

AUDIT COMMITTEE

25 JUNE 2009

INTERNAL AUDIT PROGRAMME 2009/2010

Report from: Internal Audit

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Summary

To advise Members of the 2009/2010 work 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 – 2009/10 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 proposed programme 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.

- 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 will be reported to this committee. Annex A also identifies reserve audits that may come into the plan if any of the proposed audits are unable to take place.
- 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 annual governance statement and external audit.
- 2.5 Of the key financial systems, Cash Control, Creditors, General Ledger, Payroll and Sales Ledger will not be subject to any internal audit work in 2009/10. These areas were all audited in 2008/09 and assessed as having sound financial control.

3. Risk Management, Financial and Legal implications

- 3.1 There are no risk management, financial or legal implications arising directly from this report.

4. Recommendations

- 4.1 Members are asked to approve the plan at Annex A.

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Background papers

None

Internal Audit Programme 2009/10

	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Activity ↓							
<p><u>BACS payments</u> This audit will review the BACS payment processes for payroll and creditors systems to ensure that only approved payments are made. It will include the handling of BACS rejects.</p>	✓						✓
<p><u>Bar Stock Control – value for money</u> Medway Council operates a number of bars across its leisure and culture sites. Separate audits at three of these sites showed differences in approach to stock control. A value for money audit of bar stock control is likely to identify savings that could be made from improved procurement practices and increased stock turnover.</p>	✓	✓				✓	
<p><u>Business Continuity Plan</u> Review the Authority's Business Continuity arrangements to ensure that it can continue to deliver its critical services in the event of a major incident (e.g. flu pandemic, flood, terrorist attack). The audit will review the identification of corporate priorities, scenario planning and testing arrangements. The review will cover issues relating to staff, IT, building and other resources needed to deliver key services.</p>			✓	✓			
<p><u>CAA Indicators</u> Following the CAA assessment in September / October Medway Council may need to make improvements in key areas. This audit will review the accuracy and completeness of data used for the key indicators required to meet any CAA targets.</p>		✓		✓			
<p><u>Carbon Reduction Commitment</u> The audit will examine Medway Council's preparations for the Carbon Reduction Commitment including:</p> <ul style="list-style-type: none"> • Measuring the current carbon footprint • Identification of future savings 			✓	✓			

Internal Audit Programme 2009/10

Activity ↓	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<p><u>Concessionary Fares</u> Pro-active fraud prevention work. Concessionary fares are a statutory function leading to rising reimbursement costs to operators over time, resulting in a budget pressure. The audit will examine controls in place to ensure cancellation and collection of bus passes that are no longer required and will follow up on the results of the NFI data matching exercise.</p>	✓					✓	✓
<p><u>Contact Point</u> This audit will examine Medway Council's preparations for "Contact Point". This is a new national system that records basic data relating to every child and the contact details of practitioners involved (e.g., parent/guardian school, GP, care worker, lead practitioner, if any). DCSF expect LA IA teams to provide annual assurance on the control operating locally. The audit will cover:</p> <ul style="list-style-type: none"> • Accuracy, • Correctly usage (i.e. business use only), • Competent users (ECRB checked and trained), • Monitoring activity • Procedures for identification and remedy of weaknesses. 			✓		✓		
<p><u>Co-ordination of bidding for External Funding</u> Medway Council's corporate funding unit has a key role in co-ordinating the Authority's bids for external funding. The audit will review the processes in place to ensure:</p> <ul style="list-style-type: none"> • All bids for external funding are channelled through the unit, • Procedures for synthesising bids to maximise benefits for Medway and minimise potential duplication or contradictions in project proposals; • Measurement and reporting of outcomes (to ensure funding conditions have been met). 		✓		✓			

