09

Activity ↓	Directorate →	Contributes to External Audit	Contributes to IA Annual Report	Contributes to Annual Governance Statement	Contributes to Other
<p>Grounds Maintenance – contract monitoring</p> <p>Examination of arrangements for monitoring contract compliance and performance, including the recording and processing of defaults.</p>			✓	✓	
<p>CPA/LAA/PSA2 mid year verification</p> <p>Examination of specified performance indicators that contribute to LAA/ PSA targets and the council's Comprehensive Area Assessment. The audit will review the accuracy of calculated performance indicators, the robustness of the arrangements to produce them and controls over the quality of data from which they are derived.</p>			✓	✓	
<p>Workforce Planning</p> <p>Examination of arrangements for identifying future workforce requirements arising from known future loss and changing priorities /service requirements; and establishing means of fulfilling them.</p>			✓	✓	
<p>BVPI 2007/07 outturn check</p> <p>Review of the accuracy of the reported outturns for performance indicators related to waste services and the robustness of supporting documentation.</p>			✓	✓	
<p>BVPI 2008/09 verification checks</p> <p>Review of the accuracy of the reported outturns for selected "high-risk" performance indicators and the robustness of supporting documentation.</p>			✓	✓	
<p>Customer First</p> <p>Examination of performance management processes.</p>			✓	✓	
<p><b>Follow up audits</b> (an earlier audit had raised concerns over the control environment)</p>					
<p>Events – financial control</p>			✓	✓	
<p>Medway Tunnel – management of operational risks</p>			✓	✓	

<b>Internal Audit Programme 2008/09</b>					<b>Annex A</b>
Activity ↓	Directorate →	Contributes to External Audit	Contributes to IA Annual Report	Contributes to Annual Governance Statement	Contributes to Other
Imprest Accounts - financial control			✓	✓	
Mobile phones - management of operational risks			✓	✓	
Procurement of goods and services – Housing			✓	✓	
S106 agreement			✓	✓	
Imprest Accounts			✓	✓	

## 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 key work required to support the annual governance assurance statement, although all audit work contributes in some way to the governance statement.

### 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 2008/09 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  
Progress Report**

Directorate →	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
Activity ↓					
<b>Main Financial Systems – System Controls (Assurance Audits)</b>					
Council Tax					AC 04/08
Creditors	AC 09/08				
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		AC 09/08		AC 09/08	AC 09/08
Treasury Management					AC 04/08
Financial Control in Schools comprising:- <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) (the above two audits will cover financial management, payroll, purchasing, income received, banking arrangements, petty cash, taxation, assets and information security)</li> </ul>				AC 09/07  AC 04/08  AC 04/08	
<b>Main Financial Systems – Monitoring Controls (Assurance Audits)</b>					
Capital Budgetary Control	AC 04/08				
Council Tax					AC 09/08
Creditors	AC 09/08				
Housing and Council Tax Benefit					AC 09/08
Housing Rents		AC 04/08			
Business rates (NNDR)					AC 09/08
Payroll	AC 09/08				
Treasury Management					AC 04/08
<b>Fraud and Corruption assessments (Assurance Audits)</b>					
Council Tax					AC 09/08
Creditors	AC 09/08				
Housing and Council Tax benefits					AC 09/08
Housing Rents					AC 09/08
Business rates (NNDR)					AC 09/08
Payroll					AC 09/08



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

Directorate →	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
Activity ↓					
Treasury Management					AC 09/08
<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	AC 09/08				
Risk Management 2007/08	AC 09/08				
Prevention of Fraud and Corruption - overall arrangements 2007/08	AC 09/08				
<b>Other Financial Audits</b>					
Creditors – duplicate payments check	AC 09/08				
Client financial affairs 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 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 Evaluate whether arrangements to identify, monitor, prevent and mitigate the incidence of actual and potential verbal and physical abuse against officers by customers are in	AC 09/07				

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

Directorate → Activity ↓	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
place, operating and effective.					
<p>Recruitment Vetting – Schools Recruitment Vetting – non schools</p> <p>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.</p>		AC 02/08		AC 02/08 AC 02/08	AC 02/08 AC 02/08
<p>Agency/consultant staffing</p> <p>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.</p>	AC 09/07				
<p>Non Webreq purchasing</p> <p>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.</p>	AC 09/07				
<p>Direct Payments</p> <p>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.</p>		AC 02/08		AC 02/08	
<p>Licensing</p> <p>Examine arrangements for maintaining the required register, levying and collecting fee income, maximising income and cost</p>					AC 02/08

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

Directorate →	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
<b>Activity ↓</b> 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 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 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 Audit and certify 2007/08 return to central government. This work will be carried out in May/June 2008	AC 09/08				
Adult disability care – service planning 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.		AC 09/08		AC 09/08	
BVPI 2006/07 – verification checks Checks on the accuracy and robustness of reported PI and supporting documentation for specified "high risk" PIs in preparation for external audit. <ul style="list-style-type: none"> <li>• Housing &amp; homelessness</li> <li>• Highways</li> <li>• Libraries</li> </ul>		AC 02/08 AC 02/08	AC 02/08		
Extended school services Examine the directorate's awareness and				AC 04/08	

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

Directorate →	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
Activity ↓					
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.					
<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