

AUDIT COMMITTEE

15 APRIL 2008

OUTCOMES OF AUDIT ACTIVITY

Report from: Internal Audit

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Summary

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

1. Budget and Policy Framework

1.1 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.

2. Background

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

2.2 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.

2.3 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.

2.4 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.

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

2.6 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

2.7 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.

3. Financial and legal implications

3.1 There are no financial or legal implications arising from this report.

4. Recommendations

4.1 Members are asked to note the outcome of Internal Audit’s work.

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Background papers

None.

DEFINITIONS OF AUDIT OPINIONS

Control Audits

Good	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.
Satisfactory	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.
Adequate	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.
Unsatisfactory	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

High assurance	Objectives being achieved efficiently, effectively and economically
Substantial assurance	Objectives are largely being achieved efficiently, effectively and economically, but there are areas for further improvement.
Limited assurance	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.
Minimal assurance	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
Main Financial Systems							
Council Tax - system controls							S
Housing Benefits - system controls							G
Housing Rents System Control				A			
National Non-Domestic Rates – System Controls							S
Payroll – system controls							S
Treasury Management – system and monitoring controls							S
Financial control in secondary schools <ul style="list-style-type: none"> Financial Management Payroll Purchasing Income Received Banking Arrangements Petty cash Taxation Assets & information security 						S S S S S S G A	
Financial control in special & primary schools (Fmsis tranche 1) <ul style="list-style-type: none"> Financial Management Payroll Purchasing Income Received 						S S S S	
Capital Budgetary Control – monitoring control							A
Housing Rents - monitoring Controls				S			
Client Financial Affairs				A			
Operational Audits							
Section 106 Agreements <ul style="list-style-type: none"> Framework Contributions received Contributions used appropriately 					S U S		
Extended Schools Services					S		
Follow up Audits							
Events – financial control				U			

Completed Audit Activity

Activity ↓	Directorate →	Opinion	Authority Wide	Community Services	Regeneration & Development	Children's Services	Business Support Department
Medway Tunnel – management of operational risks					U		
Mobile phone usage follow-up (interim review)		•	•				•

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

- Work carried out but no opinion provided in that area

Completed Audit Activity

Audit: Council Tax - system controls

Opinion: Satisfactory

This is an annual audit, undertaken on behalf of the council's external auditors, to provide an opinion on arrangements controlling the administration, levying and collection of council tax.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Access to Iworld is well controlled.</p> <p>Controls over the inspection process have continued to operate well and provide management with data on coverage. The number of inspectors reduced from 3 to 1 during the year but increased towards the year end. Management acknowledge this situation and, as it is unlikely the full establishment of inspectors will be re-instated, are considering alternative measures to control empty properties such as postal inquiries.</p> <p>Generally effective arrangements are in place and operating against all other expected controls and arrangements for controlling suppressed arrears actions have been improved. Arrangements for the annual review of certain discounts and exemption awards are in place and completion had been achieved or was anticipated by the year-end on most categories except single person discounts (SPD). The latter has been deferred pending the resolution of legal challenges to the National Fraud Initiative's proposal to verify such entitlement by a nationwide comparison of all local authorities'</p>	<p>Inspection frequencies may delay or fail to detect unauthorised voids or awards of certain categories of exemption.</p> <p>Unauthorised discounts and exemptions may be awarded as checks on new awards are based on sample applications rather than system input.</p>	<p>Management should continue to seek alternative ways to verify occupancy and entitlement to certain categories of exemptions to compensate for the reduced effectiveness of the inspection function.</p> <p>Management should pursue inquiries into the current feasibility of developing a bespoke report to identify new awards of relevant classes of CT & NNDR exemptions, discounts and reliefs directly from the Iworld system, as the basis for the already established verification checks on these transactions.</p>	<p>All recommendations have been agreed and scheduled for implementation by the end of June 2008.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>SPD data.</p> <p>Sample checks on new awards of certain discounts continue to operate well. However, as reported in previous years, the assurance they provide is limited because they are based on transactions identified from application forms on the DIP system rather than iworld system input. Management continue to recognise and accept the resultant risk.</p>			

Completed Audit Activity

Audit: Housing Benefits - system controls

Opinion: Good

This is an annual audit, undertaken on behalf of the council's external auditors, to provide an opinion on arrangements controlling the assessment and payment of council tax and housing benefits.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Access to Iworld and changes to system parameters are well controlled.</p> <p>The good overall control framework has been maintained and the temporary lapses in some reconciliation and control procedures, identified last year, have generally been remedied.</p> <p>Recovery action on invoiced overpayments is well controlled and performance is monitored via the "overpayments dashboard" and reported to the Client Officer and Contracts Manager monthly. However, intervals between Recovery Officers' cyclical reviews of recovery action on individual debts are sometimes protracted. Responsible managers attribute this to the limited resources available to undertake this task but it does detract from the sound control exerted overall.</p>	<p>None</p>	<p>Minor improvements to some existing reconciliation and control procedures.</p>	<p>All recommendations have been agreed and scheduled for implementation by the end of April 2008.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Estate officers are responsible for pursuing accounts in arrears and can suppress system-generated arrears actions. Management control this activity through regular scrutiny of reports on suppressed arrears actions and individual account's arrears. However, production of the former lapsed when responsibility for this scrutiny function changed at the beginning of the year; and since then there is little evidence of the scrutiny process although management maintain it is still operating.</p>	<p>Unauthorised or inappropriately suppressed arrears actions may not be promptly identified.</p>	<p>Reports on suppressed arrears actions should be produced each month and scrutinised by management.</p> <p>Management should maintain documentary evidence of their regular review of accounts in arrears and related discussions with Estate Officers.</p>	

