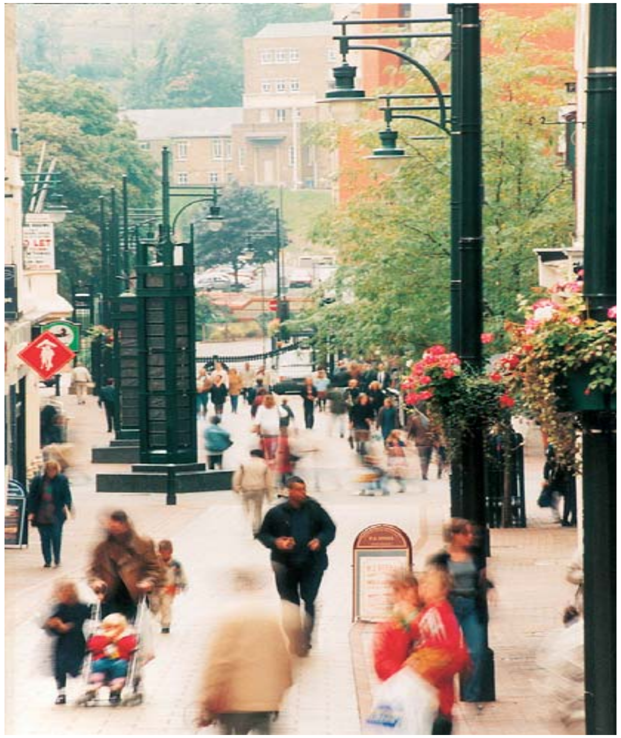
Government and Public Sector

September 2006

Medway Council

2005/06 Report to those charged with governance



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September 2006

Ladies and Gentlemen

2005/06 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2005/06. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

PricewaterhouseCoopers LLP

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Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our 2005/06 audit of Medway Council.

It covers the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken under the Code of Audit Practice in forming our opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work during the year was performed in line with the plan that we presented to you on 16 June 2005. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues that have arisen during the course of our work.

Financial Statements

We anticipate, at the time of writing this report, that we will issue an unqualified audit opinion on the financial statements.

Revenues and Benefits Trading Account

The Revenue and Benefits trading account continues to operate at a deficit, with a cumulative loss of £531,000. As in prior years the Council has chosen not to write off this loss to the cost of services on the basis that a number of planned initiatives will reduce the loss and the cumulative deficit will be recovered over time. The anticipated recovery period has recently extended by a further two years.

We have previously questioned the validity of the Council's treatment of this loss and it is our continuing view that proper accounting practice requires this to be recognised as a cost of service.

Recognition of Costs

There are significant departures from proper accounting practice concerning revenue recognition which have not been adjusted by the Council.

In line with prior years, the Council does not fully accrue costs for payroll expenditure on overtime or for external audit fees. This treatment is contrary to guidance in the Statement of Recommended Practice for Local Authorities and therefore we have reported this as an unadjusted misstatement in the accounts. Full accrual for these items would reduce revenue reserves by £975,000.

The combined effect of all unadjusted misstatement in the accounts, noted in Appendix D is to understate revenue expenditure for 2005/06 by £136,000 and to overstate revenue reserves by an estimated £1,325,000. We have concluded that in respect of 2005/06 these unadjusted errors would not affect our opinion on the accounts.

Use of Resources

Under the new Audit Commission Audit Code of Practice we are required to report our conclusion on the Council's use of resources within our statutory auditor's report. We have assessed the arrangements in place to secure economy, efficiency and effectiveness in its use of resources against the assessment criteria developed by the Audit Commission.

Using these criteria we have concluded that the Council has adequate arrangements in place except for arrangements to manage its significant business risks not being in place throughout 2005/06. We will therefore issue an "except for" use of resources conclusion. The Council has acknowledged that these arrangements were not in place for the full year in its Statement on Internal Control within the 2005/06 financial statements

We issued an unqualified audit report on the Council's Best Value Performance plan which is included in appendix E.

We also report on our targeted review of the Council's arrangements for partnership working which was undertaken during 2005/06. The review identified a number of areas of good practice and some areas for further development. The findings are summarised in the Use of Resources section.

Financial statements

This section covers the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance". We have agreed with you that these matters should be communicated to Members through this report.

