

AUDIT COMMITTEE

5 JULY 2011

INTERNAL AUDIT WORK PROGRAMME

Report from: Mick Hayward, Chief Finance Officer

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Summary

To advise Members of the 2011/12 internal audit work programme and to monitor the outcome of the 2010/11 programme.

1. Budget and Policy Framework

- 1.1 Decisions regarding accounts and audit issues fall within the remit of this committee.

2. Background

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

3. Options

- 3.1 There is a statutory requirement for local authorities to maintain a system of internal audit, so some form of programme is required. The composition of the proposed programme is aimed at providing adequate assurance on the effectiveness of controls in the key financial systems, work that is used by the external auditors in reaching their conclusion, and on the effectiveness of controls mitigating risks in a range of other financial and operational systems.

4. Advice and analysis

- 4.1 The internal audit work programme for 2011/12 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.
- 4.2 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 also be reported to this committee.
- 4.3 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 plan is that all the key assurance audits will be completed to meet the needs of the governance statement and external audit.
- 4.4 The following key financial systems will not be audited in 2011/12 as they were in the 2010/11 programme. The table also shows the audit opinion.
- | | | |
|--------------------------|-------|--------------|
| • Care Director Payments | 10-11 | Insufficient |
| • Creditor payments | 10-11 | Insufficient |
| • Treasury management | 10-11 | Good |
- Audits of Capital Budgetary Control, Care Director Income and Payroll are currently in progress.*
- 4.5 These systems will be considered for audit activity as part of the planning process for 2012/13.
- 4.6 The outcomes of the 2010/11 work programme are set out at Annex B. This annex shows the completed audits and the date reported to the Audit Committee. Two of the planned audits are at draft report stage and fieldwork is still in progress on another seven. This situation has been exacerbated by time spent on irregularity investigations, the deletion of the senior auditor post in March 2011, another staff resignation and long-term sickness in the internal audit team. The outcomes of these audits will be reported to the next meeting of this committee.
- 4.7 There are no diversity or sustainability implications arising from this report.

5. Risk management

- 5.1 There are no risk management implications arising directly from this report. However, failure to deliver the internal audit programme could result in

increased external audit fees and adverse comment from the external auditors.

6. Financial and legal implications

6.1 There are no financial or legal implications arising directly from this report.

7. Recommendations

7.1 Members are asked to approve the 2011/12 internal audit programme and to note the outcome of the 2010/11 work programme.

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Background papers

None.

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems The external auditors have a statutory duty to examine the Council's key financial systems annually and, to assist in this process, Internal Audit has been asked to carry out audits of key controls within these 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.				✓
Housing Benefits £104.6 million of benefits payments were processed in the 2010/2011 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.				✓
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 2011/12 is approximately £12 million. The audit will review system access controls, debit creation, rent collection and arrears management.				✓

Internal Audit Programme 2011/12				Annex A
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NNDR There are approximately 6,100 commercial properties in Medway's area, these generating 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.				✓
General Ledger The audit will focus on controls which ensure that the General Ledger accurately reflects the council's true financial position and transactions recorded by source systems i.e. access restrictions, segregation of duties, authorisations, input accuracy and data transfer checks and error detection.				✓
Debtors Income Although most of the Council's income is generated from council tax, NNDR, housing rents and social care activities, which have their own discreet billing systems, a significant amount (£44 million in 2010/11) relates to provision of other services, which are invoiced using the sales ledger system; more than 23,000 invoices were raised during 2010/11. This audit will review the arrangements in place to ensure debtor invoices are raised promptly, income received is recorded appropriately and outstanding debts are identified and pursued appropriately.		✓	✓	✓

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Cash and Banking Processes The audit will examine the processes for: <ul style="list-style-type: none"> • handling income received at Medway Council's Gun Wharf site and arrangements for receipting and transferring income from the designated pay points. • ensuring the completeness and accurate recording of income from all sources. • reconciliation of the Authority's bank accounts. The audit will exclude operational arrangements associated with income collection, handling and initial receipting of service-specific income at satellite sites.				✓
Other Financial Systems				
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 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 2011/12, the Adult Education Centre, Gillingham will be audited.				✓
Foster Payments In 2010/11 the numbers of looked after children steadily rose to record levels and stood at 382 at the end of August 2010. As a consequence there has been a significant rise in spend. Foster Payments represents the Children's Care Division's largest single cost, with a 2011/12 budget of approximately £4 million. This audit will review the system for making payments to Foster Carers to ensure payments are accurate, timely, and made to the correct bank account. The audit will also ensure payments appear accurately and promptly in the Council's financial records.		✓		