Completed Audit Activity

Audit: National Non-Domestic Rates – System Controls

Opinion: Satisfactory

This is an annual audit, undertaken on behalf of the council's external auditors, to provide an opinion on arrangements controlling the administration, levying and collection of national non-domestic rates.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Access to Iworld is generally well controlled.</p> <p>As described for council tax, the inspection process continues to operate well but its effectiveness as a control over empty properties and certain categories of exemption and to compensate for the lack of separation between the maintenance of the debit, collection and recovery functions is now limited.</p> <p>The government has suspended annual reviews of small business rate relief recipients until 2010 and there has been no comprehensive review of any other categories of relief during the year. The last review of charitable relief was completed in 2001/02 and is therefore significantly overdue.</p> <p>Generally effective arrangements are in place and operating against all other expected controls and arrangements for controlling suppressed arrears actions have been improved.</p> <p>Also like council tax, sample checks on new awards of certain reliefs and</p>	<p>Inspection frequencies may delay or fail to detect unauthorised voids or awards of certain categories of exemption.</p> <p>Ceased or changed entitlement to existing reliefs may not be identified.</p> <p>Unauthorised discounts and exemptions may be awarded as</p>	<p>Management should continue to seek alternative ways to verify occupancy and entitlement to certain categories of exemptions to compensate for the reduced effectiveness of the inspection function.</p> <p>Management should initiate a comprehensive review of all existing awards of charitable relief, which is now overdue.</p> <p>Management should pursue inquiries into the current feasibility of</p>	<p>All recommendations have been agreed and scheduled for implementation by the end of September 2008</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>exemptions continue to operate well but the assurance they provide is limited because they are based on transactions identified from application forms on the DIP system rather than iworld system input. Management continue to recognise and accept the resultant risk.</p>	<p>checks on new awards are based on sample applications rather than system input.</p>	<p>developing a bespoke report to identify new awards of relevant classes of CT & NNDR exemptions, discounts and reliefs directly from the iworld system, as the basis for the already established verification checks on these transactions.</p>	

Completed Audit Activity

Audit: Payroll – system controls

Opinion: Satisfactory

Medway Council employs over 10,000 people (including schools), of which the vast majority have their pay processed through the “Resource Link” system, managed under the Human Resources structure within the Business Support Department.

The objective of this audit was to provide a current year opinion on controls to achieve the following system objectives:

- only bona-fide/legitimate employees are paid for actual work performed;
- amounts paid are accurate and timely;
- deductions (statutory and voluntary) are accurate and paid over correctly to appropriate agencies;
- payments/deductions are promptly and accurately reflected in the council’s main financial records;
- access to data (computerised and documentary) is adequately restricted.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Overall, the Council’s payroll system was found to be operating in an organised and well-controlled environment with many of the expected controls in place and operating satisfactorily.</p> <p>Starter forms are required for each new employee and authorised by two officers – one of which must be an authorised signatory. However, both signatories on 50% of the sample checked were HR officers, not the relevant budget/line manager.</p> <p>A multi-purpose form is used to notify the payroll section of changes to employee details, including moves from one post to another and employees permanently leaving the council’s employment.</p> <p>Secondary checks are undertaken on a sample of transactions (e.g. starter forms and pay awards) following their input into Resource Link, but the</p>	<p>The two signatures obtained on starter forms do not provide assurance that the new starter actually exists, with a risk that fictitious employees could be set up.</p> <p>Confusion when used to notify cessation of employment, requirement for two signatories unnecessary.</p> <p>No evidence that the independent checks are undertaken, or that the sample checked is sufficient.</p>	<p>12 recommendations, covering:</p> <ul style="list-style-type: none"> • periodic identification of input by the Systems Administrator and checks to ensure validity; • redesigning starter form to clarify the purpose of authorisation, including a caution to signatories regarding the consequences of making a false declaration; • ensuring that <i>all</i> original payroll documents are scanned as these form part of the employment contract; • ensuring that the input of new employees is independently checked and documented; • introducing a dedicated leaver’s form, requiring only the specific information needed and the signature of only the budget/line manager; • determining the level of random checks of pay recalculations to be undertaken and documenting these as evidence that the checks are actually undertaken; • ensuring the bankline cards are locked up at all times when not in 	<p>7 recommendations accepted, to be implemented by 31 May 2008.</p> <p>However, existing procedures and processes are considered sufficient to mitigate the risks to be addressed by the remaining recommendations:</p> <ul style="list-style-type: none"> • confirming validity of input by the Systems Administrator; • introducing a dedicated leaver’s form; • passing responsibility for security of the bankline cards to other senior officers; • amending the form used for claiming hours worked; • retaining the latest report of leavers whose access to the Resource Link system has been deleted, as access is deleted automatically after 30 days’ non-use.

