

AUDIT COMMITTEE

21 DECEMBER 2010

INTERNAL AUDIT WORK PROGRAMME

Report from: Internal Audit

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Summary

To advise Members of progress in delivering the approved 2010/2011 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 – 2010/11 Programme

- 2.1 Members approved the internal audit 2010/11 work programme on 30 June 2010. The 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.
- 2.2 The approved programme and progress to date is set out at Annex A. Additions to the plan are shown at Annex A whilst items removed from this year's programme are shown at Annex B.
- 2.3 Audit work on the key financial systems, work carried out on behalf of the external auditor, corporate governance, risk management and prevention of fraud and corruption are considered key activities and are given priority when resources are allocated. The aim is that all of the key assurance audits will be completed to meet the needs of the governance statement and external audit.

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 note the progress in delivering the 2010/11 programme and that all key assurance work will be completed to support the needs of the annual governance statement and external audit.

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Background papers

None

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Annex A

Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems				
<p>Capital Budgetary Control Capital expenditure can only be incurred on schemes included in the council's capital programme. Members approve the schemes on the basis of appraisals of their expected cost and funding; but once approved, responsibility for their administration is delegated to directorates.</p> <p>Cabinet is responsible for monitoring the capital budget and they must ensure that actual expenditure for each scheme in the programme remains within the approved projected budget and specified target over their lifetime.</p> <p>The capital programme for 2010/2011 and beyond incorporates current approved schemes as they are forecast to rollover into 2010/2011 and a proposed schedule of schemes for future years. When the 2010/11 budget was set, the capital monitoring forecast showed that almost £77 million of the current approved programme approaching £155 million will be delivered in future years and some capital resources to fund the programme will roll forward from 2009/2010 and new allocations will become available.</p> <p>The audit will examine procedures and arrangements for collecting and reporting information on the cost and progress of capital schemes.</p>	Q4			
<p>*Capital Budgetary Control – Schools programme</p> <p>At the Audit Committee on 30 June 2010, Members requested that the capital budget audit be extended to cover the schools' capital programme.</p>		Q4		

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Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems				
Care Director Income In 2009, the Raise adult social care system was upgraded to Care Director. There have been problems in the system's ability to invoice clients and an emergency system has been used until the income module can be fixed. This audit will examine the arrangements for assessing, collecting and recording income due from clients for residential, nursing and domiciliary care, via the Care Director system after the technical issues have been resolved.		Q4		
Care Director Payments In 2009, the Raise adult social care system was upgraded to Care Director. Following this there were problems in the system's ability to pay providers and an emergency system had to be put in place until the payments module could be fixed. This audit will examine the arrangements for paying amounts due to external providers of residential and nursing care, via the Care Director system, after the technical issues have been resolved.		F		
Creditors All creditor payments, including those previously paid via the cash management system (ie Council Tax and NNDR refunds) are processed via the Integra Purchase Ledger system and paid by BACS or cheque. The audit will focus on key controls to ensure the completeness, promptness, accuracy and validity of creditor payment transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection. The audit will not encompass devolved arrangements surrounding the ordering and receipt of goods, or validation of payment vouchers authorised by individual directorates. These are reviewed as part of the compliance with financial procedures audits at satellite sites.				Q4

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Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems				
Council Tax There are approximately 109,000 domestic properties in Medway's area, which generate annual income of approximately £136 million. The audit will focus on controls 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
Housing Benefits £104.6 million of benefits payments were processed in the 2009/2010 financial year. 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.				P
Housing Rents Medway Council has approximately 3000 homes in the Gillingham, Rainham and Twydall areas. Housing is funded through the Housing Revenue Account (HRA). The money in the HRA comes from the rent collected from tenants and some government funding. The rental income budget for 2009/10 is approximately £12 million. The audit will review system access controls, debit creation, rent collection and arrears management.				Q4
Payroll Medway Council employs over 10,000 people (including schools), the majority of whose salaries and wages are processed through the "Resource Link" system, managed under the Human Resources structure within the Business Support Department. Total payments exceed £10m each month. The audit will focus on key controls that ensure the completeness, promptness, accuracy and validity of payments made.				Q4

