

# AUDIT COMMITTEE

5 FEBRUARY 2008

## OUTCOMES OF AUDIT ACTIVITY

Report from: Internal Audit

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### 1 Summary

1.1 To advise members of the outcomes of Internal Audit activity completed since the last meeting of the Audit Committee.

### 2 Decision issues

2.1 Following the Council's decision to establish this committee, it is within the remit of this committee to take decisions regarding accounts and audit issues.

### 3 Background

3.1. This report contains the outcome of Internal Audit's work since the last report to this committee.

3.2. Generally, Internal Audit reports identify areas where improvement in the control process should be made. However, there is no standard within the internal audit profession of grading the overall control environment. Furthermore, even where recommendations are prioritised, the recipient of the report has no indication of how well the overall control process is operating.

3.3. To address this, Medway Council's Internal Audit has introduced a grading system so that managers have a clear understanding of the operation of the control environment in their area. The audit opinion is set at one of four levels and is formed on completion of the audit testing and evaluation stage but **before** management implement any of the recommendations.

3.4. All audit reports containing recommendations designed to improve the control process are presented with an action plan, which has been agreed with management and specifies the action to be taken, by whom and when. This agreed management action plan is incorporated in the issued final audit report.

3.5. Where control is assessed at the lowest level, ("Unsatisfactory"), follow up work will be undertaken within six months.

3.6. This report details work completed since the last report to members. The format of the annexes is as follows: -

Annex A Definition of audit opinions

Annex B Schedule of completed audit work showing the audit opinion provided and Directorates covered

Annex C Summary information on completed audits

3.7. In addition to the work set out on the following annexes, Internal Audit has also responded to requests to provide advice on control issues to managers.

#### **4 Financial implications**

4.1 There are no financial implications arising from this report.

#### **5 Legal implications**

5.1 There are no legal implications arising from this report.

#### **6 Recommendations**

6.1 Members are asked to note the outcome of Internal Audit's work.

#### **7 Background papers**

7.1 None

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## DEFINITIONS OF AUDIT OPINIONS

### Control Audits

<b>Good</b>	Controls are in place to ensure the achievement of service objectives, good financial management and to protect the authority against loss. Compliance with the control process is considered to be good and no significant or material errors or omissions were found.
<b>Satisfactory</b>	Key controls exist to enable the achievement of service objectives and obtain good financial management. However, occasional instances of failure to comply with the control process were identified and opportunities to strengthen the control system still exist.
<b>Adequate</b>	Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system, and losses could occur. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk of loss to the authority.
<b>Unsatisfactory</b>	Controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected. Failure to improve controls could lead to a decline in financial integrity and lead to an increased risk of major loss or embarrassment to the authority.

### Value For Money Audits

<b>High assurance</b>	Objectives being achieved efficiently, effectively and economically
<b>Substantial assurance</b>	Objectives are largely being achieved efficiently, effectively and economically, but there are areas for further improvement.
<b>Limited assurance</b>	Objectives are not being achieved through an appropriate balance of economy, efficiency and effectiveness. Improvements could be made in more than one of the 3E's.
<b>Minimal assurance</b>	Objectives are not being achieved either economically, effectively or efficiently

## Completed Audit Activity

Activity ↓	Directorate →	Opinion	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
<b>Operational Audits</b>							
Recruitment Vetting - Schools		A				A	
Recruitment Vetting - Non Schools		A	A				
Direct Payments Administration		S		S			
Licensing		S					S
Housing – Procurement of goods and services		U		U			
Validation of 2006/07 Performance Indicators							
• Housing Services		U		U			
• Highways		S			S		
• Libraries		G		G			
• Waste Management		S			S		
<b>Follow up Audits</b>							
Imprest Accounts Follow up		U		U			

**Key:** G = Good, S = Satisfactory, A = Adequate, U = Unsatisfactory

Completed Audit Activity

**Audit:** Recruitment vetting (school staff)

**Opinion:** Adequate

This audit was carried out to provide an independent opinion as to whether appropriate arrangements are in place and operating effectively to minimise the risk that people who have been deemed unsuitable to work with children may be employed in Medway's schools.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>In general, Medway has sufficient policies and procedures to minimise the risk of unsuitable people being employed in its schools, though the recruitment and selection policy for schools requires a lower level of evidence of identity and qualification checks than those applying to the rest of the Council.</p> <p>However, these policies and procedures are not fully effective in practice as many of the schools visited were failing to comply with them, or to address the weaknesses identified in the 2006 OfSTED report 'Safeguarding children – an evaluation of procedures for checking staff appointed by schools'. This highlighted that all schools should maintain a single, central record showing that staff identity and qualifications have been checked and that CRB disclosure has been obtained, stating when and by whom these checks were made.</p>			

