



# MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT  
2009/2010  
PROGRESS REPORT  
1<sup>st</sup> April – 30<sup>th</sup> June 2009

## Introduction

1. This is the first progress report to the Audit Committee for financial year 2009 / 2010. The purpose of this progress report is to inform the Audit Committee of the status of the internal audit work completed with respect to our internal audit plan for 2009 / 2010.

## Performance Against the Audit Plan

2. Performance up to 30<sup>th</sup> June 2009 against the agreed audit plan is set out in the following table:

	Planned days 2009/2010 full year	Planned days 2009/2010 three months ended 30 <sup>th</sup> June 2009	Actual days three months ended 30 <sup>th</sup> June 2009
Planned Assurance Work	1893	473	460
Contingency (Investigations)	105	26	13
Total	1998	499	473

3. 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. This included two long-term absences.

## Summary of internal audit activity during the first quarter 2009/2010

4. The internal audit plan for 2009 / 2010 is attached at Appendix A and records the current status of the internal audit assignments.
5. Final reports have been issued for the following audits carried over from the 2008 / 2009 audit programme. These relate to:-

- Middlesbrough Golf Centre
- Highways Maintenance
- Adult Education
- North Ormesby Day Centre
- Lothian Road Day Centre
- 11a Sunningdale Care Unit
- Equipment & Adaptations
- Ormesby Secondary School
- Kings Manor Secondary School
- Equipment & Adaptations
- Pension Fund Investments

6. Final reports have been issued for the following audits from the 2009 / 2010 audit programme. These relate to:-

- Community Councils (18 from 25 audits completed)

- Youth and Community Centres (2 from 9 audits completed)
- Newlands FCJ Secondary School
- St Davids Secondary School
- Tollesby Special School
- St Bernadettes RC Primary School

A summary of the findings from the above reports is included at Appendix B.

7. In addition to planned audits, time has been incurred in performing the following ad-hoc work:
  - Stage 2 investigation under the Council's complaints procedure
  - Review of car mileage claims
  - Review of use of petty cash
  - Advice to services on new / revised procedures
  
8. In the period under review, Internal Audit has undertaken unplanned work on two grant claims: Supporting People (19 days) and Places for Change (2 days).

## Overview of Internal Audit Programme 2009 / 2010

Audit Area	Status	Notes
<b>Code of Practice Audits</b>		
Annual Governance Statement (AGS)	Complete	Input to AGS financial year 2008 / 2009
National Fraud Initiative	Fieldwork in progress	On going investigation of data matches
<b>Children Families &amp; Learning</b>		
Youth & Community Centres (9)	In progress	2 of 9 audits completed
Bank Reconciliation Cheque Book Schools	Complete	
Primary Schools (17)	In progress	1 audit completed and 1 in draft
Secondary Schools (3)	In progress	2 completed 1 in draft
Special Schools (1)	Complete	
Bank Reconciliation Cheque Book Schools	Complete	
<b>Environment Services</b>		
Tied Properties	Fieldwork in progress	
Cemeteries & Crematorium	Fieldwork in progress	
Metz Bridge Caravan Site	Report in draft	Issue delayed due to client staff absence
Clairville Stadium	Fieldwork in progress	
<b>Regeneration</b>		
MIMA	Fieldwork in progress	
Building Control	Fieldwork in progress	
Development Control	Fieldwork in progress	
Housing Market Renewal Fund	In progress	Audit of final grant claim for financial year 2008 / 2009 and 1 <sup>st</sup> quarter grant claim 2009 / 2010 completed
Community Councils (25)	In progress	Audits completed of 18 Community Councils
Community Centres (4)	In progress	Audits completed of 2 Community Centres
<b>Performance &amp; Policy</b>		
LPSA 2	Fieldwork in progress	
National Information Statistics	Fieldwork in progress	
<b>Strategic Resources</b>		
Dispensation From Contract Standing Orders	In progress	Comments on requests for dispensations from the competition element of Contract Standing Orders: 1 <sup>st</sup> April – 30 <sup>th</sup> June no. received 12
<b>Contract Audit</b>		
Receipt & Payment of Contractors Claims	Fieldwork in progress	Review of North Middlesbrough Accessibility contract
<b>Other Corporate Financial Systems</b>		
Gifts & Hospitality	To commence	Scheduled quarter 2
Car Loans	To commence	Scheduled quarter 2
<b>Code of Practice Audits</b>		
Corporate Governance	To commence	Scheduled quarter 2
<b>Children Families &amp; Learning</b>		
Youth Service	To commence	Scheduled quarter 2
Raising Attainment	To commence	Scheduled quarter 2
Family Support Assessments	To commence	Scheduled quarter 2
<b>Environment Services</b>		
Road Traffic Accident Recharges	To commence	Scheduled quarter 2
Car Parking	To commence	Scheduled quarter 2
Concessionary Fares	To commence	Scheduled quarter 2
Landfill Allowance Tax Trading Scheme	To commence	Scheduled quarter 2
Fleet Trading	To commence	Scheduled quarter 2

