

# Internal Audit Report

**Mersey Valley Joint Committee**

**Tom Powell**  
**Corporate Services**

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## **1 Introduction**

- 1.1.1 This report summarises the findings and conclusions from our review of the adequacy of internal controls and procedures in operation within Mersey Valley Joint Committee (MVJC). The purpose of this work was to inform the Section 4 of the Audit Commission Small Bodies in England Annual Return for the year ended 31 March 2010.

## **2 Background**

- 2.1.1 The MVJC is a joint countryside management project covering the river and surrounding land between the Manchester and Stockport boundary, incorporating the Chorlton and Sale water parks. The project is funded by Manchester City Council and Trafford Metropolitan Borough Council with governance provided through a Joint Committee of Councillors from both Councils as well as representatives from the Environment Agency.

## **3 Scope and Approach**

- 3.1 As in 2008/09 you requested we review the adequacy and effectiveness of the financial controls, risk management arrangements and management information in respect of 10 internal control objectives detailed within Section 4 of the Audit Commission Annual Return document for 2009/10.
- 3.2 Our work did not include a review of the accounting statements and related records supporting the final accounts under control objective J. We did not consider this to be a key risk or indeed a function that should be discharged through Internal Audit. An opinion on the year end accounts is provided by the appointed auditor to MVJC and we consider that any detailed testing of the accounts to support this opinion remains their responsibility.


## **4 Findings**


- 4.1 We have discussed with you a number of areas where we consider the systems of internal control could be improved. A detailed breakdown of our findings in relation to these areas along with recommendations is attached in Appendix 1.


## **5 Conclusions**


- 5.1 In our opinion MVJC has achieved a satisfactory standard with regard to seven of the nine control objectives examined. The two areas where internal controls were assessed as requiring further development and improvement were risk management and the asset management.
- 5.2 We acknowledge that you had taken positive action to introduce a risk register, however due to the absence of controls for the escalation, reporting and monitoring of risk during the year 2009/10 we were unable to confirm that an effective risk management framework was in operation. Likewise we identified the need for further controls regarding the maintenance of the asset registers as the records examined were not up to date.
- 5.3 We have made recommendations to improve the system of internal control within Appendix 2.


## Appendix 1. Detailed Findings Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Section B: The body's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.</b>					
1	<p>Each of the 45 invoices selected from SAP and reviewed had been appropriately authorised and were supported by a purchase order.</p> <p>A review of the controls for the use of purchase cards resulted in the following findings:</p> <ul style="list-style-type: none"> <li>There was no audit trail to support 9 of 17 purchase card transactions selected for examination, however the nature and value of each transaction examined appeared reasonable.</li> <li>There was no formal evidenced process for use of the purchase card.</li> <li>The reconciliation of purchase card statements</li> </ul>	<p>Without an audit trail to support and evidence the verification and authorisation of individual purchases there is a risk that inappropriate and unauthorised purchases may be made.</p> <p>Without appropriate controls over the use of purchase cards there is a risk that the expenditure will be incurred without appropriate authorisation, budgetary provision or maintenance of proper records. This increases the risk of misappropriation or error.</p> <p>We acknowledge that the number of purchase card transactions over the year</p>	<p>The Head of Departmental Finance, in conjunction with the Chief Warden should ensure purchase card procedures are developed and implemented that include:</p> <ul style="list-style-type: none"> <li>the completion, where appropriate, of official orders for purchase card transactions prior to the purchase being made;</li> <li>appropriate separation of duties in the process between the approval of orders and making payments;</li> <li>a record of when cards are in use and by whom, requiring individuals to sign to accept responsibility; and</li> </ul>	<p> Moderate (Compliance)</p>	<p><b>Agreed: Yes</b> <b>Action to be taken:</b> Steve Marshall to sign off the monthly card statement, and will ensure that any associated paperwork is attached. This will be kept in an appropriate file</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Steve Marshall</p>