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Testing of 176 new starters in schools against HR records failed to identify any application for CRB disclosure for 15 (8.5%) of them. Although 12 had since left (5 within a week of starting), HR monitoring and follow-up activity had been ineffective in obtaining a disclosure application for the remainder.</p> <p>Two-thirds of the schools visited were unable to provide evidence that CRB disclosures had been seen and reviewed for all new staff selected, sometimes several months after they had commenced work.</p> <p>Over 50% of staff selected had started work before HR had received a CRB disclosure - many of these were teachers, where appointment during the previous term would be expected.</p> <p>40% of the schools visited retained no evidence of any proof of identity seen for new staff members and 36% retained no evidence that qualifications had been verified at the time of interview or subsequently.</p> <p>Whilst all schools visited sought references for candidates offered teaching posts, this tended not to be the case for non-teaching staff.</p>	<p>Unsuitable people may be granted unsupervised access to children, leading to embarrassment (if nothing more serious) to the Council as local education authority, as:</p> <ul style="list-style-type: none"> <li>♦ some staff employed in Medway's schools have not received the necessary CRB disclosure;</li> <li>♦ there is a lack of evidence that CRB disclosures for some staff have been reviewed to ensure they have no past records that would impact on their suitability to work with children;</li> <li>♦ supervision of new staff awaiting a satisfactory CRB disclosure may lapse inadvertently;</li> <li>♦ there is a lack of evidence that proof of identity checked, also confirming that individuals are permitted to work in the UK under the requirements of the Asylum and Immigration Act 1996;</li> <li>♦ there is a lack of evidence that relevant qualifications validated;</li> <li>♦ failure to obtain references could result in individuals with unsuitable employment records being appointed to work in schools.</li> </ul>	<p>9 recommendations, relating to:</p> <ul style="list-style-type: none"> <li>♦ aligning the recruitment and selection code of practice for schools with that applying to the rest of the Council;</li> <li>♦ escalating follow-up procedures to ensure that CRB disclosures obtained for all school staff;</li> <li>♦ reminding headteachers that application for CRB disclosure should be made as early as possible in the recruitment process;</li> <li>♦ re-iterating to headteachers the Council's requirements on checking CRB disclosure, confirming proof of identity, validating qualifications and obtaining employment references.</li> </ul>	<p>8 of the recommendations accepted by management, actions to address the issues raised to be implemented by January 2008 at the latest.</p> <p>Implementation of the remaining recommendation was considered impractical, but an appropriate alternative action has already been taken to address the risk identified.</p>

