

AUDIT COMMITTEE

10 JULY 2012

OUTCOMES OF INTERNAL 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 The definitions used by internal audit for the provision of an audit opinion and for determining the priority ranking for recommendations are shown at **Annex A**.
- 2.6 Internal Audit undertake follow up work, usually within six months, to determine the effectiveness of the control environment following implementation of the recommendations or other action taken by management to address the issues identified in the audit.
- 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 Internal Audit has also begun its School probity review programme, and the first outputs are being presented at this meeting.

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 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.

SCHEDULE OF COMPLETED WORK					ANNEX B
	Opinion	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems					
General Ledger	S				✓
Cash and Banking	S				✓
Other Financial Systems					
Corn Exchange	U			✓	
Risk Assessed and Additional Work					
Governance					
Corporate Governance	S	✓			
Risk Management	S	✓			
Prevention of Fraud and Corruption	S	✓			
Follow Ups					
Transport Procurement Unit	S				
Business Continuity (update)	•				
Blue Badges (Interim)	I				
Probity Reviews					
All Saints School	•		✓		✓
St Margaret's Junior School	•		✓		✓
Temple Mill Primary School	•		✓		✓

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

SUMMARY INFORMATION ON COMPLETED AUDITS

GENERAL LEDGER <i>(final report issued 20 April 2012)</i>
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1. In order to support External Audit in their annual statutory duty of examining the Council's key financial systems, it was agreed that in 2011/12 Internal Audit would undertake an audit of key controls within the General Ledger.
2. The General Ledger module of the Integra financial system provides the data for preparing the Council's annual statement of accounts and, as such, there is a risk that reports generated from it may not provide an accurate reflection of the Council's financial position. The objective of this audit was to provide an opinion for the current financial year on the effectiveness of controls over the following aspects that contribute towards managing this risk:
 - journal transfers;
 - control and suspense/balance sheet accounts.

Controls over the interface between feeder systems and Integra are also important, but as these are covered in audits of the services involved (for example Care Director), we placed reliance on that work and did not examine reconciliation of data from feeder systems as part of this audit.

A small sample of control and suspense accounts were selected for review, these were Purchase Ledger, Sales Ledger, Payroll and Cash control accounts, Payroll Error, Misc Income Error, Error Suspense Flex and Unidentified Cash suspense accounts.

3. Three risks relating to the General Ledger were reviewed to determine the effectiveness of controls and the opinions are shown below.

• **Risk 1: Journal transactions are not authorised appropriately**

Insufficient: The Council's External Auditor, PKF, reported to the Audit Committee on 24.11.11 that "there is a weakness in controls over journals raised in schools because an officer may prepare and then authorise a journal. In addition, our audit testing of a sample of journals highlighted that a journal had been posted twice in relation to government grant income and expenditure." Management responded that procedures over the preparation and authorisation of journals would "be reinforced immediately" but also (in respect of the duplication) that the journal authorisation process would "be reviewed and a consistent approach applied corporately" by March 2012. This audit confirmed that some journals had been raised and authorised by the same person, or raised on the request of an officer who was not a senior member of staff, these being processed between 20.5.11 and 4.11.11. We also identified that 6 of the 9 journals relating to schools (from a total of 14 identified), not supported by a documented request from the relevant budget holder, were processed after 25.11.11.

• **Risk 2: Control accounts are not reconciled monthly**

Satisfactory: All control accounts had been subject to regular reconciliation throughout the year, though not always every month. However, there was no evidence that reconciliation of the Sales Ledger control account was subject to management review throughout the year, with two of the Purchase Ledger control account reconciliations also not reviewed. Reconciliations of the Cash, Bank and

Payroll control accounts had been checked or authorised by an officer senior to the person carrying out the reconciliation (Principal Accountant or Team Leader) - however, these checks were not always completed in a timely manner.

• **Risk 3: Suspense accounts are not reconciled in a timely manner**

Satisfactory: With the exception of the Payroll Error suspense account, all suspense accounts reviewed had been subject to regular reconciliation throughout the year, though not always every month. Reconciliations of the suspense accounts reviewed had been checked by an officer senior to the person carrying out the reconciliation (Principal Accountant or Team Leader), normally in a timely manner - however, date of checks was not recorded for the cash suspense account. Long-standing balances in suspense accounts are not subject to clearance where appropriate, for example unidentified income receipts included 36 transactions dating back to 2008-09 (total £2,035) and 49 transactions from 2009-10 (£3,358). Whilst acknowledging that the amounts involved are not significant, there is a risk that such receipts could be manipulated and misappropriated.

CONCLUSION AND AUDIT OPINION

4. From the testing performed we are satisfied that there are appropriate controls in place for the reconciliation of control and suspense accounts although these are not applied on a strict monthly basis. Our testing has found that there are weaknesses in the authorisation of journal transactions, but management have taken appropriate action to improve journal processing and authorisation procedures from the beginning of the new financial year. The processing of year-end journals will be subject to review in the year-end External Audit. On the basis of the controls now in place we have reached an overall audit opinion of **Satisfactory**.
5. Three medium priority recommendations were made to address the issues identified, all being accepted by management for implementation by the end of May 2012 at the latest.

CORN EXCHANGE – FINANCIAL CONTROLS

final report issued 25 May 2012)

1. The Corn Exchange offers facilities for various uses including conferences, civil marriages and social events, the budgeted income and expenditure for 2011/12 being £286,950 and £357,460 respectively. An audit of compliance with financial procedures carried out in 2009/10 (final report issued 30th April 2010) resulted in an opinion of 'uncontrolled', with 21 recommendations (including 12 high priority) made, management agreeing to implement 19 of these by the end of September 2010. This re-audit was carried out to evaluate the extent to which financial controls have been improved since that time.
2. At the time of the previous audit the venue had been absorbed into the management structure of Medway's theatres and most financial and operational procedures had recently been aligned with those used by theatres. However, following the restructuring of the Festivals, Arts, Theatres & Events service in 2010 the venue reverted to operating as a 'standalone' location and from around November of that year most of the previous financial and operational procedures were reinstated. As

an example, use of the Artifax IT system (introduced by theatres management to control bookings) was discontinued and replaced by a spreadsheet.