Audit opinion

We have completed the audit of the Council's accounts in line with the Audit Code of Practice and Auditing Standards. At the time of writing this report we anticipate issuing an unqualified opinion.

Unadjusted misstatements

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in Appendix B to this report and the more significant issues are discussed below.

We also bring to your attention in appendix B those misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Revenue & Benefits Trading Organisation

Medway Council maintains an internal trading account in respect of the Medway Revenue and Benefits Services (MRBS).

In Note 4 to the Consolidated Revenue Account (CRA) the trading account shows that the MRBS has operated at a deficit in both 2004/05 and 2005/06. These deficits have been charged to the General Fund as deficits on trading activities and have not been charged to the cost of providing the revenue and benefits service. The justification for not showing the deficits as part of the cost of the service is that deficits in the first years of the contract were anticipated and expected to be offset by planned trading surpluses in the later years.

Figures reported in the Financial Statements show that the in-year trading deficit has been reduced from £372,000 in 2004/05 to £159,000 in 2005/06. The cumulative loss, including previous years, has increased the trading account deficit reserve balance to £531,000. The deficit is mainly attributable to the higher cost of using agency staff due to difficulty in recruiting and retaining permanent staff.

The continuing staffing issues and the delay in the implementation of the on-line benefits system pose a substantial risk that the plan to break-even over a specified period will not be achieved. The period for cost recovery has now been extended by two years. The last assessment by management of the expected losses over the life of the trading account was £287,000, and is based on the extended recovery period.

We have previously questioned the validity of the Council's treatment of this loss and it is our continuing view that proper accounting practice requires this to be recognised as a cost of service.

Expenditure recognition

The Council does not accrue for payroll expenditure on overtime and adjustments incurred in March, the financial year-end. Additionally, the Council accounts for audit fees on the basis of work completed rather than the amount due for each audit year. Both amounts are charged to revenue when paid in the following financial year. The net effect of this practice in 2005/06 is an understatement of expenditure for the year of £86,000. Full accrual for these two items would reduce revenue reserves as at 31 March 2006 by £975,000.

There is no proper accounting practice for local authorities to defer the recognition of either of these amounts, which therefore should be charged to revenue in the year to which the cost is attributable.

As a result of this significant departure from expected accounting practice, we have also needed to consider other related accounting practices in order to assess the overall impact on the financial statements. In common with many other councils, Medway recognises expenditure on energy and telephones on bills paid in a 12 month period rather than on a full accruals basis. As long as there is no significant increase in the contract prices, this ensures that expenditure in any year is not materially understated. The impact of the full accrual of these amounts has not been quantified but prior year estimates found it to be no more than £300,000.

The combined effect of all unadjusted misstatement in the accounts, noted in Appendix D is to understate revenue expenditure for 2005/06 by £136,000 and to overstate revenue reserves by an estimated £1,325,000. We have concluded that in respect of 2005/06 these unadjusted errors would not affect our opinion on the accounts.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have not identified any individually material control weaknesses. However, we have identified a number of areas where financial and accounting controls could be strengthened. The most significant related to capital accounting.

In 2005/06 the Authority's capital accounting team underwent significant change, with four officers leaving the Council. The reorganisation and difficulty in filling the remaining posts resulted in delays in resolving outstanding issues leading to weaknesses in the year end processes for capital accounting and a number of audit adjustments. A summary of our findings and recommendations and the management response is included in Appendix D.

As part of our wider assessment of the Council's control environment we are required to review the internal audit arrangements. We have reviewed the 2005/06 Internal Audit plan and, where applicable relied on the output of individual audit reports to inform our audit approach.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

Fixed Asset Revaluations

The Council's dwelling stock and investment properties were revalued in 2005/6, resulting in an increase in the fixed asset book value of £142 million. The valuations were performed by the Council's in-house asset management team in line with the Department for Communities and Local Government's 'Guidance on Stock Valuation for Resource Accounting'.

At the same time, the asset lives of the Council dwellings were reassessed. The existing, standard practice of depreciating the value of council dwellings over 40 years has been replaced by a new stepped approach in which the Council depreciates the buildings element of the properties over 53 years (if built before 1918), 66 years (if built between 1919 and 1944), and 80 years (if built after 1945). As a result the Council's depreciation charge for the year has not changed significantly despite the large increase in the Council's asset value.