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>sample checked is not documented.</p> <p>Although all salary payments are made via BACS, it is necessary on occasions to process manual payments. The bankline system, located in the Treasury Management section, is used to process manual payments, which requires the use of two access cards - one for inputting the transactions and the other for authorising/releasing the payment. Both bankline cards held in Payroll are not locked securely and are therefore accessible to all payroll staff, though only the five officers trained to process manual payments are aware of the security protocols required for both cards.</p> <p>All claims for car mileage and expenses use a standard form and are appropriately authorised by budget managers. However, testing showed that some claims are not submitted promptly, not completed fully or information provided is insufficient.</p> <p>Confidential payroll documents, which could contain sensitive payroll related and personal data, are not adequately secured following their input and processing for payment.</p>	<p>The cards could be fraudulently obtained and used to process unauthorised manual payments - although the value of each transaction is limited to £2k, there is no limit to the number of transactions that could be processed.</p> <p>Implications for effective budget monitoring and effectiveness of validation.</p> <p>Documents are exposed to unauthorised access and potential misuse.</p>	<p>use, with the Head of HR aware of access arrangements in the event of the unexpected absence of staff with access to them;</p> <ul style="list-style-type: none"> • passing responsibility for security of the bankline cards to other senior officers when those normally responsible are not going to be in the office; • amending the form used for claiming hours worked to require employees' signature; • informing all authorising officers that expense claims should be fully completed with all required details and that claims should be submitted by the 6th day in the month following the date of incurring the expenditure; • retaining the latest report of leavers whose access to the Resource Link system has been deleted, as evidence that the procedure is actually undertaken; • taking steps to secure confidential payroll information when not in use. 	

Completed Audit Activity

Audit: Treasury Management – system and monitoring controls

Opinion: Satisfactory

The objective of this audit was to provide an opinion for the current year on the adequacy and effectiveness of:

- a) key controls to achieve the objectives that:
- There are suitable organisational, monitoring and reporting arrangements to comply with the CIPFA Code of Practice for Treasury Management in the Public Sector;
 - All lending and borrowing transactions comply with the Council's financial rules and are authorised appropriately;
 - All transactions are documented appropriately and are reflected in the financial records accurately and promptly;
 - Access to treasury management records and systems is restricted to authorised persons.
- b) monitoring controls to identify:
- Any material breakdowns in control;
 - Any problems with underlying systems;
 - Any material misstatements;
 - Any misuse or misappropriation of Council assets.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Responsibility for treasury management is delegated to Cabinet, which approved the Treasury Management Outturn annual report for 2006-07 in June 2007 and the Treasury Management Strategy for 2008-11 in February 2008.</p> <p>The Council's treasury management practices were last amended in February 2007 and comply with the majority of the guidance given by CIPFA. There are, however, areas where more detail is required, most notably TMP 7, which does not record the Authority's budgeting, accounting and audit arrangements.</p> <p>Considerable progress has been made in developing a new cash flow forecast model that has enhanced the Council's ability to invest for</p>	<p>The Council's treasury management practices do not comply fully with the CIPFA guidance.</p> <p>Further development could potentially provide better and more accessible information and create efficiency savings by reducing duplication and</p>	<p>Six recommendations, relating to:</p> <ul style="list-style-type: none"> • updating the Council's treasury management practices; • investigating means of improving the current cash-flow forecast; • retaining full records of all instructions to fund managers; • disabling and destroying duplicate / unused Bankline cards as soon as possible, and all current cards once the transfer to Internet Bankline is complete; • inputting amounts invested and redeemed, and corresponding interest transactions, promptly to Integra; • reviewing the Bankline audit log at least weekly to ensure the reasonableness of transactions. 	<p>Management have accepted and agreed to implement all recommendations.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>longer periods of time.</p> <p>Investment and borrowing decisions are based on day-to-day cash flow needs, all investments are made with approved counterparties and all investment and borrowing transactions are authorised appropriately.</p> <p>Payments to banks and brokers by CHAPS/BACS are processed via the Bankline system, which requires transactions to be initiated then approved. Officers have a card that either allows them to input or to approve transactions, thus enforcing segregation of duties, but obsolete and duplicate cards exist.</p> <p>Daily bank reconciliations performed by the Control team give assurance that unauthorised / fraudulent transactions have not been made, but the Bankline audit log is not currently reviewed.</p> <p>The Control Team update Integra to reflect Treasury records, but there have been delays in inputting data, particularly with respect to payments made, due in part to staff shortages within the control team.</p>	<p>re-keying.</p> <p>The security of the Bankline system is reduced.</p> <p>Further assurance that unauthorised / fraudulent transactions have not been made could be gained.</p> <p>Management decisions may be based on inaccurate information, but the risk is limited as this data is only critical for year-end processes.</p>		

Completed Audit Activity

Audit: Financial control in secondary schools

Opinion: see main findings

Financial control in schools - Management of Individual Schools Budgets is delegated to schools' governing bodies, but Medway Council's Chief Finance Officer (CFO) retains a statutory duty to ensure the adequacy of financial control over this delegated funding. To provide assurance to the CFO and Members, all Medway schools are required to complete financial control self-assessment (FCSA) questionnaires, which are sufficiently detailed to provide the level of assurance required by the CFO on the effectiveness of financial control and also meet the FMSiS requirement for evidence of controls self-assessment. Internal Audit review questionnaires completed by schools and visit a sample of the schools to verify the accuracy and completeness of the self-assessments, enabling the provision of an independent opinion on the effectiveness of financial control in schools.

Although the 19 schools were requested to submit FCSA questionnaires by the end of July 2007, these had not been received from five of them by the end of December - three of these were visited by Internal Audit, controls being ascertained and tested rather than simply verifying the accuracy of self-assessments.