3. It should be noted that, at the time the audit testing was carried out, the establishment did not have its own finance staff, finance support being provided by a member of the Events team based at Gun Wharf.
4. Four risks relating to financial control at the establishment were reviewed to determine the effectiveness of controls and the opinions are shown below.

• **Risk 1: Budget monitoring may be ineffective**

Insufficient: Budget monitoring forecasts cannot be regarded as realistic, with in-year outturn projections for some subjective codes noted to be lower than the amount already spent. The Head of Festivals, Arts, Theatres & Events explained that budgeted expenditure is linked to projected revenue, which is subject to fluctuations due to market forces, and, as such, overall expenditure is monitored closely throughout the year; however, any adjustment necessary at subjective code level is left until year-end. Staff at the establishment contact suppliers and order the majority of goods verbally, but local financial records are maintained at Gun Wharf. Expenditure is evidently entered on the latter only on receipt of invoices, with the result that committed expenditure is not taken into account. There is no evidence of mismatches between local records and Integra being queried, investigated and resolved, and no evidence of the process being reviewed by the budget manager, so there is a risk that the budget may become overspent.

• **Risk 2: Expenditure may be unauthorised, inappropriate or represent poor value for money**

Insufficient: There is a lack of evidence that invoices are verified against delivery notes before certification for payment, there being no delivery notes on file for the majority of payments where these were applicable (ie goods rather than services provided). As a result, payment may be made for goods that have not been received for the benefit of the Council. Regular purchases of bar provisions are not regarded as part of a larger overall Medway-wide procurement and not, therefore, subject to competitive quotations. The Head of Festivals, Arts, Theatres & Events considers that the venue has differing needs to theatres and leisure centres in that a standard range of drinks is not stocked and therefore a supplier able to deliver at short notice is required - as this supplier's pricing is said to be competitive, we believe that it could also supply other establishments. We also identified that payments to a single company for providing services for the Corn Exchange and Events in 2011-12 to the end of February exceeded £15,000 and £58,000 (excluding VAT) respectively. Analysis of the Corn Exchange expenditure identified that most of it related to repairs to toilets and lighting, painting, carpet cleaning and garden clearance, which appears somewhat at odds with the company's core business (per their invoices) of 'full event management, AV presentations, public address & lighting, power & distribution, banner & bunting installation' - through not using its regular building maintenance contractors, the Council may be failing to obtain the most advantageous prices available or best value. The Head of Festivals, Arts, Theatres & Events advised that this company is used as the need for repairs invariably arises at short notice, for example as a result of Member complaints about the venue and this company is always reliable and able to respond at short notice.

• **Risk 3: Income due may not be collected or banked promptly**

Uncontrolled: We are particularly concerned about the regular significant till shortages reported, these mostly attributed to 'overruns', which we were advised arise through cancelling inaccurate input or customers being unable to pay for drinks ordered once 'paid bars' end. This is compounded by there frequently being no evidence of two people being involved in the cashing-up process. The Head of Festivals, Arts, Theatres & Events stated that documented procedures had been produced, but that staff had not been following them. There was no evidence of till shortages being monitored and followed-up as appropriate, or of checks to confirm that all income due from bar 'tabs' is received subsequently. We also identified gaps in the continuity of till 'z' readings and receipt numbers recorded on income returns, though the latter may be partially due to receipts being raised for refundable security deposits which are not banked. As there was no evidence of these gaps in continuity being identified, let alone queried, by management there is no assurance that all income received has been accounted for correctly.

We also identified that:

- Income was not prepared for collection in weeks when the finance officer is on holiday;
- Stocktaking/valuation reports cannot be relied upon to provide accurate information regarding margins achieved on bar sales, due to numerous inaccuracies identified;
- Invoices are not always raised for balances due for bookings, or necessarily promptly (though the Head of Festivals, Arts, Theatres & Events considers these should be raised in sufficient time to allow payment nine weeks before the event date, rather than promptly after receipt of deposit);
- The bookings spreadsheet cannot be regarded as a reliable record of income due as it indicated outstanding balances for several bookings where the event date had already passed, but sample checks identified that no payment was actually outstanding.

• **Risk 4: Assets may not be managed appropriately**

Uncontrolled: An external contractor was engaged to compile an asset register covering the establishment and theatres in 2009, but there is no evidence of the register being updated since to reflect purchases, transfers and disposals. There is also no evidence of any physical asset checks being carried out since that time. Sample checks indicated that many items recorded could not be located and several items purchased since 2009 were either not recorded - for example six UHF radios (cost £1,200), a safe (£1,000) and a bottle cooler (£495) - or recorded with an inaccurate value (two cash registers costing £600 each recorded as £100). An inaccurate asset register is virtually worthless, the main risks being that loss or theft of equipment may not be identified and that it may not be possible to satisfy the Council's insurers of the value of any losses that are identified in the event of theft, fire or flood.

CONCLUSION AND AUDIT OPINION

5. At the time of the last audit it was anticipated that the theatres procedures that had just been put into place would address many of the concerns identified. Unfortunately, the subsequent reversion to many of the previous procedures has resulted in many of these issues being repeated in this audit.
6. Consequently, and in view of the evident lack of effective oversight by management, our overall opinion on financial control at the establishment continues to be **Uncontrolled**. However, comparison of the budget figures quoted in paragraph 1 against the Council's overall budget indicates that the risk of loss to the Council as a whole is not significant. Our main concerns relate to the recording of income received and the management of assets, with a consequent risk of misappropriation of both income and equipment, but there is also a lack of demonstrable evidence of pursuit of value for money when procuring goods and services; weaknesses also remain in budget management.

