AUDIT COMMITTEE

11 JULY 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

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
Key Financial Systems						
Council Tax	G					✓
NNDR	G					✓
Housing Benefits	S					✓
Housing Rents	S			✓		
Creditor Payments	S					✓
Risk Assessed and Additional Work						
Personal Budgets	S		✓			
Grants Management	S	✓				
Academies – LA Governance Arrangements	S		✓			✓
Parking	S			✓		✓
IWorld System - Access Controls	I					✓
Governance Audits						
Risk Management	S	✓				
Prevention of Fraud and Corruption	S	✓				
Annual Governance Statement	G	✓				
Follow Ups						
Site Reviews						
Visitor Information Centre - Income				✓		

Key: G = Good, S = Satisfactory, I = Insufficient, U = Uncontrolled

- = Work carried out but no opinion provided in that area

SUMMARY INFORMATION ON COMPLETED AUDITS

COUNCIL TAX *(final report issued 26.4.13)*

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1. The audit of Council Tax forms part of the annual internal audit plan for 2012/13, approved by the Audit Committee in July 2012.

2. Council Tax income is processed through the IWorld system. IWorld is also used to process Business Rates income and Housing Benefit payments. There were 107588 domestic properties in Medway as at 01/04/12 - anticipated to generate a gross annual income of approximately £99 million for the current financial year.

3. This audit did not examine the security of the IWorld system as this was subject to a separate audit. This audit covered five key risks and the opinions are shown below:

   ▪ **Risk 1: Property data may be incomplete, inaccurate or not updated promptly**

   Good: Current arrangements ensure regular liaison with the Valuation Office Agency (VOA) and tests confirmed that as the VOA amends the Medway council tax base, the changes are reflected accurately and promptly on IWorld.

   ▪ **Risk 2: Rates chargeable may not be billed accurately or in a timely manner**

   Good: Billing arrangements ensure each household receives an annual bill that accurately reflects the current charge and property band. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a discount or exemption. Management maintains a sound checking regime for new single person and disabled band relief discounts.

   Empty properties are subject to periodic reviews in order to ensure the discount is still valid. Audit testing showed that whilst these inspections were performed throughout 2012/13, they had been proceeding at half the rate of previous years. Management have since addressed this issue by assigning the inspections to a dedicated officer and there were twice as many inspections in February 2013 as in the previous month.

   ▪ **Risk 3: All income received may not be accounted for accurately and promptly**

   Good: The use of unique account reference numbers ensures that income collected is easily identifiable. Daily electronic interfacing between the Radius income collection and IWorld systems ensures that income received is promptly and accurately allocated to the correct account.

▪ **Risk 4: Arrears may not be calculated accurately or recovered effectively**

Satisfactory: The IWorld system generates reminder letters automatically once accounts go into arrears. Reports of aged debts are produced from the system and there is evidence that considerable efforts are made to pursue liable parties attempting to recover balances due, even after properties have been vacated. The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve council tax write-offs "within the approved provision agreed by Council when setting the Council tax base", but the Revenues Manager authorises all write-offs, without any formal delegation from the CFO.

▪ **Risk 5: Income due and received may not appear in the main financial records accurately or promptly**

Good: Daily electronic interfacing between the Radius, IWorld and Integra systems ensures that income is reflected promptly and correctly in the Council's financial records. Daily reconciliations of these systems are also undertaken and any unreconciled items investigated promptly.

CONCLUSION AND OVERALL AUDIT OPINION

4.   The overall audit opinion is that current management controls in the Council Tax system are **Good.** All expected controls were found to be in place and operating effectively, with only isolated relatively minor exceptions identified.

One medium priority recommendation has been made to ensure the Authority can demonstrate that Council Tax write-offs are in accordance with the constitution.

NNDR *(final report issued 26.4.13)*

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1.   The audit of NNDR forms part of the annual internal audit plan for 2012/13, approved by the Audit Committee in July 2012.

2.   NNDR income is processed through the IWorld system. IWorld is also used to process Council Tax income and Housing Benefit payments. There were 12383 commercial properties recorded by the VOA in Medway as at 01/04/12.

3.   This audit did not examine the security of the IWorld system as this was subject to a separate audit. This audit covered five key risks and the opinions are shown below:

▪ **Risk 1: Property data may be incomplete, inaccurate or not updated promptly**

Good: Current arrangements ensure regular liaison with the Valuation Office Agency (VOA) and tests confirmed that as the VOA amends the Medway NNDR base, the changes are reflected accurately and promptly on IWorld.

This audit did not review processes for ensuring that the VOA database was accurate or up to date.

- **Risk 2: Rates chargeable may not be billed accurately or in a timely manner**

  Good: Billing arrangements ensure liable parties receive an annual bill that accurately reflects the current charge. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a relief or discount. Management maintains a sound checking regime for new reliefs.

  Empty properties are subject to periodic reviews in order to ensure the discount is still valid. Audit testing showed that whilst these inspections were performed throughout 2012/13, they had been proceeding at half the rate of previous years. Management have since addressed this issue by assigning the inspections to a dedicated officer and there were twice as many inspections in February 2013 as in the previous month.

  This audit did not review the appeals process.

- **Risk 3: All income received may not be accounted for accurately and promptly**

  Good: The use of unique account reference numbers ensures that income collected is easily identifiable. Daily electronic interfacing between the Radius income collection and IWorld systems ensures that income received is promptly and accurately allocated to the correct account.

