

## **AUDIT COMMITTEE**

**21 MARCH 2013**

### **OUTCOMES OF INTERNAL AUDIT ACTIVITY**

Report from: Internal Audit

Author: Alison Russell, Audit Services Manager

#### **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.

#### **Lead officer contact**

Name Alison Russell  
Job Title Audit Services Manager  
Telephone: 01634 332355  
Email: [alison.russell@medway.gov.uk](mailto:alison.russell@medway.gov.uk)

#### **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	Health	Business Support Department
<b>Other Financial Systems</b>						
<b>Risk Assessed and Additional Work</b>						
Economic Downturn Risk Schedule – Data Quality	S	✓				
Waste Contracts	I			✓		
Events	S			✓		
<b>Follow Ups</b>						
Corn Exchange – financial controls	S			✓		
<b>Probity Reviews</b>						
Saxon Way 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****DATA QUALITY – RISK SCHEDULE RELATING TO ECONOMIC  
DOWNTURN *(final report issued 17.01.13)*****MANAGEMENT SUMMARY**

1. Effective risk management is a core element of good governance and supports effective decision-making and provides a significant level of assurance over an organisations' ability to deliver its objectives. The Authority has developed a strategic risk register, the risk management process is audited each year, and the audit opinion for 2011/12 was that the process in place was "satisfactory".
2. This audit focused on providing assurance on the data being used to monitor the risk of "downturn in the economy" included in Medway's strategic risk register. This risk has a current risk score of A II (last reviewed August 2012), which means that it has been determined as a risk with very high likelihood and a critical impact.
3. The nature of the risk is wide-ranging and assurance is therefore drawn from a wide range of sources. The risk schedule cannot fully capture the full details of the risk and the mitigations in place but provides a summary of key factors and issues. The risk schedule relating to the "Economic Downturn" has therefore to be understood as just one component of the strategic risk register, which also covers related issues such as the significant financial pressures facing the council, the demand for council services, and council's delivery of maintenance and regeneration of the local areas' infrastructure. Assurance can be drawn from the risk register as a whole, and also from the fact that the Chief Executive, who has oversight of the entirety of the business of the council, is the identified risk owner.
4. The starting point for the audit was to clarify the nature of the risk, and the risk owner clarified that the risk has two key elements. The risk schedule contains details of the nature of the vulnerabilities and the identified mitigations and performance measures. The risk owner identified the following two elements of the risk: Impact of the downturn in the economy on Medway; and actions taken by Medway to mitigate this impact.
5. The risk register does not record the two-part nature of the risk as explained by the risk owner during the audit, and therefore potentially those drawing assurance from the risk schedule may not have a consistent understanding of the exact nature of the risk. The risk schedule is also not explicit as to whether it addresses the social impact of the economic downturn. One of the mitigations identified on the risk schedule is the safety net provisions in place, but given the imminent changes to benefits and the new Council Tax Scheme there will be additional pressures placed on people living within Medway and these concerns, and any mitigations in place to alleviate the pressures, are not reflected in the risk schedule.

6. We reviewed the specific mitigations of the two key elements of risk, as identified on the risk schedule.

(i) Impact of the downturn in the economy on Medway

The Medway Economic Data and Trends Report is produced quarterly and contains data relating to areas such as employment, workforce skills levels and the “births and deaths” of businesses. It provides a year on year trend analysis, and also provides some benchmark data which helps put the data in some context.

A significant proportion of the report is drawn from figures provided nationally which provides assurance over the accuracy of the data provided. There is a time lapse in some of these figures becoming available, but this is not of particular concern as the main value of the information collated is in providing a comparison with other geographical areas, and a record of the trend in data.

The risk schedule also identifies the ongoing liaison with the local community through the Medway Economic Board. The Board has representatives from business, higher education, training and the Council. The risk owner, or his representative, attends this Board.

(ii) Actions taken by Medway Council to mitigate this impact

The Capital Monitoring Report provides a list of capital projects being undertaken by the Council, and is updated on a quarterly basis. The report highlights the anticipated output, the progress made, the funding stream, and the risk status of the project. The report therefore provides a valuable tool for monitoring and reporting on the overall delivery of the capital programme, but it does have limitations such as the fact that it is largely driven by financial matters, reports only on delivery against current year budget and does not highlight those projects due to be completed in the near future.

