



MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT
2009/2010
PROGRESS REPORT
1st July – 30th September 2009

Introduction

1. This is the second 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 30th September 2009 against the agreed audit plan is set out in the following table:

	Planned days 2009/2010 full year	Planned days 2009/2010 six months ended 30 th September 2009	Actual days six months ended 30 th September 2009
Planned Assurance Work	1893	946	1051
Contingency (Investigations)	105	53	25
Total	1998	999	1076

3. The actual number of audit days delivered on assurance work and ad-hoc investigations was 6.5% higher than the planned total. The additional days were gained as follows:

Training	9 days less than planned
Administration	52 days less than planned
Leave	17 days greater than planned
Additional days	15 days gained from flexi time system
	<u>18 days additional agency staff</u>
Total	77 days

Summary of internal audit activity during the second 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:-
 - Connexions
 - Commissioning Social Care
6. Final reports have been issued for the following audits from the 2009 / 2010 audit programme. These relate to:-
 - Community Councils (6 audits completed)
 - Youth and Community Centres (2 audits completed)
 - Sacred Heart Primary School
 - Acklam Whinney Banks Primary School

- Hallgarth Community Arts College

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

7. In addition to planned audits, a total of 18 days was spent giving advice to Services on various ad-hoc topics.

- Payments from Chief Cashier's petty cash (1.97 days)
- School forum primary schools (1.22 days)
- Car insurance for business use (school teaching and non-teaching staff 1 day)
- Supporting People (1.11 days)
- Mouchel Finance procedures in the event of high levels of staff absence (1.76 days)
- Housing (1.84 days)
- Other (7.66 days)

8. In the period under review, Internal Audit has undertaken unplanned work at the request of Services in the following areas:

- Langdon Square Community Centre – Audit of accounts
- Rainbow Leisure Centre – Bar variances
- Pallister Park - Break in
- Ethnic Minority Inclusion Team – Anonymous allegations
- Coroners – follow up of issues raised in previous audit
- Computer access – access for Mouchel procurement staff.

Overview of Internal Audit Programme 2009 / 2010

Audit Area	Status	Notes
Code of Practice Audits		
Annual Governance Statement (AGS)	Complete	Input to AGS financial year 2008 / 2009
National Fraud Initiative	Fieldwork in progress	On going investigation of data matches
Children Families & Learning		
Youth & Community Centres (9)	In progress	4 of 9 audits completed
Bank Reconciliation Cheque Book Schools	Complete	
Primary Schools (17)	In progress	3 audits completed and 3 audits in progress. Audits of Marton Grove and Beechwood Schools removed from audit plan as due to amalgamate.
Secondary Schools (3)	Complete	3 audits completed final reports issued
Special Schools (1)	Complete	
Bank Reconciliation Cheque Book Schools	Complete	
Environment Services		
Tied Properties	Draft report issued	
Cemeteries & Crematorium	Draft report issued	
Metz Bridge Caravan Site	Draft report issued	Issue delayed due to client staff absence
Clairville Stadium	Draft report issued	
Regeneration		
MIMA	Fieldwork in progress	
Building Control	Draft report issued	
Development Control	Draft report issued	
Housing Market Renewal Fund	In progress	Audit of final grant claim for financial year 2008 / 2009 and 1 st quarter grant claim 2009 / 2010 completed
Community Councils (25)	In progress	Audits completed of 24 Community Councils
Community Centres (4)	Completed	Audits completed of 5 Community Centres
Performance & Policy		
LPSA 2	Completed	Audit certification issued for final claim
National Information Statistics	Completed	
Strategic Resources		
Dispensation From Contract Standing Orders	In progress	Comments on requests for dispensations from the competition element of Contract Standing Orders: 1 st April – 30 th June no. received 12 1 st July – 30 th September no. Received 18
Contract Audit		
Receipt & Payment of Contractors Claims	Fieldwork in progress	Review of North Middlesbrough Accessibility contract
Other Corporate Financial Systems		
Gifts & Hospitality	Fieldwork in progress	
Car Loans	Fieldwork in progress	
Code of Practice Audits		
Corporate Governance	To commence	Scheduled quarter 2
Children Families & Learning		
Youth Service	Fieldwork in progress	
Raising Attainment	Fieldwork in progress	
Family Support Assessments	Fieldwork in progress	
Environment Services		
Road Traffic Accident Recharges	Fieldwork in progress	
Car Parking	Fieldwork in progress	

Audit Area	Status	Notes
Concessionary Fares	Fieldwork in progress	
Landfill Allowance Tax Trading Scheme	Fieldwork in progress	
Fleet Trading	Fieldwork in progress	
Stewart Park	To commence	Scheduled quarter 4
Hackney Carriage Licensing	Fieldwork in progress	
Regeneration		
West Middlesbrough Neighbourhood Trust	Fieldwork in progress	
Social Care		
Sheltered Housing ISLs	Fieldwork in progress	
Client Property	Draft report issued	
Information Technology		
Application Reviews	Fieldwork in progress	Work in progress Foster Care Payments Module
Non Audit Work		
Partnerschaft Association	To commence	Treasurer has not produced the accounts for audit. Scheduled Quarter 2
Core Financial Systems		
Main Accounting System	To commence	Scheduled quarter 3
Payroll	To commence	Scheduled quarter 3
Other Corporate Financial Systems		
Travel & Subsistence	To commence	Scheduled quarter 3
Car Allowances	To commence	Scheduled quarter 3
Children Families & Learning		
Catering	To commence	Scheduled quarter 3
ICT Units	To commence	Scheduled quarter 3
Financial Assistance to Children	Fieldwork in progress	Brought forward quarter 2
Teenage Pregnancy	To commence	Scheduled quarter 3
Substance Misuse	To commence	Scheduled quarter 3
Environment Services		
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
Regeneration		
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
Social Care		
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