Audit Area	Status	Notes
Stewart Park	To commence	Scheduled quarter 2
Hackney Carriage Licensing	To commence	Scheduled quarter 2
<b>Regeneration</b>		
West Middlesbrough Neighbourhood Trust	To commence	Scheduled quarter 2
<b>Social Care</b>		
Sheltered Housing ISLs	To commence	Scheduled quarter 2
Client Property	To commence	Scheduled quarter 2
<b>Information Technology</b>		
Application Reviews	To commence	Scheduled from quarter 2
<b>Non Audit Work</b>		
Partnerschaft Association	To commence	Scheduled quarter 2
<b>Core Financial Systems</b>		
Main Accounting System	To commence	Scheduled quarter 3
Payroll	To commence	Scheduled quarter 3
<b>Other Corporate Financial Systems</b>		
Travel & Subsistence	To commence	Scheduled quarter 3
Car Allowances	To commence	Scheduled quarter 3
<b>Children Families &amp; Learning</b>		
Catering	To commence	Scheduled quarter 3
ICT Units	To commence	Scheduled quarter 3
Financial Assistance to Children	To commence	Scheduled quarter 3
Teenage Pregnancy	To commence	Scheduled quarter 3
Substance Misuse	To commence	Scheduled quarter 3
<b>Environment Services</b>		
Transport Management Plan	To Commence	Scheduled quarter 3
Winter Maintenance	To commence	Scheduled quarter 3
Domestic Refuse Collection	To commence	Scheduled quarter 3
Building Cleaning	To commence	Scheduled quarter 3
Horticulture	To commence	Scheduled quarter 3
Area Care	To commence	Scheduled quarter 3
Safer Middlesbrough Partnership	To commence	Scheduled quarter 3
<b>Regeneration</b>		
Tourist Information Office	To commence	Scheduled quarter 3
Arts Development	To commence	Scheduled quarter 3
Urban Policy & Implementation	To commence	Scheduled quarter 3
Middlehaven	To commence	Scheduled quarter 3
Local Area Agreement	To commence	Scheduled quarter 3
Housing Advances	To commence	Scheduled quarter 3
Housing Improvement Grants / Loans	To commence	Scheduled quarter 3
Townwide Neighbourhood Activity Team	To commence	Scheduled quarter 3
<b>Social Care</b>		
Care Assessments	To commence	Scheduled quarter 3
Financial assessments	To commence	Scheduled quarter 3
Residential Agency	To commence	Scheduled quarter 3
Middlesbrough Intermediate Care Centre	To commence	Scheduled quarter 3
Lansdowne Day Centre	To commence	Scheduled quarter 3
Transport	To commence	Scheduled quarter 3
Information Technology	To commence	Scheduled quarter 3
<b>Legal &amp; Democratic Services</b>		
Electoral Registration	To commence	Scheduled quarter 3
<b>Performance &amp; Policy</b>		
Strategic Risk Management	To commence	Scheduled quarter 3
Local Strategic Partnership	To commence	Scheduled quarter 3
<b>Strategic Resources</b>		