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Markets Income - follow-up Medway Council operates three markets, twice a week in Gillingham and Strood and a monthly farmers' market in Rochester. The audit will follow-up on the 2009/10 audit.			✓	
Payroll processes in satellite sites Responsibility for managing a number of payroll processes is delegated to management at satellite sites. Medway Council's payroll section is reliant on information received from these sites in order to ensure payments made are legitimate, accurate and timely. In 2010/11 a manager at one site perpetrated a £46,000 fraud against the Authority using "ghost" employees. This audit will examine the controls in place at a sample of satellite sites across the Authority to ensure payments made for staff are legitimate, accurate and timely.		✓	✓	✓
Schools Assurance Programme The CFO 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 a sample of 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. In addition, in view of the misappropriation of funds identified at one school in 2010/11, a thematic review of controls over local bank accounts at a sample of schools will provide the CFO with additional assurance that budgets delegated to schools are being managed effectively.		✓		

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Schools Capital Programme Until 2010/11, Medway Council delegated some responsibility for managing its capital expenditure to individual schools whilst retaining some responsibility in-house. This audit will review of the controls operated by the Local Authority to ensure schools capital projects are managed appropriately, with particular attention paid to the approval and monitoring of projects where management was delegated to schools. It will focus on the formal approval of projects and delegation of management to schools, formal notification of delegated authority and the responsibilities associated with it, progress monitoring and verification/approval of expenditure.		✓		✓
Grant Claims Terms and conditions of some grants require Internal Audit certification. In 2011/12 the following claims will be audited: <ul style="list-style-type: none"> • HCA Grant Claims • Interreg IVA 			✓	✓

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Risk Assessed Work				
Allocation of SEN resources in schools School data showed that 25% of all pupils in Medway have an identified Special Educational Need (SEN) and over 1,100 of these have statements of SEN. Funding for SEN pupils with SEN delegated to schools to help them ensure pupils with barriers to learning have their needs met. Statements outline these barriers and what needs to be in place to try and overcome these. Medway Council has issued updated guidance to help schools translate educational objectives into targets through statements. The 2010/11 audit reviewed LEA processes for application, award and review of statements of special educational needs. This audit will examine how schools use the LEA guidance to translate objectives into pupil targets and how these targets are resourced.		✓		
Blue Badges 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. 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. 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.				✓

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Council Plan Monitoring The Council Plan 2010-13 is the council's high-level, strategic business plan that sets out the council's priorities, outcomes, objectives and key actions over a three-year period. Since the abolition of CAA, the Authority has greater freedom to set its own targets. Accurate and reliable reporting on performance will still be critical in ensuring the Authority understands how well it is delivering its priorities. This audit will seek to confirm the accuracy of reporting of a small basket of indicators. The 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. 		✓	✓	✓
Cover Arrangements for the Better 4 Less Project The Better for Less project teams have drawn highly motivated and capable staff from across the Authority. The funding for posts has been transferred to the Better for Less project and services have had to identify appropriate means of cover. The audit will seek to determine the effectiveness of cover arrangements and confirm that all critical controls in the services affected continue to function properly.		✓	✓	✓

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
ICT Asset Classification and Control The audit will review procedures for purchase of hardware to ensure that all equipment purchased has been procured via ICT and has been recorded appropriately in the ICT inventory. The audit will also consider arrangements to ensure assets are retained with the correct level of security and, when they reach the end of their useful life, are disposed of appropriately. Data interrogation techniques will be used where appropriate.		✓	✓	✓
Personal Budgets 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 aimed to ensure that at least 30% of eligible service users / carers have a personal budget by April 2011. 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. This audit will review the systems that Medway Council has put in place to monitor the handling of personal budgets by clients. It will cover the handling of money by clients (e.g. use of payment cards, employer/employee risks if personal assistants are employed by clients, potential financial abuse of the client, fraud) and systems for monitoring the effect of personal budgets on client welfare.		✓		