## Completed Audit Activity

**Audit:** Recruitment Vetting (non-school staff)

**Opinion:** Adequate

This audit was carried out to provide an independent opinion as to whether appropriate arrangements are in place and operating effectively to minimise the risk that Medway may employ people deemed unsuitable to work with children or vulnerable adults in positions involving direct contact with these groups.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Although the Council has various procedures to minimise the risk of unsuitable people being granted unsupervised access to children and/or vulnerable adults – principally those included in the Recruitment and Selection Code of Practice - our testing identified that these are not being applied universally when new staff are recruited.</p> <p>Whilst staff in certain non-teaching posts – eg social workers, care workers and care establishment staff - clearly require CRB disclosure, this is not defined as clearly for other staff with duties involving regular contact with children or clients and/or access to confidential information relating to children.</p> <p>Testing failed to identify any application for CRB disclosure for four (6%) of 63 new starters in posts considered likely to involve direct contact with children and/or vulnerable adults. In addition, a CRB disclosure had not been received for a social worker 14 months after starting work, though the AD had</p>	<p>Although HR, in association with the service delivery directorates, are in the process of identifying which posts within each directorate meet this criteria, there is currently a lack of consistency surrounding whether disclosure is required for some posts, particularly in Leisure and Libraries.</p> <p>Possible harm to clients and adverse publicity to the Council, as it is evident that a few Medway staff who may be dealing directly with vulnerable people, particularly in the youth, library and leisure services, have not been subject to CRB disclosure.</p>	<p>20 recommendations, the more significant being:</p> <ul style="list-style-type: none"> <li>• ensuring that application for CRB disclosure is submitted for all new appointments to posts involving contact with children or vulnerable adults in a timely manner;</li> <li>• reminding recruiting managers of the Recruitment and Selection Code of Practice requirements for supervision of new staff awaiting CRB disclosure, engagement of people with a positive disclosure and validation of proof of identity and essential qualifications;</li> <li>• taking up employment</li> </ul>	<p>Although HR management stated that the majority of our recommendations related to procedures that should already be in place, in view of the exceptions identified during the audit appropriate action has already been/will be taken to address the issues raised. These actions will be implemented by April 2008 at the latest.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>approved this arrangement.</p> <p>Recruiting managers advised of any 'positive disclosure' are asked to discuss the issue with the applicant and decide whether the offence impacts on their suitability for the post. Six of the 11 managers interviewed would not make any record of the decision – mainly because it was felt to impact on equality/privacy issues.</p> <p>The Recruitment and Selection Code of Practice requires recruiting managers to validate candidates' identity by checking documents produced at interview and photocopy relevant parts/pages for inclusion in personnel files. Nine (20%) of the 45 local personnel files or central HR records examined did not include any, or insufficient, evidence that proof of identity had been checked.</p> <p>Our testing also identified that no employment references were held on local personnel files or central HR records for 10 (22%) of the 45 new starters selected. These were casual staff in leisure and libraries (not recruited through HR until early 2007) but also in youth and adult care services.</p>	<p>The Council may be open to criticism in the event of the person's suitability being queried subsequently.</p> <p>Although we were advised that all exceptions were British nationals with valid NI numbers so no further proof of identity was required, this highlighted that recruiting managers do not always follow the guidance provided.</p> <p>Failure to obtain and verify employment references could result in unsuitable people being employed.</p>	<p>references for all new appointments;</p> <ul style="list-style-type: none"> <li>• reminding managers that they have responsibility to ensure that staff provided by agencies/care providers, and volunteers, have been subject to a satisfactory CRB disclosure and (where appropriate) possess appropriate qualifications;</li> <li>• reminding managers of establishments inspected by the CSC/OfSTED of the CRB's requirements regarding access restrictions, retention periods and secure disposal of disclosures.</li> </ul>	

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Six of the eight managers interviewed who source staff from agencies or use care providers assume that the agency will have carried out necessary pre-recruitment checks for the staff provided, without obtaining any formal assurance that this is the case. In addition, three of the five managers who use volunteers place reliance on agencies or the Primary Care Trust to have obtained CRB disclosure.</p> <p>CRB disclosures for staff working in care establishments covered by the CSCI/OfSTED inspection regime are sent to the establishment, as these are required during inspections. We identified that CRB requirements relating to access restrictions, retention periods and secure disposal were not being adhered to at all establishments.</p>	<p>Whilst the organisations used provide services under the Medway social care contract and/or are regulated by the CSCI, this provides only limited assurance that all staff provided have received CRB disclosure and possess appropriate qualifications. Similarly, a volunteer with a past conviction affecting their suitability to work with children or vulnerable adults may be allowed unsupervised access to these groups.</p> <p>In addition to non-compliance with the CRB Code of Practice, which could impact on the Council's 'registered body' status, personal information relating to members of staff could fall into the hands of unscrupulous people and be used, for example, to perpetrate identity theft.</p>		

**Completed Audit Activity**

**Audit:** Direct Payments Administration

**Opinion:** Satisfactory

The Department of Health introduced the Direct Payments (DP) scheme in 1997 to enable individuals attain more independent living and to take more control over the appropriateness of care services they receive and the supplier of those services. Since April 2003, councils have been required to advise their clients of the “direct payments” option but cannot impose it on clients who do not wish to receive it. Between 2000 and 2007 the number of service users who opted to receive direct payments increased from about 20 to 630 as did the expenditure on the scheme. Budgeted expenditure for 2007/08 is about £2.5m.

The objective of this audit was to provide an opinion on controls applied to the Direct Payments scheme to mitigate the risks that:

- the Council may fail to comply with legislation or central government guidelines relating to the scheme;
- the scheme may be offered to clients who do not meet the eligibility criteria;
- clients may receive payments for care services provided directly;
- clients may not use the funds provided to procure the services they require