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Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems				
NNDR There are approximately 6,100 commercial properties in Medway's area, these generating annual an income of approximately £77 million. 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
Treasury Management Practices The audit will review the operation of the Treasury Management function to ensure that: <ul style="list-style-type: none"> • All lending and borrowing transactions comply with the Council's financial rules and are authorised appropriately; • All transactions are documented appropriately and are reflected in the financial records accurately and promptly; • Access to treasury management records and systems is restricted to authorised persons. 				Q4
Treasury Management Strategy The experience of the Icelandic situation in 2008 has led CIPFA to amend the CIPFA Treasury Management in the Public Services Code of Practice (the Code). It is also now a requirement of the revised Code that the Council should formally adopt the Code and the revised Treasury Management Policy Statement as part of standing orders and financial regulations. Medway Council's 2010/11 Treasury Management Strategy was prepared in accordance with the revised Code. This audit will review the content of and compliance with the Treasury Management Strategy.				AC 12/10

Internal Audit Programme 2010/11

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Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Other Financial Systems				
*Civic Centre Fuel Issues Medway Council has a fuel pump at the Civic Centre site that is available for use by services and external contractors. Vehicles are allocated “fobs” which allow access to the fuel. A report of fuel issues indicated some apparent inconsistencies in the details recorded. This audit will review the use of the fuel pump and ensure it is used appropriately and that fuel costs are accounted for and charged appropriately.			F	
Compliance with Financial Procedures The Authority’s Section 151 officer is responsible for the proper administration of the Council’s financial affairs in accord with proper practice. Each year, Internal Audit will conduct a range of audits across a number of satellite sites and departments in order to ensure each complies with Medway Council’s financial rules. In 2010/11, the following will be audited: <ul style="list-style-type: none"> • Corn Exchange – follow-up of 2009/10 audit • Economic Development / Social Regeneration • Medway Park • Parklands Resource Centre – follow-up of 2009/10 audit • Silverbank Pupil Referral Unit 		AC 12/10 AC 09/10	Q4 Q4 AC 12/10	
Credit Card Income Medway Council is currently upgrading its system for accepting Credit Card payments. This audit will examine the procedures in place to minimise the risk that payments received over telephone and internet by credit card are fraudulent.	Q4			
Credit Card Refunds This audit will review all systems fed by Radius payment information to ensure that credit card refunds are made to the originating card in an appropriate manner.				AC09/10

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Other Financial Systems				
Direct Debit Income The Authority receives an increasing amount of its income through Direct Debit, particularly Council Tax. It has plans to increase this income, for instance with Housing Rents. The audit will evaluate compliance with the Direct Debit guarantee, which places Medway Council under a duty to ensure proper processes are in place to notify customers of charges due and handle customer information properly. Income could be lost if direct debits are handled inappropriately.				AC 12/10
*Department of Health (DoH) Stroke Care Grant Claim Audit of grant claim before submission to DoH.				AC09/10
*EU Grant Claims Audit of EU grant claims. <ul style="list-style-type: none"> • Interrreg IV A 2 claim to end June 2010 • Interrreg IV A 2 claim to end December 2010 				AC09/10 Q4
Highways Maintenance Contract Follow-up Medway's highways maintenance function comprises a range of discrete activities, which are primarily organised, co-ordinated and administered by officers in the Regeneration, Community and Culture directorate's Highways group. In 2007, a 5-year contract for highways maintenance works was awarded, with a possible extension of a further 5 years based on the contractor's performance. The contract is worth up to £50 million. This audit will follow-up on the issues identified in the 2009/10 audit.			AC09/10	