Main Findings	Main Risks	Main Recommendations	Management Response
<p><u>Financial Management – Satisfactory</u></p> <p>Controls in the majority of the nine schools visited were evaluated to be 'good' or 'satisfactory', but significant weaknesses were identified at two.</p> <p>The governing body had approved a 'flexible' annual budget, the budget reported to subsequent governors' meetings differing from that submitted to the LA. It was admitted that fictitious figures were used to balance Local Bank Account returns and no attempt was made to reconcile LA monthly financial reports to the school's accounting records.</p> <p>Goods and services costing over £50K were procured during the summer holiday without checks to ensure there were sufficient funds available to pay for them.</p>	<p>There is no assurance that the LA's financial records, which also form the basis of reports to the DCSF, are an accurate reflection of the school's actual financial position.</p> <p>The budget may be overspent, resulting in a year-end deficit or needing to divert funds from other priorities to cover the shortfall.</p>	<p><u>Schools visited</u> were provided with recommendations to address any weaknesses identified during the visit, confirmed by a subsequent report.</p> <p>Self-assessment questionnaires submitted by <u>schools not visited</u> were reviewed and the school provided with a report, including recommendations to address any control weakness apparent from their response to self-assessment questions.</p> <p>In addition, the overall audit report is published in the School Forums section of the Council's website, which can be accessed by all schools.</p>	<p><i>No response is sought from individual schools as to whether recommendations will be implemented.</i></p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p><u>Payroll – Satisfactory</u></p> <p>Significant weaknesses were identified at three schools visited.</p> <p>A single person was responsible for processing the in-house payroll, appointment of staff, authorisation of changes to pay and reconciling salary costs to the school's financial records, the school not using formal payroll forms, authorised by the headteacher and a second person, for appointment of new employees and changes to individuals' pay.</p> <p>Reports provided by Medway Payroll were not checked against payroll forms (eg new starters, change of post and staff expenses etc).</p> <p><u>Purchasing – Satisfactory</u></p> <p>The majority of significant concerns regarding purchasing related to one school, where official orders were not raised for goods/services procured during the summer holiday so committed expenditure exceeding £50K had not been recorded on the school's financial management system. There was also insufficient evidence that at least two people were involved in the process of authorising orders, verifying receipt of goods/services and paying invoices.</p>	<p>Fraud and/or errors could occur and may remain undetected.</p> <p>Fraud and/or errors could occur and may remain undetected.</p> <p>Budgets may be exceeded, resulting in overspends and a year-end deficit, goods/services may be ordered and paid for that are not for the school's benefit, or do not meet the school's needs, and staff may have inadequate protection against allegations of theft.</p>		

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>A lack of evidence, at this and another school, that invoices always checked against the related orders and/or delivery notes, or that both cheque signatories had confirmed that such checks had been made, before payment was approved.</p> <p><u>Income Received – Satisfactory</u></p> <p>At one school, income receipts were not entered into the school’s financial records until monies were prepared for banking.</p> <p><u>Banking Arrangements – Satisfactory</u></p> <p>One school did not keep cheque books/stationery in locked storage during the day.</p> <p>One school not submitting monthly Local Bank Account returns to the LA promptly and, at another, there was no independent verification that bank reconciliations were being completed and that these were accurate.</p> <p><u>Petty cash - Satisfactory</u> No significant issues identified.</p> <p><u>Taxation – Good</u></p> <p>No significant issues identified.</p> <p><u>Assets and information security – Adequate</u></p>	<p>Payments may be made for goods/services that have not been ordered or received by the school.</p> <p>Inability to establish how much unrecorded income had been lost in the event of the school suffering theft, burglary or fire and, therefore, unable to support any insurance claim.</p> <p>Inappropriate payments through unauthorised persons gaining access to bank stationery.</p> <p>Financial figures reported to the LA (and, ultimately, the DCSF) may be inaccurate.</p>		

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Five schools' asset registers were incomplete (eg for ICT equipment only) and/or out of date. One also recorded insufficient details to enable identification of lost/stolen items.</p> <p>Three of these schools had not carried out checks to verify the existence of assets at least annually and one had also failed to security mark all valuable items and portable items likely to be attractive to thieves.</p> <p>Responsibility for managing the ICT environment at one school was not clear, following the redundancy of a member of staff.</p>	<p>Loss or theft of assets may not be detected and, in the event of loss; it may not be possible to substantiate any insurance claim.</p> <p>Loss or theft of assets may not be detected promptly, if at all, and any stolen equipment found or seized by the police etc is less likely to be identified as the school's property.</p> <p>Failure to comply with data protection legislation and/or maintain operating system security adequately.</p>		

Completed Audit Activity

Audit: Financial control in special & primary schools (tranche 1)

Opinion: see main findings

Medway's non-secondary schools have been split into three tranches, based on the size of delegated budgets, the first consisting of the four special schools and 32 primary, junior and infant schools. These were requested to complete modules 1-4 of the questionnaire by the end of October 2007, but only 22 schools had submitted questionnaires by the end of January 2008.