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	to supporting documentation was not evidenced.	is low and this is reflected in the risk assigned to this issue.	<ul style="list-style-type: none"> <li>evidencing the reconciliation of purchase card statements to supporting documents.</li> </ul>		<b>Target Date:</b> Immediate
<b>Section C: The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</b>					
2	<p>We support the approach taken in creating the risk register during the year. However, the Joint Committee approved the document on 1 April 2010 and discussions with the Chief Warden confirmed that there were no arrangements for in-year review and reporting of risks identified on the register and the effectiveness of any mitigating controls.</p> <p>Whilst we are unable to confirm that effective risk management arrangements were in place during and throughout the financial year 2009/10, we consider the implementation of the</p>	The absence of a formalised approach to risk management may increase the likelihood that significant risks are not identified and mitigated against, which may have an adverse impact, financial or otherwise, on the business.	<p>The Head of Departmental Finance, in conjunction with the Chief Warden should review and formalise the risk management procedures to ensure:</p> <ul style="list-style-type: none"> <li>the quarterly review and monitoring of risks and mitigating controls during the year; and</li> <li>the outcome of risk management reviews including any updates of the risk register is reported to each meeting of the Joint Committee.</li> </ul>	 Significant (Control)	<p><b>Agreed: Yes</b> <b>Action to be taken:</b> Risk Register will be reviewed in January and can be reported to Committee - not expected to change much throughout the year. <b>Additional Resources Required for implementation:</b> Finance support (Jason Williams) <b>Responsible Officer:</b> Steve Marshall <b>Target Date:</b></p>


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	recommendation will help ensure a robust framework is in place going forward.				31/01/2011
<b>Section D: The annual taxation or levy or funding requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.</b>					
3	Joint Committee members and relevant Council officers had been provided with detailed financial monitoring reports during the year. Whilst the reports clearly identified variances to budget, projected outturn figures were not reported.	By not reporting projected outturn figures within budget monitoring reports there is a risk that members and officers are not informed of potential financial shortfalls in a timely manner and therefore are unable to make informed decisions.	The Head of Departmental Finance in conjunction with the Chief Warden should consider reporting projected outturns on budget monitoring reports to help support Joint Committee review and decision making.	 Minor (Control)	<b>Agreed: Yes</b> <b>Action to be taken:</b> Reports will be taken to the Committee on a regular basis using a new format <b>Additional Resources Required for implementation:</b> Support from Finance (Jason Williams)

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
					<b>Responsible Officer:</b> Steve Marshall <b>Target Date:</b> Next Committee Meeting
<b>Section E: Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.</b>					
4	<p>There was one key holder for the safe at Chorlton Water Park and two spare keys held in the key safe. However, the key safe holder was not a named, authorised individual and we understand that day to day activities can result in other members of staff obtaining access to the key safe.</p> <p>At Sale Water Park the door</p>	<p>Without sound controls over the security of cash there is a risk of misappropriation or theft. The lack of controls also means that should any losses occur it would not be possible to exonerate staff as all could be considered under suspicion.</p>	<p>The Head of Departmental Finance, in conjunction with the Chief Warden should allocate the three safe keys to appropriate, named personnel and ensure that their keys are kept on their person at all times.</p> <p>For security purposes the Chief Warden should ensure that the cash tin is</p>	 Minor (Control)	<b>Agreed:</b> No  <b>Action to be taken:</b> Steve and Jason to review at next meeting (August), and to come up with an appropriate solution

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	to the filing cabinet used to store the locked cash tin containing the £20 float and other income was broken. Whilst the office should not normally be accessed by members of the public, the tin was readily available to all staff entering the office.	We acknowledge there is only a small value of cash held on site and have taken this into consideration within the risk classification.	kept within the safe.		<p><b>Additional Resources Required for implementation:</b> Unlikely</p> <p><b>Responsible Officer:</b> Steve Marshall</p> <p><b>Target Date:</b> To be confirmed</p> <p>It is viewed that the recommendation is not practical due to a shifting rota, and the need for any of 6 staff to access the cash tin.</p>
<b>Section F: Petty cash payments were supported by receipts, expenditure was approved and VAT appropriately accounted for.</b>					
5	Discussions with the Chief Warden confirmed that the petty cash float was repaid a	There is a risk that the continued reporting of petty cash within the	The Head of Departmental Finance should arrange for the outstanding balance of	 Minor	<b>Agreed:</b> Yes Jason Williams to pursue with











