



# **Draft Internal Audit Report**

Plymouth City Council

Community Services Directorate

**Mount Edgumbe Joint Committee - Annual  
return for the year ending 31 March 2010**

June 2010

## **Devon Audit Partnership**

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The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the CIPFA code of practice for Internal Audit and other best practice and professional standards.

The partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [martin.gould@devonaudit.gov.uk](mailto:martin.gould@devonaudit.gov.uk)

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within Plymouth City Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## 1 Introduction

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The Mount Edgumbe Joint Committee was formed by agreement between Cornwall County Council and Plymouth City Council as joint owners of the Mount Edgumbe County Park for the purpose of the management of the Mount Edgumbe Country Park.

In accordance with Regulation 6 of the Accounts and Audit Regulations 2003 Devon Audit Partnership has carried out a review of the Mount Edgumbe Joint Committees financial accounting systems and internal control arrangements in place during 2009/10 financial year.

## 2 Audit Opinion

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Good Standard The systems and controls generally mitigate the risks identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising for the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

## 3 Executive Summary

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Overall arrangements are of a good standard, however weaknesses identified in the budget setting and monitoring processes pose a risk to the Committee. As at the 31 March 2010 Mount Edgumbe Joint Committee reported a £300K deficit and nil reserves. It is important that appropriate action is taken to improve budget monitoring processes particularly in light of the financial deficit currently experienced by the Committee. Full and complete financial data should be made available to the Committee at each meeting to enable effective decision making to take place.

## APPENDIX B

The detailed findings and recommendations regarding these issues and less important matters are described in the Appendices. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories the assurance opinion ratings are also given in the Appendices to this report.

### 4 Assurance Opinion on Specific Sections

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The following table summarises our assurance opinions on each of the areas covered during the audit. These combine to provide the overall assurance opinion at Section 2. Definitions of the assurance opinion ratings can be found in the Appendices.

Areas Covered		Level of Assurance
1	Inappropriate accounting records have been maintained	Good Standard
2	Payments made do not comply with financial regulations, are not approved, supported by invoices or appropriately accounted for	Good Standard
3	Risks to objectives are not identified or managed	Good standard
4	Budgetary control processes are inadequate	Improvements required
5	Income has not been received, properly recorded or promptly banked	Good Standard
6	Petty cash payments are not approved , supported by receipts or appropriately accounted for	Not covered
7	Salaries are paid without approval and PAYE and NI requirements are not met	Good Standard
8	Asset and investment registers are incomplete and inaccurate	Good Standard
9	Periodic and year end bank account reconciliations are not carried out	Not covered
10	Accounting statements have not been prepared on the correct basis, agreed to the cash book or supported by an adequate audit trail	Good Standard

## **APPENDIX B**

The findings and recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations and Action Plan" appendix. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed. Management are required to agree an action plan, ideally within three weeks of receiving the draft internal audit report. Written responses should be returned to Louise Clapton (louise.clapton@devonaudit.gov.uk) or Brenda Davis (brenda.davis@devonaudit.gov.uk). Alternatively a meeting to discuss the report and agree the action plan should be arranged with the named auditors.

## **5 Issues for the Annual Governance Statement / Use of Resources**

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The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement or the Use of Resources assessment.

In terms of this audit review, we are able to report that there are no issues arising from the examination of systems and controls that warrant inclusion in the Annual Governance Statement

## **6 Scope and Objectives**

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To provide Mount Edgcumbe Joint Committee with an opinion on whether internal control objectives were achieved throughout the financial year.

## **7 Inherent Limitations**

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The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

## 8 Acknowledgements

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We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

**Martin Gould**  
**Head of Audit Partnership**

# APPENDIX B

## Appendix A

### Detailed Audit Observations and Action Plan

1. Area Covered: Inappropriate accounting records have been maintained	Level of Assurance
<p><b>Opinion Statement:</b> Mount Edgcumbe Joint Committee have maintained appropriate accounting records throughout the 2009/10 financial year.</p> <p>Plymouth City Council's CIVICA general ledger system is the main accounting system used to record the financial transactions of the Committee, from which budget monitoring reports, financial statements and statutory returns are prepared.</p> <p>A review of the internal controls operating within main accounting system were found to be of a good standard.</p>	<b>Good Standard</b>
No observations and recommendations recorded.	

2. Area Covered: Payments made do not comply with financial regulations, are not approved, supported by invoices or appropriately accounted for	Level of Assurance
<p><b>Opinion Statement:</b> Mount Edgcumbe Joint Committee make payments through Plymouth City Council's CIVICA creditors system.</p> <p>A review of internal controls operating within the creditors system were found to be of a good standard. Payments cannot be made without authorised approval, due to automated controls within the system and appropriate documentation is retained to support each payment. Payments were found to be correctly recorded and VAT appropriately accounted for.</p>	<b>Good Standard</b>
No observations and recommendations recorded.	

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3. Area Covered: Risks to objectives are not identified or managed	Level of Assurance
<p><b>Opinion Statement:</b> The Mount Edgcombe Joint Committee were presented with a 2009/10 risk register at its meeting on the 6 March 2009, this was reviewed updated and presented at the meeting on the 5 February 2010.</p> <p>A new risk was added in the updated risk register to reflect the potential failure of the new commercial venture and the possibility of a budget deficit at the end of 2010/2011 that the constituent authorities may not be able to meet. Although this is commended a similar risk should have been identified for the 2009/10 financial year along with other risks to the delivery of the corporate plan.</p>	<p><b>Good standard</b></p>
No observations and recommendations recorded.	