Main Findings	Main Risks	Main Recommendations	Management Response
<p><u>Financial Management - Satisfactory</u></p> <p>Controls in the majority of the six schools visited were evaluated to be 'good' or 'satisfactory', but a combination of weaknesses identified at one school resulted in an 'adequate' opinion.</p> <p><u>Payroll - Satisfactory</u></p> <p>A significant control weakness was identified at two of the schools visited. The sample of payroll forms examined for new employees and change of existing employees' details had not been countersigned by a second person, retrieval of one of the originals from Payroll indicating that a HR Assistant had countersigned it. The rationale for requiring a second signature on these forms is that the person countersigning the form should be in a position to confirm that the new employee has actually started work or that the change has occurred, ie they should be based at the employing location. This acts as a control to prevent budget managers, who may have exclusive access to monthly payroll reports,</p>	<p>Payments may be made to people who are not genuine employees, or that inaccurate or inappropriate payments may be made.</p>	<p><u>Schools visited</u> were provided with recommendations to address any weaknesses identified during the visit, confirmed by a subsequent report.</p> <p>Self-assessment questionnaires submitted by <u>schools not visited</u> were reviewed and the school provided with a report, including recommendations to address any control weakness apparent from their response to self-assessment questions.</p> <p>In addition, the overall audit report is published in the School Forums section of the Council's website, which can be accessed by all schools.</p>	<p><i>No response is sought from individual schools as to whether recommendations will be implemented.</i></p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>setting up fictitious employees or making fictitious changes to existing employees' grading or working hours</p> <p><u>Purchasing - Satisfactory</u></p> <p>No significant issues identified, but a combination of weaknesses identified at one school resulted in an 'adequate' opinion.</p> <p><u>Income Received - Satisfactory</u></p> <p>No significant issues identified.</p>			

Completed Audit Activity

Audit: Capital Budgetary Control

Opinion: Adequate

This is a cyclical audit undertaken on behalf of the council's external auditors an opinion on arrangements to for monitoring and reporting expenditure against the council's approved capital programme.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Arrangements for collecting, collating and regularly presenting monitoring data to DMTs and Cabinet have continued to operate effectively and provide a good control framework. However, overall arrangements still fail to provide effective assurance that all known commitments and ancillary costs are included in the data supplied by project officers, that the latter is accurately reflected in subsequently reported data and any changes made are identifiable.</p> <p>Directorates' arrangements and reporting formats differ and divergence in the latter increased in 2006/07. Each directorate's schemes are now presented to Cabinet in abridged versions of their own DMT format, so the reported information is not synonymous.</p> <p>During the year, responsibilities changed with the result that records of the complete capital programme and its funding streams were not maintained and journal input for approved virements between capital schemes were omitted.</p>	<p>Cabinet and directorate management teams may base decisions on inaccurate and/or misunderstood information.</p>	<p>Project officers should be required to provide specified, minimum information at monthly intervals.</p> <p>A range of measures to:</p> <ul style="list-style-type: none"> • Standardise the content, definition and format of reported information. • Ensure reported information reflects that supplied by project officers and required changes are identified. <p>Maintenance and regular reconciliation of the complete capital programme record to reported details of each directorate's schemes.</p>	<p>Management scheduled actions to implement most of the recommendations by the end of October 2007 but maintain alternative arrangements are more appropriate in 2 instances.</p>

Completed Audit Activity

Audit: Housing Rents - monitoring Controls

Opinion: Satisfactory

This is an annual audit undertaken to provide an opinion on arrangements to identify any warning signs that might indicate fraud, breakdowns in controls or problems with underlying systems that could lead to material mis-statements in the council's accounts in relation to the housing rents function.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Effective monitoring information is produced, although proposals to include each debt's age in the existing reports have still not been achieved.</p> <p>The lack of documentary evidence that management scrutinise the monitoring data produced undermines assurance that established controls are operating.</p>	<p>Without evidence that produced data is scrutinised, lapses in the execution of established controls may not be identified.</p>	<p>The planned inclusion of data on each debt's age should be implemented.</p> <p>Management scrutiny of the monitoring data produced should be evidenced.</p>	<p>Both recommendations have been agreed and scheduled for implementation by the end of April 2008</p>

Completed Audit Activity

Audit: Client Financial Affairs

Opinion: Adequate

The objective of the audit was to provide an opinion on the stewardship role of the CFA officers on controls to maintain clients' finances to ensure risks of misappropriation are minimised and returns on clients' monies invested are maximised. The audit evaluated the effectiveness of management controls to ensure that:

- the CFA team only accept clients in genuine need of assistance;
- all of a client's assets, entitlements and debts are identified and recorded;
- clients' monies are appropriately invested for optimum returns and all due income is obtained;
- all income and payments are properly accounted for;
- clients' properties, cash and records are handled and maintained securely.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>The CFA team manage the financial affairs of over 400 'vulnerable' people some of whom are in residential accommodation. They carry out their duties in accordance with requirements of the Mental Capacity Act 1983 and the National Assistance Act 1948. The officers have up to date knowledge of state benefit, obtain all income due to their clients, obtain good returns from investing clients' monies and obtain specialist/legal advice when necessary. Satisfactory records are maintained of clients' income and disbursements including cash allowances.</p> <p>Sample tests showed that one client had not been formerly referred to the CFA team.</p>	<p>The Council could assume responsibility for an ineligible 'client' and this could result in litigation against the Council.</p>	<p>The referral form should be redesigned to include whether an enduring power of attorney has been previously issued.</p>	<p>Agreed. To action by April 08.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>There is no management arrangement for periodic reviews or assessment regarding continuous eligibility as a client. Some files lacked documentary evidence that:</p> <ul style="list-style-type: none"> ▪ application to the DWP (to pay benefits/allowances into a client's bank account) has been successful; and ▪ records of clients' assets had not been fully completed or appropriately signed. <p>The section's investment policy had not been formally documented.</p> <p>Copies of direct debits or standing order instructions were not available in some files.</p> <p>Where monies are given to carers (on behalf of clients), there is no assurance that the client actually receives it.</p>	<p>The Council may continue to manage a client finances even though an eligible family member could take responsibility.</p> <p>Allegations could be made that:</p> <ul style="list-style-type: none"> ▪ the Council acted without legal authorisation; ▪ the officers responsible for recording the client's assets could be accused of theft. <p>Inconsistency in investing clients' monies</p> <p>No confirmation that the mandates are always appropriately authorised.</p> <p>Allegations of poor handling of clients' cash could be made against the Council.</p>	<p>Written confirmation should be obtained annually that clients' conditions have not improved; and known family members are unwilling to take responsibility for managing the client's finances.</p> <p>Each client's file contains the relevant authorisation or confirmation of the Council's Appointee status.</p> <p>The required forms should be fully completed and appropriately signed for all clients.</p> <p>The section's operational procedures should be updated to include the current policy of investing clients' monies.</p> <p>Copies of authorised direct debit and standing order instructions should be kept in clients' files.</p> <p>The Manager should produce guidance notes on handling clients' cash and issue copies to the CFA officers and care management teams.</p>	<p>Most clients are likely to deteriorate rather than improve and it will be impractical to require a CM/SW to renegotiate responsibility for managing their finances.</p> <p>A DWP letter confirming that monies will be paid into the client's account is kept.</p> <p>Agreed. To action by April 08</p> <p>Agreed. To action by April 08</p> <p>Agreed. To action by April 08</p> <p>Agreed. To action by May 08</p>