These changes to extend the expected asset lives will require the Council to conduct an annual impairment review of the housing stock and the related capital expenditure. The Council will also need to consider the impact of expected changes to local authority capital accounting which will require the Council to identify expenditure and values relating to individual assets. We will continue to discuss the impact of these changes with finance staff over the next year.

Financial Standing

Revenue
The Council reported an under-spend against budget of £37,000. However, there were significant overspends of £1,005,000 in Community Services and £736,000 in Children's Services. Corporate savings targets of £1,200,000 were also not met in the year. The Council achieved its outturn by managing under spends in the Regeneration and Finance and Corporate Services Directorates and by earning significantly more income on investments than that budgeted.

Capital
Capital spending for 2005/06 was £63 million compared with a budget for the year of £76 million. The main area of slippage occurred within the Regeneration and Development directorate, specifically compensation payments in respect of the Rochester Riverside Scheme.

Trading Operations
A deficit on trading operations of £1,654,000 was reported with deficits occurring in 4 of the 8 trading organisations. The most significant loss was posted by commercial property (£1,597,000). This loss was caused by the increase in capital charges resulting from the revaluation of the Authority's investment properties.

Collection Fund Deficit
The Council's Collection Fund deficit has increased from £505,000 in 2004/5 to £828,000 in 2005/6. The majority of this deficit can be attributed to the large increase in single person allowances being given by the Council. Officers are currently reviewing the validity of this increase and have noted the need to reduce this deficit in future years.

Other matters relevant to the audit

As part of our audit responsibilities we take into account the Council's arrangements for the legality of financial transactions and the standards of financial conduct and the prevention and detection of fraud and corruption

There are no matters arising from our audit work that we need to report.

Use of Resources

Use of Resources Conclusion

Under the new Audit Code of Practice we are required to provide a conclusion on the Council's arrangements in 2005/06 for securing economy, efficiency and effectiveness in its use of resources. To do this we assess the Council's arrangements against a set of criteria issued by the Audit Commission. Our assessment is based on the use of resources assessment undertaken last year as part of the CPA process and updated as necessary and other information that came to our attention during the course of our audit, including our review of the arrangements to secure data quality, which is noted later in this section.

Using these criteria we have concluded that the Council has adequate arrangements in place except that it did not manage its significant business risks throughout 2005/06. We will therefore issue an "except for" use of resources conclusion. The Council has acknowledged that its arrangements were not in place for the full year in its Statement on Internal Control within the 2005/06 Financial Statements

Since our review the Council has made progress in this area with the following developments:

- A Strategic Risk Strategy was approved by Cabinet on 25 April 2006;
- The Strategic Risk Management Group has been revitalised and reports directly to Cabinet; and
- The Council has set up an Audit Committee to address specific financial risks.

Details of our conclusion on each of the criteria specified by the Code of Practice are set out in Appendix C.

Data Quality

As part of the Audit Commission's revised approach to the audit of performance indicators, we have undertaken a review of the overall management arrangements in place to secure data quality. The aim of this work is to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice. This work contributes towards our Code conclusion. The data quality review is the first part of a new three stage process, and will be followed by a 'completeness check' of performance indicators and detailed spot check work on specified indicators, which will be used as part of CPA. Our work has consisted of an assessment of the Council's data quality arrangements against a set of Key Lines of Enquiry, focused on five themes:

- governance and leadership;
- policies and procedures;
- systems and processes;
- people and skills; and
- data use

We have undertaken this work through a review of key documents and interviews and focus groups with staff and Members. We will update our findings with the results of the more detailed testing on the specified indicators in October 2006 and report our overall findings and conclusions to the Council at that stage.

Targeted work

During 2005/06 we carried out a targeted review of the arrangements for partnership working, which has become more common as public sector organisations seek to collaborate more closely and to involve the private sector, where appropriate.

This review has assessed partnership arrangements on the basis of best practice described by the Audit Commission and the specific questions on partnerships set out in the Key Lines of Enquiry (KLOE). The review has focused on the corporate governance arrangements in place, including formal terms of reference, the composition of the partnership and the relationship with the Council's other governance structures. The Council's incorporation of partnerships in standard risk management processes has also been explored.