- **Risk 4: Arrears may not be calculated accurately or recovered effectively**

  Satisfactory: The IWorld system generates reminder letters automatically once accounts go into arrears. Reports of aged debts are produced from the system and there is evidence that considerable efforts are made to pursue liable parties attempting to recover balances due, even after properties have been vacated. The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve Business Rates "within the provisions recommended by the Office of the Deputy Prime Minister", but the Revenues Manager authorises all write-offs, without any formal delegation from the CFO.

- **Risk 5: Income due and received may not appear in the main financial records accurately or promptly**

  Good: Daily electronic interfacing between the Radius, IWorld and Integra systems ensures that income is reflected promptly and correctly in the Council's financial records. Daily reconciliations of these systems are also undertaken and any unreconciled items investigated promptly.

CONCLUSION AND OVERALL AUDIT OPINION

4.   The overall audit opinion is that current management controls in the NNDR system are **Good.** All expected controls were found to be in place and operating effectively, with only isolated relatively minor exceptions identified.

One medium priority recommendation has been made to ensure the Authority can demonstrate that NNDR write-offs are in accordance with the constitution.

HOUSING BENEFITS *(final report issued 8.5.13)*

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1.   The audit of Housing Benefits forms part of the annual internal audit plan for 2012/13, approved by the Audit Committee in March 2012.

2.   For the current financial year, Housing Benefit payments are forecast to total £104 million, with a further £19 million credited to council tax accounts in respect of council tax benefit.

3.   Five risks relating to the Housing Benefits system were reviewed to determine the effectiveness of controls and the opinions are shown below.

- **Risk 1: Claims for benefits may not be valid and/or assessed promptly**

Satisfactory: New claims are logged, validated and assessed promptly, with evidence of monthly performance monitoring by management for assessing new claims and processing change notifications. The oldest registered claims not passed for payment are highlighted for management to investigate, but there is no evidence of these checks taking place or the information being used effectively by management for monitoring purposes. Interim awards are verified and evidenced as checked, but dates when these checks were carried out were not recorded, hence it is unclear whether these checks were undertaken promptly.

- **Risk 2: Benefits payments may not be calculated or paid accurately, to the correct recipient**

Satisfactory: Appropriate controls are in place and operating effectively, including independent validation of changes to standing data, adjustments to rent-free periods and monitoring of reconciliation of payment runs to MHS Homes, landlords and tenants. However, we found on two occasions cheque requests had been authorised and passed for payment where the delegated authority limit had been exceeded.
Exchequer staff do not always complete the manual payments spreadsheet with cheque details once processed for payment.

- **Risk 3: Change of circumstances notifications may not be actioned accurately and/or promptly**

Good: Effective controls are in place to process notifications of changes in circumstances promptly, to ensure claimants remain eligible to receive benefit

payments. The automated system ATLAS (Automated Transfer to Local Authority Systems) also provides changes in circumstances notified by DWP.

- **Risk 4: Overpayments may not be identified, or may not be recovered in an appropriate manner**

Satisfactory: Controls are in place to identify overpayments and recover these from continuing entitlement where applicable. Where there is no continuing entitlement claimants are invoiced and, if repayment is not received, recovery action, sometimes exhaustive, on such overpayments is undertaken. Write-off action is generally prompt and within the authorised limits once it becomes apparent that debts are irrecoverable.

- **Risk 5: Benefits payments may not appear in the main financial records accurately or promptly**

Good: Payments made to landlords and tenants are reconciled to Integra and reviewed on a regular basis by Management to ensure accuracy.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the Housing Benefits system is **Satisfactory.**

Two medium priority recommendations were made to strengthen processes for monitoring interim awards and manual payments, both being accepted with management actions to be implemented from the beginning of May 2013.

HOUSING RENTS *(final report issued 27.3.13)*

1. The audit of Housing Rents forms part of the annual internal audit plan for 2012/13, approved by the Audit Committee in March 2012.

2. The last audit of Housing Rents was carried out in 2011/12, our overall opinion being that control was "Insufficient" which was attributed to historic problems relating to the significant value of Housing Benefit overpayments on the rent account. A follow up audit to ascertain progress in this area was undertaken in September 2012 and our overall opinion was revised to 'Satisfactory' as a result of the level of progress found.

3. Four risks relating to Housing Rents were examined during this audit and a summary of our findings and our opinions on the management of each risk are shown below.

Risk 1: Weekly charges and system parameters on Academy may not be correct.

Satisfactory: We found that the weekly charging system, including the application of the annual increase was operating well.   Controls to ensure only appropriate Council employees and contractors can access the Academy system are operating effectively. Users are granted permissions to Academy that are

based on their role but this only controls the modules that a user can access and not the rights within it. Currently Medway Council does not have the knowledge needed to create user profiles that separate duties fully, although Capita (the Academy software provider) is creating standard profiles and Housing are recruiting a dedicated System Administrator whose role will include controlling user access rights. This means that, for instance, the Housing Officers who deal directly with tenants can create / terminate tenancies on Academy. Reliance is placed on independent checks of tenancy starts and terminations to review the tenancies and ensure start and end dates are accurate. Once the access rights are controlled more tightly there may be opportunities to replace the detective (checking) controls with the preventative access controls.

Risk 2: Debt may not be updated correctly and notified to the tenants.

Good: Tenant rent accounts are automatically updated with regular charges every week. Tenants are notified of revisions to regular charges due (e.g. rent increases). Other adjustments are authorised appropriately and subject to an independent verification process, which is operating well.

Risk 3: Income may not be promptly and accurately accounted for.

Good: Income is accurately recorded, promptly accounted for and regularly reconciled to systems records. The latter are supported by documentary evidence and reviewed by management. The Authority now accepts direct debit payments for Housing Rents. Direct debits were successfully rolled out to sheltered housing clients in 2012 and will be offered to the remaining tenants by the end of March 2013. Housing Officers both chase debt and input direct debit details on Academy, but input is checked by another officer.

