Medway COUNCIL Serving You

AUDIT COMMITTEE

26 SEPTEMBER 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 It is within the remit of the Audit 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.

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.

Annex A

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.

Annex A

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					
Council Tax (Quarter 4 2011/12 under new arrangements)	G				✓
NNDR (Quarter 4 2011/12 under new arrangements)	G				✓
Housing Benefit (Quarter 4 2011/12 under new arrangements)	S				✓
Debtors Income	I				✓
Other Financial Systems					
Local bank accounts in Schools	I		✓		✓
Risk Assessed and Additional Work					
Governance					
Follow Ups					
Rochester Christmas Market - update	•			✓	
Markets Income	S			✓	
Housing Rents	S				✓
Probity Reviews					
St Peter's Infant	•		✓		
Sherwin Knight Junior	•		✓		
Sherwin Knight Infant	•		✓		

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

ANNEX C

SUMMARY INFORMATION ON COMPLETED AUDITS

COUNCIL TAX and NNDR (part 1) *(final report issued 10.8.12)*

The 2011/12 audits of Council Tax and NNDR provided assurance that key controls in the system, as identified by external audit, continued to operate effectively up to December 2011.

The arrangements for the management of the two functions were changed from January 2012, as part of the Better for Less programme, and this audit provided assurance on the revised arrangements from January to March 2012. It involved testing of the key expected controls in the Council Tax and NNDR systems, as identified by External Audit, to ensure the completeness, promptness, accuracy and validity of transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.

In addition, we reviewed and evaluated the effectiveness of the wider controls in place under the revised management arrangements to minimise the risks that:

- Property data may be incomplete, inaccurate or not updated promptly;
- Rates chargeable may not be billed accurately or in a timely manner;
- All income received may not be accounted for accurately and promptly;
- Arrears may not be calculated accurately or recovered effectively;
- Income due and received may not appear in the main financial records accurately or promptly.

CONCLUSION AND AUDIT OPINION

Our audit assurance relates to the fourth quarter of 2011/12 when the new arrangements were put in place. We reviewed the application of the key controls as specified by external audit and identified that:

- access rights to the IWorld (revenues and benefits) system had not yet been amended to reflect the revised structure and working practices - management were working towards resolving this issue;
- monthly sample checks of applications for SPD and other reliefs for January and February were not carried out promptly and, consequently, had not been reviewed by the Revenues Manager until early May;
- although reconciliations between the Radius (income) system and IWorld continued to be completed promptly those for January and February were not reviewed by management until April.

On the basis of the work undertaken in 2011/12, we were satisfied that management were already addressing the issues identified and these were not considered significant enough to change the audit opinion, which therefore remains "**Good**". No recommendations were made, but we will follow up any control issues included in this report when we complete the 2012/13 audit, which will include testing of the application of controls under the new arrangements, and extend beyond those controls identified by external audit.

HOUSING BENEFITS (part 1) *(final report issued 10.8.12)*

The 2011/12 audit of Housing Benefits provided assurance that key controls in the system, as identified by external audit, continued to operate effectively up to December 2011.

As part of the Better for Less programme the arrangements for the management of Housing Benefits were changed from January 2012. As such this audit provided assurance on the revised arrangements from January to March 2012. This audit involved testing of the key expected controls in the Housing Benefits system, as identified by External Audit, to ensure the completeness, promptness, accuracy and validity of Housing Benefit transactions, including authorisations, accuracy checks on input and segregation of duties.

The objective of this audit was to provide assurance that the key controls in the Housing Benefits System, as identified by External Audit, continued to operate effectively during the final quarter of 2011/12. We also sought confirmation that the management action agreed in response to the 2011/12 audit had been implemented.
In addition, we reviewed and evaluated the effectiveness of the wider controls in place under the revised management arrangements to minimise the risks that:

- Claims for benefits may not be valid and/or assessed promptly;
- Benefits payments may not be calculated or paid accurately, to the correct recipient;
- Change of circumstances notifications may not be actioned accurately and/or promptly;
- Overpayments may not be identified, or may not be recovered in an appropriate manner;
- Benefits payments may not appear in the main financial records accurately or promptly.

