

AUDIT COMMITTEE

24 SEPTEMBER 2009

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 For 2009/10, the audit opinion definitions have been revised to improve managers' understanding of them. Also, the opportunity has been taken to revise the audit report format to direct managers more clearly to the key risk areas and to assist them, we have introduced a clearer priority ranking system for audit recommendations. The revised definitions are shown at Annex A.
- 2.6 Where control is assessed at the lowest level, ("Uncontrolled"), follow up work will be undertaken within six months.
- 2.7 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 and recommendation priorities
 - Annex B Schedule of completed audit work showing the audit opinion provided and Directorates covered
 - Annex C Summary information on completed audits
- 2.8 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. Risk Management, Financial and Legal implications

- 3.1 There are no risk management, 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

Opinion	Risk Based	Compliance	Value for Money
Good	Effective controls are in place to mitigate risks reviewed as part of the audit, maximising the likelihood of achieving service objectives and value for money and protecting the Authority against loss.	Key controls exist and compliance is consistent and effective.	Objectives are being achieved efficiently, effectively and economically.
Satisfactory	Key controls exist to mitigate the risks reviewed as part of the audit effectively. However, instances of failure to comply with the control process were identified and there are opportunities to strengthen the control system and/or improve value for money.	Key controls exist but there may be some inconsistency in compliance.	Objectives are largely being achieved efficiently, effectively and economically, but areas for further improvement.
Insufficient	Controls are in place to mitigate identified risks and they are complied with to varying degrees. However, there are one or more gaps in the control process that leave the system exposed to significant residual risk. Action is required to mitigate material risks.	Key controls exist but they are not applied, or significant evidence they are not applied consistently and effectively	Objectives are not being achieved through an appropriate balance of economy, efficiency and effectiveness. Value for Money is could be significantly improved.
Uncontrolled	Controls are considered to be insufficient to effectively control at least one of the risks reviewed as part of the audit. Remedial mitigating action is required. There is also a need to improve compliance with existing controls and errors and omissions have been detected. Failure to improve controls could have a significant impact on service delivery, or lead to material financial loss or embarrassment to the Authority.	Failure to comply with large numbers of key controls across a high proportion of the risks reviewed.	Objectives are not being achieved economically, effectively and efficiently.

DEFINITIONS OF RECOMMENDATION PRIORITIES

High

The finding highlights a fundamental weakness in the system that puts the Council at risk. Management should prioritise action to address this issue.

Medium

The finding identified a weakness that leaves the system open to risk. Management should ensure action is taken to address this issue within a reasonable timeframe.

Low

The finding highlights an opportunity to enhance the system in order to increase the efficiency or effectiveness of the control environment. Management should address the issue as resources allow.

Completed Audit Activity

Activity ↓	Directorate →	Opinion	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
EU grant claim – Interreg IVA 2		●				●
Foster care capacity planning		I		I		
Free school meals		S		S		
Highways maintenance contract		I			I	
<ul style="list-style-type: none"> Monitoring of contractual compliance and performance Works are comprehensively specified, appropriately authorised, effectively procured and accurately paid 		U			U	
Imprest Accounts		U	U			
Medway community college – financial controls		U		U		
<ul style="list-style-type: none"> Financial management, purchasing, assets and information security Payroll, income received, banking arrangements, petty cash and taxation 		S		S		
Parklands Resource Centre		U		U		
Robert Bean lodge		I		I		
Supporting people grant claim		●		●		●

Key: G = Good, S = Satisfactory, I = Insufficient, U = Uncontrolled
 ● Work carried out but no opinion provided in that area

Completed Audit Activity

Audit: EU grant claim – Interreg IVA 2**Opinion:** n/a

Interreg IVA 2 project is part funded by the European Regional Development Fund. The aim of the project is to improve the delivery of public sector services through improved customer profiling techniques.

Main Findings	Main Risk	Main Recommendations	Management Response
Internal Audit were asked to audit the grant claim submission to validate the expenditure declared and ensure that it is in line with the original application, programme requirements and EU and national regulations.	No significant issues arose.	None	N/a.

Completed Audit Activity

Audit: Foster Care capacity Planning

Opinion: Insufficient

Medway Council has a statutory duty to provide foster care placements to children in need. OFSTED inspected the service in January 2008 and assessed the quality of service as “good”, highlighting “a dedicated, qualified team working under excellent leadership, providing foster carers with consistent professional supervision and support”.

