



# MIDDLESBROUGH COUNCIL

STRATEGIC FINANCE

SERVICE

INTERNAL AUDIT  
2005/2006  
REPORT QUARTER 3

## Report on Internal Audit Activities in the 3<sup>rd</sup> Quarter 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 third quarter of 2005/06.

### Current Position

2. The Annual Audit Plan for 2005/06 was prepared on the basis that 2,275 days would be available to undertake audit work. For the first three-quarters of the year ending on 31<sup>st</sup> December this equated to 1,705 planned audit days. The number of actual days delivered on audit work in the period 1<sup>st</sup> April to 31<sup>st</sup> December 2005 amounts to 1,698 (Appendix A). This result has been achieved by continuing the use of agency staff to cover vacant posts.
3. This level of performance was not reflected in the number of audits commenced or completed as at 31<sup>st</sup> December 2005. Internal Audit has commenced or completed 52% of planned reviews. By the 31<sup>st</sup> March this is projected to increase to 62% against a target of 80%. Although Internal Audit is not expected to achieve its target performance, the projected 62% of the audit plan delivered shows an improvement on the 51% of planned audits delivered in financial year 2004/05.
4. There are a number of reasons as to why planned audits have not been delivered:
  - The time taken to complete an audit assignment - As in previous years this continues to exceed planned time. Evidence indicates that measures taken to address the problem are having an impact. However, the actual time taken to deliver an audit continues to exceed planned time allocations where the auditor is inexperienced or unfamiliar with the system of internal control.
  - Additional work - audits have also exceeded time allocations when it has been necessary to perform additional work due to the absence of adequate controls.
  - The high level of unplanned work - has also had an impact on the delivery of planned audits. Unplanned work principally consists of special investigations into weaknesses in the application of controls that are the result of either deliberate actions or poor working practices. Investigations of this sort are often time consuming.
  - Providing advice - time spent giving advice and assisting Services with development work was greater than originally planned.

5. Audits of the core financial systems are well on course to be completed by the end of March 2006. This will be the first time in several years that it has not been necessary to carry forward key financial audits to the following year.
6. In view of the additional days spent in completing planned audits, providing advice to Services and delivering unplanned work, the annual audit plan for 2005/06 has been reassessed to reduce the number of deliverable audits to a more achievable level (Appendix B).
7. It is the Audit Manager's opinion that the reductions in audit coverage necessitated by the additional days spent on some audits and the increase in unplanned work will not compromise the overall assurance the Authority will receive regarding its key business risks.

### **Work Undertaken and In Progress During the 3<sup>rd</sup> Quarter**

Audit work undertaken in the 3<sup>rd</sup> quarter is reported below.

#### *Key Financial Systems*

8. The priority is to complete audits of the key financial systems that are considered to be material to the Authority's financial position. The final report on the Debtors system has been issued with an opinion that controls provide limited assurance that risks material to the achievement of objectives are adequately managed. Draft reports covering the Creditors, Cash Receipting and Council Tax systems have been issued to managers for their comments. Audits of the Budgetary Control, Housing & Council Tax Benefit and Non Domestic Rates systems are in progress and on course to be completed in the final quarter of the year.

#### *Other Corporate Financial Systems*

9. Draft reports covering audits of Travel and Subsistence, Car Allowances and Gifts and Hospitality have been prepared and will be issued to managers for comment in the 4<sup>th</sup> Quarter.

#### *Code of Practice Audits – National Fraud Initiative*

10. Audit work in this section was targeted at investigating data matches output from the Audit Commission's National Fraud Initiative. Internal Audit investigates Payroll matches whilst the Housing Benefit Fraud Team and Pensions investigate Benefit and Pension matches respectively. As at 31<sup>st</sup> December the Authority reported:

- £25,438 identified Benefit overpayments with a further £15,545 estimated. Two benefit claimants have been prosecuted for benefit fraud.
- Overpayments to deceased pensioners of £7,247 were identified. Arrangements are in place to recover this amount.
- An individual undertaking work for the Translation and Interpretation service was identified as a failed Asylum Seeker and their services are no longer used. Investigation of Housing Rent data matches are still to be undertaken.