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Transport Procurement Unit – follow up 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. The 2010/11 audit followed the report of a £30,000 overpayment for a taxi service and concluded that this was not an isolated incident. This follow-up audit will review the revised processes for provision of and making payments for transport provided.		✓	✓	
Waste Management Contract Monitoring In 2010, the Council awarded a new waste management contract worth approximately £14 million per annum to Veolia. The audit will aim to give assurance at that there are appropriate arrangements for monitoring contract compliance and performance.			✓	
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.		✓	✓	✓
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.		✓	✓	✓

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Prevention of Fraud and Corruption 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.		✓	✓	✓
Reserve Audits				
Project / Programme Management - Progress Monitoring 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.		✓	✓	✓
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.				✓
Covalent 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 objective of this audit is to provide an opinion on the effectiveness of controls to minimise the risks that: <ul style="list-style-type: none"> • Poor data quality may not be identified and corrected; • Covalent does not improve decision makers' understanding of the Authority's performance. 		✓	✓	✓

Internal Audit Programme 2011/12				Annex A
Activity ↓	Directorate/Department →	Children and Adults	Regeneration Community and Culture	Business Support Department
Security of Social Care Case Records – follow-up 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: <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 This was partially followed up in the Security of confidential records at C&A sites Audit. The remainder was deferred from the 2010/11 programme to allow more time for the systems access issues to be resolved.		✓		

Internal Audit Programme 2010/11				Annex B
Directorate/Department				
Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems				
Capital Budgetary Control				F
Care Director Income		DR		
Care Director Payments		AC 07/11		
Council Tax				AC 07/11
Creditors				AC 07/11
Housing Benefits				AC 07/11
Housing Rents				AC 03/11
NNDR				AC 07/11
Payroll				F
Treasury Management Practices				D/P
Treasury Management Strategy				AC 12/10
Other Financial Systems				
Compliance with Financial Procedures: <ul style="list-style-type: none"> • Corn Exchange (follow-up) • Economic Development / Social Regeneration • Medway Park • Parklands Resource Centre (follow-up) • Silverbank Pupil Referral Unit 		AC 12/10 AC 09/10	F C AC 12/10	
Credit Card Income				D/P
Credit Card Refunds				AC 09/10
Direct Debit Income	AC 12/10			
Homelessness rental income				AC 03/11
Housing Benefits Subsidy grant claim				AC 12/10
Imprest Accounts (follow-up)	AC 12/10			

Internal Audit Programme 2010/11					Annex B
Directorate/Department					
Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department	
Markets Income (follow-up)			D/P		
Online Procurement for Educational Needs		C			
Payroll – pension deductions					AC 12/10
Procurement processes	C				
PSA2 Final Outturn PI verification checks		AC 12/10			
Schools Assurance Programme: <ul style="list-style-type: none"> Halling Primary School – financial controls Financial Control Self Assessment – primary tranche 1 		AC 03/11 F			
VAT					AC 03/11
Risk Assessed Work					
Allocation of resources – SEN		AC 03/11			
Blue Badges					D/P
Business Continuity Plan	DR				
Concessionary Fares			AC 03/11		
Council Plan Monitoring		AC 03/11	AC 03/11		AC 03/11
Covalent					D/P
Highways Maintenance Contract (follow-up)			AC 09/10		
ICT Security					F
Libraries stock control					D/P
Medway Community Safety Partnership			D/P		
Personal Budgets		D/P			
Project / Programme Management - progress monitoring	D/P				
Security of Confidential Records at Children and Adults Sites		AC 12/10			

Internal Audit Programme 2010/11					Annex B
Directorate/Department					
Activity ↓	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department	
Tenancy Fraud				AC 03/11	
Transport Procurement Unit		AC 12/10	AC 12/10		
Governance Audits					
Corporate Governance	AC 07/11				
Prevention of Fraud and Corruption	AC 07/11				
Risk Management	AC 07/11				
Additions to programme					
Civic Centre fuel pumps			AC 07/11		
Department of Health Stroke Care grant claim				AC 09/10	
EU Interreg IV grant claims				AC 09/10 + 03/11	
HCA grant claims			F	F	
Leisure memberships			AC 12/10		
Rochester Christmas Market			DR		
Section 106 agreements	F				
Vehicle fuel purchasing arrangements	DR				

Key

AC = month & year reported to Audit Committee

DR = draft report issued

F = fieldwork still in progress

D/P = audit deferred or postponed due to resource reductions or additional audits

C = audit cancelled due to changed structure/process or review by external agency
(most of these changes, together with the additions shown above, have been reported to this committee during the year)