



MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT
2007/2008
REPORT QUARTERS 1 & 2

Report on Internal Audit Activities 2nd Quarter of the Financial Year 2007/2008

Introduction

1. Internal Audit perform an important role in providing assurance that the Council's operations are undertaken in an effective and controlled manner and provide assurance that key risks preventing the achievement of objectives are adequately mitigated. This summary report outlines the work of Internal Audit and the main issues arising during the first and second quarters of financial year 2007/2008.

Main Issues arising during Quarters 1 and 2 2007/2008

Completion of audits brought forward from 2006/2007

2. During the first and second quarter of financial year 2007/2008, Internal Audit has completed all of the outstanding audits carried over from 2006/2007 to draft report stage. A summary of these reports is listed below. The actual time taken to complete these audits has exceeded the budget due to the use of auditors who had no previous knowledge of some of the systems. Where practicable audit responsibilities are rotated from time to time within the Internal Audit team to eliminate over-familiarity and complacency that could influence an auditor's objectivity. This complies with the standards laid down in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Appendix A.

Auditable Area	Overall Assurance
Final Reports Issued	
Council Tax	Substantial
National Non Domestic Rates	Substantial
Pension Fund Investments	Full
Pension Fund Administration	Full
Draft Reports Under Discussion	
Capital Accounting	
Debtors	
Housing & Council Tax Benefit	
Main Accounting System	
Payroll	

3. Audits of the following schools and other establishments carried over from financial year 2006/2007 have also been finalised.

Auditable Area	Overall Assurance
Final Reports Issued	
Schools	
Kader	Full
Draft Reports Under Discussion	
Breckon Hill	

Pennyman	
St Pius X	
Auditable Area	
Final Reports Issued	
Captain Cook Museum	Substantial
Dorman Museum	Limited
Entertainment	Substantial
Middlesbrough Theatre	Limited
Pest Control	Limited
Sensory Impaired Service	Substantial
West Middlesbrough Neighbourhood Trust	Substantial
Draft Reports Under Discussion	
Alley Gate Maintenance	
Child Protection Unit	
Extra District Schools	
Gifts & Hospitality	
Leaving Care	
North Ormesby Pavilion	
Youth Justice	

Work Completed and in Progress for Financial Year 2007/2008

4. The Audit Committee approved the Internal Audit Plan for financial year 2007/2008 on the 25th July 2007.
5. Progress in completing the Audit Plan and, more specifically, the outcomes from work undertaken in the 1st and 2nd quarters of the current financial year are summarised below.
6. In the period 1st April to 30th September 2007, seven final reports have been issued these are listed below.

Audit Title	Risk Level	Assurance level
Ayresome Primary School	High	Substantial
Beverly Special School	High	Full
Middlesbrough Teaching & Learning Centre	Medium	Substantial
Park End Primary School	High	Full
Priory Woods Special School	High	Full
St Alphonsus R.C. School	High	Full
Tollesby Special School	High	Limited

Four reports have been issued to the relevant service managers for discussion to confirm factual accuracy, agree the contents and to confirm agreed management actions (Appendix B Table 1). A further four draft reports are awaiting review by a supervising auditor (Appendix B Table 2).

7. Twelve audits are in progress and will be completed in the third quarter (Appendix B Table 3).

8. The limited assurance opinions for the following audits were as a result of the following findings:

Dorman Museum

- The correct location information must be recorded for each exhibit either belonging to or being on loan to the museum
- The service should review the security arrangements in light of the recent thefts of items from the museum

Middlesbrough Theatre

- The Bar and Catering area was operating with minimal controls in the absence of a Bar and Catering Manager. The Bar and Catering Manager's position was unfilled pending the outcome of an internal investigations.

Pest Control

- Absence of contracts between Council and Commercial Clients for pest control service

Tollesby Special School

- Segregation of duties in the purchasing system need to be improved to ensure that there is a clear trail supporting the approval of transactions and purchase orders are raised prior to the receipt of an invoice.
- Levels of delegation need to be reassessed for the school to make better use of staff time.
- Financial reports presented to Governors did not include financial statements or highlight variances against budgets despite the school struggling to stay within budget

Summary of Other Work Undertaken

9. In the period Internal Audit has prepared and audited the accounts of six out of nine Youth and Community Centres, three out of four Community Centres and twenty-three out of twenty five Community Councils. Those organisations that have still to submit their accounts for audit have been contacted and requested to provide their accounts. It is planned to complete the outstanding audits in the third quarter. The audit of the accounts of the Partnerschaft Association has also been completed on behalf of the Director of Resources in his capacity as Honorary Auditor.