CONCLUSION AND AUDIT OPINION

Our audit assurance relates to the fourth quarter of 2011/12 when the new arrangements were put in place. We reviewed the application of the key controls as specified by external audit, and also reviewed the progress that management have made in implementing the actions arising from our 2011/12 audit which covered the first, second and third quarters of the year.

On the basis of the work undertaken in 2011/12 we confirmed that no significant issues were identified, and therefore our audit opinion of "**Satisfactory**" is unchanged. No recommendations were made, but we will follow up any control issues included in this report when we complete the 2012/13 audit, which will include testing of the application of controls under the new arrangements, and extend beyond those controls identified by external audit.

DEBTORS INCOME *(final report issued 3.9.12)*

The Council generates income from various sources, most of which is from Council Tax, Business Rates (NNDR), Housing Rents and Social Services related activities. Service managers are responsible for administering the collection of income in these areas. For other sources of income generation (e.g. charges for shared services with the Health Authority, school services, allotments), invoices are raised on the Authority's Sales Ledger.
Approximately 23,000 invoices were raised on the Sales Ledger in 2010/11, with a total value of raised debt in excess of £44 million (for Company 6 – general debtors) – which we calculated to equate to approximately 14% of the Council's overall income.

The objective of this audit was to provide an opinion on the effectiveness of controls to minimise the risks that:

- Details of debt held on the Sales Ledger may be inaccurate;
- Debt recovery processes may be ineffective;

- Ineffective processes in place for identifying and dealing with unrecoverable debt.

Client charges for residential care, which are created on the Care Director system, are invoiced through the Sales Ledger (Company 7). However, the invoicing arrangements were covered in the 2010/11 audit "Care Director Income" and therefore excluded from this review. This audit concentrated on General Debtors (Company 6) and did not include companies 1-5 or 8.

Management were aware of deficiencies prior to this audit and were trialing new schemes and working on implementing new policies.

Three risks relating to Debtors Income were reviewed to determine the effectiveness of controls and the opinions are shown below.

- **Risk 1: Details of debt held on the Sales Ledger may be inaccurate**

  Insufficient: Currently manager's authorisation is not required to set up debtor accounts and request invoices and credit notes to be raised. The issue regarding authorisation of new debtor accounts was identified by the external auditors as part of their year-end accounts work. Following a meeting with the external auditors in January 2012, management undertook to introduce a new form, requiring manager's authorisation for setting up debtors and creditors (including requesting credit notes), to be fully operational by 1st May 2012. However, we understand that introduction has now been postponed until August.

  The Exchequer, Insurance and Systems Manager and Supervisor were found to have access to amend and create debtor records and are also responsible for chasing arrears, there is a potential risk of misappropriation of funds.

- **Risk 2: Debt recovery processes may be ineffective**

  Insufficient: As at 19.3.12, the aged debt summary indicated that for company 6 (general debtors), over £2.8 million was outstanding from invoices more than 60 days old, including £1.1 million more than one year old. However, we acknowledge the Exchequer, Insurance and Systems Manager's observation that this should be viewed in the context of the latter figure representing less than 1% of the total debt raised on Company 6 in the three financial years 2008/09 to 2010/11.
  Up until August 2011 Medway had a dedicated debt recovery resource. For the remainder of 2011-12 this post was not filled and the duties were split across the team.
  In addition, two pilot schemes to reduce outstanding debt were being trialed. In January 2012 170 invoices totaling approximately £65K were passed to an external collection agency, as a pilot exercise for an agreement for the company to progress recovery action on 2,000 invoices, so based on early performance Medway will hopefully benefit as the remaining 1,800+ invoices are actioned. In December 2011 a reminder letter from another collection agency was trialed, which proved more successful in obtaining resolutions to pay than Medway Council's own letters - this has therefore been used as the default letter from June 2012.