The Authority currently has approximately 130 foster carers. Recent publicity indicates that a high percentage of foster carers are over 50, which may impact on the Authority’s ability to operate the service effectively as a significant number of carers may retire faster than replacements can be recruited.

This audit did not examine three risks relating to the foster carer capacity planning that might affect the team’s continued ability to deliver high quality services in the medium term.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>The age profile of Medway Council’s foster carers is similar to but slightly younger than the national picture. This shows that most foster carers are over 50. National data suggests the average foster carer age has increased by seven years since the start of the millennium. Data is not available in a format that enables Medway Council to easily compare the current age profile with historic information or to identify average foster carer retirement age.</p> <p>The Fostering Team Manager has a good understanding of the current demand profile for foster care placements and the increased need for some types of</p>	<p>There is a risk that planning for predictable increases in foster carer turnover may not occur.</p>	<p>Two high and three medium priority recommendations were made to address the issues identified in the audit.</p> <p>The high priority recommendations were:-</p> <p>Management should analyse foster carer records to understand:</p> <ul style="list-style-type: none"> • Direction of travel of foster carer age profile; • Future foster carer turnover rates. <p>The Fostering and Marketing Team Managers should meet again to discuss their needs in developing a strategic approach to foster care recruitment. These discussions should include:</p>	<p>All recommendations were accepted and will be implemented by 31/3/2010.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>specialist carers. Population projection data published by Local and Regional Planning could improve the service demand assessment.</p> <p>The Fostering Team has maintained stability in its carer number i.e. recruitment of new carers has matched turnover. However, marketing has been reactive to demand rather than strategic. Better co-ordination of activity between the Fostering and Marketing teams will lead to recruitment campaigns that more effectively address the long-term needs of the service.</p>	<p>Foster carer recruitment may not take into account the long-term requirements of the service and may not be target potential foster carers effectively.</p>	<ul style="list-style-type: none"> • Foster carer demographics; • Demand trends for the service; • Advertising responses • Whether the marketing team are able to provide the service required by the Fostering team within demand timescales. 	

Completed Audit Activity

Audit: Free School Meals

Opinion: Satisfactory

The Home to School Transport and Benefits (T&B) team is responsible for assessing and approving applications for children to receive free school meals (FSM). In the 2008/09 calendar year, approximately 6000 pupils were in receipt of the free meals at a cost of about £1.25m. The Contract Administration team (Children and Adults Services) is responsible for the administration of the catering contract between over 100 establishments and Scolarest (the contractor). Although schools hold the budget for the free meals, the Contracts team receives and checks the invoices to ensure that they reflect the correct number of meals provided to the establishments and authorise payment of the invoices. This audit examined three risks relating to the cost effectiveness of payments for free school meals.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Effective controls are in place to ensure only eligible pupils are accepted for free school meals; there is scope for improving communications between schools, the T&B and Contracts Administration teams.</p> <p>Parents agree to inform the school and T&B team if their circumstances change and their continuing eligibility is reviewed annually. Co-ordination with the Housing Benefits (HB) team could lead to a more effective review process.</p> <p>Controls give reasonable assurance that payments are accurate; better information sharing between the T&B and Contract Administration teams would give greater confidence in the accuracy of payments made. One of the outcomes of matching</p>	<p>Claimants may fail (deliberately or otherwise) to inform the T&B team of the change in their financial circumstances promptly and thereby continue to claim the free meals for their children.</p> <p>Pupils are not receiving meals to which they are entitled.</p>	<p>Three medium priority recommendations were made highlighting possible improvements to eligibility reviews and invoice checking processes.</p> <p>Home to School Transport management should liaise with the Revenue and Benefits section to</p>	<p>All recommendations were accepted; all will be implemented by 30/09/2009.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
the FSM and Housing Benefits records was that approximately 3600 additional pupils might be eligible to receive the free school meals.		ensure participation in the work planned for September/October to promote take-up of state benefits.	

Completed Audit Activity

Audit:	Highways Maintenance contract	Opinion
	Monitoring of contractual compliance and performance	Insufficient
	Works are comprehensively specified, appropriately authorised, effectively procured and accurately paid	Uncontrolled

Medway Council is the highways authority responsible for all carriageways within its area, except the M2; and the associated footways, verges, signs and other aids to movement, bridges, tunnels and other structures. Medway's highways maintenance function had a revenue budget of £7.4 million and a capital programme of £9.4 million for 2008/09.