Two High Priority Recommendations:

Finding 1:	<p>Lack of assurance that all income received for bar sales accounted for properly, due to:</p> <ul style="list-style-type: none"> • Gaps in receipt/till 'z' reading continuity on income returns not identified/queried; • Frequent lack of evidence that two people involved in cashing-up tills; • Regular significant till shortages (mostly attributed to 'overrings') not monitored and followed-up as appropriate.
Risk:	<ul style="list-style-type: none"> • All income due to the Council may not be received; • Staff vulnerable to accusations of misappropriation.
Recommendation:	<p>Procedures covering use of tills and handling of income should be followed by all staff. These should include:</p> <ul style="list-style-type: none"> • Monitoring continuity of receipt and till 'z' reading numbers; • Ensuring that two people are involved in cashing-up tills; • Bar staff taking appropriate steps to prevent 'overrings'.
Response:	<p>Staff have been reminded of cash handling procedures and these are now being followed.</p> <ul style="list-style-type: none"> • Separate receipt book now in use for recording refundable deposits; • Two people now sign Bar reconciliation sheets; • Customers now made aware when 'paid bar' has expired. <p>Target date – Now in place</p>

Finding 2:	<p>An asset register was produced in 2009, but asset management standards considered to be poor as:</p> <ul style="list-style-type: none"> • Value/type of asset to be recorded not specified; • Responsibility for register maintenance not assigned; • Register does not include any items obtained since it was raised; • Sample check of assets identified that items not locatable, some replaced or transferred to theatres, one described incorrectly, cost price understated; • No evidence of any restriction on ability to update the asset register; • No documented evidence of equipment transfers or disposals; • No evidence of any physical check of assets carried out since the register was compiled; • Equipment marked with Corn Exchange postcode only.
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Risk:	<ul style="list-style-type: none"> • Loss/theft of equipment may not be identified; • Items unlikely to be covered by the Council's insurance in the event of theft, fire or flood; • Any income achievable from disposal of redundant equipment not received by the Council; • Lost or stolen assets recovered may not be identified as Council property.
Recommendation:	<p>Management should introduce appropriate asset management procedures, including:</p> <ul style="list-style-type: none"> • Specifying the type/ value of equipment that should be recorded; • Assigning responsibility for register maintenance; • Updating register with items purchased in the last two-three years (and actual cost); • Carrying out a physical check of all assets at least annually; • Restricting ability to modify asset register; • Maintaining records of transfers and disposals; • Ensuring that physical asset checks undertaken by someone not able to update the register; • Marking assets clearly and indelibly to denote the Council's ownership.
Response:	<p>Accepted – a full physical check will be carried out and the asset register updated accordingly.</p> <p>Target date – end of July 2012</p>

7. Six medium priority recommendations also made to address the issues identified. Management provided explanations as to why they consider it impractical to implement two of these in full and indicated that measures to address the remainder have now been put in place. We therefore anticipate that it should be possible to issue an improved opinion when this audit is followed-up late in 2012.

CASH AND BANKING (*final report issued 30 April 2012*)

1. In order to support External Audit in their annual statutory duty of examining the Council's key financial systems, it was agreed that in 2011/12 Internal Audit would undertake an audit of key controls of the Authority's main Cash and Banking processes.
2. All income for Council Tax, NNDR, Housing Rents, Sundry Debtors, Car Parks, Social Care client contributions and some other smaller systems are receipted on Radius, the Authority's main receipting system. Approximately £45 million is recorded annually, of which, £32 million is cash and cheques and £14 million credit cards.
3. Transactional details are transferred from Radius to the General Ledger module of the Integra Financial system and subsidiary systems (e.g. for Council Tax). The control team are responsible for ensuring income receipted on Radius is reconciled to Integra and individual services are responsible for the reconciliation to their systems.
4. This audit reviewed the processes operating within the Banking Service Team at Gun Wharf. The audit did not cover arrangements operating at satellite sites or the processes related to subsidiary financial systems. These areas are subject to separate audits. Four risks relating to Cash and Banking Processes were reviewed to determine the effectiveness of controls and the opinions are shown below.

• **Risk 1: Income received may not be recorded properly**

Satisfactory: Appropriate procedures are in place to ensure income from all sources is recorded on the Radius system and that suspense accounts are cleared in a timely manner.

Whilst there are processes to restrict access to the Radius system, we did find evidence of non-terminated accounts, either when users left the Council or when users changed roles within the Council and no longer required access. Access to Radius can also lead to conflict with rights on other financial systems and we recently reported such a case in the latest audit report of Housing Rents.

• **Risk 2: Income may not be held securely**

Insufficient: Arrangements have been made to ensure income held in Gun Wharf overnight is secured in a safe with restricted access. However, the combination to the safe has not been changed since the Authority moved into the Gun Wharf building and four members of staff have left the team since that date.

• **Risk 3: Income received may not be reflected accurately or promptly in the Authority's financial records.**

Good: Income receipted in Radius is accurately and promptly recorded in the Authority's financial records. The control team performs reconciliations that ensure significant errors are identified and corrected. There is appropriate management review.

• **Risk 4: Discrepancies between income received and income credited to the Authority's bank accounts may not be identified or resolved.**

Good: The bank reconciliation process ensures discrepancies between banked income and the General Ledger are identified and resolved appropriately. There is separation of duties between the reconciliation and cash receipting processes. Management oversight gives assurance on the effectiveness of the process.

CONCLUSION AND AUDIT OPINION

5. In our opinion, controls operating over the Cash and Banking processes are “**satisfactory**”. A definition of audit opinions is included in Appendix B to this report. 3 medium priority recommendations were made to address the issues identified, one of which has been implemented, one of which is due for implementation in July 2012 and the third will be implemented in full when a new Radius system is procured.

RISK MANAGEMENT 2011/12 (<i>final report issued 22 June 2012</i>)
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1. Effective risk management is a key part of an organisation's governance arrangements, as it provides a means of monitoring responses to issues that might derail delivery of key objectives, and it is a tool that supports effective decision making, including the appropriate allocation of resources.
2. Internal Audit carries out an annual review of the Council's arrangements to identify and manage risk. Last year's review concentrated on compliance with the Council's

risk management strategy, our opinion being that this was 'satisfactory'. The Council's risk management activities continue to be co-ordinated by the Strategic Risk Management Group (SRMG), which is chaired by the Director of Regeneration, Community & Culture and includes the Chief Finance Officer.

3. Two risks relating to risk management were reviewed to determine the effectiveness of controls and the opinions are shown below.

• **Risk 1: The Council's risk management strategy may vary from recognised good practice**

Satisfactory: The Council's processes to identify and monitor strategic risks continue to be good overall. The Council has adopted a methodology for risk management that identifies and records the Council's significant residual risks and additional mitigating actions required. Given the nature and complexity of the Council this approach ensures focus is placed on current threats to the organisation. What this methodology does not include, as deemed best practice in a number of public sector guides¹ is a record of the Council's most significant inherent risks, a knowledge of which can assist an organisation in two key ways. It can help during periods of organisational change, ensuring key controls are not inadvertently removed during a period of restructuring, and it can enable better targeting of resources for providing assurance on the effectiveness of key controls. Our main concern is that it is unclear whether all managers and other stakeholders understand the nature, strengths and limitations of the current arrangements that the Council has adopted.

