



MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT
2008/2009
PROGRESS REPORT
1st April - 31st August 2008

Report on Internal Audit Activities up to 31st August 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 period ending 31st August 2008.
2. The Audit Committee approved the Internal Audit Plan for 2008 / 2009 on 18th March 2008.
3. This report provides an update on the Audit Service's performance in achieving the plan and issues arising from findings and audit opinions issued during the period 1st April – 31st August 2008.

Performance Against the Audit Plan

4. Performance up to 31st August 2008 against the agreed audit plan is set out in the following table:

	Planned Days 2008/2009 Full Year	Planned Days 2008/2009 Five months ended 31 st August 2008	Actual Days Five Months ended 31 st August 2008
Planned Assurance Work	1827	761	722
Contingency (Investigations)	110	46	47
Total	1937	807	769

5. The actual number of audit days delivered was 95% of the planned total. The shortfall is due to high levels of sickness within the period totalling 76 days. This included two long-term absences.
6. During the first five months of the financial year 71 (95%) planned audits were either delivered or in progress. This represents 40% of planned audits for the year. In addition 11 audits brought forward from financial year 2007/2008 were completed leaving a further 12 audits to finalise.

Main Issues arising during Quarters 1 and 2 2008/2009

Completion of audits brought forward from 2007/2008

7. Progress on completing audits brought forward from financial year 2007/2008 is set out at Appendix A.

8. Work is progressing on two audits: Capital and Main Accounting systems. Both audits have been delayed as the auditor was reassigned to deliver audits from the current year's plan that had to be delivered to tight timescales.
9. Of the eleven completed audits brought forward from the previous financial year, only two: Middlesbrough Theatre and the Town Hall received an audit opinion below substantial assurance. Managers had made significant improvements in the control environments at both locations since the last audit. However, further work is needed at both locations to ensure that control forms are completed in full.
10. Draft reports for the remaining ten audits brought forward from the previous financial year are under discussion with managers.

Work Completed and in Progress for Financial Year 2008/2009

11. Audits completed or in progress from the current year's plan are shown at Appendix B.
12. Accounts have been prepared and audited for all but one of the twenty-five Community Councils supported by the Council. In addition the Management Committee's accounts for two out of four Community Centres and four out of nine Youth and Community Centres have been audited. Those Management Committees that have still to submit their accounts for audit have been contacted. It is planned to complete 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.
13. Thirteen audits completed to date have received audit opinions of substantial assurance or better that controls over areas of risk were operating effectively. A further seven draft reports have been issued to the appropriate service managers for discussion to confirm factual accuracy, agree content and to confirm management actions.
14. Twelve audits are in progress and will be completed in the third quarter.
15. Following agreement with the external auditor, all schools operating their own bank accounts were contacted to confirm that they had carried out bank reconciliations as at 31st March 2008 and that the work was performed accurately.
16. 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 planned work on two grant claims: Housing Market Renewal Fund (2007/2008 final and 1st quarter 2008/2009) and Local Area Agreements (2007/2008 final). In addition, the Internal Audit Service audited and certified a grant claim for the Bauhaus exhibition held at MIMA at the request of the Head of Service.
17. The approved plan includes time to deliver work that would not necessarily lead to the production of a formal audit report. This work includes Internal Audit's involvement

in: upgrading and development of SAP; input into the Governance Assurance Statement and delivery of the National Fraud Initiative. Within the period under review the Internal Audit Service has allocated time to deliver each of these initiatives.

18. 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 Contracts. This consultancy service falls within the scope of Internal Audit work as outlined in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. In the period under review, Internal Audit has commented upon 16 requests for a dispensation from Standing Orders with respect to Contracts.
19. During the period, Internal Audit has provided advice to Services in order to assist continuous improvement and achievement of corporate objectives.
20. Within the Internal Audit plan a block of time was set aside to deliver special investigations and requests for work that could not reasonably have been foreseen at the time the plan was approved. In the period under review, The Internal Audit Service has undertaken two areas of additional work arising out of the findings of planned audits. Special investigations have been conducted into reported breaches of Contract Standing Orders, and thefts of assets belonging to the Council. As a result of Internal Audit's investigation and recommendations, management has taken action to implement improvements over the physical security of assets.

Staffing

21. Two members of the Internal Audit Service achieved examination success this summer. A Hadfield attained the Strategic Level of the Chartered Institute of Management Accountants professional qualification and goes on to complete the final Test of Professional Competence in Management Accounting. S Hepples has obtained the Technician level of the Association of Accounting Technicians and has successfully completed his studies.
22. Progress against the audit plan in the second half of the financial year may be affected by :
 - Absence of the Deputy Audit Manager on maternity leave
 - Long-term sickness of a Principal Auditor
 - Auditor vacant post from 1st October 2008 – the loss of resource will depend upon the speed of filling the vacancy, but could be over 40 days for an external candidate.