The accuracy of the information contained in the report relies largely on the project manager and the sense-check performed by Finance Division. The Capital Project Boards (The RCC Capital Project Boards have only recently come into force) undertake further scrutiny of the report, and identify those projects that the Boards consider to represent a high risk.

The Directors of RCC and Children and Adults, and the Chief Finance Officer, have regular meetings with the risk owner and in so doing there is the opportunity to highlight any concerns around current critical projects. This arrangement mitigates the potential risk of delays in key concerns being raised through the monitoring report.

The Medway Economic Data and Trends Report provides a summary of how various Medway regeneration schemes have delivered benefits to the local area. The report for Summer 2012 records how the local economy has been supported and local jobs have been created, through the accessing of EU funds, grant schemes, and the provision of Council resources. Amongst the deliverables reported are the outcomes of the Council's Employ Medway Team which has helped over 800 unemployed people to find jobs, the Apprenticeships in Local



Small Businesses which records an increase of 70% in the number of apprenticeships, and the Partners for Growth which has helped 74 new companies to be created in Medway since Autumn 2009.

There is a plethora of activities that the Authority is involved in to facilitate the development of Medway. There is clear strategic involvement and direction and the Medway Local Development Framework which is being developed sets out how the Council sees Medway developing up to 2028 and is focused on Medway realizing its full potential. Alongside the delivery of key regeneration projects there are resources allocated and initiatives delivered to enhance economic development and social regeneration and to provide employment support. Events are held to encourage inward investment into the area, such as the Construction Expo held in Medway in October 2012, and specific areas targeted for development such as creative industries and environmental technologies. There is also clear Member involvement in the decision-making processes regarding the investment and regeneration of Medway, including through the forums for the centers of Chatham, Gillingham, Rochester and Strood.

7. The risk owner also noted that the Council, as an employer of around 7000 people, has to remain mindful of its responsibility as a major employer in the area. There are HR policies in place to ensure where a post is lost that the individual is placed in a redeployment pool that has to be considered prior to vacancies being advertised. The efficacy of this arrangement is demonstrated by the fact that the Better for Less process to date has resulted in only one compulsory redundancy.

## **CONCLUSION AND AUDIT OPINION**

8. The risk owner has a clear understanding of the nature of the risk and the key measures included on the risk schedule are appropriate, and the processes for providing the data to the risk owner robust. The overall opinion therefore is that the arrangements are “**satisfactory**”.

**1 medium** priority recommendation has been made, resulting in the following action:

The Chief Executive will ensure that the potential need for a specific risk schedule relating to the changes in benefit legislation is considered by CMT.

## EVENTS *(final report Issued 1.3.13)*

### MANAGEMENT SUMMARY

- 1 Medway Council hosts more than 28 days of free festivals and events each year, more than any other Authority in the country. This is a key part of the Medway's cultural offer. The annual budget for the events programme for 2012/13 was £1.5 million.
- 2 In the current economic climate, the Authority is facing increasing pressure on its budgets and increasingly needs to demonstrate that any non-statutory services are supporting Medway Council's corporate priorities and are providing value for money.
- 3 The audit of events forms part of the annual internal audit plan for 2012/13 that was approved by the Audit Committee on 29 March 2012.
- 4 The audit reviewed the events programme in order to ascertain whether it supports Medway's strategic priorities and whether individual events contribute to the programme. We examined four areas during the audit in order to provide assurance on the Authority's processes for managing its events programme and the opinions are shown below:

- **Area 1: Events Programme:**

**Satisfactory:** The Authority is committed to promoting Medway as a destination for culture, heritage, sport and tourism as part of its Cultural offer. A key commitment in one of Medway Council's five priorities as described in the Council Plan is aimed at everyone benefitting from the area's regeneration. This aim was developed into a Cultural Strategy for 2009 to 2014 with an emphasis on fostering a sense of place, belonging, and community identity and seeks to realise the vision for attracting people to Medway and promoting the area i.e. 'Putting Medway on the Map' via the development of a destination management plan. The latter outlines an agreed strategy to promote Medway's tourism and in so doing achieve the objective of attracting more visitors to the area with elements that link to the events programme. An overall direction of travel for the Events programme identifies targets for the 2009 to 2014 timeframe that are focussed on increasing engagement and attendances at events.