Main Findings	Main Risks	Main Recommendations	Management Response
<p>To comply with statutory requirements, in 2000 the then Social Services directorate produced a policy on the Direct Payment (DP) scheme. Key officers involved in administering the scheme are aware of it and its contents. The policy had not been updated since but action to address this was underway.</p> <p>The council is statutorily required to inform service users of the DP scheme and care managers in both adult and children’s care services are primarily responsible for discharging this responsibility. Documentation used for adult service clients provides demonstrable evidence of compliance with the statutory obligation. However, the standard form completed for the Children’s directorate’s clients, does not provide the required evidence.</p>	<p>Guidance notes used by relevant personnel involved in the administration of the scheme may not be up to date with legislative changes and the council risks breaching statutory requirements.</p> <p>The council may be unable to demonstrate discharge of its legal duty to inform all eligible clients of about their right to elect to for Direct Payments.</p>	<p>The Self-Directed Support Service Manager should ensure that the revised policy is reviewed and updated and a record is maintained of whom it is issued to.</p> <p>The Team Manager for Children with Disabilities should introduce a ‘DP’ section as part of the assessment form along the same lines as used for the ‘Adults’. This should be used to formally record whether the Service User was offered the scheme and their response to the offer.</p>	<p>All recommendations agreed and all but one will be implemented by April 2008, with the remaining recommendation implemented by September 2008.</p>

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Whilst Client Financial Affairs officers are tasked with monitoring and auditing clients' accountability for the Direct Payments, they are not provided with the adequate details of care services to be procured with the DP funds or the care services that the council provides directly.</p> <p>Service users, electing to receive Direct Payments enter into a legal agreement with the council, which refers to a particular schedule completed during the assessment process. However, the agreement does not contain a copy of the schedule or refer to its date of completion to identify it.</p> <p>Misuse of Direct Payments is identified via care managers' periodic reviews of clients' care needs but some reviews are not promptly undertaken.</p> <p>"Audits" of DP expenditure are deferred until the first and subsequent anniversaries of the first payment. As part of the "audit", CFA officers check that recorded expenditure is appropriately supported and that the invoices reflect services for which the Direct Payments were provided.</p>	<p>Client Financial Affairs officers may fail to identify misuse of direct payments or duplication of service provision because they are not supplied with sufficient detailed information on the services to be procured with client's direct payments and those that the council directly provides.</p> <p>The agreement is ambiguous and potentially difficult to enforce.</p> <p>Changes in a service user's care needs that might terminate or reduce their Direct Payment entitlement may not be promptly identified for action.</p> <p>Potential misuse or failings in the client's administration and recording of DP transactions are unlikely to be identified until the end of the first year and payments to some clients could exceed £30,000 before being scrutinised.</p>	<p>Client Financial Affairs officers should be provided with access to detailed information on what the DP funds should be used for and care services directly provided, via access to the relevant menus on the RAISE database.</p> <p>The necessary schedule should be attached to the agreement and copies provided to the service users to ensure clarity as to what the agreement relates to.</p> <p>Team managers to introduce electronic monitoring measures to ensure reviews are promptly undertaken.</p> <p>Client Financial Affairs officers to undertake the first "audit" within a shorter period after payment commencement, ideally approx. 3 months and at annual intervals thereafter.</p>	

**Completed Audit Activity**

**Audit:** Licensing – Licensed Premises

**Opinion:** Satisfactory

The Licensing Act 2003 transferred to local authorities responsibility for licensing premises selling and supplying alcohol, to provide a unified system for regulating these activities, regulated entertainment and late night refreshments with the objectives of preventing crime, disorder and public nuisance, promoting public safety and protecting children. To promote these objectives local authorities are empowered, when reviewing a premise licence, to suspend or revoke a licence, to exclude specific licensable activities from the licence or to modify operating conditions attached to the licence.

The objectives of this audit were to provide an opinion on controls to mitigate the risks that:

- The Council fails to fulfil its statutory responsibilities in relation to licensable activities;
- Enforcement action fails to promote achievement of stated objectives;
- Income from this activity is not maximised and fails to recover the costs incurred.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Satisfactory arrangements are in place and operating against most expected controls, but whilst enforcement action taken is monitored and reported to senior management, uncleared items of received intelligence and enforcement actions generated by the team’s risk rating system are not.</p> <p>The government prescribes fees for all licenses, but fees for processing the death of a licence-holder and right of freeholder have been omitted from the Council’s leaflets and website.</p> <p>Licence applicants may pay the prescribed fees at Licensing’s reception counter. Although applicants wishing to pay cash are directed to the cashiers, cheque payments are accepted – but no receipts are issued, cheques being</p>	<p>There is no indication of the coverage and prioritisation of current enforcement activity or identification of potential omissions or greater priorities.</p> <p>Possible loss of income.</p> <p>All payments received via Licensing’s reception may not be banked and accounted for properly.</p>	<p>Seven recommendations:</p> <ul style="list-style-type: none"> <li>• Holding details of all received intelligence and enforcement action in a more accessible and identifiable manner, ideally on a single database;</li> <li>• Producing monthly reports of uncleared received intelligence and outstanding enforcement actions, to be supplied to responsible managers and the Head of Enforcement, Litigation and Licensing Officer;</li> <li>• Regular checks of the register to ensure that any unused numbers are promptly identified and used;</li> <li>• Updating the licensing fees leaflet to include those for an interim authority notice following death of a license holder and the right of freeholder;</li> </ul>	<p>All recommendations accepted – four already implemented and the remainder to be implemented by the end of April 2008.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>receipts are issued, cheques being held by the “duty officer”, often in their desk drawer pending banking. Cheques received are then collected together and taken to the cashiers on a daily basis – we were assured that no cheques are retained in the Unit overnight.</p> <p>There is no check to ensure that all invoices for annual maintenance fees requested from Exchequer Services have actually been raised, as cyclical invoices for old and new debtors are not itemised on Integra GL records.</p> <p>Outstanding debts for annual maintenance fees are subject to the standard sales ledger debt recovery processes, but this is restricted by the low values involved and the Licensing team’s ultimate inability to revoke licenses for non-payment of annual fees.</p>	<p>All income due for annual maintenance fees may not be invoiced and received.</p> <p>All income due for annual maintenance fees may not be received.</p>	<ul style="list-style-type: none"> <li>• Levying fees for supplying copies of the register, to maximise income;</li> <li>• Documenting how the charge levied for a premise license where the fee does not equate to the rate applicable to the current rateable value, or there is no existing rating assessment for the property, has been calculated;</li> <li>• Not accepting payments at the licensing office or establishing arrangements to issue receipts for all payments received, recording payments received and holding these securely pending banking, with regular reconciliation of records of payments received to the payments passed to the cashiers for banking.</li> </ul>	

## Completed Audit Activity

**Audit:** Housing - Procurement of Goods and Services

**Opinion:** Unsatisfactory

All procurement is subject to an overall duty to secure value for money but the council's financial and contract rules set out specific operational requirements to ensure goods, services and works are procured at competitive rates; and applied arrangements protect the council's interests. These requirements vary according to the values involved but basically require that at least 3 quotations are obtained for all purchases over £15000; and over £100,000 a formal tendering process, or alternative means of procurement set out in the contract rules, is applied. Exclusion from these requirements is permitted only in certain exceptional circumstances and officers are expressly forbidden to knowingly assemble or disassemble schemes in order to avoid or diminish the requirements of these rules.

Financial rules require that official order forms should be used for all ordered goods, services and works. However, contract rules additionally require that those valued at over £100,000 are covered by a written and signed contract containing a range of specific clauses; and that those over £250,000 are sealed.

During 2005/06 and 2006/07 respectively, Housing Services spent approx £4.94 and £6.13 million on procured goods, services and works. In each year, these were obtained from about 230 suppliers but the values placed with approx. 30 exceeded £15,000 and up to further 13 exceeded £100,000.

The objective of this audit was to provide an opinion on compliance with arrangements providing assurance that:

- Goods, services and works are procured at competitive prices; and in accordance with statutory requirements and the council's rules.
- Contractual arrangements for ordering goods, services and works protect the council's interests.
- Paid goods, services and works have been delivered and charged in accordance with contracted terms and conditions.

Housing management requested this audit and asked that it exclude work relating to the existing Housing Maintenance Contract.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Officers are required to procure works and services in line with the council's contract and financial rules. During the period examined there were no formalised local procedures to monitor or ensure this.</p> <ul style="list-style-type: none"> <li>• 10 contracts examined fell into this value band. For 6 there was no evidence to show that 3 competitive quotations had been obtained for the work</li> </ul>	<p>Goods, services and works may not be procured at competitive prices; and in accordance with statutory requirements and the council's rules.</p>	<p>Managers should monitor compliance with contract rules' requirements.</p> <p>Managers should require staff to complete standard documentation which is reviewed and retained</p>	<p>Agreed and to be in place by end January 2008.</p>
<p>Officers are required to procure works and services in line with the council's contract and financial rules.</p>	<p>Goods, services and works may not be procured at competitive prices; and in accordance with statutory</p>	<p>Managers should monitor compliance with contract rules' requirement to obtain competitive tenders for works</p>	<p>Agreed and to be in place by end January 2008.</p>