Otherwise, we consider that the overall understanding of risk management, particularly at assistant director and service manager level, could be improved further – this would provide greater assurance that all relevant service/divisional risks are being identified and monitored on an ongoing basis.

• **Risk 2: The Council's risk management strategy may not be complied with**

Satisfactory: The Risk Management Strategy provides a good basis for the management of strategic risks, which are reviewed twice yearly by the Corporate Management Team and reported to both Cabinet and Business Support Overview & Scrutiny Committee. Some requirements of the Strategy are not, however, currently in place, namely:

- There is no representative from Children and Adults Directorate on the Strategic Risk Management Group;
- There is a lack of evidence on the Covalent performance management system as to whether service/divisional risks are being monitored effectively as part of the AD quarterly reporting process;
- Risk registers at directorate level have not yet been produced, this being considered impractical during the current restructuring arising from the Better for Less programme.

CONCLUSION AND AUDIT OPINION

4. Our overall opinion on the effectiveness of the Council's risk management process is **Satisfactory**. We believe that the methodology used is practical and ensures there is focus on current threats, although it does not provide the broader assurance on the management of all significant inherent risks that the Council faces. However, we acknowledge that it is based on guidance provided by consultants engaged by the

¹ For example, *The Orange Book* published by HM Treasury

Council some years ago, and has also now become more (though evidently not totally) familiar to members and managers – replacing it with an alternative is therefore unlikely to be considered practical. Whilst the senior managers interviewed as part of the audit concurred that the standard of risk management within the Council has improved considerably over the last two-three years, the need to expand this improvement to include risks below the strategic risks appearing on the corporate risk register remains.

5. Seven medium priority recommendations made to address the issues identified, all being accepted by management with an undertaking to implement appropriate actions by the end of December 2012 at the latest.

PREVENTION OF FRAUD AND CORRUPTION

(final report issued 22 June 2012)

MANAGEMENT SUMMARY

1. The Audit Commission produces an annual report “Protecting the Public Purse” which provides a national perspective on fraud risks facing local government. Current economic pressures increase the risk of fraud faced by all organisations. The 2011/12 audit compared Medway Council’s approach to Audit Commission’s suggested checklist. The audit provides assurance on the overall framework for preventing fraud and corruption but did not test the management of specific areas.
2. There is continuing top-level commitment to the prevention of fraud and corruption within the Authority and responsibility is delegated via the Constitution and the Anti-Fraud and Corruption policy. Outcomes of benefit and internal fraud investigations are reported to Audit Committee at quarterly meetings and whistle blowing incidents, annually. The Chief Finance Officer (CFO) is responsible for anti-fraud and corruption arrangements in the organisation. Management is responsible for building effective fraud resilience in their operational area and across organisational structures. This audit did not review the investigation and reporting processes of fraud within specific operational areas, but does provide assurance on those incidents reported via the Whistle Blowing and benefit fraud phone lines.
3. The Audit Services Manager (ASM) has a key role to play in fraud resilience and responds on fraud and corruption matters on behalf the CFO.
4. Since the last audit, PKF reported on the Authority’s Fraud Resilience in September 2011, having conducted their fieldwork in the early part of the summer. The ASM joined the Authority in August 2011 and initiated a significant number of actions to improve fraud resilience across the authority. When the PKF report became available, the ASM mapped her action plan to their report in order to ensure completeness of the Authority’s coverage. Key points in her plan completed at the date of this report are:
 - A fraud risk assessment that seeks to identify the Authority’s vulnerability in areas that national research has shown to be of particular concern to local authorities. The assessment informs internal audit and the corporate anti-fraud team’s work and will determine the type of action to be taken with best use of resources.

- Medway Council's first fraud resilience strategy which sets out the road map for delivery of the Council's aims and objectives for managing the risk of fraud during 2012-14. The strategy is based on reduced Council resources in the current financial climate and will be subject to annual review.
 - The Fraud Risk Assessment and Resilience Strategy were presented to Audit Committee in March 2012 along with the Annual Audit plan for 2012/13
 - The Anti Fraud & Corruption and Whistle Blowing policies have been reviewed, amended (where appropriate), issued to appropriate parties for comment and approved by Audit Committee March 2012
 - An assessment to determine resources required for identifying and investigating potential corporate fraud is underway and a protocol between management, HR and audit will be developed to clarify roles and responsibilities and decision points in investigating corporate fraud and considering sanctions that may be applied.
5. The Bribery Act 2010 came into force in the UK on 11 July 2011 and introduced the offence of commercial organisations failing to prevent bribery. Councils are potential targets for bribery, particularly in the areas of strategic decision making, procurement and contract management. Failure to address this issue leaves the Authority exposed to the risks of an unlimited fine and embarrassment. At the time of the audit fieldwork, the ownership of the Authority's policy had not been agreed with the consequent effect that no action had been taken. Ownership of the policy became settled with the appointment the new Monitoring Officer (interim). An anti-bribery policy is being drafted and will be presented to the July Audit Committee.
6. The Authority also needs to take action to ensure its policies and procedures are appropriate in the following areas:
- Adequate measures are in place to prevent the use of the financial system for the purpose of money laundering;
 - Clarifying whether schools are required to use the council's written Whistle Blowing policy or their own and reporting lines if the concern is related to the Headteacher or Chair of Governors. The additional complications posed by the status of Academies where Medway Council is part of the sponsoring body also needs to be addressed.
 - Guidelines should prompt recruiting managers to raise the risk of fraud & corruption when employing external temporary staff.
 - Service plan templates have been revised and will include a prompt for management to consider the risk of fraud but were not available for use for the 2011/12 service plans. Similar work is needed to ensure Assistant Director Quarterly reports flag fraud risks to portfolio holders.
 - The councils Contract procedure rules do not include guidance or arrangements to identify cartels.

CONCLUSION AND AUDIT OPINION

7. The failure to respond to the requirements of the Bribery Act was a key weakness in the Authority's arrangements to prevent fraud and corruption. We are assured the Monitoring Officer is taking action to address this issue and will be presenting an anti-bribery policy to the Audit Committee in July 2012. Therefore the overall opinion on management controls over the system for Prevention of Fraud and Corruption is **satisfactory**. The Audit Services Manager should be commended on the work undertaken since her appointment to build a robust fraud resilience environment within the Organisation.