Completed Audit Activity

Audit: Section 106 Agreements

Opinion: See below

Section 106 of the Town & Country Planning Act 1990 enables local authorities to impose planning obligations on developers, to secure compensation for loss or damage caused by their developments or contributions towards facilities to mitigate their impact. Such obligations are embodied in legal agreements commonly referred to as Section 106 agreements. The council's overall policy for securing developers' contributions is set out in its 2003 Local Plan and a Development Contributions Guide, detailing qualifying developments and required contributions has been produced and is scheduled for publication in April 2008.

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

- Failure to comprehensively identify qualifying developments and effectively assess and apply contributions to compensate for and mitigate their impact - Satisfactory
- Failure to ensure due contributions are received- Unsatisfactory.
- Failure to ensure received contributions are disbursed in accordance with specified arrangements - Satisfactory.

Main Findings	Main Risks	Main Recommendations	Management Response
<p><u>Framework</u> Established arrangements provide assurance that qualifying developments are identified and referred to services responsible for assessing their impact and potential contributions. Services' assessments are based on pre-determined and sustainable criteria and their arrangements are generally well organised. However, the resultant notifications provide Planning Officers, who subsequently discuss and agree the outcomes with developers, with little demonstrable assurance of the basis or quality of the supplied assessments.</p> <p><u>Contributions received</u> There is currently no comprehensive database of all active S106 agreements and the information necessary to administer the timely</p>	<p>Due contributions may not identified and promptly requested.</p>	<p>To provide assurance on the basis and quality of supplied impact and contribution assessments, Development Control should require affected services to complete a standard proforma detailing their assessments and the checking and authorisation processes applied.</p> <p>Legal section's notifications of signed S106 agreements should quote their index reference number to facilitate the subsequent location of signed agreements.</p> <p>The proposed Planning Administration system's module for S106 agreements should be configured to hold details on all active</p>	<p>All recommendations have been agreed and scheduled for implementation by the end of 2008.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>and accurate collection of due contributions. In February 2007, an officer was tasked to identify and transfer this information from manual and other computer systems to the existing but little-used S106 database. However, this has not been achieved and it is now proposed to record the information on a S106 module within the proposed new Planning administration system, although the latter has yet to be identified and selected.</p> <p>Due contributions often depend on the completion or occupation of a pre-determined number of properties within each development. At the date of the audit, these were primarily identified by inquiries with the responsible developer and there was no established arrangement to identify such events via the council tax service.</p> <p>The S106 officer sends letters requesting due contributions, monitors their return and issues letters chasing late payments. This activity is informally recorded and subject to little effective scrutiny, so assurance that due contributions are promptly requested and pursued is limited. Furthermore, developers are instructed to forward payments to the S106 Officer, who records them before transferring them via the</p>	<p>Late payment may not be promptly identified or effectively pursued.</p>	<p>S106 agreements and all the data required to identify due contributions. In the event that the proposed Planning system cannot fulfil these requirements, responsible managers should consider enhancing the Charity Treasury Management Officer's existing records to hold the required data.</p> <p>Development Control managers should liaise with council tax managers to establish a protocol for notifying occupation within relevant developments.</p> <p>The S106 Officer should maintain a centralised record of payment demands issued, their payment and action taken on outstanding payments. This record should be scrutinised by her line manager at monthly intervals; and available to the CTMO, so that the latter can identify interest charges levied.</p>	

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>internal mail system to the Civic Centre for coding and eventual banking with the cashiers. These arrangements breach the council's established controls on the receipt and handling of income.</p> <p><u>Contributions used appropriately</u> Since Medway's inception, the Business Support Department's Charity Treasury Management Officer (CTMO) has maintained records of received contributions, the disbursements made and unspent balances; and regularly reported this information to affected services and, more recently, the S106 officer. A Development Contributions Group discusses the status of income and disbursements against individual S106 agreements and the S106 Officer now pursues the timely application of unspent balances at these meetings and via separate discussions with affected services. This arrangement has resulted in a significant reduction in unspent balances and ostensibly provides a reasonable framework for monitoring them. However, their timely disbursement ultimately depends on the identification and implementation of schemes aligned with the purpose for which individual contributions were received.</p>	<p>Received payments may be lost in transit to the cashiers.</p>	<p>Demands for due contributions should be accompanied by instructions and a proforma enabling developers to forward their payments directly to the cashiers</p>	