The content of and budget for each year's programme is reviewed by members through the budget setting process and adjustments to the programme are made where it is considered necessary. New opportunities were identified in 2012 and incorporated into the programme, e.g. through the "year of celebration".

- **Area 2: Individual Events**

**Satisfactory:** Each of the events contributes to the fulfilment of the annual programme and fulfils a specific purpose in raising the profile of Medway as a

tourist destination, providing both a geographical spread of events across the area, and engaging all the community. New events are targeted at meeting a perceived gap in the current programme, for instance, the River Festival was created to focus on the unity of Medway, as opposed to a collection of discrete towns.

The main targets for each event relate to footfall and safety. The effectiveness of each individual event is evaluated following “wash-up” sessions with key stakeholders and Communications provides information to the events team on the effectiveness of its marketing. Operational improvements and cost savings are identified and fed into the planning process for the following year. The Assistant Director and Portfolio Holder are debriefed but this information focuses on future improvements and does not provide a robust assessment of whether objectives are met.

Budgets for individual events are realistic and contributions are sought from third parties where appropriate. However, the success of events increases pressure on health and safety budgets due to increased numbers, which can only then be compensated by reducing content.

- **Area 3: Health and Safety**

**Satisfactory:** The Authority has clear guidelines for ensuring compliance with Health and Safety legislation. Risks are monitored and assessed appropriately by the correct agencies. Whilst there has been a problem with information on minor incidents (slips and trips) being passed on to Medway Council’s Health and Safety team from St Johns Ambulance, we have been informed this issue is being addressed by Events management and Medway Council’s Health, Safety and Wellbeing Manager.

We have been informed that all Medway Council and contractor’s staff are up to date with their Health and safety training but improvements need to be made in the way this information is held in order to demonstrate that this is the case. Administrative records are not maintained adequately to provide assurance.

- **Area 4: Reporting and Monitoring**

**Satisfactory:** The Authority has set out evaluation criteria for the success of the events programme in the cultural strategy. Progress against the strategy is subject to oversight by the Regeneration Community and Culture Overview and Scrutiny Committee (O&S). The last report was presented to the meeting on 31 January 2013.

The report to O&S highlighted the role the events programme had in the Year of Celebrations, with 81% of residents being aware of “Celebrate Medway 2012”. It also highlighted the increase in visitor numbers to Medway from 658,000 in 2010 to 744,000 in 2012.

Members and senior management will be kept up to date with the events programme during the year and this is used to inform their decisions for future events programmes.

## CONCLUSION AND AUDIT OPINION

5. As a consequence of the events programme, the profile of Medway is raised in accordance with the aims of the Cultural Strategy. Each event has an identified role to play in meeting the programme's objectives and success is evaluated so that future improvements can be made. Our overall opinion is therefore "Satisfactory" with two medium priority recommendations.

Management have agreed to:

- Create a spreadsheet to improve the administration of staff and contractor Health and Safety training records.
- Identify measures to demonstrate the contribution of the events programme in the achievement of the wider reaching objectives within the Cultural Strategy and to use these to evaluate these aspects of the programme.

<h3>WASTE COLLECTION and DISPOSAL CONTRACTS (<i>final report issued 11.3.13</i>)</h3>
---

1. The Council's current contracts for waste collection (including street cleansing) and disposal became operational in October 2010, the contract periods being seven years (with an option to extend by two years) and 25 years respectively. The approximated costs over the life of the two contracts are £67 million for waste collection (for the initial seven years) and £197 million for disposal. The option to extend the initial seven-year collection contract by two years was approved by Cabinet in January 2012. Actual expenditure on the respective contracts in the last financial year was approximately £7.5 and £4 million.
2. Four risks relating to management of the two contracts were reviewed to determine the effectiveness of controls and the opinions are shown below.
  - **Risk 1: Key performance indicators may not have been specified as part of the contracts**  
**Good:** The contracts for both collection and disposal include KPIs, eight of those in the former "reflecting initial and annual requirements", leaving seven KPIs in each contract "reflecting ongoing requirements". However, as reflected under the following risk, the indicators are not considered to be particularly useful in measuring the effective delivery of the service.
  - **Risk 2: Performance indicators specified in the contracts may not be appropriate to manage service delivery effectively**  
**Insufficient:** Given the value of these contracts it is important that the Council can hold the contractor to account through the formal contract arrangements in place. Our audit has confirmed the views of the Head of Waste Services that the current performance indicators within the contract are not sufficient to monitor contractor performance effectively. Eight of the KPIs specified in the collection contract relate mainly to 'standing items' such as accreditation under ISO9001/14001 and provision of annual plans, the remaining seven include measurement of missed collections and customer complaints, and the quality of the waste collected. The KPIs in the