Risk 4: Arrears may not be identified and pursued.

Satisfactory: There are appropriate arrangements for the identification and pursuit of rental debt, with automated reminders of overdue debt being sent to tenants periodically. Housing Officers have responsibility for debt on designated patch/es and are aided in targeting recovery action by regular reports on debt. Action taken is subject to management scrutiny, 1:1 meetings and arrears profiling exercises. Currently the overall level of arrears is on target. Arrangements for identifying and monitoring Housing Benefit overpayments for recall by MRBS are in place. The value of Housing Benefit overpayments made to former tenants on the rent account (R1) at 06.12.12 was £144k of which £53k representing 27% of transactions, pre date 2009 tenancy closures. Resourcing issues have prevented more progress in recovery of this debt since the update to Audit Committee in September 2012. However, we are pleased to note that pursuit of former tenant debt was recently handed over to a Collection Agency and responsibility for monitoring has now been delegated to a Housing Finance Assistant.
Three write off schedules have been produced covering the period up until December 2012, and schedules were authorised in accordance with formally established rights and limits. Write offs are periodically reconciled to systems records and reconciliations are supported by data extracts from Academy and Integra.

CONCLUSION AND AUDIT OPINION

Arrangements and processes within the Housing Rental System showed overall improvements in processes previously identified in the Housing Rents system and the overall opinion on management controls over the Housing rental system in 2012/13 is '**Satisfactory.**

Management accepted two medium priority recommendations to address the issues raised in this report, both of which were due for completion by the end of May 2013.
- Improve Academy access rights
- More consistent recording of tenancy start and termination dates on tenancy agreements.

CREDITOR PAYMENTS *(final report issued 19.4.13)*

1. From 1 April 2012 to 26 February 2013 approximately 91,401 invoice transactions totalling approximately £300 million were processed via the Purchase Ledger system. These payments are for goods procured through the Webreq purchase order system, non-purchase order (NPO) invoices and transactions originating in feeder systems (e.g. the Care Director system for residential care payments).

2. The last audit of the Creditor Payments system was carried out in 2010/11, our overall opinion being that control was "insufficient".

3. Four risks relating to the Creditor Payments system were examined during the audit and the opinions are shown below:

Risk 1: Payments may be made to non bona-fide suppliers

Satisfactory: Appropriate controls have been put in place to ensure that payments are made only to genuine suppliers, including segregation between supplier set-up and payment processing, authorisation and validation of new suppliers and checks to minimise the volume of duplicate suppliers. Due to the set-up of Integra duplicate records are necessary if suppliers are Construction Industry Scheme (CIS) registered contractors or different supplier addresses are used.

However, our testing identified that:
- whilst requests to change existing supplier bank account details are confirmed with the supplier, the supervisory review of the process is frequently not carried out in sufficient time to identify any breakdown in this first level control and prevent payment being made;
- access rights for one member of staff who had recently changed roles enabled them to set up suppliers (or amend supplier details) and process invoices to those suppliers - this has now been rectified;
- due to poor consistency in the format of supplier details, numerous 'actual' duplicate supplier records exist, diluting the controls designed to prevent duplicate payments.

Risk 2: Payments may be made for goods and services that have not been received

Satisfactory: Access controls ensure the person who raised the requisition (the requisitioner) has not authorised the payments for goods ordered through Webreq. Exchequer staff are not able to raise or approve orders. Goods received notes were entered by the requisitioner (or line manager/colleague) and not by someone in another department.
Webreq could be used to raise an order after the invoices are received rather than completing a non-purchase order slip. 31.5% of 89,696 Webreq orders were raised retrospectively, from 160/215 requisitioning points. Using an NPO slip (which is still common practice) allows invoices to be paid bypassing Webreq. NPO invoices are paid providing the invoice has been authorised by an appropriate person. Pre-input checks by Creditors are undertaken to ensure that NPO invoices are authorised appropriately, but departments do not always complete the goods received or arithmetic check boxes, so reliance is placed on checks by authorised signatories. Where possible Webreq should be used, mitigating the risk of payment being made without the goods having been received.

Risk 3: Payments may be inaccurate, or not made at the most advantageous time

Satisfactory: In general, controls are sufficient to prevent inaccurate or duplicated payments and, in the majority of the few cases where duplicate payments had slipped through due to mis-keyed document numbers etc (which we consider almost inevitable given the volume processed), these had already been identified by management and corrected. However, we identified an issue regarding the use of 'sundry supplier' codes, which exist for 'one off' payments such as council tax refunds and insurance claims, in that there is no limit to the number of payments that can be made to the same individual/ company and no maximum payment amount (over £1.4 million was paid against these codes in the first 9 months of 2012/13, including 355 payments exceeding £25,000). Whilst a supervisor checks payments over £500, we consider that use of these codes increases the risk of duplicate payments.

Risk 4: Payments may not be reflected accurately or promptly in the Council's financial records

Good: There are effective procedures in place to ensure expenditure is coded correctly and consolidated completely, accurately and promptly into the General Ledger.

Other findings:
When seeking evidence of whether inactive suppliers are identified, we obtained a report of suppliers with credit balances. This indicated that 9 suppliers have balances of over £10,000 (including £49,371), 12 have balances between £5,000 and £9,999 and 75 have balances between £1,000 and £4,999. Analysis of a sample of 30 of these suppliers indicated that the balances had arisen mainly as a result of credit notes or journal adjustments being applied after the most recent payment had been made, some of these dating back many years. As 14 of these suppliers are not currently being used we consider

that balances could be reclaimed for a total amount of £89,666, some of which dates back as far as March 2005. In addition, we believe that three balances should be written off as it was established over 10 years ago that the supplier is now in liquidation or disputed that amount owed, so the likelihood of recovery is extremely remote to a total of £14,627.