Internal Audit Programme 2009/10

Activity ↓	Use of Resources			Directorate/Department			
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<p><u>Corn Exchange</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures.</p>	✓					✓	
<p><u>Corporate Governance</u> The audit is intended to assess the effectiveness of the Council's arrangements covered by the six core principles of the CIPFA / SOLACE Framework, plus the 'general requirements' specified in the same publication.</p>		✓		✓			
<p><u>Corruption Prevention System</u> The audit will be based on the KLoE for arrangements designed to promote and ensure probity and propriety in the conduct of the Council's business and will include review of the current policies on expected standards of ethical and moral behaviour, communication of these to members and officers, and examination of registers of offers of gifts and hospitality and declaration of interests.</p>		✓		✓			
<p><u>Council Plan Monitoring</u> End of quarter audits to confirm the accuracy of reporting of a small basket of indicators. Each audit will cover 5 indicators. The audit will review controls in place to mitigate the risks that:</p> <ul style="list-style-type: none"> • Performance measures may not be properly defined; • There may not be a sound methodology for calculating the indicators; • Data quality may be poor; • Performance may be reported inaccurately. 		✓		✓			
<p><u>Council Tax</u> The audit will focus on controls in place to ensure the completeness, promptness, accuracy and validity of council tax transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.</p>	✓						✓

Internal Audit Programme 2009/10

	Use of Resources			Directorate/Department			
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Activity ↓							
Covalent Audit following the implementation of the Covalent performance management system pilot. The audit will review the operation of the system in each of the pilot services to ensure that reporting is accurate and the expected benefits are being realised.	✓			✓			
Credit Card Income Pro-active fraud prevention work This audit will examine the procedures in place to minimise the risk that payments received over telephone and internet by credit card are fraudulent.	✓						✓
EU Grant Claims Statutory audits of EU grant claims.	✓					✓	
Foster Care Capacity Planning Recent publicity indicates that a high percentage of foster carers are over 50, with a significant risk to the ability to deliver the service when they retire. The audit will interrogate foster carer data to quantify this risk for Medway Council and evaluate the effectiveness of mitigating measures.			✓		✓		
Free School Meals Pro-active fraud prevention work. Management have expressed concerns that the service has to rely on parents notifying non-eligibility, which they may fail to do. The audit will cover: <ul style="list-style-type: none"> • Initial entitlement • Continuing entitlement • Accuracy of payments 	✓				✓		
Financial Control Self-Assessment in Schools Review of the FCSA submissions from primary (tranche 3) and secondary schools in order to give the Chief Finance Officer assurance over the integrity of the FMSiS assessment.	✓				✓		

Internal Audit Programme 2009/10

Activity ↓	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<u>Grounds Maintenance Contract Monitoring follow-up</u> Examination of arrangements for monitoring contract compliance and performance, including the recording and processing of defaults.			✓			✓	
<u>Health and Safety</u> The audit will determine the effectiveness of the monitoring arrangements to ensure compliance with Health and Safety legislation across the Authority's sites.			✓	✓			
<u>Highways Maintenance Contract</u> The audit will examine and test arrangements for specifying, procuring and monitoring the highways maintenance work.			✓			✓	
<u>Homelessness Rental Income</u> 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.	✓						✓
<u>Housing Benefits</u> The audit will focus on controls to ensure the completeness, promptness, accuracy and validity of benefit entitlements assessed, paid and overpaid including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.	✓						✓
<u>Housing Procurement follow-up</u> The audit will examine goods, services and works, procured by "HRA" Housing Services from individual suppliers, to assess value for money and compliance with statutory requirements.			✓				✓
<u>Housing Rents</u> The audit will review system access controls, debit creation, rent collection and arrears management.	✓						✓
<u>ICT Governance</u> Review of the strategic approach taken to ensure ICT enable the delivery of Medway Council's strategic objectives. The audit will examine tools used by ICT management to ensure current operational needs are met, whilst anticipating future resource requirements and mitigating the risk exposure from information systems.			✓				✓