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<b>4. Area Covered:</b> Budgetary control processes are inadequate			<b>Level of Assurance</b>
<p><b>Opinion Statement:</b>  A revenue and capital budget update was presented to Mount Edgcumbe Joint Committee on the 23 February 2009. Although this highlighted the projected budget shortfall for 2009/10 a proposed budget for the 2009/10 year was not presented or the appropriate approval sought.</p> <p>Regular Revenue and Capital budget monitoring reports were presented to the Mount Edgcumbe Joint Committee in July, December and February. The reports highlighted the key financial issues arising but committee members were only provided with fully detailed budget monitoring reports at the December and February meetings.</p> <p>The level of reserves held at the end of the 2009/2010 financial year are not considered adequate.</p>			<b>Improvements required</b>
No.	Observation and implications		
4.1	<p>The 2009/10 budget was not approved by the Mount Edgcumbe Joint Committee, there was no evidence to support the proposed budget was presented for consideration.</p> <p>Although budget reports are regularly presented to committee that highlight the main financial issues arising they are not always supported by a detailed budget monitoring report.</p> <p>At the end of the 2009/10 financial year no reserves were held, this is considered inadequate.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
4.1.1	The annual budget should be submitted to the Mount Edgcumbe Joint Committee and the appropriate approval sought.	High	Annual budget proposals will be presented to Mount Edgcumbe in future in order that recommendations can be made to the Joint Constituent Authorities (as part of improved governance arrangements currently being put in place).
4.1.2	Revenue and capital budget reports to Mount Edgcumbe Joint Committee should be supported by the detailed budget monitoring report.	High	Agreed. Budget Monitoring reports will be presented to the Joint Committee with detailed information.

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<b>5. Area Covered:</b> Income has not been received, properly recorded or promptly banked	<b>Level of Assurance</b>
<b>Opinion Statement:</b> Mount Edgcumbe Joint Committee receives income through Plymouth City Council's CIVICA debtors system and ICON cash receipting system.	<b>Good Standard</b>
No observations and recommendations recorded.	

<b>6. Area Covered:</b> Petty cash payments are not approved, supported by receipts or appropriately accounted for	<b>Level of Assurance</b>
<b>Opinion Statement:</b> We have not provided assurance with regard to petty cash transactions (internal control objective F) as we consider the balance too small to warrant detailed review.	<b>Not covered</b>
No observations and recommendations recorded.	

<b>7. Area Covered:</b> Salaries are paid without approval and PAYE and NI requirements are not met	<b>Level of Assurance</b>
<b>Opinion Statement:</b> Mount Edgcumbe Joint Committee make payments through Plymouth City Council's SAP payroll system.  A review of internal controls operating within the payroll system were found to be of a good standard. Payments cannot be made without authorised approval and appropriate documentation is retained to support each employee appointment and claim for additions to pay. Payroll expenditure payments were found to be correctly recorded, and PAYE and NI deductions made in accordance with HMRC regulations.	<b>Good Standard</b>
No observations and recommendations recorded.	

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8. Area Covered: Asset and investment registers are incomplete and inaccurate	Level of Assurance
<p><b>Opinion Statement:</b> An asset register detailing Mount Edgcumbes fixed assets has been maintained for the 2009/10 financial year.</p> <p>A review of internal controls operated to ensure completeness and accuracy of the fixed asset register were found to be of a good standard.</p> <p>There have been no additions or disposals during the 2009/10 financial year.</p>	<b>Good Standard</b>
No observations and recommendations recorded.	

9. Area Covered: Periodic and year end bank account reconciliations are not carried out	Level of Assurance
<p><b>Opinion Statement:</b> Mount Edgcumbe Joint Committee do not have their own bank account and therefore, we have not undertaken work against control objective I.</p>	<b>Not covered</b>
No observations and recommendations recorded.	

10. Area Covered: Accounting statements have not been prepared on the correct basis, agreed to the cash book or supported by an adequate audit trail	Level of Assurance
<p><b>Opinion Statement:</b> The annual return has been prepared on an income and expenditure basis, supported by a complete audit trail. All entries in the accounting statement have been agreed back to the general ledger and Creditors and Debtors were found to be accurately stated.</p>	<b>Good Standard</b>
No observations and recommendations recorded.	

### Definitions of Audit Assurance Opinion Levels

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<b>Assurance</b>	<b>Definition</b>
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

## Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Protect	Any material that may cause distress to individuals, breach proper undertakings to maintain the confidence of information provided by third parties, breach statutory restrictions on the disclosure of information, cause financial loss or loss of earning potential, or to facilitate improper gain, give unfair advantage for individuals or companies, prejudice the investigation or facilitate the commission of crime, disadvantage government in commercial or policy negotiations with others should be marked PROTECT.
Restricted	Information or data or documents that should only be shared between a specific group of work staff who have to demonstrate a need to know, because of the sensitive content, then the document must be marked RESTRICTED.
Confidential	Material that is so sensitive that only specific named staff should have access. Special handling rules apply and so CONFIDENTIAL must only be applied to highly sensitive data.
Secret and Top Secret	Information with this sensitivity is unlikely to be available to the Partnership and the Chief Executive of the relevant organisation must make the decision to apply either of these protective markings. These markings are only to be used with information that can only be shared on a strict must know basis, with each party having signed a specific confidentiality agreement.