CONCLUSION AND AUDIT OPINION

The overall opinion on management controls over the system for Creditor Payments is **satisfactory**. There was one high priority finding:

Finding:	A report of suppliers with credit balances shows a number of suppliers with credit balances, including 96 over £1,000 (9 of which over £10,000). As 14 of the 30 suppliers checked are not currently being used we consider that balances could be reclaimed - total amount £89,666, some of which dates back as far as March 2005.
Risks:	Amounts due to the Council have not been recovered.
Management action taken:	Following the integration of the Social Services Payments Team, new procedures are being drawn up to ensure all credit balances reviewed in a timely manner either to enable collection to occur or balances cleared. (by end of April 2013)

Three additional medium priority recommendations were raised in respect of prompt supervisory review of changes to supplier bank account details, issuing a further reminder to staff that when ordering goods/services Webreq should be used whenever possible, and minimising use of/strengthening controls over the 'sundry supplier' accounts. These were accepted by management, with appropriate actions to be taken by the beginning of May 2013.

PERSONAL BUDGETS *(final report issued 16.4.13)*

1.   The Department of Health states that "In the future, all individuals eligible for publicly-funded Adult Social Care will have a personal budget (except for emergency provision); a clear, upfront allocation of funding to enable them to make informed choices about how best to meet their needs, including their broader health and well-being." Personal Budgets are calculated after an assessment is made of a client's care needs and available support.

2.   The introduction of Personal Budgets in 2007 has represented a material change in the way in which Adult Social Care services have been delivered. This has come at a time when resources have been reduced and the Council has been undergoing the Better for Less transformation programme. This has a particular impact on the resources available for reviews.

3.   The introduction of personal budgets for Occupational Therapy has been more complex than for other areas of care and is an area the Authority has only recently addressed. Given the ongoing work in this area this audit did not cover Occupational Therapy.

4. The audit of personal budgets formed part of the annual internal audit plan for 2011/12.

5. Four risks were examined during the audit and the opinions are shown below:

- **Risk 1: Assessments may not identify all client care needs**

  Good: The Authority ensures that all staff undertaking care need assessments are suitably qualified professionals and arrangements to ensure client needs and available support are captured correctly and are appropriate.

- **Risk 2: Criteria for resource allocation may not be clear or applied fairly**

  Good: Medway Council has a clearly defined eligibility framework that is used to assess client needs using a points driven system in order to arrive at an "indicative budget". This is used in the production of a support plan, which shows how the budget will be used to meet the client's needs. Adjustments are made to the indicative budget if necessary. The support plan is subject to a panel review process. Medway Council only supports clients assessed as having critical or substantial needs.

- **Risk 3: Resource Allocation may not be updated promptly following review**

  Satisfactory: Performance reporting indicates that approximately 70% of clients have had a review within the last 12 months and arrangements for updating the allocation resource system and client personal budgets with new service provision are in place
  The status reviews for the remaining 30% of clients is not clear i.e. how many clients have a review overdue and how many appear falsely to be missing a review due to data quality issues such as client referrals not being closed on Care Director or client records not being updated with reviews. We are pleased to note that this should be addressed when Care Director is replaced by Core Logic, which is due to go live in April 2013.

- **Risk 4: The Authority may process fraudulent assessments**

  Insufficient: Personal budgets have been identified by the National Fraud Authority as a significant fraud risk area. The nature of Medway's Adult Social Care client base means that the level of fraud risk is relatively low in comparison with other Councils. Factors that reduce the level of risk to Medway include:
  - Medway only provides support to those with critical or substantial care which reduces the risk of fraud;
  - The long term involvement of the Council with a number of the individuals and families concerned;
  - Medway manages the finances of a significant proportion of the client base.

It is, however, important that Medway can demonstrate that all reasonable steps have been taken to mitigate the risk of fraud in this area.

The Authority treats the risk of Adult Social Care Personal fraud primarily as an adult protection issue. There are robust internal reporting procedures for raising adult protection concerns and issues are reported to the Police where appropriate. In addition, part of the Financial Assessment process seeks to corroborate financial information such as checking bank statements, benefits and property records.

At present there is no process in place for alerting the Corporate Anti-Fraud team (CAFT) of cases of suspected fraud against the Council (which may not be an adult protection issue), and as such, internal investigations are not being undertaken and cases of fraud are not being reported appropriately.

CONCLUSION AND AUDIT OPINION

6. The Authority has robust processes for ensuring client needs are assessed appropriately and ensuring clients' initial personal budgets are set at an appropriate level. We have been informed the review process will be revamped with the introduction of "Core Logic" in 2013.

7. We are pleased to note that management responsible for Adult Social Care personal budgets have agreed to work with those responsible within the Council for investigating fraud and reporting on the Council's Fraud resilience, in order to mitigate the risk of fraud further.

8. Our overall opinion is therefore **satisfactory**.

9. Management agreed **4 medium** priority recommendations made to address issues identified in the audit:
   ▪ One recommendation to improve monitoring of client reviews;
   ▪ Three recommendations regarding fraud resilience, including the development of a joint Adult Social Care / Corporate Anti Fraud team protocol for handling potential cases involving fraud.

10. Audit Services will follow-up the action taken to mitigate the fraud risk in six months.

GRANTS MANAGEMENT *(final report Issued 11.6.13)*

1 This audit gives assurance on the high level processes the Authority has in place to ensure grant income received is managed appropriately and for accounting to grant awarding bodies for expenditure.