Audit Area	Status	Notes
Insurance	To commence	Scheduled quarter 3
<b>Information Technology</b>		
Internet Usage & Security	To commence	Scheduled quarter 3
SAP Update and developments	To commence	Scheduled from quarter 3
<b>Contract Audit</b>		
Contract Registers	To commence	Scheduled quarter 3
<b>Core Financial Systems</b>		
Budgetary Control	To commence	Scheduled quarter 4
Capital Accounting	To commence	Scheduled quarter 4
Cash Receipt & Banking	To commence	Scheduled quarter 4
Council Tax	To commence	Scheduled quarter 4
Creditors	To commence	Scheduled quarter 4
Debtors	To commence	Scheduled quarter 4
Housing & Council Tax Benefit	To commence	Scheduled quarter 4
Non Domestic Rates	To commence	Scheduled quarter 4
Pension Administration	To commence	Scheduled quarter 4
Pension Fund Investments	To commence	Scheduled quarter 4
Treasury Management	To commence	Scheduled quarter 4
<b>Other Corporate Financial Systems</b>		
Telephone Allowances	To commence	Scheduled quarter 4
Trust Funds	To commence	Scheduled quarter 4
<b>Code of Practice Audits</b>		
Money Laundering	To commence	Scheduled quarter 4
Accounting Instructions	To commence	Scheduled quarter 4
Financial Regulations	To commence	Scheduled quarter 4
Contract Standing Orders	To commence	Scheduled quarter 4
<b>Environment Services</b>		
Pest Control	To commence	Scheduled quarter 4
North Ormesby Market	To commence	Scheduled quarter 4
Rainbow Leisure Centre	To commence	Scheduled quarter 4
Southlands Leisure Centre	To commence	Scheduled quarter 4
Neptune Leisure Centre	To commence	Scheduled quarter 4
Municipal Golf Course	To Commence	Scheduled quarter 4
Acklam Sports Centre	To commence	Scheduled quarter 4
<b>Regeneration</b>		
Town Hall	To commence	Scheduled quarter 4
Middlesbrough Theatre	To commence	Scheduled quarter 4
Stockton / Middlesbrough Initiative	To commence	Scheduled quarter 4
Business Start Up Grants	To commence	Scheduled quarter 4
Capital Grant	To commence	Scheduled quarter 4
Business Competitiveness & Growth	To commence	Scheduled quarter 4
<b>Social Care</b>		
Direct Payments	To commence	Scheduled quarter 4
Individual Budgets	To commence	Scheduled quarter 4
Kirkley Day Centre	To commence	Scheduled quarter 4
Hazeldene Day Centre	To commence	Scheduled quarter 4
TCES	To commence	Scheduled quarter 4
<b>Information Technology</b>		
Installation Review	To commence	Scheduled quarter 4
Voice Transmission	To commence	Scheduled quarter 4
<b>Contract Audit</b>		
Contractors Final Accounts	To commence	Scheduled quarter 4
Appointment of Consultants	To Commence	Scheduled quarter 4
Opening of Quotations & Tenders	To commence	Scheduled quarter 4
<b>Non Audit Work</b>		
Middlesbrough Golf Club	To commence	Scheduled quarter 4

## Summary of Internal Audit Findings

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
Pension Fund Investments	Full	1	-	No recommendation
		2	-	No recommendation
		3	-	No recommendation
Middlesbrough Golf Centre	Substantial	1	-	No recommendation
		2	13	Additional controls to strengthen ordering, receipt and payment for goods and services  Additional controls to strengthen monitoring of collection and receipt of income.  Requirement to undertake risk assessments  Maintenance of inventories
		3	8	Additional controls to strengthen ordering, receipt and payment for goods and services  Improved control over money held on site  Enhance controls over the hire of lockers
		1	2	Comply with Contract Standing Orders relating to tenders
		2	35	Additional controls to strengthen monitoring of collection and receipt of income.  Additional controls to strengthen ordering, receipt and payment for goods and services  Additional controls to strengthen administration and payment of expenses  Additional controls over equipment and materials held and issued from stores.
3	15	Additional controls to strengthen monitoring of collection and receipt of income.  Additional controls to strengthen ordering, receipt and payment for goods and services  Additional controls to strengthen administration and authorisation of expenses  Additional controls over equipment and materials held and issued from stores.		
Adult Education	Substantial	1	-	No recommendation
		2	21	Additional controls to strengthen security and banking of cash  Additional controls to strengthen ordering, receipt

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				and payment for goods Additional controls to strengthen administration and authorisation of expenses claims
				Additional controls to improve the administration of petty cash
				Additional controls to improve the physical security of assets including inventories
		3	20	Additional controls to strengthen the security and banking of cash
				Additional controls to strengthen ordering, receipt and payment for goods
				Additional controls to improve administration and authorisation of expenses claims
				Additional controls to improve the administration of petty cash
				Strengthen controls over the physical security of assets including inventories
North Ormesby Day Centre	Substantial	1	-	No recommendation
		2	15	Additional controls to improve monitoring of collection and receipt of income.
				Additional controls to improve the security and banking of cash
				Additional controls to strengthen ordering, receipt and payment for goods
				Enhance controls over administration and authorisation of expenses claims
				Improved controls over the administration of petty cash
				Strengthen controls over the physical security of assets including inventories
		3	17	Strengthen controls over the security and banking of cash
				Additional controls to strengthen ordering, receipt and payment for goods
				Enhance controls over administration and authorisation of expenses claims
				Strengthen control over the administration of petty cash
				Improve controls over the physical security of assets including inventories



Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
Lothian Road Day Centre	Substantial	1	-	No recommendation
		2	23	Strengthen controls over monitoring of collection and receipt of income.
				Strengthen controls over the security and banking of cash
				Strengthen controls over ordering, receipt and payment for goods
				Enhance controls over administration and authorisation of expenses claims
				Strengthen controls over the administration of petty cash
				Enhance controls over the physical security of assets including inventories
		3	18	Improve controls over the security and banking of cash
				Improve controls over ordering, receipt and payment for goods
				Improve to controls over administration and authorisation of expenses claims
		Improve controls over the administration of petty cash		
		Improve controls over the physical security of assets including inventories		
11a Sunningdale Road Care Unit	Limited	1	1	Additional control over the payment of expenses
		2	36	Strengthen controls over monitoring of collection and receipt of income.
				Strengthen controls over the security and banking of cash
				Strengthen controls over ordering, receipt and payment for goods
				Strengthen controls over administration and authorisation of expenses claims
				Strengthen controls over the administration of petty cash
				Strengthen controls over the physical security of assets including inventories
		3	23	Improve controls over monitoring of collection and receipt of income.
		Improve controls over the security and banking of		

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				cash
				Improve controls over ordering, receipt and payment for goods
				Improve controls over administration and authorisation of expenses claims
				Improve controls over the administration of petty cash
				Improve controls over the physical security of assets including inventories
Equipment & Adaptations	Substantial	1	-	No recommendation
		2	6	A 'Service Level Agreement' should be agreed between Social Care and Staying Put Agency
				Social Care and the Staying Put Agency should discuss and agree any budget revisions.  Monthly performance returns should be checked within the Staying Put Agency before submission to Social Care.
		3	5	Controls over ordering, receipt and payment for goods
Kings Manor Secondary School	Full	1	-	No recommendation
		2	3	The approved budget plan must be returned to the Council on a timely basis
				Where less than the required three quotations are obtained the reasons must be reported to the Governing Body  Orders must be raised on SAP prior to contacting the supplier.
		3	11	A copy of the Statement of Internal Control must be returned to the Council after approval by the Governing Body
				The identity of the individual taking the minutes at all committee meetings must be recorded
				Minutes of the Finance & General Purposes Committee meetings should record that Governors had the opportunity to declare an interest
				Financial procedure guidelines should be expanded to cover processing and accounting for income
				As part of the induction process new staff should acknowledge receipt in writing of the staff handbook and direction to all policies and financial procedures

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details		
Ormesby Secondary School	Substantial	1	-	<p>Update Financial Procedures to include the requirement to check private motor vehicle documentation of staff using their car for business purposes</p> <p>The school budget plan should be signed by the Headteacher as verification that it is accurately loaded in the financial ledger</p> <p>Budget holders should confirm in writing receipt of budget monitoring reports</p> <p>The Council's VAT number and the VAT status of supplies is recorded on all invoices</p> <p>A summary sheet is completed for all quotations recording the quotations received and identifying the successful company.</p> <p>A copy of the private school fund audit certificate must be returned to the Council annually</p>		
				2	2	<p>A copy of the bank reconciliation signed by the Headteacher and Bursar must be retained together with the bank statements</p>
				3	11	<p>Orders must be raised on SAP prior to contacting the supplier.</p> <p>Approval and adoption of policies and procedures is recorded in the minutes of the Governing Body.</p> <p>Reports submitted to the Governing Body setting out the reason for acceptance of a tender or quotation other than the lowest price, or any limitations placed on the competitive process must be recorded in the minutes of the meeting at which they were considered.</p> <p>The induction process for new staff is formally documented</p> <p>Working papers used to prepare the budget must be retained</p> <p>The report on the budget plan presented to the Governing Body should be expanded to include any links to the School Improvement Plan</p> <p>Budget Monitoring reports should be provided to departmental budget holders.</p> <p>The officer preparing the banking and a second officer who has checked the accuracy of the banking should sign bank paying-in slips. Random checks on bank paying-in slips should be</p>