8. The Overall framework is in place, however further improvements are needed to comply with the Audit Commissions checklist and **1 high and 5 medium** priority recommendations have been made to address weaknesses identified.

One High Priority Recommendation:

Finding 1:	The Prevention of Corruption Acts have been repealed and replaced with the Bribery Act. The revised/draft Anti F&C policy now includes a statement on the Bribery Act, however arrangements to comply with guidance set out in the Bribery Act of 2010, are not in place.
Risk:	The council is unable to demonstrate it's corporate responsibility if challenged.
Recommendation:	Arrangements to comply with guidance set out by the Secretary of State in the Bribery Act 2010 should be put in place to cover: <ul style="list-style-type: none">• Proportionate procedures• Top level commitment• Risk assessment• Due diligence• Communication (including training)• Monitoring and review
Response:	An Anti-Bribery Policy and Procedure to be developed for consultation and approval which identifies a senior officer for referring concerns to. Training and Intranet guidance to be produced and standard referral forms. Policy presented to 10 July 2012 Audit Committee

CORPORATE GOVERNANCE *(final report issued 27 June 2012)*

1. Internal Audit carries out an annual review of the extent to which the Council's Constitution, political and management structure and decision-making processes comply with the requirements of the CIPFA/SOLACE framework². In 2010/11 our opinion was 'satisfactory'. This audit contributes the Authority's annual governance statement.
2. The CIPFA/SOLACE framework consists of six core principles, each having varying numbers of supporting principles (there are 18 in total):
3. The objective of this audit was to provide an opinion for the 2011/12 financial year on Medway Council's compliance with the 'best practice requirements' of the CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework.
4. The newly appointed Monitoring Officer has a key role in ensuring Medway's governance arrangements, and is looking to strengthen the current arrangements as follows:
 - undertaking a review over the next 12 months of the process in place for compiling the annual governance statement.
 - presenting a Bribery policy to this Audit Committee
 - reviewing the arrangements for maintaining a register of interests.

² 'Delivering Good Governance in Local Government' (published in 2007), updating the 2001 guidance 'Corporate Governance in Local Government – A Keystone for Community Governance'.

- **General requirements**

Good: The Monitoring Officer is responsible for an annual review of the Authority's governance arrangements and production of the Annual Governance Statement (AGS). This is supported by an annual review by Internal Audit. The AGS is presented to senior management prior to approval by the Audit Committee.

- **Core Principle 1: Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

Satisfactory: The Local Strategic Partnership (LSP) is made up of all major public sector organisations and community interest groups in Medway and came together to agree the Sustainable Community Strategy 2010-26 which sets the long-term vision for the area. The Council's vision for the future, guiding principles for service delivery and strategic priorities are set out in the council plan which is agreed by Full Council alongside the budget.

The Council has a clear Performance Management framework for measuring outcomes for the area and makes them available to the Community via its annual report. There are clear processes for recording and handling complaints, with appropriate reports to senior management. Children and Young People Overview and Health and Adult Social Care Scrutiny Committees receive annual reports on the complaints within their remit but there is no similar reporting for the Business Support or Regeneration, Community and Culture Overview and Scrutiny Committees.

- **Core principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

Good: The Constitution sets out the responsibilities of the Executive and senior officers and the key roles of Head of Paid Service, Monitoring Officer and Section 151 Officer are defined.

- **Core principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

Good: The Authority's Constitution includes codes of conduct for both Members and employees. The constitution also directs the decision making process and includes financial and contract rules.

Written complaints about Member behaviour, where it is alleged that a breach of the Local Code of Conduct has occurred, are assessed by the Standards Committee. The Monitoring Officer reports to Council on the outcomes of these investigations in his Annual Report.

The Leadership framework and Manager's toolkit help Managers to embed Medway Council's values within their teams.

- **Core principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

Good: The Authority's Constitution sets out its decision making process and scheme of delegation. Most of the member level decisions are made by cabinet, in line with the overall policies and budget of the Council.

Decisions are subject to review and challenge by Overview and Scrutiny Committees.

The Audit Committee provides independent assurance on the adequacy of the risk management framework and the associated control environment.

The Council has a risk management strategy, which is reviewed annually (and updated if necessary), and a corporate register of its strategic risks, which is reviewed every 6 months. The 2011/12 Risk Management Audit has an overall opinion of "satisfactory"

- **Core principle 5: Developing the capacity and capability of members and officers to be effective.**

Satisfactory: The council has a Member Development Strategy 2011-2015 and a Learning and Development Policy 2010-13 for staff.

The member development strategy identifies key themes for member development. The Training Needs Analysis enables training provision to be tailored to the needs of individual members. The Member Development Advisory Group will review and adapt the development program over the course of the four-year period to ensure it continues to meet the members' needs.

At service level, learning and development plans should be captured from the annual service planning process and then fed this into the team's objectives/targets and then tasks should be delegated to individuals through the PDR process. Furthermore, line managers are responsible for ensuring that they identify the skills required for the job and that appropriate development opportunities exist, where possible.

- **Core principle 6: Engaging with local people and other stakeholders to ensure robust local public accountability.**

Satisfactory: The Sustainable Community Strategy is an overarching strategy for Medway. It sets the long term vision and key ambitions for Medway and the priorities to deliver that vision. The Medway Local Strategic Partnership led the development of the strategy in consultation with the community and partner agencies.

However, since April 2011 when a new partnership board was established, the Board has not met and protocols and revised governance arrangements have not yet been agreed.

The Citizens Panel, Corporate Focus Groups and the Ethnic Minority Forum are designed to represent all sections of the community. There are a range of service specific engagement routes to ensure accountability e.g. housing residents' scrutiny panel, young inspectors, learning disability partnership board.

The council plan includes the authority's vision and strategic plans. Progress will be measured towards achieving objectives to make sure that promises are

delivered and findings will be reported at the end of each financial year in the Annual Reports.

CONCLUSION AND AUDIT OPINION

5. The overall opinion on the council's arrangements to comply with the 6 core principles of the framework and the 'general requirements' is "**satisfactory**". Five medium priority recommendations have been raised to address issues identified and will be implemented in time for the Council Meeting in February 2013.