10. Internal Audit is working with the Children, Families and Learning Service and HBS to ensure that guidance relating to financial management standards in schools is interpreted and applied appropriately. Time was set aside in the second quarter to review and update the audit programme for schools.
11. All schools operating their own bank accounts (Archibald, Hallgarth, Ormesby, Pennyman and St Pius X) were visited in April to confirm that they had carried out a bank reconciliation as at 31st March 2007 and that this work was performed accurately.
12. The main focus of Internal Audit's work into fraud and corruption has been spent extracting and investigating payroll records for the 2006 Audit Commission National Fraud Initiative. In its capacity as Key Contact for the National Fraud Initiative the Internal Audit Section responds to requests for information where there is a match between the Authority's data and that of another Local Authority. A match occurs when records submitted by two or more Authorities have common elements, for example: same National Insurance number, date of birth, Christian / surname etc. Internal Audit has worked on three cases of suspected irregularity. Details of the work have been reported to Senior Officers and action has been taken where appropriate. In addition two investigations have been undertaken into potential breaches of the Council's Standing Orders with respect to Contracts
13. At the request of the Director of Resources, Internal Audit provides him with advice on requests for dispensations from the competitive element of the Council's Standing Orders with respect to 23 Contracts..
14. Until recently Internal Audit had limited involvement in the audit of grants received from third parties. This has changed, with certain grant awarding bodies requiring the Head of Internal Audit to certify the grant statement as accurate. In the period under review, Internal Audit has undertaken work on two grant claims: Housing Market Renewal Fund and Safer and Stronger Communities Fund.
15. During the period, Internal Audit has provided advice to Services in order to assist continuous improvement and the achievement of corporate objectives.
16. Unplanned audit work focused on establishing the Council's current position in the use of 'WorldPay' internet payment solution has been undertaken. In addition a review was undertaken to identify the cause of problems in reconciling imprest accounts held by the main Cashiering function. A report containing recommendations to address identified control weaknesses is under discussion with the appropriate managers.
17. By the end of the second quarter Internal Audit will have completed or commenced 44% of the audits included in the annual plan and have delivered 50% of planned audit days.

Appendix A

DEFINITIONS OF AUDIT ASSURANCE

Assurance Level	Summary Description	Detailed Definition
Full	Effective controls in operation and evidence of full compliance	No exposure to predictable risks, as key controls in place, applied consistently and effectively. No significant or fundamental recommendations made
Substantial	Controls in operation but enhancements beneficial or full compliance	Probability of some risks of error, loss, fraud impropriety or damage to reputation, which can be prevented by improvements in the control environment. Key or compensating controls present but not fully applied. Small number of significant but no fundamental recommendations made.
Limited	Enhancement of controls or the application of controls required	Authority / Service open to risks that potentially could result in the non achievement of objectives or result in error, loss, fraud, impropriety or damage to reputation. Some gaps in key controls or compensating controls or significant evidence that controls are not applied consistently or effectively. Small number of fundamental and also limited number of significant recommendations
Little / No	Enhancement of controls critical or the application of controls required	The Authority / Service is vulnerable to a significant risk that could lead to failure to achieve key objectives / major loss due to error, fraud or impropriety / damage to reputation. Evidence of significant failure in application of key controls. Large number of both fundamental and significant recommendations made.

Appendix B

Table 1.

Draft reports issued to service managers for comment and completion of action plan.

Audit Title	Risk
Best Value Performance Indicators	Medium
Extra District Schools	Medium
Local Public Service Agreements	Medium
Metz Bridge Caravan Park	Low

Table 2.

Draft Reports awaiting review by supervising auditor.

Audit Title	Risk
Abingdon School	Medium
Car Allowances	Medium
Corpus Christi School	High
Laboratories	Medium
St Thomas More R. C. School	High

Table 3

Audits in Progress.

Audit Title	Risk
Ayresome Industries	Medium
BACS	Medium
Car Parking	Medium
Creditors	High
Commercial Properties	Medium
Lanehead Outdoor Centre	Medium
Rainbow Leisure Centre	Medium
Receipt & Payment of Contractors Claims	Medium
Southlands Leisure Centre	Medium
Stainsacre Outdoor Centre	Medium
Tees Community Equipment Service	Medium
Travel & Subsistence Claims	Medium