Audit Area	Status	Notes
Legal & Democratic Services		
Electoral Registration	To commence	Scheduled quarter 3
Performance & Policy		
Strategic Risk Management	To commence	Scheduled quarter 3
Local Strategic Partnership	To commence	Scheduled quarter 3
Strategic Resources		
Insurance	To commence	Scheduled quarter 3
Information Technology		
Internet Usage & Security	To commence	Scheduled quarter 3
SAP Update and developments	To commence	Scheduled quarter 3
Contract Audit		
Contract Registers	To commence	Scheduled quarter 3
Core Financial Systems		
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
Other Corporate Financial Systems		
Telephone Allowances	To commence	Scheduled quarter 4
Trust Funds	To commence	Scheduled quarter 4
Code of Practice Audits		
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
Environment Services		
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
Regeneration		
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	Draft application forms and procedures have been reviewed and comments made.
Capital Grant	To commence	Scheduled quarter 4
Business Competitiveness & Growth	To commence	Scheduled quarter 4
Social Care		
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
Information Technology		
Installation Review	To commence	Scheduled quarter 4
Voice Transmission	To commence	Scheduled quarter 4

Audit Area	Status	Notes
Contract Audit		
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
Non Audit Work		
Middlesbrough Golf Club	To commence	Scheduled quarter 4

Summary of Internal Audit Findings

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
Connexions	Substantial	1	-	No recommendation
		2	6	<p>Budget setting is strengthened to ensure all expected income and expenditure is identified.</p> <p>Risk assessments are prepared prior to each trip and appointed leaders are issued with guidance as to their roles and responsibilities</p> <p>A competitive process is followed for the procurement of goods and services above agreed thresholds in compliance with Contract Standing Orders</p> <p>Budgetary control is improved by raising orders prior to receipt of invoices and ensuring that expenditure is recorded against the appropriate budget</p>
		3	10	<p>Risk assessments are reviewed and enhanced as appropriate</p> <p>The inventory is updated to record all assets</p> <p>Procedures and processes of major systems are documented, reviewed and made available to appropriate to perform their duties efficiently and effectively</p> <p>A record of the access rights to SAP for individual members of staff is maintained, updated to take account of any changes and held securely</p> <p>Keys allowing access to physical storage holding sensitive records are controlled effectively</p> <p>Goods and services are checked against official orders on delivery.</p>
Social Care Commissioning	Limited	1	4	<p>An improved commissioning strategy is established and implemented that incorporates key lines of enquiry from Audit Commission guidelines.</p> <p>A commissioning and information analysis is used to identify estimated demands and projected costs of care needs over the 10 year cycle of the Joint Strategic Needs Assessment.</p> <p>Dispensation from contract standing orders is sought where it can be demonstrated that open competition may not be practical.</p> <p>An independent check within commissioning is</p>

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				performed to verify that the assessment and scoring process for tender evaluations has been carried out correctly and ensure that any revisions to the specification are applied consistently.
		2	2	Legal Services should enter into all contracts above the tender limits specified in contract standing orders.
				Service reviews should ensure that recommendations have been implemented.
		3	3	Service providers should sign acceptance of recommendations and the dates of implementation
				Contractors should be made aware in the review process that failure to implement recommendations could result in the termination of the contract.
				Payments for the provision of services should only be made to the contracted organisation.
Sacred Heart Primary School	Full	1		No recommendations
		2	1	Orders are raised on SAP within 24 hours of being communicated to the supplier. Emergency telephone orders are followed by a written order within 24 hours.
		3	8	The adoption and approval by the Governing Body of Middlesbrough Council's Financial Regulations should be minuted.
				The Headteacher should sign the SAP printout to confirm that the figures loaded into SAP correspond to the figures in the approved budget plan.
				The Senior Leadership Team receive a copy of the full budget monitoring report in addition to the capitation reports, which they receive once a term.
				Records of income received from pupils show the actual monies received and the total amounts paid into the school budget share.
				The school uniform stock records should record the physical stock checks undertaken and allow the income received from sales to be easily reconciled to the stock sold.
				Cash and cheques received should be banked on a timely basis and primary records of cash and cheques received, including authorised banking sheets and after school club records must correspond to the paying in slips.
				The school should use an element of the petty cash as a separate change float.