disposal contract relate mainly to provision of reports to the Council. Few of the KPIs specified in the contracts, therefore, relate to the effective provision and quality of the services required. We have provided to management a table showing the list of performance indicators in place and what monitoring is undertaken in relation to these.

We initially considered it unfortunate that the opportunity to amend the KPIs when the collection contract was extended was not able to be taken, but management advised us that this was not considered practical for a number of reasons, primarily the urgency with which the financial efficiencies emanating from the extension needed to be achieved and that data that could be used for performance monitoring was still being collated at that time. Management also took the view that the contractor was unlikely to accept a variation to the KPIs at the same time as an expectation to offer lower charges for providing the same level of service. We were also advised that the contractor had already agreed to the principle of the KPIs being reviewed and that the first two years of the contract have been used to review the call levels and to identify possible KPIs that could be agreed with the contractor. Management also stated that, in order to set challenging targets, there needed to be a benefit to the contractor for accepting a higher level of performance risk and the successful award of the grant funding from CLG to fund weekly recycling collection services has provided that opportunity, negotiations being currently underway.

- **Risk 3: Performance may not be monitored regularly and/or accurately**  
**Satisfactory:** Performance against a wider set of KPIs, covering levels of complaints and missed collections (included in the contract), total tonnage, recycling performance, staff turnover/absenteeism and health & safety incidents is discussed during monthly client/ contractor meetings. Many of the KPIs specified in the collection contract are regarded to be no longer relevant due to changes in Council policy (e.g. non-rollout of wheeled bins) or the same company being awarded both the collection and disposal contracts. There was a lack of evidence that some of the 'standing' requirements (e.g. current accreditation to ISO9001/14001, provision of LOLER report) were in place, though the former was rectified during the audit visit. As the majority of the KPIs to measure ongoing performance specified in the contract are not regarded as relevant or practical, new measures are being introduced on a trial basis. To date these consist of the number of missed collections and customer complaints (which are similar to two of the contract KPIs), but financial penalties have not been imposed as the target for missed collections can be interpreted in different ways. In respect of the disposal contract, as part of the payment checking/approval process tonnages disposed of are monitored against collection volumes to identify any significant mismatches. As many of the indicators specified in the contract are reliant on the contractor notifying Medway of instances of non-compliance, which it may not be in their best interests to do as they are also providing the collection service, we consider these are of limited value. However, we were advised that a range of national and local performance indicators are also used to monitor delivery of the collection, street cleansing and disposal contracts. The Head of Waste Services highlighted that initiatives to increase recycling from material sent for disposal are being developed, including recovery of metal from incineration residue and separating street cleaning arisings so that elements can be re-used.

- **Risk 4: Accuracy of data provided by the contractor may not be verified sufficiently**