In 2007, a 5-year contract for highways maintenance works was awarded, with a possible extension of a further 5 years based on the contractor's performance, bringing the potential value of the contract up to £50 million. The highways maintenance function therefore accounts for a substantial amount of expenditure and has possible consequences for the safety and well being of road users, vehicles and buildings. The council's reputation may also suffer from public dissatisfaction with poor road conditions and disrupted and hindered passage through the highway network. Consequently it represents a significant financial and operational risk.

The objective of this audit was therefore to provide an opinion on controls to manage the following risks:

- Required works are not comprehensively specified, appropriately authorised, effectively procured and accurately paid.
- Contract compliance and performance is not effectively monitored, documented and appropriate remedial action is not applied.

It should be noted that the majority of the fieldwork was completed late in 2008/09 but delay was experienced in finalising the report due to staff shortages.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>The tender document, drawn up with assistance from consultants, included a schedule of rates that contained many items not applicable to Medway's operations and omitted some work items that were - only around 10% of the 9,000 SOR items have ever been used. The SOR was geared primarily towards responsive repair work, tenderers submitting rates for four quantity bands, the largest being for over 250 units. However, two additional bands for</p>	<p>The Council may fail to obtain best value on some of the work it actually procures.</p>	<p>Nine recommendations made, relating primarily to:</p> <ul style="list-style-type: none"> • Ensuring that CEs received are investigated and responded to within the required timescale; • Confirming that system-generated variation orders relate to genuine and accurate payment claims; • Subjecting larger planned and project maintenance schemes to competitive tendering to ensure the most cost effective price is secured; 	<p>All recommendations were accepted by management with an undertaking to implement proposed actions, or an appropriate alternative, by October 2009 at the latest (the majority have already been implemented).</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>higher volumes, reflecting planned maintenance schemes, have subsequently been negotiated and agreed with the contractor.</p> <p>The contract conditions entitle the contractor to automatic payment of any claims for additional costs if the employer fails to challenge compensation events (CE) within a prescribed period. 12.25% of the 80 CEs received to the date of the audit had not been responded to in sufficient time, seven officers having exceeded the prescribed period on more than five occasions.</p> <p>The CONFIRM system holds details of all SOR items, changes being listed for formal approval at quarterly meetings between the employer and the contractor. However, two listings of amendments implemented on CONFIRM, dated 10 and 5 months previously, had not been ratified.</p> <p>Furthermore, successive versions of the SOR spreadsheet did not identify changes from the previous version and had no control totals to reconcile either to the list of approved changes or to the SOR on CONFIRM. Comparison of the latest spreadsheet to the SOR</p>	<p>Unjustified or excessive costs may be incurred.</p> <p>The contractor may be paid for work items and quantities that have not been authorised, or paid inaccurate rates.</p>	<ul style="list-style-type: none"> • Ensuring that all additional and amended rates are approved formally; • Reconciling each schedule of additions/changes to net changes approved and the total of the revised rates held on CONFIRM to ensure the latter are accurate; • Requiring the contractor to include the task order number on the same photograph as evidence of completion. 	

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>held on CONFIRM found a net difference of £1844, this being attributable to a number of items on earlier versions not being input, or entered inaccurately.</p> <p>As it is not operationally viable to inspect all responsive repair jobs, the contractor is required to supply 'before and after' photographs for all repair jobs, but tests on a random sample of jobs completed between February and November 2008 identified that evidence of completion was absent for 25% of the jobs and, for most of the remaining cases, details of the date and task order number were shown on a separate photograph from the completed work.</p> <p>As part of the payment approval process, the CONFIRM system automatically raises a variation order to cover differences between payment requests and the related original/varied orders, which are, effectively, approved by the officer authorising the payment run.</p> <p>Arrangements for monitoring the contractor's performance, primarily in relation to the satisfactory completion of procured work, are in place and</p>	<p>Payment may be made for jobs that have not actually been completed.</p> <p>Inaccurate or excessive claims for payment may not be identified or challenged.</p> <p>Maintenance work may not be completed within the specified timescale and/or to the specified quality.</p>		

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>operate well. However, as at the end of November 2008, 39.90% of the 10255 task orders issued had not been completed within the system's time target for the specified category and the average overrun on those was 28.46 days. However, management reported that performance has improved significantly since that time, KPI information for April and May 2009 indicating respectively that 83% and 85% of jobs had been completed within the timescales set.</p>			

Completed Audit Activity

Audit: Imprest Accounts

Opinion: Uncontrolled

Imprest accounts are intended for relatively small items of expenditure, where payment via the normal creditor payment system may be inappropriate or exceptionally time consuming e.g. bus/taxi fares, outings with vulnerable clients or cash payments for emergencies, etc. In the interests of expediency and for the efficient administration of certain business activities, the Council's financial rules permit the use of imprest accounts at some establishments.