SUMMARY INFORMATION ON PROBITY REVIEWS

ALL SAINTS SCHOOL *(final report issued 27 April 2012)*

INTRODUCTION

1. Under Section 151 of the Local Government Act 1972, Medway Council's Chief Finance Officer has a legal responsibility for ensuring the proper administration of the Council's financial affairs, including Medway schools under Local Authority control. A programme of financial probity audits of schools is being undertaken. The output of the review at each School will be provided to the individual School, Senior Management within the Council, and once finalised it will be presented to the Council's Audit Committee.
2. The Guide to the Law, provided by the Department for Children, Schools and Families, defines the required School governance structure for ensuring financial probity. The Governing Body hold the Head Teacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place. The School Business Manager (SBM) or equivalent is responsible for the delivery of sound financial administration.
3. All Saints is a Church of England Primary School and has a current roll of approximately 310 pupils with 11 classes.
4. Our review covered payroll, income and expenditure, and began with an assessment of the control arrangements as set out in key documents and confirmed through interviews with staff and Chair of Governors. We obtained transaction data and where we identified areas of potential anomalies we undertook targeted testing in order to provide assurance that there were no concerns arising.
5. Our review and testing of the financial control arrangements confirmed that there were robust processes in place for the management of payroll, income and expenditure. An action plan, which management have agreed, records five actions to further strengthen current arrangements.
6. During our review we identified two anomalies, one relating to governance and the other relating to budget and bank account management. Both of these issues have been discussed with the relevant individuals at the School, and management within the Council, and both have now been resolved.
 - Chair of School Governors – We identified that the Chair of Governors, appointed in 2008, was a member of staff at the school, currently working as Breakfast Club Manager. This contravenes The Guide to the Law (Chapter 3, section 47) which states "*Governors who are paid to work at the school, for instance the head teacher and staff governors, cannot be elected as chair or vice-chair*". The Chair of the Governors has now stepped down from her position and a new Chair of the Governors has been appointed. Decisions made during her tenure as Chair and Vice Chair have been ratified by the new Governing Body
 - Breakfast Club Bank Account – Medway Council's Finance Manual for Schools (Section 9, paragraph 3.1) states, "*each school must open a current account through which all its payments and income is processed. Schools*

should not open more than one current account”. During our audit we identified that the School had an additional current account, relating to the Breakfast Club.

The Breakfast Club, which when it was first opened in 2002 with New Opportunities Funding was a separate entity to the School, became fully under School control in September 2008. At that point in time, when the Breakfast Club’s income and expenditure became part of Medway controlled funds, the bank account that had been opened for the Breakfast Club should have been closed. A review of the Breakfast Club’s bank statements and financial statements showed that there was a balance of £54,058 in the account. The balance was growing by approximately £800 per month, due to the fact that whilst the budgeted funding and income from the Breakfast Club was deposited into this account, the staff costs were paid out of the main bank account. In addition the school had transferred £10,000 into the Breakfast Club bank account from its main current account in March 2011. The matter was referred to Medway Council’s Schools Finance Team who required the school to close their Breakfast Club bank account and transfer these funds into the Schools current account. We identified a further £4,000 that needed to be transferred to the main bank account from the PTA and School Voluntary Fund. The school has closed the Breakfast Club account, and transferred all Medway funds into the main bank account.

- Medway Council are required to claw back surpluses held at the School each financial year. Given the funds noted above should have been incorporated into the School’s bank account at year-end March 2011 Education Finance calculated the surplus that would have been in the current account at that time. Education Finance Team calculated the amount of claw back due was £51,604. Education Finance required payment of this amount and the School has refunded Medway Council the full amount.

CONCLUSION

7. Given that the issues noted above have now been fully resolved we are able to confirm that there are no outstanding probity matters. We are also satisfied that the School has adopted the action plan for further strengthening the current financial arrangements.

ST MARGARETS SCHOOL <i>(final report issued 22 June 2012)</i>
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INTRODUCTION

1. Under Section 151 of the Local Government Act 1972, Medway Council’s Chief Finance Officer has a legal responsibility for ensuring the proper administration of the Council’s financial affairs, including Medway Schools under Local Authority control. A programme of financial probity audits of Schools is being undertaken. The output of the review at each School will be provided to the individual School, Senior Management within the Council, and once finalised it will be presented to the Council’s Audit Committee.
2. The Guide to the Law, provided by the Department for Children, Schools and Families, defines the required School governance structure for ensuring financial probity. The Governing Body hold the Head Teacher to account for ensuring there are appropriate and effective financial management and governance arrangements

in place. The School Business Manager (SBM) or equivalent is responsible for the delivery of sound financial administration.

3. St Margaret's is one of the largest Church of England Junior Schools in Medway and has a current roll of approximately 350 pupils, aged 7 to 11 years old in 12 classes.

FINDINGS

4. Our review covered payroll, income and expenditure, and began with an assessment of the control arrangements as set out in key documents and confirmed through interviews with the Headteacher and the School Budget Manager. We obtained transaction data and where we identified areas of potential anomalies, we undertook targeted testing in order to provide assurance that there were no concerns arising.
5. Our review and testing of the financial control arrangements confirmed that there are robust processes in place for the management of payroll, income and expenditure. An action plan records five actions to further strengthen current arrangements.

CONCLUSION

6. We are able to confirm that the School has robust controls in place and that we did not identify any probity issues. We are also satisfied that the School has adopted the action plan for further strengthening the current financial arrangements.

<p style="text-align: center;">TEMPLE MILL PRIMARY SCHOOL <i>(final report issued 27 June 2012)</i></p>
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INTRODUCTION

1. Under Section 151 of the Local Government Act 1972, Medway Council's Chief Finance Officer has a legal responsibility for ensuring the proper administration of the Council's financial affairs, including Medway schools under Local Authority control. A programme of financial probity audits of schools is being undertaken. The output of the review at each School will be provided to the individual School, Senior Management within the Council, and once finalised it will be presented to the Council's Audit Committee.
2. The Guide to the Law, provided by the Department for Children, Schools and Families, defines the required School governance structure for ensuring financial probity. The Governing Body hold the Headteacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place
3. Temple Mill is a Community Primary School and Children's Centre and has a current roll of 241 children and a budgeted income of £1.1M.
4. Our review covered governance, payroll (including CRB disclosure procedures), purchasing and payments, income and cash handling, and asset management, and began with an assessment of the control arrangements as set out in key documents and confirmed through interviews with staff and Chair of Governors. We obtained transaction data and where we identified areas of potential anomalies we undertook targeted testing in order to provide assurance that there were no concerns arising. We also verified the implementation of the management actions agreed in the internal audit report issued on 16.11.11.