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Other Financial Systems				
Homelessness rental income A new system has been implemented early in 2010 to ensure rental income is collected for all homeless clients. This audit will examine 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.				F
Housing Benefits Grant Claim The external auditors have a statutory duty to examine the Council's annual claim for reimbursement of housing benefits payments and, to assist in this process, Internal Audit has been asked to carry out this exercise. We will, therefore, follow Audit Commission guidance to review the information contained in the claim and express a conclusion as to whether the claim is fairly stated and in accordance with the relevant terms and conditions.				AC 12/10
Imprest Accounts follow-up 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 follow-up on the 2009/10 audit and review the operation of these accounts to ensure they are used for legitimate Council expenditure and follow arrangements specified by the Chief Finance Officer.	AC 12/10			
Markets Income - follow-up Medway Council operates three markets, twice a week in Gillingham and Strood and a monthly farmers' market in Rochester.			Q4	
*Markets Income – Christmas market At the Audit Committee on 30 June 2010, Members requested that the Markets Income audit be extended to cover the financial operation of the Christmas market.			Q4	

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Other Financial Systems				
Payroll – pension deductions Medway Council is the second largest contributor to the LGPS in Kent. Kent County Council's external auditors require assurance that payments to the LGPS are accurate. This audit will seek to test the controls in place to ensure staff pension deductions are accurate and correct amounts are paid to Kent County Council's pension section in order.				AC 12/10
PSA2 Final Outturn PI verification checks The audit will review the accuracy of calculated performance against the single indicator not finalised by the time the interim grant claim was submitted (target 5 – reducing the percentage of 16-18 year olds NEET), the robustness of the arrangements to produce the outturn declared and controls over the quality of data from which it was derived.	AC 12/10			
Schools Assurance Programme The Chief Finance Officer obtains assurance on the effectiveness of financial controls through schools undertaking financial control self-assessment (FCSA), with subsequent internal audit review. Internal Audit will visit schools to obtain any additional information necessary to evaluate the effectiveness of financial controls where the content of the school's self-assessment is unclear or incomplete or to address specific concerns raised by Governors or Finance.		Q4		

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Other Financial Systems				
<p>*Section 106 Agreements</p> <p>Section 106 (S106) of the Town and Country Planning Act 1990 allows a local planning authority (LPA) to enter into a legally-binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a Section 106 Agreement.</p> <p>These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing.</p> <p>The scope of such agreements is laid out in the government's Circular 05/2005. Matters agreed as part of a S106 must be:</p> <ul style="list-style-type: none"> • relevant to planning • necessary to make the proposed development acceptable in planning terms • directly related to the proposed development • fairly and reasonably related in scale and kind to the proposed development • reasonable in all other respects. <p>The audit will review processes for ensuring income due for section 106 agreements is identified, received and is used appropriately within the prescribed timescales.</p>			F	

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Other Financial Systems				
VAT This audit will review the procedures for identifying, processing and accounting for VAT to minimise risks that: <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. 	F			

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Activity ↓ Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
<p>*Allocation of resources – SEN Pupils identified as having special education needs (SEN) qualify for additional classroom resource to help them to achieve their potential. Schools take the lead in identifying pupils with SEN.</p> <p>SEN provision is a demand-led service. It is vital in the current economic climate that resources are allocated fairly on a needs basis. The audit will build on the recent management review of the service in order by reviewing procedures across a sample of schools to ensure consistency in the award of SEN statements.</p> <p>At the Audit Committee on 30 June 2010, Members requested that this audit should include a review of caseload procedures and how budgets are allocated within schools</p>		<p>F</p>		
<p>Business Continuity Plan 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. 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>DR</p>			
<p>Co-ordination of bidding for External Funding 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). 				<p>AC 12/10</p>