Completed Audit Activity

Audit: Extended Schools Services

Opinion: Satisfactory

Section 27 of the Education Act 2002 charges schools' own governing bodies with responsibility for establishing and operating extended school services but the government has tasked local authorities to support and provide guidance to facilitate the development of such services. Whilst the council has no direct responsibility, the public often perceive the council as intrinsically linked to schools' operations and thus responsible for any failings. The latter may therefore adversely affect the council's reputation and in serious cases render it vulnerable to litigation. Intelligence aroused concerns that schools may be operating extended services, such as breakfast clubs, without proper financial arrangements and more importantly attendance records needed to ensure comprehensive evacuation in the event of an emergency. Action to address the identified case was taken immediately but following consultation with the Director of Children's Services this audit was undertaken to provide an opinion on the presence and effectiveness of controls to manage the risk that:

- The council's reputation may be affected because schools are operating extended services that fail to comply with statutory requirements or ensure the well being of service users.
- The council may be held legally culpable for failings in schools' arrangements because it had not taken sufficient action to ensure they are aware of the statutory requirements and appropriate operating standards.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>The risk is minimal in respect of schools' extended services provided for the under-8s and operating for more than 2 hours per day, as these must be registered with Ofsted, who specify and monitor compliance. The Extended Services Development Team (ESDT) have been allocated responsibility for supporting and providing guidance to schools operating all extended services but schools are not required to notify the council of any non- Ofsted-registered extended services they operate.</p> <p>Both the council's Children's Information Service (CIS) and the ESDT hold records of schools known to be operating or, in the latter case, proposing to operate such services.</p>	<p>Officers responsible for supporting and providing guidance to schools operating non-registered extended services may fail to do so because school's details are not shown on</p>	<p>The CIS should regularly provide details of registered and non-registered extended services to the ESDT, so that the latter can update their records to establish and</p>	<p>All recommendations have been agreed and scheduled for implementation by July 2008.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>However, omissions occurred in both records, so there is no single comprehensive database of non-registered services.</p> <p>To fulfil the council's obligations to provide support and guidance to potential extended service providers, the council has posted hyperlinks to websites containing relevant guidance on the roles and responsibilities of schools and their governing bodies and operational issues on its "Schools Forum" website. Extended services are also covered in optional sessions in the council's school governors' training programme.</p> <p>In September 2006, the ESDT also issued "cluster" packs to all Medway schools detailing issues they need to consider when setting up extended services, including some operational issues. The ESDT have also supplied "Childcare" packs to schools known to be operating extended services, regardless of scale but as the recipients have not been recorded they cannot demonstrate that it has supplied a major component towards fulfilling the council's obligations.</p> <p>The supplied information is reasonably comprehensive, particularly in the childcare pack but</p>	<p>their records.</p> <p>The council is unable to demonstrate that it has fulfilled its obligations because there is no record of the information packs supplied to a particular school.</p> <p>Schools with smaller scale, non-registered extended services may not appreciate that many issues,</p>	<p>maintain a comprehensive database of all known extended services. They should also supply H&S Advisers with updated copies of this database.</p> <p>Copies of covering letters should be retained to demonstrate the supply of issued guidance and identify the recipients.</p> <p>Issued information packs should clearly state that the contents cover requirements for both registered and</p>	

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>is geared towards the larger-scale Ofsted registered operations. Whilst it still provides schools operating non-registered services with details on good practice, there is a risk that they may not appreciate that many issues apply equally their smaller scale operations. Furthermore, the guidance on financial issues did not set out the arrangements needed to exert proper financial control.</p> <p>School managers and governing bodies are responsible for Health & safety policies and arrangements relating to all activities applicable to their school. Schools are provided with self –assessment forms to test their arrangements and the council's Health & Safety Advisers undertake a rolling programme of school visits and record declared arrangements against pertinent issues specified in a standard template. However, neither specifically requires or records examination of arrangements for extended services and sample tests found no reference to these. Consequently there is little assurance that normal health & safety arrangements such as regular fire drills are in force outside of normal school hours when extended services are operating and there is an increased risk that normal evacuation arrangements, routes and marshals may not apply.</p>	<p>identified in supplied guidance, apply equally to their operations.</p> <p>The council's reputation may be undermined because a school has failed to ensure its health & safety arrangements have been applied to and operate during out-of-hours activities.</p>	<p>non-registered services.</p> <p>Existing guidance issued to schools operating extended services should be supplemented with signposts to specified items in the "Finance Manual for Schools" pertinent to the proper financial administration of school's extended services.</p> <p>H & S Advisers' standard report template should be amended to require comments on schools' arrangements for extended services, specifically risk assessments, fire drills, evacuation and first aid arrangements. In particular, Advisers should check that fire drills have been executed during hours when extended services are operating.</p> <p>Schools' self-evaluation health & safety form should be amended to test their arrangements in respect of extended services.</p>	

Completed Audit Activity

Audit: Events – financial control

Opinion: Unsatisfactory

The follow-up audit ascertained progress on previous recommendations and re-evaluated operational control.