Internal Audit Programme 2009/10

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<u>IFRS accounting</u> Examination of preparations made to ensure that Medway Council will be compliant with IFRS accounting standards when the Authority completes its transition to IFRS-based reporting in 2010/11.	✓						✓
<u>Imprest Accounts</u> The council's financial rules permit the use of imprest accounts at some establishments in the interests of expediency and where there is a case for efficient administration of certain business activities. This audit will review the operation of these accounts to ensure they are used for legitimate Council expenditure and follow arrangements specified by the Chief Finance Officer.	✓			✓			
<u>Libraries Income and Stock Control</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures. This audit will review income and stock control following the introduction of a new computer system.	✓		✓				✓
<u>Local and Regional Planning (Information Management)</u> The audit will determine key management information relied on for decision-making. Systems for recording this information will be identified and the information tested to ensure it is accurate, complete and up to date.			✓			✓	
<u>Markets Income</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures. This audit will review control over income for the three markets.	✓					✓	
<u>Medway Community College – financial controls</u> This audit will review financial control within Medway Community College, following a previous 'unsatisfactory' audit opinion.	✓				✓		
<u>Medway Community Safety Partnership</u> The audit will review the operation of the partnership in meeting its aims and objectives, paying particular attention to governance, risk management and arrangements for prevention of fraud and corruption.		✓				✓	

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<p><u>Mobile Phones – value for money</u> A value for money audit will examine the provision and use of mobile phones across the Authority. It will review monitoring arrangements to ensure that mobile phones have been provided only where necessary, are on the most effective tariffs and Medway Council has not paid for private use.</p>	✓	✓		✓			
<p><u>NNDR (business rates)</u> The audit will focus on controls to ensure the completeness, promptness, accuracy and validity of NNDR transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.</p>	✓						✓
<p><u>Parklands Resource Centre</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures.</p>	✓				✓		
<p><u>PSA2 Final Outturn PI verification checks</u> 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><u>Project / Programme Management – Evaluation and Approval of Projects</u> Examination of project management within the Authority. This audit will review the proposal, business case and initial project plan for a sample of approved and rejected projects to ensure that each has followed sound project management methodology.</p>		✓		✓			
<p><u>Rainham Mark Grammar School – financial controls</u> This audit will review financial control within Rainham Mark Grammar School, following a previous 'unsatisfactory' audit opinion.</p>	✓				✓		
<p><u>Raise debtors system</u> Examination of arrangements for assessing, collecting and recording income due from clients for residential, nursing and domiciliary care, via the new RAISE system.</p>	✓				✓		

Internal Audit Programme 2009/10

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<p><u>Raise system payments</u> Examination of arrangements for paying amounts due to external providers of residential, nursing and domiciliary care, via the new RAISE system. The audit will not examine the Foster Payments system, which will be the subject of an audit the 2010/11.</p>	✓				✓		
<p><u>Risk Management</u> The audit will assess the effectiveness of the Council's risk management process.</p>		✓		✓			
<p><u>Robert Bean Lodge</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures.</p>	✓				✓		
<p><u>Safer Recruitment in Schools</u> This audit will review the Authority's monitoring arrangements to ensure schools are complying with the safer recruitment policy. A sample of schools will be visited to evaluate the extent to which the Council's monitoring records reflect actual practice in Medway's schools.</p>		✓	✓		✓		✓
<p><u>School In-house Payroll Provision</u> The majority of schools within Medway outsource payroll to either Medway Council or another specialist provider. A small number provide payroll in-house. This audit will review the payroll process in these schools to ensure:</p> <ul style="list-style-type: none"> • Only legitimate payments are made; • Payments are accurate and timely; • Deductions (statutory and voluntary) are accurate and paid to the appropriate agencies; • Payments and deductions are reflected accurately and promptly in the school's financial records; • Access to confidential payroll data (computerised and documentary) is restricted to appropriate persons. 	✓				✓		

Internal Audit Programme 2009/10

Activity ↓	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<p><u>Security of Social Care Case Records</u> The audit will review restrictions in place to prevent unauthorised access to social care case records. It will review controls in place to mitigate the following risks:</p> <ul style="list-style-type: none"> • Unnecessary and/or unauthorised access to Social Care IT systems. • Unauthorised access to other records kept on computers. • Loss, or unauthorised access to manual records. • Failure to comply with regulations governing the retention/disposal of records 			✓		✓		
<p><u>Social Care Case Recording</u> The audit will examine all records maintained for social care systems. It will review controls in place to mitigate the following risks:</p> <ul style="list-style-type: none"> • Confusion about the records that should be kept. • Confusion about who should maintain the records. • Inaccessibility of records to those who need them. • Inappropriate or delayed action at the first intimation or receipt of a case (i.e. referral, transfer, other notification) because records are inadequate. • Poor liaison between internal teams and/or external agencies because records are inadequate. • Inappropriate action in progression of case because reviews and updates of strategy have not been clearly recorded. • Risk to clients because of poor compliance with the recording system. 			✓		✓		
<p><u>Stirling Centre</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures.</p>	✓					✓	
<p><u>Supporting People Grant Claim</u> This work fulfils a requirement to review the Supporting People grant claim.</p>	✓				✓		

