



MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT
2005/2006
REPORT QUARTERS 1 & 2

Report on Internal Audit Activities in the 1st and 2nd Quarters of Financial Year 2005/06

Summary

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 2005/06.

Main Issues arising during Quarters 1 and 2 2005/06

Completion of audits brought forward from 2004/05

2. During the first and second quarter of 2005/06, we have completed all of the outstanding audits carried over from 2004/05. 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 contractors who had no previous knowledge of some of the systems and inadequate filing systems which resulted in auditors having to spend a substantial amount of time looking for source documents.

Auditable Area	Overall Assurance
Final Reports Issued	
Cash Receipting	Limited
Creditors	Limited
Council Tax	Substantial
Debtors	Limited
Housing & Council Tax Benefit	Limited
Housing Rents	Substantial
Non Domestic Rates	Substantial
Payroll	Limited
Pensions Administration	Substantial
Treasury Management	Substantial

3. Audits of the following Schools carried over from financial year 2004/05 have also been finalised.

Auditable Area	Overall Assurance
Final Reports Issued	
Ayresome	Limited
Berwick Hills	Limited
Corpus Christi	Limited
Green Lane	Substantial
Hemlington Hall	Limited
The Avenue	Limited
Thorntree	Limited
Acklam Grange	Substantial
Holmwood	Limited

4. Final reports of the following audits were also issued.

Auditable Area	Overall Assurance
Final Reports Issued	
School Catering	Substantial
Home To School Transport	Limited
Teesside Community Equipment Store	Limited

Current Year Audits

5. The audit of the Treasury Management system has been completed for the current year and a final report issued. The overall opinion of the audit is that controls in place provide substantial assurance that the Council's objectives are being met. One recommendation was made concerning the need to review the fidelity insurance limit; currently £2m in line with value of loans made and increased activity. This recommendation was made in previous audit reports. The draft report on the Creditors system was issued in September and the draft report of the Cash Receipting system is awaiting review prior to being issued for manager's comment. Audits of the Budgetary Control and Debtors systems are in progress. An audit of the overtime payments system has been carried out in advance of the payroll system due to weaknesses identified in a special investigation. Based on current estimates of the work outstanding on each of the above systems, only the Cash Receipting audit is in danger of exceeding the planned time allocation.
6. Audits of the Travel and Subsistence and Car Mileage systems have been completed and draft reports are ready to be issued. An audit of the Gifts and Hospitality system was undertaken and the draft report will be issued in November after additional work has been undertaken following the Monitoring Officers letter to all Heads of Service on this subject.
7. Seventeen days have been spent investigating output from the National Fraud Initiative administered by the Audit Commission and responding to requests for information from other Local Authorities. The data matches examined related to employees in receipt of payments from two or more employers and Asylum Seekers who had been refused permission to remain in the UK.
8. Audits have been completed for five out of the nine Youth and Community Centres. Of the four remaining, two are at draft report stage and the remainder are in progress. To date the actual time spent on these audits is six days over budget.
9. An audit has been conducted at one primary school and the draft report issued. Preparatory work has been completed to undertake an audit of a secondary school in October. Following agreement with the Audit Commission, all schools with their own bank accounts were visited in April to ensure that they had carried out a bank reconciliation as at 31st March and that this was performed accurately.
10. Following a request from the manager of the Hearing-Impaired Service, an audit was undertaken of the unofficial fund held at this unit. The audit did not highlight any discrepancies.

11. At the request of the Transport and Design Service, Internal Audit provided assistance in the evaluation of tenders for the new street lighting contract.
12. In previous years the grant claim for expenditure incurred by the Staying Put Agency was audited by the Audit Commission. For financial year 2004/05 the regulations have changed and the Audit Commission no longer undertake this work. Guidance accompanying the grant claim requires that it is audited by the Council's own Internal Audit Service or a firm of external auditors. To ensure that the grant claim was submitted by the due date, Internal Audit undertook the audit, which took seven days to complete.
13. The accounts of all twenty six-community councils have been prepared and audited. Once again the time taken to carry out this work has exceeded the budget. However, the total number of days taken to complete the work is thirteen less than in previous years. The audit of the Partnerschaft Association accounts is also complete.
14. The accounts of the Management Committees at four Community Centres have been audited. The actual time taken to complete this work is only slightly over budget.
15. Within Social Services, an audit of the Asylum Seekers unit has been undertaken and the manager's response to the draft report is awaited. This audit is currently within the planned time allowed. An audit of the systems for commissioning social care is also under way.
16. An audit was undertaken of the procedures to ensure that Key Performance Indicators are accurately compiled, monitored and reviewed on a timely basis. Although some good practice was found, errors continued to be identified in the application of the methodology for calculating the indicators and in the accuracy of the calculations.

Contingency

17. A total of one hundred days has been set aside to meet calls upon audit time that could not be anticipated in advance. This budget is now exhausted and any further unplanned work will have to be met at the expense of planned work. Major calls upon this budget have been an investigation into missing assets in Cultural Services (23days), complaints about the activities of an officer in the Public Protection Service during works time (32.5 days), inaccurate claims for overtime payments by an officer at West Middlesbrough Neighbourhood Trust (10.5 days) and a break down in controls in the payments process (16days).
18. During the period under review, twenty-three days have been spent responding to requests for advice; this is approximately two thirds of the planned time allocation. Twenty-three days have also been spent developing controls and processes to meet changing circumstances.

Staffing

19. At the beginning of April an Auditor who occupied half a job share post left to take up a post of Financial Assistant with Darlington Borough Council. There was a further

departure at the end of the second quarter when one of the three Senior Auditors left to take up a position of Principal Auditor with Durham & Tees Audit Consortium.

20. The two contractors appointed in March terminated their contracts after completing one month of their six-month contracts. One left for personal reasons and the other to move to America. Two additional contractors were brought in as replacements.
21. At the beginning of June the Principal Auditor commenced a period of long term sick leave. One of the existing contractors was appointed to fill this position on a temporary contract up to the end of March 2006. A further contractor was brought in to fill the gap that this created. An additional contractor is to be brought in to replace the Senior Auditor. It is the intention to advertise the Senior Auditors post this month.
22. It is expected that the Principal Auditor will return to work on a phased basis in the third quarter.