This audit examined two main risks relating to appropriate use of the imprest accounts and security of the monies held.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>With the exception of one of the ten establishments visited, management controls relating to the security of cash held on the premises were generally effective in minimising risks of theft or loss.</p> <p>However, lack of formal management guidance and training regarding the use of imprest monies over a period of time has resulted in misuse of the imprest accounts. Analysis of two months expenditure at six of the ten establishments visited, showed that the imprest accounts are misused, with expenditure ranging from 20 to 74% of total expenditure being inappropriate. This included the purchase of ICT hardware (PCs) and vehicle maintenance, which is a breach of the Council's procurement policies.</p>	<p>Imprest account monies may continue to be used inappropriately.</p>	<p>One high priority recommendation was made as follows:</p> <p>The Finance Manager should ensure that:</p> <ul style="list-style-type: none"> ▪ formal procedure and guidance notes on the purpose of and how to operate the imprest accounts are produced and issued to all staff operating imprest accounts; ▪ training is also formally provided to all staff operating the imprest accounts. 	<p>The Principal Accountant – Social Care has been tasked to review and amend the guidance notes to address the issues identified in the audit, by March 31st 2010. The Finance Support Team will check the guidance notes prior to providing training to relevant officers.</p>

Completed Audit Activity

Audit:	Medway Community College – financial controls Financial management, purchasing, assets and information security Payroll, income received, banking arrangements, petty cash and taxation	Opinion Uncontrolled Satisfactory
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In autumn 2007 we visited Medway Community College as part of the internal audit verification of financial control self-assessments by secondary schools. We concluded that controls over purchasing, assets and information security were 'unsatisfactory' and that those over financial management and payroll were 'adequate'.

The College was subsequently put into special measures following a critical Ofsted inspection and during 2008 the governing body was replaced with an Interim Executive Board (IEB) chaired by Medway's Director of Children & Adults.

An audit of financial controls was requested by the Chair of the IEB, in the light of a rapidly escalating budget deficit and various allegations being made by staff who were likely to be displaced as a result of a restructure.

The College is scheduled to merge with Chatham South to form a new academy from September 2010.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Lack of linkage between the post-OFSTED action/school improvement plan and the medium-term budget plan and the level (and consequent cost) of staffing not sustainable for the number of pupils on roll.</p> <p>Budget for 2008/09 not formally approved by former governing body.</p> <p>Majority of services purchased without checks against available budget, estimated cost of supply teaching and staff training not committed on finance system.</p> <p>Accuracy of forecast outturn appears suspect, the deficit projected at the end of February</p>	<p>Overspends against funding available, evidenced by budget deficit.</p> <p>Financial control compromised as no formalised budget to monitor against.</p> <p>Overspends against funding available, evidenced by budget deficit.</p> <p>The IEB and the LA have been provided with inaccurate forecasts of the extent of the financial</p>	<p>A total of 30 recommendations made to address all the issues identified, though it was acknowledged that the IEB had already initiated action to reduce the impact of staffing costs and improve financial management.</p>	<p>All recommendations accepted by the IEB, action to be taken so that appropriate processes will be operational from the start of the new academic year in September 2009.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>increasing by £32,670 at year-end one month later.</p> <p>The former governing body may not have approved new appointments and discretionary salary enhancements.</p> <p>Official orders not raised for majority of purchases, one person often checks delivery and approves payment.</p> <p>Single person responsible for receipting and banking income, no independent check to ensure that all income due has been received.</p> <p>No co-ordinated central record of all assets, though separate registers for ICT and electrical equipment.</p> <p>No physical asset check completed for more than four years.</p> <p>Periodic password changes to access the network not imposed.</p>	<p>deficit.</p> <p>Staff costs not contained within budget, enhancements may not be openly and fairly applied.</p> <p>Inaccurate or inappropriate payments may be made.</p> <p>Staff placed in invidious situation should any allegation be made that income received misappropriated.</p> <p>Loss or theft may not be detected promptly, inability to substantiate insurance claims for any lost assets.</p> <p>Unauthorised access to data, which may be lost, corrupted or misused.</p>		