**Satisfactory:** In respect of the disposal contract, the contractor provides details of tonnages dispatched from the transfer station along with weighbridge ticket numbers and we were advised that these are checked randomly by Waste Services staff. Additional information relating to tonnage received is now being provided for some disposal facilities and we were advised that weight differences are being monitored and queried with the contractor; we acknowledge that the net difference is not significant in comparison to the total tonnage dispatched. However, we identified from the sample of monthly disposal data reviewed that small volumes of commercial waste sent for incineration had been added to the total charged for landfill disposal (equating to approximately £4,000 per month), the reason for this being unclear. Management advised that they had been querying this issue with the contractor's finance team since August 2012 and that work is ongoing to simplify and clarify the information provided. Verification of data is not necessary for the collection contract as charges are based on the number of occupied residential properties, updated every six months from council tax records, and the street cleansing element of the contract is monitored through compliance with the cleansing schedule. Payment claims for bulky collections are based on the number of calls booked rather than completed. This is on the basis that items left out for collection are frequently removed by metal thieves prior to the contractor's arrival, but the contractor still incurs the cost of man hours and transport. This may be a contributory factor to data from the contractor's system indicating that around 20% of calls in the two months reviewed were 'problems' rather than 'completed'. We were advised that Waste Services have been working with the enforcement team on gathering evidence, where possible, of metal thefts and additionally a new 'WEEE free' collection system was introduced in October 2012, in partnership with the contractor and a recycling company, enabling residents to book free timed collections for electronic and electrical items (the high value items that get stolen), hence helping to reduce the cost to Medway. We also identified that a total of 114 express collections (for which residents should pay £30) was claimed between April and September 2012, but only 21 income receipts of £30 (or multiples thereof) were recorded on Integra in the same period. Whilst acknowledging the rationale for paying against bookings rather than collections, there is a lack of assurance that all income due is being received when applicable – though we acknowledge that this is the responsibility of Customer Contact rather than Waste Services. Overall, we identified some queries relating to the contractor's payment applications, but these were not considered material in comparison to the totals involved and management advised us that these were already being monitored and queried with the contractor as necessary. In addition, there was no evidence that a second officer had checked 9 of the 19 contract certificates reviewed for accuracy before payment was authorised.

## **CONCLUSION AND AUDIT OPINION**

3. The audit covered the four risks identified in the terms of reference and discussed above. Of these those relating to identification at contract

specification, diligence of monitoring and accuracy of data are all rated **satisfactory** or better. However due to various developments since the contracts were drawn up, such as the decision not to proceed with the rollout of wheeled bins and the award of both contracts to the same company, the majority of the performance indicators specified and monitored in the contracts do not facilitate effective monitoring of actual service delivery. As the primary focus of the audit was on the use of KPI's to ensure that service delivery is to a satisfactory standard, and in view of the value linked to the contracts, our overall opinion, driven by the appropriateness of the KPI's, is however **insufficient**.

Management recognise the need to strengthen the current performance indicators in both contracts and are working to address this issue. The changes in arrangements for the collection services as a result of the successful CLG bid has provided the first opportunity to negotiate this and that process is underway at present. As such, we hope to be able to improve this opinion when the follow-up is undertaken, to confirm the implementation of management actions is carried out after revised KPIs have been agreed and incorporated into the contracts.

The level of current risk is reduced by management using additional non-contractual measures to monitor delivery, and also by the regular meetings held with the contractor. The Council also has the ultimate sanction of the ability to withhold payment for breach of contract, although this would only be used in the most extreme situations as it would be detrimental to relations with the contractor and could have a negative impact on service delivery.

**One High priority finding:**

<b>Finding:</b>	Few of the KPIs specified in either contract relate to actual delivery of the services involved, apart from measurement of missed collections and customer complaints. As a result, alternative performance measures are used to monitor service delivery.
<b>Risks:</b>	As the additional performance measures used would not be legally enforceable should the need arise, the Council may suffer financial and/or reputational loss.
<b>Management action taken:</b>	We are working with Veolia to develop additional KPIs to replace those that are not applicable – the variation to the contract needed to accommodate weekly collections of recycling and organic waste from late 2013 (following award of additional funding from central government) should provide an opportunity to do this.  (Target date – by October 2013 in line with start of weekly collection services)

Four additional medium priority findings, relating to:

- Discrepancies between the number of express bulky collections charged for and related income received;
- Non-imposition of financial penalties for missed collections (if needed) due to lack of clarity of relevant KPI;

- Non-retention of evidence that contractor meets some certification requirements;
- No evidence of checks by a second officer on contract certificates before payment was authorised.

Management undertook to take action to address these issues, one with immediate effect, two by the end of May 2013 at the latest and the other is linked to the introduction of revised KPIs.