- **Risk 3: Ineffective processes in place for identifying and the dealing with unrecoverable debt**

  Uncontrolled: Chapter 3 of the Constitution (paragraph 5.5) states that write-off of irrecoverable debts up to the value of £5,000 should be authorised by the director responsible for the service concerned, with the approval of the Chief Finance Officer also required for amounts between £5,001 and £25,000. However, our testing identified non-compliance with this requirement. We examined the 16 adjustments exceeding £500 processed during 2011/12 - only two were processed as write offs, though it transpired that one of these was not technically a write-off as it offset rent arrears against amounts payable to the tenant as a supplier to the Council; no evidence of director approval for the other write-off (£643 loan for property adaptations) could be produced. The remainder had been processed as write-backs, without director or CFO approval, but we considered that at least nine of these (including amounts of £11,800 and £6,645) were technically write-offs, as they related to non-payment for services provided. The Exchequer, Insurance & Systems Manager explained that the decision to write-off or write-back is based on whether the service that raised the charge contributes to the Council's bad debt provision. If this is a Council policy it needs to be documented as such, but we found this principle had not been applied consistently. He also maintains that six of these transactions (totalling £32,548) were not true write-offs as they related to schools and were therefore an internal debt – however, as four of the schools involved have converted to academy status (three prior to the write-back being processed) and another closed in July 2010 this perception is considered questionable.

In addition, two credit notes selected during testing, with a value of £707.00, related to unrecoverable debt rather than genuine credit notes (ie the service invoiced had been provided).

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of controls within the Debtors Income system for the year 2011-12 is **Insufficient**.

We are aware that management are trialing new schemes and are working on implementing new policies to strengthen the controls for ensuring data on the sales ledger is accurate and improving effectiveness of debt recovery process. The main issues are recovery of overdue debt and lack of authorisation for writing-off unrecoverable debt, though this reflects our perception that much of the amount processed as a write back or credit note should have been write-offs.

One High priority recommendation:

Finding 1:	Chapter 3 of the Constitution (para 5.5) states that writing off irrecoverable debts is the responsibility of the Chief Finance Officer or Director of a service. A sample of 16 adjustments over £500 was reviewed, only 2 of which were processed as write-offs (though one was not technically a write off). At least 9 of the remaining adjustments should have been processed as write-offs rather than write-backs and there was no evidence of authorisation relating to the write offs.
Risk:	Irrecoverable debts are being written-off without the level of authorisation required under the Council's constitution.
Recommendation:	a) Irrecoverable debts that relate to services actually provided should be actioned as a write off rather than a write back. b) The constitutional requirement for the relevant director to authorise write-off of irrecoverable debt up to £5,000, with co-approval of the Chief Finance Officer for amounts up to £25,000, should be complied with.
Response:	Management to implement new debtor forms including credit notes, write backs and write offs to ensure all Council's processes comply with Standing Orders etc and have been authorised in the correct manner. Target date – end of October 2012

Two medium priority recommendations also made to address the issues identified, these being accepted by management for implementation by the end of October 2012.

LOCAL BANK ACCOUNTS IN SCHOOLS *(final report issued 27.7.12)*

A thematic review of controls over Local Bank Accounts (LBA) in Schools was carried out following the identification of significant misappropriation of funds at one school in 2010/11.

The objective of this audit was to provide the Chief Finance Officer with assurance that school bank accounts are being managed effectively to minimise the risk of delegated funds being misused.

Two risks relating to Local Bank Accounts in Schools were reviewed to determine the effectiveness of controls and the opinions are shown below.

- **Risk 1: School banking arrangements may be insufficiently robust to prevent misuse of delegated funding**

  Insufficient: Although schools are now only required to submit LBA returns to Education Finance quarterly rather than monthly, it was found that school finance staff in the sample of six schools visited were still reconciling bank statements monthly to enable identification of anomalies in a timely manner. However, monitoring by headteachers was not always apparent, which could lead to any potential misuse of funds not being detected.

  All schools in the sample had at least three authorising signatories for cheques and direct debit/standing order instructions, although governing body involvement in approving authorised signatories, opening or closing of bank/building society accounts, obtaining credit or debit cards and the availability of any overdraft facility was not stipulated in school finance policies. This could lead to the governing body not being able to fulfil its responsibility for the overall management of how school resources are managed to minimise the risk of potential misuse of funds. It should be noted that the model school finance policy provided by Education Finance (available on the schools forums website) does not include any reference to governing body involvement in such matters.

  The school finance policies reviewed did not all include information about bank/building society accounts, the purpose they should be used for and authorised signatories. This could lead to funds being paid into or withdrawn from an inappropriate account, with a consequent risk that funds may be misused or misappropriated; it is also possible that interest receivable on balances may not be maximised.