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>During the period examined there were no formalised local procedures to monitor or ensure this.</p> <ul style="list-style-type: none"> <li>9 contracts fell in to this category for five of them, there were insufficient retained records to assess compliance with all the requirements of the council's specified tendering process.</li> </ul>	<p>requirements and the council's rules.</p>	<p>valued at over £100K. To achieve this, managers should establish a range of controls to verify full compliance with the various requirements of the specified tendering process and ensure that the documentation is retained.</p>	
<p>Appropriate approval should be obtained where works and services have not been procured in accordance with the council's rules. Officers are required to comply with these requirements but there are no specified local procedures for obtaining approval from the director and council's asst. director of legal and contract services as appropriate.</p> <p>There was no evidence of approval to vary financial and contract rules for any of the procurements that did not comply.</p>	<p>Goods, services and works may not be procured at competitive prices; and in accordance with statutory requirements and the council's rules.</p>	<p>Surveyors should be required to submit formal requests for exemption not to seek the quotations or tenders required by contract rules, stating the reason therefore. Responsible managers should approve these requests and establish a protocol for obtaining the requisite approval of the director and, where necessary the monitoring officer (asst. director legal services).</p> <p>Documentary evidence of the approvals should be securely retained.</p>	<p>Agreed and to be in place by end February 2008.</p>
<p>The procurement manual states that officers should aggregate works. Instances where homogeneous works had been let as individual jobs were identified during testing.</p>	<p>This practice undermines value for money because contractors are not pricing works for larger scale projects that normally produce economies of scale and thus attract lower unit rates.</p>	<p>As per the procurement manual "Officers should aggregate, i.e. combine, demand for like supplies, services and works wherever possible" and tender the work as a complete package.</p>	<p>Agreed and to be in place by end April 2008.</p>
<p>Prepared specifications are not always retained. The only specifications available for the contracts reviewed were some held with returned completed tenders. Consequently there was no evidence</p>	<p>Goods, services and works may not be procured at competitive prices; and in accordance with statutory requirements and the council's rules.</p>	<p>Managers should document those schemes where surveyors are required to prepare specifications and record their approval of the prepared specifications prior to issue copies should be retained.</p>	<p>Agreed and to be in place by end January 2008.</p>

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
that senior managers agree prepared specifications prior to issue or indication of the extent to which detailed specifications have been produced.			
There is no independent review of the selected contractors/suppliers.	Current arrangements fail to comply with contract rules thereby increasing the risk that the Council's rules will not be followed.	Tenders should be invited from contractors identified via the procedures specified in contract rules.	Agreed and will be implemented.
Tender Control Documents are used to record the values of tenders/quotations obtained. Retained documentation was limited and provided no indication that surveyor's evaluations and the results were regularly documented and independently reviewed.	Goods, services and works may not be procured at competitive prices; and in accordance with statutory requirements and the council's rules.	Management should require staff to document and sign their evaluation of received tenders/quotations and selection of the successful contractor. These records should be independently reviewed, signed to confirm agreement to the recorded outcome and retained.	Agreed and will be implemented following advice from Procurement team.
<p>Officers are required to comply with the council's financial, contract and more latterly procurement rules regarding the content of orders/contracts. The procurement manual and associated information contains templates for the standard terms and conditions to be included in contracts.</p> <ul style="list-style-type: none"> <li>Only 2 contracts had formal signed contracts containing the prescribed terms and conditions, necessary to protect the council's interests, although they were considered warranted in a further 24 instances.</li> </ul> <p>System generated orders do not contain all the information/ terms</p>	Arrangements for ordering goods, services and works do not protect the council's interests.	Surveyors should arrange for formal signed contracts containing the clauses, prescribed by the council's contract rules to be produced for all procured works and services valued at over £100K; and for the information prescribed in contract rules to be entered on orders issued for works and services valued under £100K.	Agreed and will be implemented following advice from Procurement team.