Main Findings	Main Risks	Main Recommendations	Management Response
<p><u>Improvements</u> Much better financial records (since the recruitment of a Finance Officer in July).</p> <p>Discontinuation of the Events Management cost centre, previously used as a suspense account. Transparent accounting policy. Authorisation, a budget and a cost centre required for any additional events.</p> <p><u>Causes for concern</u> - the Senior Events Officer left in July, and important duties in control of concert ticket sales had not been not taken over by anyone else.</p> <p>- the Events Manager was seeking additional revenue by offering services such as provision of conference facilities, staging, lighting and sound systems to hirers of the Corn Exchange. However, administrative systems for recording and controlling the finances for such business had not yet been put in place.</p>	<p>The ticket sales system was open to abuse during the 2007 summer concert season. This risk had not been recognised and could therefore happen again.</p> <p>There is a risk that work for Corn Exchange hirers may be taken on before the relevant staff are clear about their roles, and this could result in misunderstandings and accounting errors.</p>	<p>Improvements to accounting controls for ticket sales, and the introduction of specific controls regarding hirings.</p>	<p>The recommendations are being implemented with the assistance of Directorate Support Finance.</p>

Completed Audit Activity

Audit: Medway Tunnel – management of operational risks

Opinion: Unsatisfactory

The follow-up audit ascertained progress on previous recommendations and re-evaluated operational control.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Between the original audit (April 2007) and the follow-up (September/October 2007) the Rochester Bridge Trust decided to withhold its annual maintenance contribution and was in dispute with the Council over a request for capital contributions towards essential refurbishment of the Tunnel.</p> <p>At the time of the follow-up talks were continuing with the Trust, and an urgent bid had been made for grant funding of £4.95 million from central government towards the refurbishment*. Exploratory steps were also being taken to try and secure an alternative regular funding stream for maintenance.</p> <p>* It was later announced that the bid was not successful. Officers were working to identify other capital funding streams that would allow enhancements such as CCTV to be provided.</p>	<p>Equipment such as tunnel lighting, fire extinguishers, pumps, or carbon monoxide detectors could fail due to lack of preventive maintenance.</p> <p>The Council may be unaware of accidents or incidents, and tunnel operations staff may be unable to minimise their impact.</p> <p>In the event of litigation, the Council could be held responsible, if found to be negligent.</p>	<p>Designate the posts of Tunnel Manager and Safety Officer. Resource the routine implementation of preventive maintenance checks and repairs.</p> <p>Ensure that emergency procedures are agreed and conveyed in writing to all who need to know.</p> <p>Ensure all relevant recommendations from external inspections are implemented.</p> <p>Establish the proposed technical link between the Tunnel CCTV system and Medway's Control Centre, and ensure that there are sufficient staff to monitor it effectively.</p>	<p>The Director of Regeneration and Development, and an Environmental Health Officer have taken on the roles of Tunnel Manager and Safety Officer.</p> <p>A tested tunnel emergency plan is now in place.</p> <p>Additional resources have been allocated from Highways to review the maintenance schedules and re-format them to the needs of the tunnel by April 2008. An inspection regime started in January 2008.</p> <p>An operator's manual which includes emergency procedures will be prepared by March 2008. The CCTV link is being treated as a high priority in consideration of alternative capital funding streams.</p> <p>Note from Internal Audit. The successful implementation of the inspection regime will have a significant and positive impact on the audit opinion. Management are taking positive steps to achieve this.</p>

Completed Audit Activity

Audit: Mobile phone usage follow-up (interim review)

Opinion: no opinion allocated

In 2006/07 we carried out a Value for Money audit of the Council's provision of mobile telephones to its employees and the usage of these phones. Because of the 'minimal assurance' opinion allocated a full follow-up audit would normally be carried out, but this was considered inappropriate in view of the forthcoming changes to the Council's mobile phone provision.

As an interim measure we obtained, interrogated and analysed billing data for three months to ascertain whether the key areas of excessive or improper use identified by the last audit are still evident.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Our testing identified further instances of apparently substantial misuse.</p> <p>Much of the usage for numbers with monthly call charges exceeding £100 appeared not to be business related, with 'roaming' use whilst outside the UK, calls and text messages to international numbers and multiple calls/text messages to other mobiles – often at weekends and bank holidays or between 21:00 and 07:00 - contributing to the high call costs.</p> <p>The majority of the 20 individual calls exceeding £10 related to use outside the UK, mainly to make calls to UK numbers or receive calls – but five users had called numbers in Germany, France, Australia and Kenya. Although a few of the users involved may have been abroad on Medway business, we believe that that the majority of the high-cost 'roamed' calls were not work related.</p> <p>In addition to calls to international numbers while users were outside</p>	<p>The main issue arising is the extensive personal use of Council-provided facilities by certain employees and their failure to make reimbursement for this.</p> <p>As some of the individuals concerned certify their own mobile phone bills for payment, there is a lack of independent verification that the costs incurred are reasonable.</p>	<p>Management should consider whether the amount of apparent personal use by certain individuals, and their failure to make reimbursement for this, constitutes misconduct.</p>	<p>The Head of HR Services has undertaken to investigate the apparent misuse further and take appropriate action, including disciplinary action, if necessary. The target completion date for this exercise is 30.6.08.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>the UK, 65 calls to international numbers were identified, 26 from a phone allocated to a member of a team to three numbers in Ireland, so it is difficult to envisage how these calls could have been business related.</p> <p>Financial records were reviewed to identify income received from the users concerned for personal use. A minority were found to have made some reimbursement, but in at least one case this was considered insufficient to cover the cost of personal usage plus VAT. In addition, three of the individuals involved were noted to certify their own bills for payment.</p>			