Internal Audit Programme 2009/10

	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Activity ↓ <u>Theatres (Asset Management) – follow-up</u> A “health check” examination of the asset management systems operating at the Brook and Central theatres.							
<u>Treasury Management</u> The 2008/09 financial year highlighted previously unknown risks in the investment practices of local authorities. The environment for 2009/10 promises to be equally challenging. The audit will review the Authority’s strategic approach to treasury management to ensure the safety of funds without unnecessary compromise to investment opportunity.	✓						✓
<u>Workforce Planning – Readiness for CAA</u> Determination of the effectiveness of preparations to demonstrate the Council’s performance in respect of KLOE 3.3 “Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?” How will Medway Council demonstrate it: <ul style="list-style-type: none"> • Has a productive and skilled workforce; • Knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this; • Engages and supports staff in organisational change; and has policies which support diversity; and • Good people management. 			✓	✓			

Internal Audit Programme (Reserve) 2009/10

Activity ↓	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<p><u>Allocation of Resources – Special Educational Needs</u> The audit will determine key management information relied on for decision-making. Systems for recording this information will be identified and the information tested to ensure it is accurate, complete and up to date.</p>			✓		✓		
<p><u>Council Tax Single Person Discounts</u> Pro-active fraud prevention work Review of the procedures used to ensure households claiming the single person council tax discount are single person households. Review will consider procedures for visiting officers as well and work arising from the NFI data matching process.</p>	✓						✓
<p><u>Creditor Payments to Employees</u> Pro-active fraud prevention work Data matching exercise between payroll and creditors data to identify employees who have been paid through the creditors system. Follow-up testing will ensure that payments are legitimate.</p>	✓			✓			
<p><u>Partnership with the PCT</u> The audit will examine review the operation of the partnership in meeting its aims and objectives, paying particular attention to:</p> <ul style="list-style-type: none"> • Governance • Risk management • Prevention of fraud and corruption 		✓			✓		
<p><u>Project / Programme Management – Progress Monitoring</u> Examination of project management within the Authority. This audit will examine monitoring and reporting arrangements of a sample of ongoing projects to ensure that each is following project management methodology.</p>		✓		✓			
<p><u>Project / Programme Management – Closedown and Review</u> Examination of project management within the Authority. This audit will examine the arrangements for closedown of projects, reviewing them for lessons learnt and the feedback process for future and current projects.</p>		✓		✓			

Internal Audit Programme (Reserve) 2009/10

Activity ↓	Use of Resources			Directorate/Department			
	Managing the Finances	Governing the Business	Managing Resources	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<p><u>Regeneration Partnership</u> The audit will examine review the operation of the partnership in meeting its aims and objectives, paying particular attention to governance, risk management and arrangements for prevention of fraud and corruption.</p>		✓				✓	
<p><u>School Extended Services Income</u> The Council and schools are working together to provide a wider range of services for pupils, families and the Community. Some schools have taken this as an opportunity to provide a wide range of services. These schools have seen a significant increase in their income. This audit will review the procedures for collection, banking and accounting for income at schools with the largest provision of extended services.</p>	✓				✓		
<p><u>Silverbank Pupil Referral Unit</u> This is one of a range of audits planned to ensure devolved sites operate in compliance with Medway Council's financial procedures.</p>	✓				✓		
<p><u>VAT</u> This audit will review the procedures for identifying, processing and accounting for VAT to ensure that:</p> <ul style="list-style-type: none"> • Officers responsible for processing qualifying expenditure and income are provided with appropriate information and guidance on the identification and treatment of VAT. • VAT is identified correctly on relevant income received, calculated accurately and promptly recorded in the accounting records. • VAT is reclaimed for all qualifying expenditure and promptly and accurately recorded in the accounting records. • VAT returns are accurately completed and submitted within the prescribed timescales. 	✓			✓			