

## **AUDIT COMMITTEE**

**29 MARCH 2011**

### **INTERNAL AUDIT WORK PROGRAMME**

Report from: Internal Audit

Author: Richard Humphrey, Audit Services Manager

#### **Summary**

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

# Internal Audit Programme 2010/11

Annex A

Directorate/Department →  Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Key Financial Systems</b>				
<p><b>Capital Budgetary Control</b> 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. 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>	F			
<p><b>*Capital Budgetary Control – Schools programme</b></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		

# Internal Audit Programme 2010/11

Annex A

<b>Directorate/Department →</b>  <b>Activity ↓</b>	<b>Authority Wide</b>	<b>Children and Adults</b>	<b>Regeneration Community and Culture</b>	<b>Business Support Department</b>
<b>Key Financial Systems</b>				
<b>Care Director Income</b> 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		
<b>Care Director Payments</b> 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.		DR		
<b>Creditors</b> 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.				F

# Internal Audit Programme 2010/11

Annex A

Directorate/Department →  Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Key Financial Systems</b>				
<b>Council Tax</b> 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.				F
<b>Housing Benefits</b> £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.				F
<b>Housing Rents</b>				AC 03/11
<b>Payroll</b> 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.				P
<b>NNDR</b> There are approximately 6,100 commercial properties in Medway's area, these generating an annual 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

# Internal Audit Programme 2010/11

Annex A

<b>Activity ↓</b> <b>Directorate/Department →</b>	<b>Authority Wide</b>	<b>Children and Adults</b>	<b>Regeneration Community and Culture</b>	<b>Business Support Department</b>
<b>Key Financial Systems</b>				
<b>Treasury Management Practices</b> The audit will review the operation of the Treasury Management function to ensure that: <ul style="list-style-type: none"> <li>• All lending and borrowing transactions comply with the Council's financial rules and are authorised appropriately;</li> <li>• All transactions are documented appropriately and are reflected in the financial records accurately and promptly;</li> <li>• Access to treasury management records and systems is restricted to authorised persons.</li> </ul>				Q4
<b>Treasury Management Strategy</b>				AC 12/10

# Internal Audit Programme 2010/11

Annex A

Activity ↓	Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Other Financial Systems</b>					
<b>*Civic Centre Fuel Issues</b> 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.				DR	
<b>*Vehicle fuel procurement</b> At the Audit Committee held on 21 December 2010, Members requested that the above audit covering fuel issues at the Civic Centre be extended cover all types of vehicle fuel. This audit will review the overall arrangements for fuel purchases.				P	
<b>Compliance with Financial Procedures – Satellite Sites</b> <ul style="list-style-type: none"> <li>Medway Park</li> <li>Parklands Resource Centre – follow-up of 2009/10 audit</li> <li>Silverbank Pupil Referral Unit</li> </ul>			AC 12/10 AC 09/10	AC 12/10	
<b>Credit Card Refunds</b>					AC 09/10
<b>Direct Debit Income</b>					AC 12/10
<b>*Department of Health (DoH) Stroke Care Grant Claim</b>					AC 09/10
<b>*EU Grant Claims</b> <ul style="list-style-type: none"> <li>Interreg IV A 2 claim to end June 2010</li> <li>Interreg IV A 2 claim to end December 2010</li> </ul>					AC 09/10 AC 03/11
<b>*Halling Primary School</b>			AC 03/11		

# Internal Audit Programme 2010/11

Annex A

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Other Financial Systems				
<b>*Homes and Communities Agency – Grant Claims</b> For the 2008/09 grant claim, the HCA failed to agree the scope of the grant claim audit with the Audit Commission and as a result, Internal Audit carried out this work. Similarly, agreement could not be reached with the Audit Commission for the audit of the 2009/10 grant claims. Therefore, internal audit have been asked to carry out this work, which involves specific tests on each of the separate eighteen grant claims.	P			
Highways Maintenance Contract Follow-up			AC 09/10	
Homelessness rental income				AC 03/11
Housing Benefits Grant Claim				AC 12/10
Imprest Accounts follow-up	AC 12/10			
<b>Markets Income - follow-up</b> Medway Council operates three markets, twice a week in Gillingham and Strood and a monthly farmers' market in Rochester.			Q4	
<b>*Markets Income – Christmas market</b> 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.			F	
Payroll – pension deductions				AC 12/10
PSA2 Final Outturn PI verification checks	AC 12/10			



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Directorate/Department → Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Other Financial Systems				
<b>Schools Assurance Programme</b> 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.		F		

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Directorate/Department →  Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Other Financial Systems				
<p><b>*Section 106 Agreements</b></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"> <li>• relevant to planning</li> <li>• necessary to make the proposed development acceptable in planning terms</li> <li>• directly related to the proposed development</li> <li>• fairly and reasonably related in scale and kind to the proposed development</li> <li>• reasonable in all other respects.</li> </ul> <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	
VAT	AC 03/11			

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Activity ↓	Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Risk Assessed Work</b>					
<b>*Allocation of resources – SEN</b>			AC 03/11		
<b>Business Continuity Plan</b> 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.	DR				
<b>Co-ordination of bidding for External Funding</b>					AC 12/10
<b>Concessionary Fares</b>				AC 03/11	
<b>Council Plan Monitoring</b>	AC 03/11				
<b>Grounds Maintenance Contract Monitoring follow-up</b>				AC 09/10	
<b>ICT Security</b> 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

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Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Activity ↓</b>				
<b>Risk Assessed Work</b>				
<b>Mobile Phones – value for money</b>	AC 09/10			
<b>*Project / Programme Management – Evaluation and Approval of Projects</b> 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.  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.	DR			
<b>Security of Confidential Records at Children and Adults Sites</b>		AC 12/10		
<b>Tenancy Fraud</b>				AC 03/11
<b>Transport Procurement Unit</b>			AC 12/10	

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Directorate/Department →	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Activity ↓</b>				
<b>Governance Audits</b>				
<b>Corporate Governance</b> 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			
<b>Risk Management</b> 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.	F			
<b>Corruption Prevention System</b> 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.	F			

## 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
<b>Blue Badges</b>	Regeneration Community and Culture and Business Support Department	These audits were removed from the work programme to accommodate additional audits requested by Members or the Chief Finance Officer.
<b>Covalent</b>	Authority Wide	
<b>Medway Community Safety Partnership</b>	Regeneration Community and Culture	
<b>Project / Programme Management - Progress Monitoring</b>	Authority Wide	
<b>Online Procurement for Educational Needs</b>	Children and Adults	These audits were removed from the work programme to accommodate additional audits requested by Members or the Chief Finance Officer.
<b>Procurement processes</b>	Authority Wide	
<b>Compliance with Financial Procedures</b> <ul style="list-style-type: none"> <li>• Corn Exchange – follow-up of 2009/10 audit</li> <li>• Economic Development / Social Regeneration</li> </ul>	Regeneration Community and Culture	These audits were removed from the work programme to accommodate either:- <ul style="list-style-type: none"> <li>• additional audits requested by Members or the Chief Finance Officer, or,</li> <li>• to reflect reduced resources in the audit team.</li> </ul>
<b>Credit Card Income</b>	Authority Wide	
<b>Libraries stock control</b>	Business Support Department	
<b>Personal Budgets</b>	Children and Adults	