2 Local authorities fund their activities from three main sources: grants from central government and other sources, Council Tax, and other locally generated fees and charges for services. In 2011/12 Medway Council received approximately £400m in revenue grant income (out of £600m total revenue income) from over 100 separate grants. In addition, £55m of the Council's £75m Capital expenditure for the year was funded by government grants and other contributions. Over 99% of this income was from statutory grants given by the

government to enable local service delivery. The remainder is non-statutory grant income for specific purposes and requires the Authority to bid from funding agencies (e.g. Lottery, EU, government departments for non-statutory grants).

3   Statutory Government grants are either to support general expenditure (e.g. the National Non Domestic Rates (NNDR) grant) or have a ring-fence, or some boundary over the type or timing of expenditure that it can be used to support. Examples of grants with boundaries are the Housing Benefit Subsidy (HBS), and the Dedicated School's Grant (DSG). Approximately 70% of Medway's revenue grant income is ring fenced.

4   The Authority's Medium Term Financial Plan is built using information provided by the government on future funding levels. This information feeds into annual budgets and the cash flow forecast and is updated as and when revisions are made.

5   Ring-fenced grants, whether statutory or non-statutory, have some kind of conditions attached and most require Medway Council to submit a return confirming appropriate use of the funds. The majority of these returns need certification by the Authority's External Audit, Internal Audit or a third party auditor. Medway Council needs to ensure the spend meets the funding criteria and any returns required are submitted on time, with any necessary supporting certification. Failure to abide by the terms and conditions of any grant could result in claw back by the funding provider and consequent financial and reputational damage to the Authority. Our audit has not identified any occasions where this has occurred.

6   Ownership of expenditure of grant income is delegated to specific officers within the Authority who must ensure sufficient documentation is retained to provide an effective management trail. Where necessary, budget codes are set up to identify income and expenditure related to a specific grant. There are some external funding grants (particularly from the EU) for which Medway is the accountable body and receives grant income to be distributed to partner organisations. The total grant income and expenditure has been recorded in the Medway Council's Statement of Accounts and not just the Authority's portion. Medway's Accountants are currently reviewing processes to ensure they are represented correctly in the accounts.

7   External audit is given a programme of auditable grant returns by the Audit Commission. The External Auditors grant claim reported to Audit Committee in March 2012 shows that improvements had been made with no claims qualified and a reduction in the significance of required amendments.

8   In a relatively small number of cases Internal Audit is required to certify statutory and non-statutory grant returns that fall outside the remit of External Audit.   There have been instances where Internal Audit has not been notified of the requirement to sign off a grant claim until after the return is due. Further delays in the submission of certification have occurred where Internal Audit has found errors in calculations, or where documentation is difficult to obtain or does not support the grant claim fully. Since 2010, some grants for EU funding have been certified by an independent auditor. The Senior Accountant liaises with the service and is not aware of any issues with these grant returns.

9   The majority of non statutory grants relate to specific projects.   Although the bidding process is outside the specific scope of this audit, we did note that the Authority's Project Management toolkit (available on the Authority's intranet) provides a sound framework for project proposals and requires the funding sources to be documented in the business case including identifying all costs related to the project, and all alternative options considered.   There is a risk that in those cases where the grant is not for a specific project that the bid may not be prepared in line with this guidance and as such there is a risk that the grant may not provide value for money for the Council.

10   The Authority is currently compiling two grants registers (one for capital and one for revenue) which it will use to monitor the receipt of income, compliance with any terms and conditions, including completion of any returns required. This has not yet been implemented fully, and we were therefore unable to test its effectiveness. We are however confident this will provide a good tool for the Authority to manage its grant income in the future.

CONCLUSION AND AUDIT OPINION

11   On the basis of the progress already made on the grants register, overall opinion is that the management of grant income is **satisfactory.**

12   We have made two medium priority recommendations which have both been agreed with management:
   ▪ Complete the capital and revenue grant registers;
   ▪ Provide guidance to managers on issues that need to be considered when bidding for external funding.

ACADEMIES – LA GOVERNANCE ARRANGEMENTS *(final report issued 17.5.13)*

1.   Academies were first introduced by the Government in 2000 as a way of targeting extra resources at schools serving the most disadvantaged communities to accelerate their improvement. The academy framework changed under the Academies Act 2010. The new act allows any school that is performing well to apply to convert to become an academy. To date, 17 secondary and eight primary schools in Medway had converted to academy status. Where a school is performing poorly the conversion may be mandatory. The conversion can be through a sponsored or a non-sponsored route.

2.   The audit reviewed the effectiveness of controls within the council to protect Medway's financial position and assets when its schools convert to academies. The audit also considered whether conversions to academy present any additional risks to the council.

3.   There are a number of risks inherent in the changes currently being rolled-out, risks which the council is mindful of, and mitigates where possible, but which are largely outside the council's control:
   • the level of central government grant funding provided to local authorities for the support of its schools is determined based on pupil numbers. The local authority (LA) does not receive funding for pupils in academies. The methodology for calculating the level of support funding is complex and

with the possible increase in the number of Medway schools converting to academies there is a level of uncertainty in the council's budget projections and service planning;

- schools have always been able to select providers of certain services, and as the number of academies increases the level of services being bought back from the council is likely to decrease. There is a risk that the council could at some stage not have the critical mass available to provide the appropriate level of service to those schools that do "buy back" from the council;

- increased costs due to academies having the freedom to put in place arrangements that vary from LA schools, for instance by changing school hours, which has already added to the transport cost for a school with SEN provision, albeit a change in commissioning practice may be able to negate the impact;

- The council can direct LA schools to accommodate particular pupils, although this sanction has always been used sparingly within Medway. Should the council need to direct an academy to accommodate a pupil the process is lengthier and can result in delays as the council has to liaise with the DfE on behalf of the Secretary of State who alone are authorised to direct the academy;

- The national arrangements and guidance relating to academies have been somewhat fluid and can lack clarity. An example is in relation to when local authorities can insist on a service agreement with the transferring academy in relation to specialist provision;

- liabilities such as leases can revert to Medway if they had not been subject to initial formal approval by the school's governing body and are not accepted by the academy at the time of conversion;

- the potential indirect impact of an academy failing is at present unquantifiable, as the response of the DfE in such circumstances cannot be presumed. Management have however advised us that should an academy fail then the DfE would look to another academy trust to provide the support.