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
Concessionary Fares The Concessionary Bus Travel Act 2007 amended the previous statutory responsibility placed on local authorities to provide travel concessions to people aged 60 and above and those with certain disabilities, most notably to enable free travel anywhere in England between certain hours. Responsibility for reimbursing operators for the cost of journeys made also changed, from those incurred against passes issued by an authority to all journeys made by pass holders (regardless of the issuing authority) beginning in an authority's area. In addition to this scheme, Medway also offers half-price bus fares to students in full time education, on payment of a nominal fee. This audit will review the risk that reimbursement of operators' costs may not reflect accurately the cost of journeys using older persons' passes commenced in Medway or journeys using Medway students' half-price passes. It will supplement the audit carried out in 2009/10, which covered verification of eligibility, issue of new passes and treatment of income received.			DR	
Council Plan Monitoring 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 following risks: <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. 	DR			
Grounds Maintenance Contract Monitoring follow-up Examination of arrangements for monitoring contract compliance and performance, including the recording and processing of defaults.			AC09/10	

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
ICT Security Medway Council, like most organisations, has a flexible and dynamic environment, with staff accessing ICT resources locally and remotely, and the need for a secure computing environment has become more pronounced. Threats can be internal, external, accidental or malicious. Effective security is essential for public confidence in the conduct of the Authority's business. The Authority is in the process of updating its security policy, ensuring compliance with International Standards. The audit will review current ICT security arrangements and compliance with the latest government security regulations.				F
Libraries stock control This audit will review stock control following the implementation of a new computerised stock management system. The audit will evaluate the effectiveness of controls to ensure that all issues and returns of books are properly recorded and the location of all books is known at all times.				Q4
Mobile Phones – value for money 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.	AC09/10			

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
<p>Personal Budgets</p> <p>The Department of Health states that “In the future, all individuals eligible for publicly-funded adult social care will have a personal budget (except for emergency provision); a clear, upfront allocation of funding to enable them to make informed choices about how best to meet their needs, including their broader health and well-being. A person will be able to take all or part of their personal budget as a direct payment.” Local Authority Circular (DH) (2008) 1. The Authority aims to ensure that at least 30% of eligible service users / carers have a personal budget by April 2011.</p> <p>Clients who receive their personal budgets as direct payments take on the responsibility for managing their care and may take on additional responsibilities, such as those of an employer. The Authority does, however, retain an overall duty of care.</p> <p>This audit will review the systems that Medway Council has put in place to ensure personal budgets are being used to meet clients’ needs and manage other risks to individuals who are managing personal budgets.</p>		Q4		
<p>*Project / Programme Management – Evaluation and Approval of Projects</p> <p>Examination of project management within the Authority.</p> <p>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>At the Audit Committee on 30 June 2010, Members requested that this audit should be extended to cover consider the effectiveness of the council in setting the original specifications.</p>	DR			

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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
<p>Security of Confidential Records at Children and Adults Sites</p> <p>The 2009/10 audit of the review of restrictions in place to prevent unauthorised access to social care case records resulted in an “uncontrolled” opinion. Staff from the Children and Adults directorate are based at a large number of sites across Medway. The Authority needs assurance that the procedures for handling confidential data at each site is appropriate and that lessons learnt from the 2009/10 audit have been applied.</p> <p>This audit will visit a sample of Children and Adults sites to review the controls in place to mitigate the following risks:</p> <ul style="list-style-type: none"> • Unauthorised access to electronic records • Loss, or unauthorised access to manual records. • Failure to comply with regulations governing the retention/disposal of records. 		AC 12/10		
<p>Tenancy Fraud</p> <p>The Audit Commission Report “Protecting The Public Purse” highlighted housing tenancy fraud as one area where the risk of fraud has not been adequately addressed at the local level. The report estimates that social housing across England has been reduced by nearly 50,000 properties and that the level of tenancy fraud in parts of London could be as high as 5%.</p> <p>The reduced private / social rent differential in Medway (compared to London) reduces the incentive for tenancy fraud, but the Audit Commission believe that 1% of properties outside London could be unlawfully occupied.</p> <p>The audit will review gateway controls in allocations and housing procedures to detect /prevent fraudulent tenancies and seek to match housing and Housing Benefits data to identify discrepancies in tenant records.</p> <p>If the data match is successful, we will investigate the potential for collaboration with MHS Homes.</p>				F

