

## **AUDIT COMMITTEE**

**5 JULY 2011**

### **INTERNAL AUDIT ANNUAL REPORT**

Report from: Mick Hayward, Chief Finance Officer

Author: Peter Bown, Accounting Manager

#### **Summary**

To inform this committee of the overall opinion on control for 2010/11 based on internal audit's work. This report assists this committee when considering the annual governance statement.

#### **1. Budget and Policy Framework**

- 1.1 It is within the remit of this committee to take decisions regarding accounts and audit issues.

#### **2. Background**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA)'s publication "Code of Practice for Internal Audit in Local Government in the United Kingdom" recommends that internal audit should report annually on the operation of control. This is to assist Members when considering the annual governance statement.
- 2.2 All audit work is either risk based using the Council's own identification of risks, internal audit's own risk assessment processes or work carried out on behalf of the external auditor.
- 2.3 This Committee receives regular reports on the outcomes of all internal audit activity which covers audit work and the results of irregularity investigations.

#### **3. Options**

- 3.1 Not applicable as report provided for information only, no decision(s) required.

#### **4. Advice and analysis**

- 4.1 The Accounting Manager is currently overseeing the internal audit function pending the recently appointed Audit Services Manager taking up post at the beginning of August. As both he and the Chief Finance Officer are involved in managing the Council's financial systems they are not sufficiently independent to provide the objective 'head of internal audit' annual opinion required. To provide an independent view, the opinions have been jointly formed by the two Principal Auditors in the Internal Audit team. All individuals involved in the drafting of this report or the opinions expressed are properly qualified.
- 4.2 Key Financial Systems – 4 out of the 7 key systems examined had opinions of good or satisfactory (Appendix A). However 3 of the systems audited were assessed as 'Insufficient', exhibiting weaknesses in debt recovery processes (including creditor/salary overpayments) and the current work on the Care Director system has raised concerns that similar issues exist there too. No other significant issues have arisen to date on the audits that are still in progress.
- 4.3 Other Financial Systems – No authority-wide issues were identified in these audits, but seven of eleven audits indicated varying degrees of non-compliance with financial procedures. It is concluded that controls over other financial systems are 'insufficient' overall.
- 4.4 Corporate Governance – Our audit work has confirmed that a sound system of corporate governance exists. However, improvements are required to strengthen the control environment in the risk management process and the Council's arrangements to prevent fraud and corruption.
- 4.5 The operational audit activity does not lend itself to the formation of an overall opinion, owing to the size and complexity of the nature of the activities carried out by the Council when compared with the extent of the audit coverage. However, operational audit work has not identified any authority wide risk issues.
- 4.6 A summary of all audit work carried out is at Annex A. All audit reports include an agreed management action plan to address and correct the issues identified. Where risk was assessed as "Uncontrolled", a follow up audit will be carried out within six months (dependent on the latest implementation date for agreed management actions).
- 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 from this report.

#### **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 endorse Internal Audit's opinions contained in this report and to consider the comments in section 4 when considering the annual governance statement.

### **Lead officer contact**

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### **Background papers**

None.

<div> <div>Summary of internal audit activity 2010/11</div> <div>Annex A</div> </div>					
Activity ↓	Overall opinion	Directorate/Department			
		Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
<b>Key Financial Systems</b>					
Care Director payments (residential payments)	I		I		
Council tax	G				G
Creditor payments	I				I
Housing benefits	S				S
Housing rents	I				I
NNDR	G				G
Treasury management strategy	G				G
<b>Other Financial Systems</b>					
Compliance with financial procedures:					
• Silverbank Pupil Referral Unit	I		I		
• Medway Park	I			I	
• Parklands Resource Centre (follow-up)	I		I		
Credit card refunds	I				I
Department of Health Stroke Care grant claim	●				●
Direct debit income	S	S			
EU Interreg IV grant claims x 2	●				●
Halling Primary School:					
• Financial management	U		U		
• Payroll	I		I		
• Purchasing	U		U		
• Income received	I		I		
• Banking arrangements	U		U		
• Petty cash	I		I		
• Taxation	G		G		
• Assets & information security	U		U		

Summary of internal audit activity 2010/11						Annex A
Activity ↓	Overall opinion	Directorate/Department				
		Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department	
Homelessness rental income	I				I	
Housing benefit subsidy claim verification	●				●	
Imprest accounts (follow-up)	S	S				
Payroll - pension deductions	G				G	
PSA2 outturn validation	●		●			
Transport procurement	U		U	U		
VAT	S				S	
<b>Governance Audits</b>						
Corporate governance	S	S				
Prevention of fraud & corruption	I	I				
Risk management	S	S				
<b>Risk Assessed Work</b>						
Allocation of resources - SEN	S		S			
Civic Centre fuel pumps	U			U		
Concessionary fares	S			S		
Co-ordination of bidding for external funding	S	S				
Council Plan Monitoring						
NI 60 - Core assessments for children's social care	U		U			
NI 146 - Adults with learning disabilities in employment	U		U			
NI 181 - Processing Housing/ Council Tax Benefit claims	G				G	
H8 - Average time taken to re-let council dwellings	G				G	
LRCC1 - Number of visitors to tourist attractions in Medway	I			I		
Grounds Maintenance contract	S			S		

Summary of internal audit activity 2010/11						Annex A
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		Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department	
monitoring (follow-up)						
Highways Maintenance contract (follow-up)	S			S		
Leisure memberships	●			●		
Mobile phones – value for money	S				S	
Security of confidential records at satellite sites	I		I			
Tenancy Fraud	S				S	

**Key:**            G = Good,            S = Satisfactory,            I = Insufficient            U = Uncontrolled  
                      ● = Work carried out but no opinion provided in that area