The review has also considered the financial arrangements in place, including documented agreements for the award of grants, controls in place around pooled budgets and budget monitoring and reporting procedures. Finally, the review has looked at the objectives set by each partnership, the relevant performance indicators and targets in use and the extent to which partners are held to account for delivery.

Three of the Council's most important partnerships were chosen as the focus for the review – the Local Strategic Partnership (LSP), the Community Safety Partnership (CSP) and the Rochester Riverside regeneration project.

A number of areas of good practice were noted along with a number of areas requiring development. We recommended that:

- The Council should review the role and responsibilities of their attendees at the Rochester Riverside project board.
- The Council should clarify how the Rochester Riverside partnership links into the Council's LSP arrangements in the next Community Plan or similar strategic document.
- The Council should consider refining the structure of the next Community Plan or similar strategic planning document to link each action to a SMART objective to be delivered by a specific partnership in conjunction with the Local Area Agreement.
- The Council should incorporate formal risk management procedures into all partnership arrangements.
- The Council should ensure that the CSP Strategic Executive Group (SEG) receives regular financial monitoring reports.
- The Council should consider strengthening the role of the LSP in monitoring the performance of the lead partnerships against targets on a more consistent basis.
- The Council should consider refining the content and structure of the performance reports presented to the CSP SEG to focus on a smaller number of key indicators.
- The Council should consider amending the terms of reference of the SEG to allow it to progress areas of poor performance and should consider widening the remit of the analyst support.
- The Council should consider including a standing item on progress against the project plan at the meetings of the Rochester and Strood Riverside project board.
- The Council should consider revising the terms of reference and membership of the Community Safety Forum to expand its role in community consultation.

As a consequence of the findings of the partnerships review we have agreed to undertake a review of the arrangements in place to support the Local Area Agreement. This review is due to begin in October 2006. The review will assess the performance systems in place against the issues and risks identified in the Audit Commission's Local Area Agreement audit guide. The review will involve the Council's strategic partners to identify weaknesses in current systems and controls and to test the performance models proposed against information currently available. We will provide a separate report on our findings to the Council in due course.

Best Value Performance Plan

Under the Local Government Act 1999 we are required to carry out an audit of the Council's Best Value Performance Plan. Our work on the 2005/06 Best Value Performance Plan (BVPP) published by the Council did not identify any matters to report to the Council or any recommendations to make on procedures in relation to the plan and has already been reported to the Council.

Our audit report on the 2006/07 BVPP has been included in appendix E.

2006 Use of Resources assessment

As part of the Audit Commission's ongoing CPA process, we will assess how well the Council manages and uses its resources. This will be the second year we have carried out this assessment. Our work to support our assessment comprises the following elements:

- Financial Reporting
- Financial Management
- Financial Standing
- Internal Control
- Value for Money

The results of the first use of resources assessment were reported to Members in our 2004/5 audit letter. The current use of resources assessment is being undertaken at present and the process will again be subject to a national quality assurance process. The results will be reported to the Council in November and the Audit Commission will incorporate the results in their Annual Audit and Inspection Letter.

Audit fee update

Audit fees update for 2005/06

We reported our fee proposals in the Audit Plan for 2005/06 which we presented to Council on 16 June 2005. We subsequently presented our updated audit fee within the 2006/07 audit plan as presented to Council on 15 June 2006. These fee proposals covered the year ending 31 March 2006.

We varied our fee as a result of:

- Additional guidance made available by the Audit Commission suggesting that fees for 2005/06 should be increased by 5% to account for the new requirements associated with ISAs. The main changes relate to additional procedures and documentation requirements on key systems, significant contracts, fraud, governance and risk management.

- At the time of estimating the 2005/06 fee, the scope of work required for CPA was unclear. The first part of this work is now completed and the estimated fee has been updated to take into account the scope and extent of the audit work required.

- The Audit Commission has now published its work programme for the audited dry run of the WGA. The suggested fee for a 'band 2 Council' is £3,000.