## **SUMMARY INFORMATION ON FOLLOW-UP AUDITS**

### **CORN EXCHANGE – FINANCIAL CONTROLS *(final report issued 11.3.13)***

#### **INTRODUCTION**

1. The Corn Exchange offers facilities for various uses including conferences, civil marriages and social events, the budgeted income and expenditure for 2012/13 being £286,950 and £345,326 respectively. An audit of compliance with financial procedures carried out in 2011/12 (final report issued 25 May 2012) resulted in an opinion of 'uncontrolled', with nine recommendations (including two high priority) made to address weaknesses in mitigating the following risks:
  - Budget Monitoring may be ineffective;
  - Expenditure may be unauthorised, inappropriate or represent poor value for money;
  - Income due may not be collected or banked promptly;
  - Assets may not be managed appropriately.
2. The most significant concerns were a lack of assurance that all income received had been accounted for and that assets were recorded fully and/or protected adequately against theft. Management agreed actions to address all recommendations, advising that the majority had been put in place by the time the final report was issued and that the remainder would be implemented by the end of August 2012 at the latest.
3. The audit process is not complete until an independent follow-up is performed in order to confirm progress in addressing the weaknesses identified, to evaluate the extent to which financial controls have been improved and, on the basis of these findings, reviewing the overall audit opinion.

#### **FINDINGS**

4. Our review confirmed that action has been taken to address most of the concerns identified in the original audit, although the asset register, due for completion by July 2012, was still in progress at the time of the audit testing. Overall we are satisfied that significant improvements have been made in controlling the risks identified in the original audit. However, due to prolonged staff absence in the Events team there is no longer any segregation between the duties of handling, recording and banking of income, which could place the member of staff concerned in an invidious position.
5. There is also scope for further improvement in the recording of income due for bookings and that received, with a spreadsheet and an Outlook calendar being maintained but neither of them necessarily being updated to show all income received. It is therefore difficult to confirm that all income due has been received. In addition, the asset register is still incomplete and therefore cannot be relied upon as an accurate record of equipment held or its value.

## CONCLUSION

6. Our principal concern regarding the lack of segregation of duties has now been addressed by the appointment of a dedicated finance assistant for the Events team, who is totally independent of the operation of the Corn Exchange. On that basis, our opinion is that financial controls at the establishment are now 'satisfactory'.

### One High priority finding (which has now been addressed):

<b>Finding:</b>	<p><b><u>Lack of segregation of duties plus supervisory checks</u></b></p> <p>As the Finance Officer for the Events team is no longer independent of the Corn Exchange there is inadequate segregation of duties in a number of areas, particularly the handling, recording and banking of income and maintenance of the asset register.</p> <p>There is a lack of evidenced supervisory checks by, and referral of issues to, the HoFATE&amp;T, a number of errors identified during the audit indicating that either these checks have not been performed or they are not fully effective.</p>
<b>Risks:</b>	<p>Member of staff placed in an invidious position.</p> <p>Income due may not be received and/or accounted for properly.</p> <p>Assets may be lost.</p>
<b>Management action taken:</b>	<p>This was a temporary staffing arrangement due to a long-term sickness issue. Now that this has been resolved we have recruited a dedicated finance officer for the Events team, who will be totally independent of operations at the Corn Exchange.</p> <p>Supervisory checks have been carried out on the Outlook bookings calendar rather than the bookings spreadsheet, which has been used mainly to monitor continuity of booking forms. As such, evidencing these checks is difficult.</p> <p>(now in place)</p>

Two additional medium priority findings, relating to inconsistent recording of income due and received for bookings and the revised asset register remaining incomplete. Management undertook to take action to address both of these issues, one with immediate effect and the other by the end of March 2013.

## **SUMMARY INFORMATION ON SCHOOL 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.

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.

### **SAXON WAY PRIMARY SCHOOL *(final report issued 19.2.13)***

Saxon Way Primary School has 222 pupils including nursery provision. Budgeted expenditure for the current financial year is in excess of £1.6M (revenue £1.5M / capital £53K). The school was placed in special measures following an Ofsted inspection in May 2012. As a result, Medway Council replaced the governing body with an interim executive board and an interim headteacher assumed responsibility for the school at the beginning of the 2012-13 academic year. This audit was carried out with the objective of providing her and the Interim Executive Board with assurance over the probity of financial control arrangements and transactions.

Our review confirmed that there are effective processes in place for the management of payroll, (including CRB disclosure procedures), expenditure, income and asset management, with no significant issues identified. Three actions to further strengthen current arrangements were agreed with the headteacher.

We are therefore able to confirm that the school has sufficient controls in place and that we did not identify any probity issues. Implementation of the management action plan will further strengthen the current control environment.