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
prescribed in the council's rules to protect its interests.			
3 contracts reviewed were not in the standard Medway council contract template. There was no evidence that the use of alternative contract documents was authorised by the council's legal department or by senior managers.	Arrangements for ordering goods, services and works do not protect the council's interests.	Surveyors seeking to use suppliers terms and conditions should be required to obtain prior approval from their senior manager and the legal section.	Agreed and to be in place by end January 2008.
The section has no standard method of documentation or document retention other than that imposed by the computer system. The standard of document maintenance and retention within the section is poor and undermines effective control. There were 26 instances in the sample where a contract/agreement is considered appropriate. Of these, 21 had no documentation relating to the award of the contract and thus evidence of director's approval or authorisation.	Arrangements for ordering goods, services and works do not protect the council's interests.	Contracts should be awarded and approved in line with council rules and procurement guidelines and include appropriate terms and conditions to protect the council interests.  Copies of all signed contracts/successful tender documents should be retained.	Agreed and to be in place by end January 2008.
Changes to existing orders/contracts should be subject to appropriate approval and documented. With no record or review of the surveyors' actions, there is no assurance that changes to orders and contracts are appropriately controlled.	Arrangements for ordering goods, services and works do not protect the council's interests.	Surveyors should be required to endorse queried invoices with verification checks undertaken.  Formal variation orders should be issued for significant changes to contracted planned maintenance based on original specifications, subject to appropriate authorisation requirements and relevant documentation retained.	Agreed and to be in place by end January 2008.
Required works and services and their costs should be agreed and	Paid goods, services and works may not have been delivered or charged	All system issued orders should be supported by comprehensive	Agreed.

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>specified prior to the work being undertaken. Although the computer system provides a means of specifying and costing the works, the cost is not agreed with the contractor prior to issue unless it is based on the contractor's own tendered percentages or is an "estimated cost" supported by a quote from the relevant contractor. Nevertheless, if the selected work is detailed and priced on the issued order and the contractor then executes the work, without prior challenge, he could be deemed to have agreed the specification and price. However, assurance of this is undermined given the standard of document maintenance within the section</p>	<p>in accordance with contracted terms and conditions.</p>	<p>specifications of the work and the selected contractor's quotation/tender. These documents should be securely retained.</p> <p>A copy of the specification should be sent to the selected contractor with the issued order.</p> <p>No Academy orders should be issued for values of more than £10K, unless they result from a competitively sought quotation or tender or are based on system-held tendered rates for the selected contractor.</p>	
<p>Charges rendered in only 2 of the 40 examined could be traced back to an original contract document. For the remainder either:</p> <ul style="list-style-type: none"> <li>▪ There was no contract document stating prices.</li> <li>▪ The payment could not be located on Academy.</li> <li>▪ Charges levied were a schedule of rates items but the original order was an estimated price.</li> <li>▪ The works items invoiced could not be matched to those listed in the contract document because the former had been increased by annual uplift percentages that were not evident.</li> </ul>	<p>Paid goods, services and works may not have been delivered or charged in accordance with contracted terms and conditions.</p>	<p>Agreed annual price uplifts should be documented and filed with the relevant contract.</p> <p>The cause of significant differences between invoiced and original tenders/quotes/orders should be investigated and, if agreed, surveyors should be required to raise variation orders to document and quantify their cause.</p>	<p>Agreed and will be implemented following advice from the Procurement team.</p>

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Where invoices differed from the original order, they were invariably passed for payment on the basis of surveyors' signed confirmations on the payment certification slips. There was little documentary evidence of the action taken to verify the additional charges or variation orders being raised to cover the difference.</p>			
<p>There is no formal written procedures but generally surveyors are expected to check invoices for all capital works, works on voids and those over £1000, most invoices valued at over £500 and 20% of those over £200.</p> <p>Visits/checks are not recorded. Satisfactory completion of the work is only indicated by surveyors' signatures confirming the invoice can be paid. There is no monitoring of surveyors' compliance with the expected levels of checking.</p>	<p>There is no assurance that surveyors inspect completed works or at the levels expected. Paid goods, services and works may not have been delivered or charged in accordance with contracted terms and conditions.</p>	<p>Records of visits undertaken to confirm quality of work should be maintained to evidence and provide assurance of satisfactory completion.</p>	<p>Agreed and will be implemented. Interim arrangements are in place but not yet incorporated into day to day processes.</p>

## Completed Audit Activity

**Audit:** Validation of 2006/07 Performance Indicators

**Opinion:** Housing Services - unsatisfactory  
 Highways - satisfactory  
 Libraries - good  
 Waste Management - satisfactory

The Local Government Act 1999 required local authorities to continuously improve the way they exercise their functions and empowered central government to specify indicators to measure performance and standards for those indicators they considered must be met. Local authorities are also required to set targets for those indicators without nationally set standards, as a guide to each council's aims and objectives and the progress made towards achieving them.

This audit was completed at the request of senior management as the external auditors had expressed concern over the calculation and documentation supporting several performance indicators relating to housing services in 2005/06, indicating that the Council would need to demonstrate assurance during 2006/07 that deficiencies in arrangements to produce these indicators had been remedied.