Our fees charged were:

	2005/06 Outturn	2005/06 Fee proposal
Accounts	£186,500	£175,000
Use of Resources	£70,000	£60,000
Grant Claims	£85,000	£85,000
Total	**£341,500**	**£320,000**

Appendix A: Audit reports issued in relation to the 2005/06 audit year

The following audit reports have already been issued in relation to the 2005/06 audit year:

- Audit Service Plan 2005/6
- ISA260 Audit report 2005/6
- Medway Partnership Review;
- Best Value Performance Plan 2005/6 opinion;
- Audit opinion for the 2005/06 financial statements and conclusion on the Council's use of resources.

Appendix B: Summary of unadjusted misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Consolidated Revenue Account		Balance Sheet	
	Dr £000	**Cr £000**	**Dr £000**	**Cr £000**
Audit Fee	Expenditure 247			Accrual 247
Payroll	Expenditure 728			Accrual 728
Month 12 Utilities Costs	Expenditure >300			Accrual >300
Revenues & Benefits	Cost of Services 531	Trading Account Surplus Deficit 531	General Fund Reserves 531	Trading Account Reserve 531
Collect Provision	Expenditure 59			Collect Provision 59
Euro account		Income 9	Cash 9	
Net effect	>1,865	540	540	>1,865

We also identified the following material misstatements during our audit which management have corrected, but which we consider should be communicated to you to assist you in fulfilling your governance responsibilities:

- Other Land and Buildings had been misstated as Rainham Mark school valued at £13.4m had been omitted from the asset valuation in error

- Additions of £499,995 relating to the Freehold of the Littlewoods Car Park had been incorrectly classified as Community Assets additions.

- Adjustment to the value of community assets for expenditure incurred by the Council (and the related depreciation), which had previously been recognised at nil value.

- Accrued Interest of £758,000 had been held within the investment balance rather than as accrued income within debtors.

Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

These code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	1	Inadequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	2	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	2	Adequate

Appendix D: Report on financial and accounting controls

Issue & Implication	Recommendation	Management Response	Target Implementation
Section Agreements The administration process in place to monitor and apply Section agreements is not adequate for the Council's needs. As a result we have the following issues to report: • Testing found 2 examples of section agreements which had exceeded their designated term. • Expenditure applied on capital schemes subject to section agreements are inadequately monitored. Expenditure is often not charged against the relevant sources of income. This may increase the risk that the requirements of the agreements are not being met. • Testing found £370,655 of expenditure that had been allocated to capital projects with no noted section agreement funding allocated against it. This has resulted in a debit balance on the project • On the master spreadsheet for section agreements there is £13,427.35 which is classed as unidentified and has not been allocated to a specific project.	The Council needs to review the processes around the monitoring and application of Section agreements. This will enable the Council to accurately evaluate the extent to which monies are due to/from the providers. Communication should be improved and a record of projects and balances produced. This should be confirmed with developers and contributors to ensure that the amounts receivable and position of the project are agreed by all parties. Where there is a debit balance the Council should obtain written confirmation from the other party that the payment can be expected. The Council should seek to resolve this unidentified amount and if appropriate apply the funding to a relevant scheme.	Regular reports are circulated to DIRG members and specific attention is brought to those agreements approaching or exceeding their designated term. In addition, regular meetings are held with relevant officers to discuss outstanding issues and areas of difficulty. However, it has been accepted that procedures should be reviewed and improved and, in this respect, it is proposed to appoint a dedicated S106 Officer. Any debit balances on Section Agreements are brought to the attention of the relevant officers as these relate to income yet to be received and currently it is the responsibility of these officers to progress receipt. For the future, this role will be performed by the Section 106 post referred to earlier. This is the only unidentified item out of	As soon as post is filled Awaiting Cabinet approval