  Controls to minimise the potential risks in using credit/debit cards and internet/telephone banking were found to be inadequate.

  Instructions from the local authority about the type of bank/building society accounts acceptable for use by schools was found to be out-of-date or in the process of updating, which could lead to schools opening inappropriate accounts resulting in additional charges and/or loss of funds.

- **Risk 2: Central monitoring processes may fail to identify any potential misuse of school funding**

  Insufficient: The Education Finance team's main objectives are allocating funds to schools and ensuring that schools' income and expenditure is reflected accurately and promptly in the Council's financial records. The team has insufficient resources to review bank statements submitted by schools to identify any potentially unusual payments, however, by requesting full bank statements from schools, there may be a perception that in depth checks are being made.

Complete records of school bank/building society accounts were held by Education Finance and from a sample of 20 schools it was found that LBA bank balance totals from schools' financial systems matched bank statements provided. However, LBA returns did not always demonstrate involvement by headteachers, with delays in submission or replies to queries not being followed-up by Education Finance in a timely manner. There were also delays in processing LBA returns with no queries, which could lead to the Council's financial records not being up-to-date.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of controls over Local Bank Accounts in Schools to minimise the risk of potential misuse of funds is **insufficient**. School finance policies fail to identify responsibility for managing financial resources adequately and headteachers are not sufficiently involved in checking for potentially unusual transactions. Processing of LBA returns by Education Finance is not carried out in a timely manner.

Eight medium priority recommendations were made to address the issues identified, mainly relating to updating and improving the guidance provided to schools by Education Finance. All were accepted, for implementation by the end of December 2012 at the latest.

OTHER OBSERVATION

The Education Finance team also monitor submission of audited annual returns for school voluntary fund accounts. Of the 75 schools known to have such funds, 29 had not submitted returns for 2011, seven of these also not submitting returns for 2010 and another had not sent in a return since 2006. Whilst the LA has no responsibility for such 'non-public' funds, "parents and other benefactors are entitled to the same standards of stewardship in their administration" (per Medway Council's 'School Voluntary Fund Guidelines'). In the absence of audited annual returns there is a lack of assurance that these funds are being managed appropriately and there is a risk that these may be used inappropriately for income that should be paid into schools' 'official funds' accounts.

SUMMARY INFORMATION ON PROBITY REVIEWS

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.

ST PETER'S INFANT SCHOOL *(final report issued 13.9.12)*

INTRODUCTION

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. The Bursar or equivalent is responsible for the delivery of sound financial administration.

St. Peter's is a co-educational Infants' School, educating children between the ages of 4 and 7 years with a current roll of 107 pupils across 4 classes. Budgeted expenditure for the current financial year is in excess of £512K.

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 the Headteacher, Accounting Technician and Secretary. 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.

FINDINGS

Our review and testing of the financial control arrangements confirmed that, overall, there are robust processes in place for the management of payroll, expenditure, income and assets. However, we were concerned that the School Secretary had sole responsibility for collecting, recording and banking income received for after school clubs etc. Whilst the amounts involved are not significant (£20 per child per term) and we are satisfied that income recorded had been banked, lack of segregation of duties presents a risk of fraud and error and could place the individual in a vulnerable position. This issue was addressed promptly and a second person is now involved in the income process.

An action plan, which management have agreed, records four actions to further strengthen current arrangements.

CONCLUSION

We are able to confirm that the School has robust controls in place overall 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.

SHERWIN KNIGHT JUNIOR SCHOOL *(final report issued 14.9.12)*

INTRODUCTION

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

Sherwin Knight Junior School has 259 pupils – eight classes covering Years 3-6 - with budgeted expenditure for 2012/13 of approximately £1.09M.

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 the Headteacher and School Business 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.

FINDINGS

Our review and testing of the financial control arrangements found there are control weaknesses in the management of payroll (including CRB disclosure procedures), expenditure, income and assets. These included, for instance, a lack of assurance that all staff and parent/classroom helpers hold CRB disclosures renewed within the last three years; lack of evidence of approval for and checking of purchases of goods and a purchasing card being obtained without the prior approval of the governing body.