We examined the calculation and substantiation of 10 performance indicators reported by Housing Services, focussing particularly on those where concerns and deficiencies had been identified previously and where recurrence could impact on the Council's CPA assessment. Similar tests were applied to additional performance indicators selected for review by the external auditor, two relating to housing and one each to highways, libraries and waste management.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Overall, various well established procedures were in place to produce data for the performance indicators reviewed, these having been used for a number of years. However, the audit review identified three main areas of concern:</p> <ul style="list-style-type: none"> <li>• failure to collect and calculate data in line with the specific definition of the indicator;</li> <li>• failure to involve owners of all the source systems, who understand the content and characteristics of their data, when specifying the data output required; and</li> <li>• performance levels reported not being adequately substantiated by supporting records.</li> </ul>	<p>The performance levels reported may be inaccurate, may fail to comply with the specific definition of the indicator and/or cannot be substantiated by robust supporting records. As many BVPIs also inform the Comprehensive Performance Assessment of each council, external audit qualification of performance reported may impact on both the Council's CPA rating and its financial and operational freedom and flexibility. It could also impact on achievement of Public Service Agreement targets, which could result in additional funding of £7 million not being received by the Council.</p>	<p>10 for Housing Services, relating to ensuring that:</p> <ul style="list-style-type: none"> <li>• accurate numbers of LA-owned 'homes', and all private sector properties returned to use through LA action, are reported;</li> <li>• all improvements to LA-owned housing are recorded accurately and promptly;</li> <li>• adequate records of homeless households placed into temporary accommodation and repeat homelessness are maintained;</li> <li>• all LA interventions that prevent homelessness are recorded.</li> </ul> <p>2 relating to calculation of recycling, to ensure that the definition of the PI is followed more closely.</p>	<p>Management will take account of these issues when key staff are in place and designing revised procedures and/or quality control measures and will ensure, through supervisory review, that appropriate records are maintained.</p> <p>Both accepted, to be implemented by the end of December 2007</p>

**Completed Audit Activity**

**Audit:** Imprest Accounts

**Opinion:** Unsatisfactory

Most of these imprest accounts were inherited from K.C.C in 1998 and comprise a bank account and cash holding. Many are held by social services satellite establishments e.g. children’s homes, day and link service centres, responsibility for which now falls to either the Community Services or Children’s Services directorates. These accounts are used for normal “petty cash” requirements and some are also used to pay for clients’ personal services e.g. hairdressers visits or provide clients with cash advances from their (clients’) own funds. An audit carried out last year, assessed that the overall standard of control exerted by arrangements for administering these “social services” imprest accounts was ‘unsatisfactory and thus a this follow-up audit was undertaken to:

- ascertain progress on implementing remedial measures agreed at the last audit; and
- provide an updated opinion on the current level of control exerted over the administration of these imprest accounts in the Community and Children’s Services directorates

<b>Main Findings</b>	<b>Main Risks</b>	<b>Main Recommendations</b>	<b>Management Response</b>
<p>Agreed actions to address a number of key control weaknesses relating to the operation of these imprest accounts, including changes to some established and revised guidance and training were based on the production and distribution of a set of procedure notes. The Exchequer, Insurance and Systems Manager (EISM-formerly Exchequer Services and Systems Control Manager) was tasked to produce these procedure notes by April 2007 but due to various reasons he has not yet been able to undertake this task.</p> <p>The last audit identified that 3 Service Support Assistants at the Sunlight Centre administered the imprest account and were also signatories to the bank account. Due to an oversight the agreed action to remove these officers as signatories to the account had not been</p>	<p>Personnel administering the imprest accounts lacked adequate knowledge about good practices, which could result in:</p> <ul style="list-style-type: none"> <li>▪ Imprest accounts being overdrawn without being authorised.</li> <li>▪ VAT not being correctly treated</li> <li>▪ Inappropriate use of the imprest accounts</li> </ul> <p>Increased risk of an irregularity or fraud being perpetrated.</p>	<p>New procedures should be produced promptly and used to provide all personnel with training.</p> <p>The Support Service Assts at the Sunlight Centre are removed from the list of cheque signatories for those establishments.</p>	<p>All recommendations have been agreed and the new procedures should be in place by April 2008.</p>

## Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>processed.</p> <p>The previous Risk &amp; Insurance Manager had agreed to inform establishment managers, with imprest accounts, of conditions to their insurance cover that could undermine successful re-imbursalment of monies lost through theft. This task was not undertaken before his departure and had not been re-allocated subsequently.</p>	<p>Insurance claims may not be successful.</p>	<p>The Exchequer, Insurance and Systems Manager to inform all establishments about practices that limit successful insurance claims</p>	