### *Children Families and Learning*

11. Audits of the Management Committee accounts at each of the nine Youth & Community Centres have been completed. This work exceeded the allocated time by 35 days. The additional days were needed as the Auditor was required to prepare a set of accounts for each Centre. At a small number of Centres the Auditor was required to prepare a set of accounts for more than one year. The Joe Walton Centre with a turnover in excess of £140k consumed the greatest amount of audit resource 14 days, despite the Treasurer maintaining a comprehensive set of records. This level of activity is far greater than at any other Centre.
12. Audits have been completed at nine primary schools with no significant weaknesses identified. Two secondary schools have been audited. At one secondary school Internal Audit could not provide assurance that robust arrangements are in place to manage the key financial challenges that it faces. This audit which took 54 days significantly exceeding the allotted time allowance. The issues arising out of this audit were raised with senior management within Children Families and Learning.
13. An audit of that part of the Student Loans System administered by the Authority has concluded that controls in place are satisfactory.

### *Environment & Neighbourhood*

14. Preparatory work was undertaken prior to commencing audits of the Leisure Centres, Middlesbrough Golf Club and Acorn Sports complex. In addition, audit work commenced on the following assignments: Street Lighting, Car Parking and the Bus Station.

### *Regeneration*

15. An audit has been undertaken of the Housing Improvement Grant System. A draft report has been issued to the Manager and two follow-up meetings held to discuss its contents. The opinion expressed in the report is that no assurance can be given as to the robustness of the system of internal control. Further work is being carried out in conjunction with the Housing Benefit Investigations Team to establish if grant conditions have been breached. Due to identified weaknesses in the system of internal control this audit has exceeded the time allocation.

### *Social Care*

16. The review of the system for commissioning Social Care contracts has progressed and a draft report will be issued in the fourth quarter.

### *Contingency*

17. A total of one hundred days was set aside to meet calls upon audit time that could not be anticipated in advance. This budget was exhausted at the end of the second quarter. In the third quarter of the year Internal Audit were requested to undertake a further five investigations. These were in the following areas:

- Building Bureau
- Council Tax summonses
- Street Wardens
- Internal Audit
- Whinney Banks Youth & Community Centre

The number of days consumed by unplanned work will rise as work on the above investigations progresses. Any further demands for unplanned work will have a direct impact on Internal Audit's ability to deliver planned audit work.

18. During the period under review, an additional fifteen days have been spent responding to requests for advice. It is anticipated that further requests for advice will be received in the final quarter of the year.

### **Audit Work Planned for Completion In the 4<sup>th</sup> Quarter**

#### *Key Financial Systems*

19. Audits of the Budgetary Control, Housing & Council Tax Benefit and Non Domestic Rates systems commenced in the 3<sup>rd</sup> quarter are scheduled to be completed as are audits of Payroll, Pensions Administration and Investments. The audit of the main accounting system is planned to commence in March. Audit work on the Capital Accounting system performed by an agency worker in the 2<sup>nd</sup> quarter is scheduled for review, as there are some concerns as to its quality.

#### *Children Families & Learning*

20. It is planned to audit a further four primary schools in this quarter.

#### *Environment & Neighbourhood Services*

21. Audits of the Leisure Centres, Middlesbrough Golf Club, Acorn Sports complex, Street Lighting, Car Parking and the Bus Station commenced in the 3<sup>rd</sup> Quarter will be completed. In addition the following audits are planned: hackney carriage and other licensing, and abandoned vehicles.

#### *Regeneration*

22. Work to be completed in the final quarter of the year includes audits of Captain Cook and Dorman Museums, entertainment and events at the Town Hall and branch libraries.

#### *Social Care*

23. Assignments to be undertaken in the final quarter of the year include audits of the direct payments system and financial assessments.

*ICT*

24. Following discussions with the Audit Commission it is planned to commence an audit of business continuity and back-up and recovery arrangements before the end of March 2006.

*Contract Audit*

25. An audit of the use of performance bonds is to be commenced before the 31<sup>st</sup> March 2006.

*Staffing*

26. At the end of September one of the three Senior Auditors left the Audit Section to take up a similar post in the Health Service. A contractor was brought in to cover the resulting vacancy. This post will be advertised in March in an attempt to fill the vacancy.
27. A substantial amount of time, 135 days, was built into the plan to cover the Principal Auditor's long-term sickness absence as a result of a heart operation. The actual level of sickness absence at 185 days has exceeded this figure.
28. The Principal Auditor commenced his phased return to work on 23<sup>rd</sup> November 2005. He returned to full time working in the 4<sup>th</sup> Quarter.

D. Robinson  
Audit Manager  
17 February 2006