CONCLUSION

We are able to confirm that we did not identify any probity issues, but did find a number of weaknesses in controls. We are satisfied that school management have adopted the action plan for strengthening the current control environment, with the majority of actions required to be taken by the end of October 2012.

SHERWIN KNIGHT INFANT SCHOOL *(final report issued 17.9.12)*

INTRODUCTION

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

Sherwin Knight Infant School has approximately 270 pupils from nursery age up to year 2 (2.5 form entry). Budgeted expenditure for the current financial year is in excess of £1.01M.

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 the Headteacher, the School Business Manager and Bursar. 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.

FINDINGS

Our review and testing of the financial control arrangements confirmed that there are robust processes in place for the management of payroll, expenditure, income and assets. However, we identified that the single central record for CRB indicated that a renewed disclosure, submitted to HR nine months previously, had not yet been seen by the School Business Manager. The School Business Manager has notified us that this has subsequently been seen.

An action plan, which management have agreed, records seven actions to further strengthen current arrangements.

CONCLUSION

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 control environment.

SUMMARY INFORMATION ON FOLLOW UPS

MARKETS INCOME - follow up

(final report issued 11.9.12)

INTRODUCTION

An audit of markets income was carried out in June/July 2009 (final report issued 11.11.09), the audit opinion being that four of the five areas examined were 'uncontrolled' and one was 'good'. A total of 12 recommendations were made to address the weaknesses identified; these were all accepted by management with an undertaking to implement appropriate actions by April 2010 at the latest.

A follow up audit was carried out in August/September 2011 (final report issued 9.3.12), the audit opinion being that one of the four areas examined was 'uncontrolled' and three were 'insufficient'. A total of six new and three repeat recommendations were made to address the weaknesses identified; these were all accepted by management with an undertaking to implement actions by November 2012 at the latest.

The 2012 follow up audit took place in August/September. 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.

The follow up report issued March 2012 recorded an overall audit opinion of **Insufficient** and contained three high, five medium and one low priority recommendations. The proposed actions sought to address weaknesses in the following areas:

- Charges may not be formalised and/or approved by Members;
- All income due may not be identified or collected;
- Income collected may not be adequately protected against loss;
- All income collected may not be banked intact, or not in a timely manner.

FINDINGS

Our review confirmed that significant improvements have been made in all of the above areas, and progress has been made on almost all the issues.

There is a sound process for reviewing and setting market fees which involves Members and senior management. Pricing reviews for all three markets have been timetabled. A revised policy on limiting rent arrears was due to be implemented in June but this has been delayed while legal services checked revised terms and conditions. These have now been approved and will be issued to traders in September.

Improvements have been made in ensuring that traders are charged the correct fee for the size of pitch and that money collected is recorded and receipted accurately. Banking has been carried out promptly for Rochester and Gillingham markets however we found instances at Strood where the member of staff was still taking income home. The instruction to use the bank night safe has been reiterated by management.

The Business Development and Projects Officer has reconciled income records to Integra for the first quarter 2012/13. Both Finance and Audit have given advice on how this process can be made both more efficient and robust. We will be liaising with management on an ongoing basis to ensure this process runs smoothly in future.

The last audit recommended that a Health and Safety Risk Assessment should be completed to assess the health and safety risks to staff working at the markets. The outcome of the assessment has not yet been reviewed by management but they have made a commitment to finalise the assessment and identify any actions required to mitigate the identified risks within three months.

CONCLUSION

On the basis of the findings of this follow-up review of the controls in place to manage markets income our opinion is that the current arrangements are now **satisfactory**.

It has been agreed that we will liaise with management in three and six months to confirm that the new control arrangements are embedded within the management processes, and that the Health and Safety arrangements have been finalised. We will report to Audit Committee if there are any significant issues arising from these reviews.

HOUSING RENTS - follow up

(final report issued 11.9.12)

INTRODUCTION

An audit of the Housing Rents system was carried out in February/March 2012 and a final report reference 11014 was issued on 13 March 2012 with the overall opinion on management controls over the system in 2011/12 of **'insufficient'.**

One high priority recommendation to address historic problems relating to Housing Benefit overpayments was made as overpayments between 2003 and 2009 held on the sub account within Academy had not been reviewed or addressed and the level of overpayment debt on the sub account was £215,500. All of the recommendations were accepted by management, with an undertaking to implement the agreed actions by June 2012 at the latest.