	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	number of years ago and not replaced. However, the cash was repaid into the general ledger as income and as such SAP has continued to report an outstanding balance of £50 petty cash.	general ledger may cause confusion and an inaccurate financial position to be reported.	£50 petty cash to be resolved by either adjusting the financial ledger to account for the money repaid or requesting the amount be written off.	(Control)	MCC Cashiers to resolve this matter  <b>Additional Resources Required for implementation:</b> No  <b>Responsible Officer:</b> Jason Williams  <b>Target Date:</b> August 2010
<b>Section G: Salaries to employees and allowances to members were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.</b>					
6	The controls for the administration and processing of staff salaries were reasonable. However, our review of payroll records noted two members of staff (one seasonal and one permanent) who had been paid in error beyond their	Without the timely provision of information to the shared service centre and subsequent monitoring of payroll costs there is a risk that errors or deliberate manipulation will not be identified or will not be identified in a timely fashion. As payroll costs	The Head of Departmental Finance should review the procedures for informing payroll of staff leaving dates to ensure that information is submitted to the Shared Service Centre in a timely manner. Monthly reconciliations of the payroll should be	 Moderate (Compliance)	<b>Agreed: Yes</b> <b>Action to be taken:</b> Steve to inform HR and Payroll prior to staff leaving – this problem was mainly caused by seasonal staff – we don't use

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	leaving date. In both instances the Chief Warden had informed the Payroll Team of the error which had resulted in the amounts being recovered in instalments.	make up a large proportion of the budget an absence of effective controls in this area may have a significant impact on the overall financial position.	undertaken to ensure that any amendments to the payroll have been acted upon correctly.		these now. Jason to provide a monthly list of staff and costs  <b>Additional Resources Required for implementation:</b> No  <b>Responsible Officer:</b> Steve Marshall <b>Target Date:</b> Immediate
<b>Section H: Assets and investment registers were complete, accurate and properly maintained.</b>					
7	A review of the Asset Register identified details were not up to date and a number of discrepancies between the register and assets held.  An annual stock count was usually undertaken before the financial year end	Without a comprehensive record of all assets of value, that is regularly updated and annually verified, there is an increased risk that loss or theft of assets may not be identified.	The Head of Departmental Finance, in conjunction with the Chief Warden should introduce a process to ensure the Asset Register is maintained. This should include: <ul style="list-style-type: none"> <li>• updating the Register with immediate effect.</li> <li>• ensuring that the</li> </ul>	 Significant (Control)	<b>Agreed: Yes</b> <b>Action to be taken:</b> Asset register will be updated and reviewed on an annual basis <b>Additional Resources Required for</b>




	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>however, as at the end of April 2010 this had not been completed.</p> <p>The External Auditor's report for the year ending 31 March 2008 identified that the asset register did not include details of investments or land and buildings.</p> <p>We understand this is due to the assets being owned by the Council and Trafford MBC and confirmed that no investments were held during the year to 31 March 2010.</p>		<p>register is updated and reviewed on a periodic basis during the year to take account of all purchases and disposals;</p> <ul style="list-style-type: none"> <li>• annual stock counts completed in a timely manner following year end.</li> </ul>		<p><b>implementation:</b> No but will meet annually with Finance (Jason Williams) to look through before year end</p> <p><b>Responsible Officer:</b> Steve Marshall</p> <p><b>Target Date:</b> 31/1/2011</p>

## Appendix 2. Basis of our opinion and level of assurance

Level of assurance	Description
Full 	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Substantial 	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,
Moderate 	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
Limited 	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No 	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
High 	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
Medium 	
Low 	

1Risk Type	Description
<b>Control</b>	There are areas for development and improvement in the design of the system of internal control.
<b>Compliance</b>	There is need to improve compliance with the existing system of internal of control, processes or procedures

Risk	Assessment rationale
 E. Critical	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance.</p> <p>1Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMT required to intervene. Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total budget or more than <b>15 to 30%</b> of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
 D. Major	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance.</p> <p>Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council.</p> <p>Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget).</p>
 C. Significant	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance.</p> <p>Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance.</p> <p>Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team</p>

<p style="text-align: center;">● B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of <b>£0.1M</b> of the total Budget or up to <b>3%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;">● A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>