FINDINGS

5. Our review and testing of the financial control arrangements confirmed that improvements have been made since the last audit report, but there are some areas that require further action. An action plan, which management have agreed, records five actions to further strengthen current arrangements.
6. The main issues requiring further attention are:
 - Approval of purchases;
 - Evidencing receipt of goods before payment is made;
 - Income received not being banked frequently enough;
 - Asset register incomplete and not protected against loss or damage.
7. During our review we identified instances of the Headteacher authorising overtime and purchase reimbursement claims for her spouse in his role as caretaker. Whilst the amounts involved were relatively minor (two overtime claims totalling 19.5 hours and purchases of £34.85) and there appeared to be nothing untoward in these payments, this is a breach of both good practice and Medway Council's Workplace Relationship Protocol (available on the school forums website - paragraph 5.1 refers). We acknowledge that this situation has arisen following the dismissal of the former School Business Manager (who previously managed the caretakers) in early 2011. This issue has been discussed with the Headteacher and we were advised that the Chair of Governors will be signing these forms for the caretaker in future.

CONCLUSION

8. Given that the issue noted above has now been resolved, we are able to confirm there are no outstanding probity matters. We are also satisfied that processes have been improved to address the most significant weaknesses identified in our report dated 16.11.11, but further action is needed to fully address some of the recommendations made.

SUMMARY INFORMATION ON FOLLOW UPS

Transport Procurement Follow-up *(final report issued 22 June 2012)*

INTRODUCTION

1. The audit of Transport Procurement, which focused on the use of taxis to provide children with SEN Home to School Transport, was issued in October 2010. The audit process is not complete until an independent follow-up is performed in order to confirm progress in addressing the weaknesses identified in the original report, and on the basis of these findings reviewing the overall audit opinion.
2. Management initially requested a delay in completion of the follow up, and we have been liaising with Management in the Transport Procurement Unit (TPU) since September 2011 about the findings of the audit, monitoring contract compliance and CRB clearances for the taxi drivers. Interviews and fieldwork are now complete and we are able to provide the report outlining the findings of the follow-up and our overall opinion of the controls now in place.
3. Transport is currently provided to 1072 students. Transport is provided via a combination of contract transport and cash allowance to parents. Students accessing respite care via contract transport do so additional to the primary home to school route, therefore some students use more than one route. 138 mainstream students access education SEN transport. TPU Database forecasts the cost of SEN transport in the 12/13 year as being £4,051,623.45
4. At the time of the follow up a number of strategic and operational changes were being considered: the TPU was being reviewed as part of Better for Less, which includes a review of the operational structure and also the level of integrated IT systems in place; and in April 2012 a revised strategy for the provision of School transport for children with SEN was presented for approval, with the intention of having it adopted in August 2012.
5. The original report recorded an overall audit opinion of "Uncontrolled" and contained 8 high and 11 medium recommendations. The proposed actions sought to address weaknesses in the following areas:
 - Communication, monitoring and authorisation processes between TPU and the SEN team in Children and Adults who hold the budget for home to school transport;
 - Payments following changes to home to school routes and the journeys to respite care;
 - Data quality;
 - The tendering processes for the contractors;
 - Development of the TPU database and the technical support arrangements.

FINDINGS

6. Our review confirmed that significant improvements have been made in all of the above areas, and all the issues have been addressed apart from two actions, one of which relates to the TPU database, and the other relates to scheme of delegation for

Adult Social Care. This issue has not been progressed due to the current reviews currently being undertaken of the operational structure and strategy for the TPU and Home to School transport provision. The implementation of the recommendations should ensure effective monitoring of contract compliance.

7. As part of this review we also undertook to provide assurance over the arrangements now in place to ensure all drivers providing home to school transport are subject to an enhanced Criminal Records Bureau check. TPU now have robust processes in place both with the Council's Licensing Department and with the Contractors to ensure compliance with the contractual obligation for all drivers to be subject to enhanced CRB checks.
8. The nature of the work within TPU is complex and fast moving, with requests for changes to the transport arrangements often being received at short notice. As such there remains a risk that documentation is not always fully up to date and therefore some payment errors could occur. The risks are mitigated by the revised procedures now in place, the key contact within the Children and Adults SEN team which provides a liaison point for any queries that the TPU might have, and the constant effective communication within the TPU team. At the time that the follow up was being undertaken the TPU services were being reviewed as part of Better for Less. In considering any revised structure or process it will be important to take into account both the formal and informal control mechanisms currently in place.

CONCLUSION

9. On the basis of the findings of this follow-up review of the controls in place to manage the SEN home to school transport our opinion is that the current arrangements are now **satisfactory**.

BUSINESS CONTINUITY PROGRESS REPORT

(update issued 25 June 2012)

INTRODUCTION

- 1 In 2011 Internal Audit reviewed the Authority's Business Continuity arrangements and this document provides an update on the progress made on the issues identified since that audit report was issued.
- 2 There are a number of terms that are used for how organisations handle and recover from an emergency. Medway Council has an Emergency Plan, an IT Disaster Recovery Plan, and a Business Continuity Plan. For the purpose of clarity the purpose and scope of these plans are recorded below.

Emergency Planning

- 3 At times the Medway area is likely to face an emergency that threatens serious damage to human welfare, the environment or security. Examples would be epidemic, severe local flooding and terrorist attack. Local Authorities have a critical role to play in ensuring a rapid and appropriate local response is made to address the emergency and ensure the welfare of the population at large. This is the "Emergency Plan".