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				The MBC/Mouchel buybacks and any external services should all be discussed on a three or five yearly cycle and the decision to continue /cease with the buybacks/service minuted to ensure that the Governors are happy that they are getting best value.
Acklam Whinney Banks Primary School	Full	1	-	No recommendation
		2	3	<p>The Headteacher signs the authorised banking sheets at the same time as the paying in slips in order to confirm that the amounts correspond.</p> <p>Orders should be raised on SAP within 24 hours of being communicated to the supplier. Emergency telephone orders should be followed by a written order within 24 hours.</p> <p>A monthly petty cash reconciliation is performed in order to confirm that the banking records correspond to the accounting records and that the imprest amount is fully accounted for. The Headteacher should sign this.</p>
		3	11	<p>The adoption by the school of Middlesbrough Council's financial regulations for use within the school is minuted.</p> <p>The review of financial procedures by the Governing Body should be minuted. Both sets of the schools financial procedures are merged into one document.</p> <p>The Senior Leadership Team receive budget monitoring reports at least once a term to the same standard as those provided to the Governing Body</p> <p>Income notifications are initialled and dated to confirm the receipt of monies by the school.</p> <p>Budget share monies is paid directly into the budget share and not via the private school fund.</p> <p>Income received for the PGL trip, which was paid into the private fund, should be reconciled to the payments from the private fund into the budget share to ensure that all income received has been paid over.</p> <p>A record should be maintained of pupils who leave the school premises to attend appointments so that there is a written record of pupils who have not taken a meal.</p> <p>Parents should receive letters appropriate to the level of debt they have incurred and they should be informed of the Council policy that pupils who have two weeks debt or more should be placed on</p>

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
Hallgarth Community Arts College	Limited	1	10	<p>sandwiches until the debt is paid.</p> <p>The MBC/Mouchel buybacks and any external services should all be discussed on a three or five yearly cycle and the decision to continue /cease with the buybacks/service minuted to ensure that the Governors are happy that they are getting best value.</p> <p>Any supplier dispute or other reason for the late payment of invoices is recorded on the face of the invoice.</p> <p>A person who is independent of the school carries out the private fund audit.</p> <p>The revenue budget must only take into account the revenue element of the outturn balance brought forward.</p> <p>Once the budget has been loaded into the SIMS system a print off must be taken and signed by the Headteacher to confirm the Bursar has input the approved budget.</p> <p>The budgetary control reports submitted to governors must:</p> <ul style="list-style-type: none"> • Explain the assumptions made when forecasting the revenue outturn • Identify the impact on future years • Identify the impact on revenue balances • Report separately on revenue and capital <p>Income received must be both paid into the bank and recorded in SIMS within one week of receipt</p> <p>The College must account for Devolved Formula Capital Grants on an accruals basis.</p> <p>Bank reconciliations for both current and investment account must be undertaken at least monthly</p> <p>Bank reconciliations must be undertaken within 5 working days of the end of the month.</p> <p>Any items that are ‘unreconciled’ or require other action must be corrected at the time of reconciliation</p> <p>Monthly statements and supporting information must be returned to the Council within five working days of the end of the month</p> <p>The Bursar must sign reconciliations for both the current and investment bank accounts and the Headteacher must evidence and countersign the</p>

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				reconciliations and supporting documents.
		2	11	<p>The audit report must be presented to the Governing Body and this must be minuted. All Senior Leadership Team members must receive a budget monitoring report on the financial position of the whole College.</p> <p>Paying in slips must be signed by the finance clerk who completed the paying in slip and the Bursar who is confirming that the monies detailed on the slip correspond to the total monies on the deposit log.</p> <p>The cheque listing sheets must be totalled, signed and dated, and the paying in slip reference number recorded.</p> <p>All invoices issued by the College must clearly identify the VAT status.</p> <p>The Bursar must undertake a weekly spot check to confirm that pupils who have taken a free school meal were present.</p> <p>Where it has not been possible to obtain three quotations for purchases above the College quotation level this must be reported to the Governing Body.</p> <p>Where quotations are required a summary sheet must be completed. The summary sheet should evidence:</p> <ul style="list-style-type: none"> • The quotations were opened at the same time • The successful quote • Where this is not the lowest the reason the date this was reported to the Governing Body. • The summary sheet could also be presented to the Governing Body as a report. <p>A copy of the private fund audit certificate must be returned to the Council after being presented to the Governing Body</p> <p>A cheque run must be printed off and signed by a cheque signatory to confirm they have been supplied with supporting documentation to support cheque payments.</p> <p>The Headteacher must sign the business card statement for all expenditure undertaken by the Bursar, to confirm that all payments made on the card were for valid College expenditure.</p>
		3	5	<p>The identity of the Finance Committee minute taker must be clearly recorded within the minutes</p> <p>After review and revision the financial procedures</p>

Internal Audit Area	Overall Assurance Level	Priority	Number of Findings	Details
				<p>must be taken to the Governing Body annually for re-approval</p> <p>The Governing Body must approve the whistleblowing policy.</p> <p>The charging policy, when invoices are issued and the scale of charges must be reviewed annually by the Governing Body. The displayed charges must record the date the charges are effective from.</p> <p>The College written procedures must be expanded to include the prohibition of the alteration of cheques.</p>

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.

Definition of Recommendation Priority Levels

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.