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				undertaken by the Headteacher, a Deputy Headteacher or Assistant Headteacher
Newlands FCJ Secondary School	Substantial	1	-	No recommendation
		2	5	Bankings should be made frequently  Income should be paid directly into the Council's bank account and not via the private fund  The sum of money collected from the payphone must be recorded by one of the two officers present at the time. Both officers present should sign the record certifying that the amount recorded is accurate.  Orders must be raised on SAP prior to contacting the supplier.  The Bursar is informed of all entries made with Examination Boards.
		3	7	Primary documents supporting income received must be maintained  Banking of monies should be carried out more frequently  Sheets summarising income received must be checked to prime documents termly by the Bursar to verify that the figures are consistent. The Bursar should sign both the summary and prime document as evidence that the check has been performed.  An inventory should be introduced for all portable high value assets that are not listed on the IT inventory  A summary sheet is completed for all quotations recording the quotations received and identifying the successful company.  As part of the induction process new staff should acknowledge receipt in writing of the staff handbook and direction to all policies and financial procedures  Update the staff handbook to include the requirement to check private motor vehicle documentation of staff using their car for business purposes
St David's Secondary School	Full	1	-	No recommendation
		2	1	Orders must be raised in advance of placement with a supplier
		3	6	Minutes of the Finance & Resources Committee meetings should record that Governors had the

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				<p>opportunity to declare an interest</p> <p>As part of the induction process new staff should acknowledge receipt in writing of the staff handbook and direction to all policies and financial procedures</p> <p>The charging policy should set out the timescales for issuing invoices</p> <p>Attendance registers should be spot checked termly to verify that pupils receiving free school meals were present on the day</p> <p>Where less than the required three quotations are obtained the reasons must be reported to the Governing Body</p> <p>A copy of the private school fund audit certificate must be returned to the Council annually</p>
Tollesby Special School	Limited	1	-	No recommendation
		2	4	<p>A brief summary of the school's longer term plans, including any known resource requirements is required</p> <p>Monetary values should be included in the School Development Plan wherever possible</p> <p>The inclusion of explanatory notes in financial reports to aid Governors understanding. Reports to include the date of the meeting at which they were discussed</p> <p>Orders must be raised in advance of placement with a supplier</p>
		3	19	<p>Recommendations cover:</p> <p>Governance: update job description</p> <p>Internal Control Environment: approval of policies, procedures by Governing Body, staff induction</p> <p>Planning: report explaining content of budget plan and links to School Improvement Plan</p> <p>Budget Monitoring: report to Senior Leadership Team</p> <p>Income: Review of charges, confirmation that income expected is received and explanations of adjustment of school meal balances</p> <p>Purchasing: segregation of duties, compliance with payment terms, Petty cash</p> <p>Voluntary funds: Constitution, appointment of an auditor, submission of copy audit certificate to Council</p>
St Bernadettes RC Primary School	Substantial	1	-	No recommendation
		2	4	Invoices for lettings are raised using the Council's

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				<p>income system</p> <p>Any lettings charged at less than the approved hourly rate must be agreed by the Governing Body and minuted</p> <p>Orders must be raised in advance of placement with a supplier</p> <p>Orders below £500 are covered by segregation of duties</p>
		3	9	<p>Working Party structure document includes responsibility for advising on procurement</p> <p>Adoption of the Council's financial regulations is recorded in the Governing Body's minutes</p> <p>Approval of the School's financial procedures is recorded in the Governing Body's minutes</p> <p>As part of the induction process new staff should acknowledge receipt in writing of the staff handbook and direction to all policies and financial procedures</p> <p>A copy of the budget monitoring report is issued to the School Leadership Team termly</p> <p>Income should be paid directly into the Council's bank account and not via the private fund</p> <p>Income notifications are initialled and dated to confirm receipt of the monies</p> <p>A record is retained of money passed between members of staff</p> <p>The weekly return of school meal income is signed by the Headteacher or Deputy Headteacher prior to submission to the Council's catering service</p>

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**DEFINITIONS OF AUDIT ASSURANCE**


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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.

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**Definition of Recommendation Priority Levels**


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Level of Assurance	Evaluation Opinion
Priority 1	Recommendations that are fundamental to the Service and upon which action should be taken immediately
Priority 2	Recommendations that although not fundamental to the Service, provide scope for improvements to be made
Priority 3	Recommendations concerning issues that are considered to be of less significance, but where good or better practice would improve efficiency or further reduce exposure to risk.