Issue & Implication	Recommendation	Management Response	Target Implementation
		total contributions of £8m and relates to an old Rochester payment. This will be applied during 2006/2007	2006/07
Capital Grants All income and expenditure for capital grant projects is coded against one general ledger code, which contains a number of project codes. The project codes are not regularly monitored and expenditure is only transferred to the grant code at year end. Outstanding balances remaining on capital projects have not been assessed and there are a number of instances where there are credit and debit balances representing income that is receivable and reserves that are available for expenditure. There is a risk that income due to the Council following expenditure on a capital project may have been received in prior periods or may still be due from a funder. In addition credit balances relating to income received for a capital project may have already been spent but coded incorrectly.	The Council should develop a robust process that applies to each department responsible for grant claims. This process should monitor grant income received and grant expenditure against grant allocations. This process should also involve resolution of outstanding debtors and reserve balances.	All income and expenditure is allocated to project codes within the one ledger code thereby facilitating identification and control to individual schemes. The reconciliation of outstanding balances is a priority for the new staff, when appointed, when processes will be developed Processes will be developed to ensure project officers are more involved in the collection and application of grant income.	March 2007
Fixed Asset additions Testing found items in the fixed asset additions totalling £140,876.35 which relate to prior year additions following a misposting to revenue in 2004/5.	The annual reconciliation between the Schools' accounts and the Council's should take place before the Council's accounts are signed to ensure all financial information for the period is	Reconciliations are dependant on early closure of school's accounts. Officers are continually reviewing procedures.	Ongoing

Issue & Implication	Recommendation	Management Response	Target Implementation
	recorded.		
Fixed Asset register The Fixed Asset Register (FAR) is not up to date and is currently in the form of an excel spreadsheet. The FAR is stored on an internal drive which can only be accessed by the Treasury team. As a result of audit work completed a number of errors have been identified, which include: • Duplicate entries for the same assets; • Assets being incorrectly valued at zero on the FAR; and • Assets which are no longer in use still appearing on the asset register at nil value.	The Council has stated that it intends to transfer all data from the current FAR spreadsheet, onto the Logotech system. In completing this project the Council should ensure that all duplicate entries and unutilised assets are removed from the spreadsheet prior to the data mapping exercise. The Council should also use this opportunity to complete a full data cleanse on all entries in the Fixed Asset Register.	Agreed that two systems may lead to errors. Intention is to use Logotech as sole source of information.	For closure of 2006/2007 Accounts
Debtors			
The Sundry debtor provision is calculated through analysis of debts over 365 days but has not been extended to those between 90-365 days. In addition the sundry debtor provision is only calculated against the debtors on the sales ledger and does not take account of the other debtor codes that combine to make up the sundry debtor balance such as the capital grants contributions due.	The considerable levels of debt of between 90-365 days old should be reviewed to ensure that they contain no debts which are irrecoverable and should be provided for. All the debtor codes within the sundry debtor figure should be reviewed and used as the basis for providing a reasonable estimate of irrecoverable debt that needs to be provided for.	We believe that there is no evidence that debts of less than one year old are irrecoverable, other than those that should not have been raised and will have, consequently, been cancelled. However, we will review procedures and outcomes to determine any significance. Debts outside the Sundry Debtor system e.g. Collection Fund are subject to their own procedures.	March 2007

Issue & Implication	Recommendation	Management Response	Target Implementation
		Capital Grants will be reviewed as indicated above.	
The social services provision calculation only provides against 60% of debts it considers should be written off. Provision in full would add additional £59,000 expenditure.	The provision should assess all debt and provide in full for debts it considers should be written off.	The current policy on the Collect bad debt provision is to provide for 60% of the 'high risk' debt and, as the debt is not written-off until the death of the debtor, it is maintained that the current policy is robust	N/A
As a result of our testing we have the following issue to bring to your attention: • 7 old debtors within the sales ledger which have not been written off despite there being no receipt of income for up to 4 years; and • The sales ledger contains approximately £23,000 of accounts with credit balances that remain un-reconciled at the year end.	The Council should write these debtor balances out of the sales ledger. The Council should resolve these credit balances.	These form part of the current bad debt provision and we believe that one of these debts will be collected in 2006/07. When content that these are irrecoverable theses will be written off. These are predominantly payments in advance or overpayments, but all are allocated to specific debtors.	March 2007
Creditors and Accruals As a result of our testing we have the following issue to bring to your attention: • Debit balances had been cleared from the purchase ledger without any written approval from an appropriate senior member of staff; • An aged listing of all creditors set up outside the creditor system is not	All debit entries against purchase ledger and amendments should be approved by a second member of staff. Aged listing of all creditors should be produced, reviewed and utilised in the	This is a rare occurrence but procedures will be reviewed. Significant manual accruals at year end should be compared with previous year.	March 2007 During accounts closure for 2006/2007