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. This report summarises the results of further audit work carried out to confirm that the agreed action for pursuing Housing Benefit overpayment debt has been implemented.

FINDINGS

Management changes within the housing department delayed action to tackle the historic problem debts recorded on Academy associated with Housing Benefit overpayments. Responsibility and arrangements to ensure that action to recover all HRA debt was revised in July 2012 and an exercise to ensure all rent and sub account debt on the HRA is targeted in the form of a 'mopping up' exercise is underway. High value debt within each 'Patch' is prioritised. Two of four patches are at current transaction stage and a third is in progress.

The current level of HB overpayment debt is £178,800, down from £215,500 at the last audit, and a significant number of transactions of total value of £27,600 have been identified and scheduled for return to the Housing Benefit team that will further reduce this balance. New HB overpayments are monitored fortnightly via Academy to ensure they fall into the appropriate criteria for transfer to the claimant's Rent Account and arrangements are in place to recall balances to housing benefits where appropriate.

CONCLUSION AND AUDIT OPINION

On the basis of the progress made in addressing historic problems relating to Housing Benefit overpayments we have reviewed the audit opinion and are satisfied that we can already raise the overall opinion from “insufficient” to “**satisfactory**”.

We have not identified any further issues relating to the process employed for addressing Housing Benefit Overpayments on the Rent sub account and are satisfied that the process is operating, however ongoing progress with reducing the balance on the account will be reviewed at the next annual audit of the HRA.

ROCHESTER CHRISTMAS MARKET - update

Following our initial audit (at the request of the Audit Committee) of the inaugural Rochester Christmas Market held in December 2010, a further report summarising the management actions taken to improve controls for the 2011 market was issued on 9 March 2012 and reported to Audit Committee on 29 March 2012. This included two further high priority and another three medium priority recommendations, which management had agreed to implement by the end of March 2012. This summary provides an update on implementation of the agreed management actions.

The two high priority recommendations related to invoicing the company operating the market for the stall/chalet rental fees for both the 2010 and 2011 events, acknowledging that under the terms of the contract the former were not due for payment until December 2013, though the latter should have been paid by the end of December 2011.

Before the update was reported to Audit Committee we became aware that the company contracted to operate the event for a seven-year period had announced publicly that they would not be operating any future Christmas markets in Rochester. This early termination of the contract enabled the Council to claim early payment of the chalet rental fees for the 2010 event, which had not been due for payment until December 2013.

On 13 March 2012 the company was invoiced £6,550 in respect of the stall/chalet fees due for both years of operation. The Council’s financial records indicate that £2,650 of this was paid on 3 April 2012 – it is unclear why this amount was paid, as it does not equate to the amount due for either year; a balance of £3,900 remains outstanding against this invoice.

The medium priority recommendations included, when assessing whether the market had been run at nil cost to the Council as no budget had been allocated, taking account of costs incurred by other services as a direct result of the event, plus the costs of reinstating the Castle grounds.

Following communications with Greenspaces over whether the Christmas market had been the sole cause of damage to the Castle grounds requiring reinstatement following the 2011 event, the operator was invoiced a further £648 +VAT on 20 March 2012. This amount has not yet been paid, which is possibly not surprising given that there had seemingly been no prior consultation with the company.

The sales ledger system indicates that on 17 April the company telephoned Exchequer querying a reminder received, stating that they disputed the invoice for grounds reinstatement. A further note indicates that on 21 August the company was emailed requesting an update on both the £3,900 outstanding stall/chalet rental and the charge for grounds reinstatement, suggesting that a response was received, querying the latter.

This was queried with the Head of Festivals, Arts, Theatres and Events, who advised us that he had been unaware any balance was outstanding, as the full amount had appeared as income on his budget monitoring records and support staff in Finance had apparently not advised him that this did not necessarily mean that full payment had been received.

We note, however, that Integra indicates that the Council has not yet refunded the £3,000 security bond paid by the company when the contract commenced in 2010. It may therefore be possible to use this deposit to offset the overdue amounts due to the Council. The Head of Festivals, Arts, Theatres and Events has undertaken to liaise with Legal to establish whether this will be permissible under the terms of the security bond, before contacting the event operator.