Appendix A

Auditable Area	Overall Assurance
Final Reports Issued	
Budgetary Control	Full
Cash Receipting	Substantial
Council Tax	Substantial
Housing & Council Tax Benefit	Substantial
National Non Domestic Rates	Substantial
Pensions Administration	Full
Entertainment & Events	Substantial
Middlesbrough Theatre	Limited
Other Licensing	Substantial
Pupil Referral Units	Substantial
Town Hall	Limited
Draft Reports Issued	
Creditors	Draft to be Finalised
Debtors	Draft to be Finalised
Payroll	Draft to be Finalised
Adoption Service	Draft to be Finalised
Bus Station	Draft to be Finalised
Bus Revenue Support	Draft to be Finalised
Car Parking	Draft to be Finalised
Fostering Service	Draft to be Finalised
Registrars'	Draft to be finalised
Audits In Progress	
Capital Accounting	In Progress
Main Accounting	In Progress

Appendix B

Auditable Area	Risk	Recommendations			Level of
	Rating	Fundamental	Significant	Advisable	Assurance
Final Reports Issued					
Y & C C Beechwood	Low	*	*	*	*
Y& C C Kader	Low	*	*	*	*
Y & C C North Ormesby	Low	*	*	*	*
Y & C C Thorntree	Low	*	*	*	*
Chandlers Ridge Primary School	Medium	0	7	14	Substantial
Hemlington Hall Primary School	Medium	0	4	12	Substantial
Whinney Banks Primary School	Medium	0	4	5	Full
Acklam Grange Secondary School	Medium	0	0	3	Full
Acorn Centre	Medium	0	3	7	Full
Bank Reconciliation Cheque Book Schools	High	0	0	0	Full
Gleneagles Resource Centre	Medium	0	2	36	Substantial
Surestart	Medium	0	2	2	Substantial
Prissick Pitch & Putt	Medium	0	0	14	Substantial
Abandoned Vehicles	Medium	2	5	5	Limited
C C Acklam	Low	*	*	*	*
C C Ayersome	Low	*	*	*	*
C C Beechwood	Low	*	*	*	*
C C Beckfield	Low	*	*	*	*
C C Berwick Hills	Low	*	*	*	*
C C Brambles Farm	Low	*	*	*	*
C C Brookfield	Low	*	*	*	*
C C Clairville	Low	*	*	*	*
C C Coulby Newham	Low	*	*	*	*
C C Gresham	Low	*	*	*	*
C C Hemlington	Low	*	*	*	*
C C Kader	Low	*	*	*	*
C C Linthorpe	Low	*	*	*	*
C C Marton	Low	*	*	*	*
C C Marton West	Low	*	*	*	*
C C Middlehaven	Low	*	*	*	*
C C North Ormesby	Low	*	*	*	*
C C Nunthorpe	Low	*	*	*	*
C C Pallister Park	Low	*	*	*	*
CC Park End	Low	*	*	*	*
C C Park Ward	Low	*	*	*	*
C C Stainton & Thornton	Low	*	*	*	*
C C Thorntree	Low	*	*	*	*
C C University	Low	*	*	*	*
Partnerschaft	Low	*	*	*	*
Com Centre Netherfields	Low	*	*	*	*
Com Centre Brambles Farm	Low	*	*	*	*
Area Based Initiatives	High	0	5	17	Substantial
Best Value Performance Ind	High	0	1	0	Substantial
CPA Performance Indicators	High	0	4	0	Substantial
LPSA Indicators	High	0	0	0	Substantial

* A level of assurance is not issued for audits of the accounts of Youth & Community Centres, Community Councils and Community Centres. Although recommendations are made on the accounts under audit they are not prioritised.

Auditable Area	Risk Rating	Recommendations			Level of Assurance
		Fundamental	Significant	Advisable	
Draft Reports Issued					
Youth Training & Development	Medium				
Financial assistance to Children	Medium				
Transporter Bridge	Medium				
Environmental Protection	Low				
Local Area Agreements	High				
Client Bank Accounts	High				
Coroners	Low				
Audits In Progress					
Performance Bonds	Medium				
Contractors Final Accounts	Medium				
Partnering Agreements	Medium				
Travel & Subsistence	Medium				
Value Added Tax	Medium				
Car Allowances	Medium				
BACS	High				
Connexions	Medium				
Street Lighting	Medium				
Central Library	Medium				
Teesside Heritage Initiative	Medium				
Supporting People	Medium				
Grant Claims Completed					
Local Area Agreements					
Housing Market Renewal Fund					
Bauhaus Exhibition					
Other Planned Audit Work					
SAP Update & Development					
Governance & Assurance Statement					
Dispensations Contract Standing Orders					
National Fraud Initiative					
Unplanned Work Contingency					
Filling the Empties					
Contracts Under Seal					
Breaches Contract Standing Orders					
Theft / Loss of Assets					
Newport School Bankings					

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.