4. Three aspects relating to the LA arrangements in relation to academies were reviewed to determine the effectiveness of the controls and the opinions are shown below.

- **Conversions to academy**

  Satisfactory: A number of areas within the council are involved in the transition of a school to academy status. There is a key liaison point within the council, through the School Organisation Team, to ensure that all relevant services are aware of the intention of the school to convert, and also responsible for oversight of the transfer in terms of ensuring the council progresses the matter in a timely fashion. Areas of the council involved include:
  - Legal Services – commercial transfer/service agreements
  - Property – land/lease arrangements
  - Human Resources – staffing and in particular TUPE arrangements
  - Education Finance – determining balance on transfer
  - C&A inclusion and improvement.

Our testing confirmed that the liaison arrangements are working as intended to ensure that matters are dealt with in a timely manner. We did however find:

- the appropriateness of any large payments committed from school finances before conversion was not queried. This would be a risk should a sponsored academy have a deficit at the point of conversion, as this would need to be funded from the Schools Contingency Fund, which forms part of the Dedicated Schools Grant (DSG);
- the financial reconciliation of the school's finances at the time of conversion does not include a formal process for identifying outstanding financial expense owing to the council for additional services purchased by the school and includes only the information that Education Finance is made aware of;
- the level of surplus at the time of transfer is not always determined within three months of conversion as required under the Transfer of Schools Surplus Regulations 2010. This may be due to delays in information being provided by the academy, and there is no financial risk to the council, but all efforts need to be made to ensure that the council takes all appropriate steps to meet the deadline in order to minimise the risk of adverse publicity;
- the council has made loans from the DSG to five schools that would otherwise be in deficit and unable to pay their bills. The current agreed loans, which totalled £660k, are all due to be repaid by the end of the 2013/14 financial year. In the case of schools converting as sponsored academies any deficit at the time of conversion would remain with the council and the amount would need to be met from the Schools Contingency Fund.   Education Finance is currently reviewing such a case.

- **Academies where the council acts as co-sponsor**

  Insufficient: Sponsors are held accountable for improving the performance of their academies, making changes to governance / leadership and teaching and learning. The council is co-sponsor of three academies - Bishop of Rochester (BoRA), Strood and Brompton. As a co-sponsor, albeit not a lead sponsor, the council does have a responsibility in relation to these academies, and therefore the academies do carry a level of risk for the council, largely relating to reputation.
  It is therefore important that the council has a process in place for monitoring the academies' performance and if necessary influencing the arrangements in place.
  The Director of Children and Adults acts as a trustee of BoRA and as such there is a clear ongoing active liaison between the academy and the council. The other two academies do not have separate trustees and governance is based on nominated governors.
  The council nominated two governors to each of the three academies when they were formed and we established from the academy websites that all but one continue to be governors. However, there is no clarity over their role regarding supporting the council in discharging its responsibility as a sponsor. As such there is no clear mechanism in place for the council to deliver the duties as a co-sponsor.

- **Academies where the council does not act as a co-sponsor**

  Satisfactory: For LA schools the council is the employer of school staff, and the Section 151 Officer has overall responsibility for ensuring that there is appropriate financial management in place. The LA also has responsibility for addressing any teaching and learning or other performance related issues. However, the schools are run by the governing body and the school's senior staff, and for the majority of schools where there is no need for intervention by the council, the level of direct involvement in the management of the schools is minimal. Effective oversight of LA schools depends largely on good communication and effective working relationships between the school and the council, and this is even more the case for foundation and voluntary aided/controlled schools.
  In the small number of cases where the council does have to intervene, due to failings in performance or financial management, or disagreement over admissions, the council does retain authority to take direct action.
  The council does not have the same powers of intervention for academies and as such does not have access to direct action. However the council retains a statutory duty to ensure all children within Medway receive an education.

CONCLUSION AND AUDIT OPINION

The council has appropriate mechanisms in place to protect the council's financial position and assets at the time of conversion, and appropriate oversight and liaison with those academies for which the council has no accountable role. Notwithstanding the need to strengthen the arrangements for the three academies where the council acts as a co-sponsor the overall audit opinion is that the arrangements currently in place are **satisfactory.**
There is one high priority finding:

Finding:	The council does not have effective formal mechanisms in place for monitoring or influencing those academies for which it acts as a co-sponsor.
Risks:	Governors may not understand clearly their responsibility in representing the LA's interests as co-sponsor. The council is not able to 'influence' how the co-sponsored academies are being run. Reputational damage should problems arise with the performance or management of the co-sponsored academies.
Management action taken:	Management in Children and Adults are working with Governor Services to develop effective training arrangements for LA governors in all Medway schools. This programme will include the role of LA governors within co-sponsored academies. (by end of September 2013)

Three medium priority recommendations, made to address other issues identified, were accepted by management, relating to:
- Prompt reconciliation and transfer of surplus school balances following conversion to academy status – now in place;

- Querying the authenticity of large payments made shortly before conversion and identifying all balances owed to the council before transferring funds – by the end of July 2013;
- Monitoring the performance of academies within Medway to identify potential impact on the council's statutory responsibility for educational performance within its area – by the end of September 2013.