Issue & Implication	Recommendation	Management Response	Target Implementation
produced or utilised by finance function.	preparation of the accounts.		
Leases The Council does not have a process in place whereby details of all leases held by the Council and Schools are maintained, monitored, updated and input into the financial statements at year end appropriately.	The Council should have a register of lease agreements which is regularly monitored and which reflects the types of lease that exist and the relevant costs.	The case for maintaining such a register, and the associated resource implications, has not been made, as it has not been established that the financial statements are lacking any required disclosure.	N/A
Cash Review of bank reconciliations are not being carried out promptly. There are occasions when review is up to 4 weeks after the reconciliation has been completed.	Reconciliations should be reviewed promptly.	The bank reconciliations are done to a high standard and regularly. They consistently get excellent internal audit reports, with the audit opinion on the service as "Good". On occasions the review may have been held up slightly. We are always looking for improvements and with that in mind, we have changed the process, the revised process is: The review of reconciliations can be carried out now by either the Finance Support Manager or the Treasury and Banking Manger, this review will occur regularly every Friday afternoon, (effectively signing off the weeks work).	Immediate
Schools' Financial Administration Each school sends the Council annual financial returns detailing year-end information for the	Finance should have a process in place whereby year end journals from schools	The detail in respect of school transactions is not, and should not be,	N/A

Issue & Implication	Recommendation	Management Response	Target Implementation
financial statements. The finance department subsequently journal these totals onto the ledger without review or supporting documentation. In addition, the Council does not hold or request any invoices for devolved capital expenditure. The Council are unable to ensure that capital expenditure meets the requirements for reporting purposes laid down in FRS 15.	are accompanied with backup documentation to support them. The Council should request copies of invoices relating to schools' capital expenditure and check that the devolved schools' capital expenditure relates to actual capital spend.	held centrally. The anticipation from Government is that the burden on schools to provide such information to the core be reduced. Guidance is the requirement of the centre rather than ticking, checking and controlling. Detail is available from the schools but audit requests must take account of summer holidays. Schools have their own devolved capital allocations and are aware of the DfES guidelines on devolved capital spending. Examples would need to be produced that suggests schools aren't accounting for capital correctly.	
HRA Service Charges in the HRA cannot be substantiated as the Academy system feeds gross housing rent which includes service charges through to Integra. For the purposes of the financial statements the spilt of rental income between rent and service charge is calculated on a percentage basis based on property data from Academy, The service charges in 2005/6 were estimated at £1.072m.	The Council should approach Academy and Integra for software support to aid interpretation so that tit can monitor the service charges figure and provide an audit trail.	A data processing solution will be investigated	For closure of 2006/2007 Accounts

Issue & Implication	Recommendation	Management Response	Target Implementation
Access control Four System administrators have complete access to the finance system. These users' actions are not subject to formal monitoring or checking. These users have the ability to access standing data, approve and make payments, access management information and remove the evidence from the management information. There is therefore a high risk regarding potential undetected fraud.	The Council must ensure that appropriate segregation of duties is maintained in order to reduce the risk of misappropriation of assets. In addition a review of transactions made by the systems administrators should be undertaken periodically to ensure controls are being appropriately maintained.	It is inevitable that access controls are relaxed in this area because of the nature of the work which requires access to all parts of the system. However, recognising that there are already a number of reports that enable verification of input of data, in sensitive areas, we will review the need for further controls.	March 2007

Appendix E: Auditor’s Report to Medway Council on the 2006/07 Best Value Performance Plan

Auditor’s report to Medway Council on the 2006/07 best value performance plan

Authority’s Responsibilities
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Under the Local Government Act 1999 (the Act) the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate corporate performance management and financial management arrangements from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

Auditors' Responsibilities
We are required by section 7 of the Local Government Act 1999 and the Audit Commission’s statutory Code of Audit Practice to carry out an audit of the Authority’s best value performance plan, certify that we have done so, and report:

• any matters that prevent me from concluding that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

• where appropriate, making any recommendations under section 7 of the Local Government Act 1999.

Report and recommendations
We certify that we have audited the Authority’s best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission’s statutory Code of Audit Practice.

In preparing our report we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. Our work, therefore, comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy us that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

We have not identified any matters to report to the Authority.

We have no recommendations to make on procedures in relation to the plan.

PricewaterhousCoopers LLP
London

September 2006