Business Continuity Planning

- 4 Some of these emergencies are likely to have an impact on the Authority's ability to respond to the incident e.g. an epidemic is likely to reduce the availability of staff – both for responding to the emergency and to maintain the Council's other critical services. Other incidents, (e.g. a fire at Gun Wharf) would have a major impact on Medway Council, but would have minimal direct impact on the wider community. The Council needs to have a planned response to ensure it can continue to deliver its services if it is directly affected by an incident. The broad requirements of effective business continuity planning are:
- Top level commitment to ensuring continuity of service
 - Identification of business priorities
 - A detailed recovery plan for ICT services
 - A detailed recovery plan for facilities
 - Service Plans for business areas
 - Arrangements in place for effective communications
 - Testing of the arrangements
- 5 The overall opinion of the 2011 audit report, issued August 2011 was “uncontrolled”.
- 6 We were able to provide assurance in the original audit report that a BCP was in place, with the Strategic Risk Management Group having overall responsibility for its maintenance. The BCP comprises a Corporate plan (the Business Continuity Management Corporate Recovery Plan – BCMCRP) supported by Service Plans (Service Business Continuity management Plans – SBCMP). There was also an ICT recovery plan, and documented communication arrangements. Key weaknesses identified were the lack of identified business priorities, no facilities plan and no arrangements in place to ensure the Council's planned response was co-ordinated.
- 7 Given the nature of the actions required, the resourcing implications in addressing these issues, and the current structural and operational changes taking place across the Council through the Better for Less process, management did not set a target date for fully addressing all these issues.
- 8 The follow up process therefore is of a more prolonged nature than is usual, and at present Internal Audit are maintaining a “watching brief “on the progress being made. The intention is to undertake a full follow-up review at the end of 2012/13. This document provides an update to Audit Committee on the progress being made.

INTERIM UPDATE

- 9 Since the Audit report was issued the business continuity arrangements have been progressed by Senior Management, who have provided top level commitment through the Corporate Management Team and the Extended Management Team. We are also pleased to note that the Authority has appointed an individual with BCP expertise.
- 10 CMT have identified a list of critical services that need to be covered by the continuity arrangements and have determined a six tier recovery prioritisation schedule, ranging from between 24 hours to one month. ICT are further developing the ICT priority service recovery plan to support this high level recovery schedule. Some of the other issues raised in the audit, such as ensuring there is greater availability of the plans and revising the cascade arrangements should key

individuals not be available, have been completed. The Council has also considered in depth its response to one scenario, where staff cannot access buildings (e.g. due to snow).

- 11 The facilities recovery plan still needs to be developed, ensuring that there is a co-ordinated approach to support the implementation of the CMT-determined recovery schedule. The responsibility for ensuring each business area has its own detailed continuity plan rests with the relevant Assistant Directors.

CONCLUSION

- 12 The progress since the original Audit provides assurance that this matter remains a recognised priority of the Council, and work is ongoing to further develop the continuity planning arrangements. Given the strategic importance to the Council of having an appropriate continuity plan in place, and the level of work required to develop the current arrangement, it would not be appropriate to reconsider the original audit opinion on the basis of this interim review.
- 13 The Council is unlikely to have a fully developed plan in place until the ongoing changes to the structure and operational arrangements, taking place as part of the Better for Less project, have been completed. We will continue to liaise with management to monitor progress, and intend to undertake a full follow up review by the end of 2012/13. The outcome of the follow up, including a review of the overall audit opinion, will be reported to Audit Committee.

BLUE BADGES PROGRESS REPORT

(update issued 26 June 2012)

INTRODUCTION

1. The audit report issued in November 2011, focused on the use of Blue Badges that allow people with severe mobility problems who have difficulty using public transport to park for free. The audit process is not complete until an independent follow-up is performed in order to confirm progress in addressing the weaknesses identified in the original report, and on the basis of those findings reviewing the overall audit opinion.
2. The original report recorded an overall audit opinion of 'Uncontrolled'. The following instances of non compliance with DfT guidance published in June 2011 and control weaknesses that exposed the authority to the risk of fraud were identified:
 - Medway Council's application form did not fully comply with Blue Badge Information Service (BBIS) requirements.
 - Mobility assessments were not independent of the applicant's care and treatment.
 - Persons collecting badges did not have to prove they were the intended recipients/holders and authorisation not obtained for representatives to collect their badge in the event that intended holders are unable to do so.
 - There were incomplete records of receipt and issue of badges and stock held.
 - Requirements for expired badges to be returned were unclear and appropriate disposal arrangements were not in place.

- Processes had not been developed to identify deceased badge holders and to make arrangements to recover their badges.
- Poor data quality on the Oneserve system.
- Arrangements were not in place with enforcement to ensure blue badge use was valid.

FINDINGS

3. At the time of this review, structures within the Council for the management of Blue Badges have changed as part of Better for Less and a new IT solution has been introduced, meaning that the whole process and control environment has altered significantly since the original audit fieldwork was completed. Additionally, the new Blue Badge National process was implemented in January 2012 and the Department for Transport (DfT) published revised guidance in February 2012 in order to share good practice in administrative, assessment and enforcement with Local Authorities. On this basis we have decided to defer the full follow up until later in the year in order to ensure there has been sufficient time for the new processes to bed-in.
4. This interim review was undertaken by cross-referencing the latest guidance with current arrangements (as confirmed by management), and examination of Medway's application form, process maps and Lagan scripts that direct officers through specific processes. Process maps that have been developed provide a transparent record of the procedures documented to a high level of granularity which has helped flag up control and process issues.
5. Our review has confirmed that significant improvements have been made to ensure guidance and best practise is applied. Seven of the nine previously identified actions have been implemented, although we have identified minor issues on three of these that we will be taking up with management separately.
6. Work is in progress to enhance the procedures for dealing with the return of badges when the badge holder dies. Work is also ongoing to strengthen the enforcement arrangements, with the Fraud Manager now overseeing fraud detection and investigations, and the Parking Manager overseeing the enforcement of Blue Badge use. There is a difficulty, not restricted to Medway, with the software arrangements for the introduction of handheld devices. The Parking Manager is seeking clarification on the national picture.

CONCLUSION

7. The administration and assessment processes that exposed the Authority to the risk of fraud are significantly reduced and a new approach and methodology has been formalised/introduced.
8. On the basis of the findings of this interim review, and the significant progress made on the issues identified in the original audit, we have reviewed the audit opinion. On the basis of the interim work carried out to date we are satisfied that we can already raise the overall opinion from "uncontrolled" to "**insufficient**", pending implementation. It has been agreed with management that we will undertake the final follow-up review, including the outstanding testing, early in 2013 where we would hope to be able to provide additional assurance on the arrangements in place and further raise the opinion.