PARKING *(final report issued 17.5.13)*

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1.   The revenue budget for the current financial year anticipates that income of £5.9 million will be received from car parking, £4 million from the Council's off-street car parks and the remainder from chargeable on-street parking.

2.   The overall objective of the audit was to provide assurance that the Council is receiving all income due from its parking facilities. However, we agreed with senior management to review the effectiveness of controls to mitigate four risks, the opinions being shown below.

- **Risk 1: Cash income may not be collected from pay and display machines promptly or accounted for correctly**

  Satisfactory: Monitoring of income collections, ticket continuity and any discrepancies are undertaken effectively and all machines are emptied at least once a week by the collection contractor. However, the following issues were identified:
  - Two machines were not recorded on the inventory, being a machine purchased in December 2010 but removed nine months later following vandalism and another machine that has been on trial since October 2012. As the inventory cannot be relied upon as an accurate record of all machines commissioned, there is a risk that Council assets cannot be accounted for and income may not be collected or accounted for.
  - Pay and display machines in car parks are emptied at varying frequencies (between daily and once a week), seemingly based on the level of income when the cash collection contract was renewed. However, we identified that two of the car parks collected three times a week now generate more income than five of those with daily collections, and one collected three times a week now generates less income than six of those collected only twice a week. There is a risk that income held in machines overnight – and consequently the risk of theft – is not being minimised. Collections are not cost effective due to poor prioritisation.

- **Risk 2: Penalty Charge Notices (PCNs) may be cancelled without sufficient explanation and/or authorisation**

  Satisfactory: Cancellations are actioned by appropriate officers, recorded with reasons and explanations and supporting evidence is retained on the Gateway system. However, the following issues were identified:
  - The monthly review sample selected by management for checking (10) is small in comparison to the number of cancellations being processed each month (over 1000 cancelled tickets) and the selection is not representative from each cancellation group. In addition, some officers

processing cancellations had not been included in checks over a seven month period. The deterrent effect of these checks is diminished by the small sample size in relation to the population and the exclusion of some categories of cancellation and processing officers from the samples selected.

♦ From analysis of three individual months' PCN cancellation/closure records we identified that a total of 436 PCNs, with a total value of £43,384, had been closed as 'end of life cycle' or 'warrant expired', so were effectively, in our view, write-offs. Whilst we acknowledge that it would be impractical to aggregate these and therefore require authorisation by the Director of RC&C and the Chief Finance Officer, as specified in the Council's constitution (chapter 3, part 5), we believe senior management should be made aware of the level and value of PCNs being closed for this reason as it represents a loss of income due to the Council.

♦ **Risk 3: Income due for parking permits (including daily visitor vouchers) may not be received or accounted for correctly**

Insufficient: We are satisfied that all income due from resident/business permits and PCNs is received and accounted for properly.
However, we were again concerned about the poor control of daily visitor vouchers, though acknowledge that management had introduced new procedures in November 2012 to address this issue. These are sold at 60p each and generated income of £96K in the last financial year, representing approximately 2% of the total parking income. Stocks of daily vouchers are held securely, but there were no records of stock held. Logs of voucher issues to libraries and those sold in parking reception and via the telephone did not show serial numbers and date of issue, therefore were not complete.
The number of daily voucher issues recorded to the libraries does not compare to the amount of income generated, and income is not reconciled against daily vouchers issued. There is a risk that daily vouchers could be obtained without payment, due to lack of stock control, and that all income received may not be accounted for.

♦ **Risk 4: Residential and business parking permits, plus those for essential users, carers and visitors, may be obtained or used fraudulently**

Satisfactory:
Residential permits
New applicants are required to produce documents showing proof of address and vehicle ownership/usage, but no photographic identification is required to prove that the documentation relates to the applicant. Further proof of eligibility is not required on annual renewal of permits, unless this is requested in person, replacement permits being posted to the address on the original application, in which case no checks are undertaken to confirm that the applicant still lives at that address and still owns/uses a vehicle.
We believe this presents a risk that permits could be used by someone no longer eligible, or used fraudulently by someone that has never been eligible, this being compounded by the failure to use information that may be available from other departments to identify people who may no longer be eligible for a

permit, e.g. Registrars (deaths) and Council Tax (changes in addresses). However, management maintain that such checks are unnecessary as permits are specific to vehicles rather than individuals and we acknowledge that the combination of the annual fee and the ability to park only in a specific zone reduces the motivation for fraudulent applications.

<u>Business permits</u>

There are no verification checks undertaken on the number of permits issued to a company, as long as a letter from the employer and evidence of vehicle ownership/use is provided. Given the lack of checks on the size/nature of businesses and the ease with which fraudulent business letters can be produced (eg by downloading company logo from website) there is a risk that more permits may be issued than are genuinely needed. However, we acknowledge that the annual fee of £126 should act as a deterrent to fraudulent applications.

<u>Fraud detection</u>

Civil Enforcement Officers check permits on their patrols and any misuse identified is reported to Parking Services management, who send a letter to the permit holder. However, until recently any misuse identified, and any concerns raised by residents with Customer Contact, were not dealt with as potential frauds requiring investigation.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of control to mitigate the four risks examined is **satisfactory**, this reflecting that management had already introduced new procedures to address our concerns over daily visitor vouchers.