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Activity ↓ Risk Assessed Work	Directorate/Department → Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Transport Procurement Unit The Transport Procurement Unit (TPU) provide home to school transport for all pupils qualifying for assistance under the Education Act (1996). More recently they have taken on responsibility for managing the transport requirements of social care clients. This audit arises following an incident where an overpayment occurred for a social care client's taxi service. It will review the processes for provision of and making payments for transport provided.			AC 12/10	

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Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Activity ↓				
Governance Audits				
Corporate Governance 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.	F			
Risk Management Risk management forms an intrinsic component of corporate governance. In view of this, Internal Audit carries out an annual review of the Council's progress in embedding a consistent method for the identification, evaluation and recording of risk.	P			
Corruption Prevention System The audit will review the arrangements designed to promote and ensure probity and propriety in the conduct of authorities' 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			

Key

* = addition to plan

AC = month & year reported to Audit Committee

P = audit in planning stage, F = Fieldwork underway, DR = draft report issued

Q4 = work begins January- March 2011

Audits removed from the Internal Audit Programme 2010/11

Activity ↓	Directorate/Department	Comments
<p>Blue Badges</p> <p>The Blue Badge scheme allows people with severe mobility problems who have difficulty using public transport to park for free. This means badge holders can park close to where they need to go. In addition, badge holders are exempt from the congestion charge in London.</p> <p>The Audit Commission have targeted fraudulent use of blue badges in their National Fraud Initiative data matches. Misuse can deny people with genuine need the parking they require close to their destination and reduce the Authority's parking income.</p> <p>This audit will review the Authority's processes for ensuring Blue Badges are only issued to qualifying persons, are used appropriately and are returned when no longer required.</p>	Regeneration Community and Culture and Business Support Department	
<p>Covalent</p> <p>The Authority has procured the Covalent software to help underpin a robust performance management framework and help embed this across all directorates and services. The initial focus of the project was to use Covalent for Council Plan Monitoring, National Indicators and to explore its wider use in a small number of trial services.</p> <p>The objective of this audit is to provide an opinion on the effectiveness of controls to minimise the risks that:</p> <ul style="list-style-type: none"> • There is inadequate buy-in from services; • Poor data quality may not be identified and corrected; • Covalent does not improve decision makers' understanding of the Authority's performance. 	Authority Wide	These audits were removed from the work programme to accommodate additional audits requested by Members or the Chief Finance Officer.
<p>Medway Community Safety Partnership</p> <p>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 	Regeneration Community and Culture	
<p>Project / Programme Management - Progress Monitoring</p> <p>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>	Authority Wide	

Audits removed from the Internal Audit Programme 2010/11

Activity ↓	Directorate/Department	Comments
<p>Online Procurement for Educational Needs Medway Council has agreed to implement OPEN, the DfE funded 'Online Procurement for Educational Needs' marketplace for schools. This offers schools easy access to local, regional and national value for money contracts in one place.</p> <p>OPEN is designed to interface with schools' existing Financial Management Systems (FMS). This means that any requisitions staff make are immediately uploaded into the school's FMS, removing the need to double type entries. It will also mean that in the medium term future, electronic invoices and credit notes sent from suppliers will be imported automatically, saving more staff time.</p> <p>It is expected that the first schools to use OPEN in Medway will implement the system early in the 2010/11 financial year. This audit will review the operation of the new e-procurement system in four of these schools.</p>		<p>These audits were removed from the work programme to accommodate additional audits requested by Members or the Chief Finance Officer.</p>
<p>Procurement processes Review Procurement Manager's processes for monitoring compliance with procurement rules. The audit will focus on the following areas:</p> <ul style="list-style-type: none"> • Ensuring contracts due for re-letting are identified in sufficient time to allow the required competitive dialogue to take place • Identification of procurement activity within services that fails to comply with contract rules • Preventing bypassing of existing framework agreements • Potential future savings from aggregating spend. 		