Completed Audit Activity

Audit: Parklands Resource Centre

Opinion: Uncontrolled

Medway Council's gross revenue spending for 2009/10 is £596m, with a net budget of £344m. In order to facilitate the delivery of its services, financial control for over 10% of expenditure has been delegated to managers at satellite sites throughout the Authority. Parklands Resource Centre provides a range of services to parents and carers of disabled children and also carries out individual work with children and families where social work input or respite provision is required. The 2009/10 gross expenditure budget for the site is approximately £389,000 and budgeted income is approximately £ 17000.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Most arrangements for budget monitoring are appropriate but hours worked by temporary workers are not recorded fully and are not verifiable to payroll records or to the allocated budget.</p> <p>There is a separation of duty between raising orders, receiving goods and authorising payments. Although officers confirm that delivered goods are received and charged prices are correct, supporting evidence (e.g. goods received notes, orders) is not been retained.</p> <p>Additionally, improvements are required in the use of the Imprest account. The funds are not used appropriately and expenditure has not been subject to management review.</p> <p>Parklands have identified their income streams and ensured there is separation of duties</p>	<p>Parklands forecast a shortfall of £11,000 net for May 2009, mainly due to spending more on temporary staff than was saved by holding vacancies.</p> <p>Losses may occur.</p> <p>Parklands staff cannot show that payment is correct and due.</p>	<p>Four high priority recommendations were made to improve:</p> <ul style="list-style-type: none"> • Monitoring of the temporary staff budget; • Income records and handover procedures; • And completion of income records. <p>Six medium priority recommendations were made to address the issues identified in the audit, of which two were aimed at improving imprest account procedures.</p>	<p>All recommendations were accepted; all will be implemented by 1/10/2009.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>between income collection and banking. However, current income records are incomplete.</p> <p>Management should be commended on starting to record their physical assets in a register and should be encouraged to complete the process.</p>	<p>It may not be possible to claim on insurance for items lost as a result of theft or fire.</p>		

Completed Audit Activity

Audit: Robert Bean lodge

Opinion: Insufficient

Medway Council's gross revenue spending for 2009/10 is £596m, with a net budget of £344m. In order to facilitate the delivery of its services, financial control for over 10% of expenditure has been delegated to managers at satellite sites throughout the Authority. Robert Bean Lodge provides a mixture of day and residential facilities as well as delivering care to older people with physical frailty and dementia needs. The 2009/10 gross expenditure budget for the site is approximately £1.8 million and budgeted income is approximately £30,000.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>There are appropriate arrangements for budget monitoring, although minor improvements can be made.</p> <p>Some of the procedures for procurement are operating well. Webreq was used inconsistently, and orders had not always been collated with delivery notes. Additionally, new joint procurement ventures with other units could improve value for money.</p> <p>The majority of income is handled appropriately, although better records are required for a small portion of it.</p> <p>Client funds are mixed with Authority funds through income and the imprest account.</p> <p>There is no inventory of all furniture and equipment maintained at Robert Bean Lodge.</p>	<p>It is difficult to have assurance that all goods were ordered, received and have been charged correctly.</p> <p>Mixing client and Medway Council funds creates difficulties in demonstrating that client funds are handled appropriately.</p> <p>It may not be possible to claim on insurance for items lost as a result of theft or fire.</p>	<p>Two high and five medium priority recommendations were made to address the issues identified in the audit.</p> <p>The high priority recommendations were:-</p> <p>Income received for, and expenditure made on behalf of clients, should be made through a separate bank account.</p> <p>An inventory record should be created, checked periodically, by an independent officer (preferably by independent of register maintenance and asset custody) and the inventory record should be retained off site.</p>	<p>All recommendations were accepted; all will be implemented by 31/10/2009.</p>

Completed Audit Activity

Audit: Supporting People grant claim

Opinion: N/a

Internal audit were required to certify the above claim for the year ended 31/03/09 to central government.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Audit work was carried out on general ledger, creditors and housing rents system. Reliance was also able to be placed on audit work carried out earlier in the year on Supporting People.</p> <p>There were no major financial control issues identified in this work.</p>	<p>No significant issues arose.</p>	<p>None</p>	<p>N/a.</p>