We believe that the lessons learned from the work being undertaken to strengthen the Council's response to Blue Badge fraud, including working with the Corporate Anti-Fraud Team (CAFT) to investigate fraudulent use, should be extended to the management of other parking permits.

Six medium priority recommendations were made to address the issues identified and to further strengthen the current arrangements, five being accepted by management. These related to:

- Maintenance of the inventory;
- Review of the off-street collection schedule;
- The size and constitution of the sample of PCN cancellations subject to supervisory review;
- Reporting the volume and value of 'end of life cycle' PCN cancellations to senior management;
- Control over recording and reconciliation of daily visitor vouchers.

However, management considered our recommended additional checks to verify the identity of applicants for resident/visitor permits and use of information available from other council functions to identify people no longer eligible for such permits to be irrelevant, on the grounds that permits are issued to vehicles rather than individuals. We will continue to review the council's fraud resilience in relation to parking matters as part of the Fraud Resilience Strategy work.

1. The IWorld IT system is used by the revenues and benefits service, processing annual receipts of approximately £225 million[1] for council tax and non-domestic rates and annual benefit payments of approximately £104 million.

2. Access controls to the IWorld system are normally covered in the annual audits of Council Tax, NNDR and Housing Benefits, but for 2012/13 we have treated this as a separate review in order to minimise disruption and potential duplication.

3. The changes made to the administrative arrangements for the management of the revenues and benefits service implemented in January 2012, involved changes to staff roles. As such there is an increased risk that staff may have access to functions within the IWorld system that they no longer need, or also have access to other key financial systems alongside their IWorld access that may compromise controls relying on separation of duties.

4. Three risks relating to IWorld system access controls were reviewed to determine the effectiveness of controls and the opinions are shown below.

    ♦   **Risk 1: Only appropriate users are granted access to IWorld**

       Satisfactory: There are forms in place for requesting access to IWorld. These forms are comprehensive, include a client confidentiality clause, and require authorisation by a service manager or above. There are identified individuals in the Revenues and Benefits Team with the responsibility for granting access to the system. There are not many requests for non 'view only' access to the system. In a sample test of five forms, we did however find queries around two of the authorisations, in that the identity of one authoriser was unclear and another form was authorised by a service manager not directly responsible for the particular member of staff. The queries regarding the authorisations could lead to inappropriate access being given. However, it is recognised that this is not a failure in the process but rather a lapse in compliance with the procedure.

    ♦   **Risk 2: Access levels within IWorld may be inappropriate to users' needs**

       Insufficient: Request for access to IWorld forms stipulate what level of access is required and restricts anyone outside the customer contact officers working on revenues and benefits to 'enquiry only'. Access is also restricted to either revenues or benefits although one of the Senior Customer Contact Officers has access to both which is acknowledged by management as being necessary to fulfill her role. Supervisory checks on new property set-ups and new benefit claims act as compensating controls.
       Testing identified that a small number of users still have access to 'job roles' in IWorld (e.g. benefits assessor, council tax assistant etc.) that were assigned to them in roles prior to the BfL restructuring process but are no longer appropriate for their new role, for example as a Customer Contact

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[1]   2011-12 figures

Officer (Initial Contact) member of staff – these should be reviewed and amended accordingly to prevent the risk of improper or fraudulent transactions, especially when users also have access to Radius as identified in risk 3.

At the moment there is no report produced from the system that includes all users, job roles and associated actions, though this information is available to system administrators to view by looking at individual user profiles. The Revenues Manager (in his role as systems administrator) retains an Excel (security set-up) spreadsheet to record job roles and action groups, however the spreadsheet is out of date and incomplete. Following on from the BfL reorganisation, a restructuring of the 'job roles' in IWorld has commenced – this will align users to current generic job titles (e.g. Customer Contact Officer (Initial Contact)) and enable greater transparency of what access users need/have and should also make reporting on users access rights less complex.

♦ **Risk 3: Users of IWorld may have access to other systems, providing an opportunity for income or payments to be manipulated and, possibly, misappropriated**

Insufficient: Management have a clear understanding of the segregation of duties they are relying on to prevent income or payments being manipulated. In the longer term there may be opportunities for staff to work more flexibly and management have confirmed that they will consult with IA if any proposed developments might impact on current segregation arrangements. Audit trails should allow detection of any fraudulent activity and act as a deterrent. Testing identified that ten users have access that enables them to input or amend records/transactions on both IWorld and Radius (the Authority's main receipting system), giving the potential to manipulate income/payments, this is partly due to the recent BfL reorganisation of staff.

CONCLUSION AND AUDIT OPINION

5. Our overall opinion on the effectiveness of IWorld system access controls is **insufficient**. Although it is acknowledged that some of the risks identified have resulted from the BfL reorganisation process when the function was split between two departments, there is potentially a risk that fraudulent activity could occur from staff having access to both IWorld and Radius. The restructuring of 'job roles' within IWorld to align to the new generic job titles will allow for more transparency of what tasks/actions users are able to do in the system.

6. One high priority finding:

| Finding: | Testing identified that:
a) ten users have the relevant access to both IWorld and Radius to potentially be able to manipulate income / payments, this is partly due to the recent BfL reorganisation of staff;
b) a small number of users still have access to 'job roles' in IWorld (e.g. benefits assessor, council tax assistant etc.) that were assigned to them prior to the BfL reorganisation process and are no longer relevant to |

	their needs.
Risks:	Inappropriate access may occur. Potential risk of fraud.
Management action taken:	a) Level 5 Radius access to be removed from staff in job roles that do not require that level of access. b) Customer Contact / Specialist Service (MRBS) will liaise to review identified users and update IWorld job roles.

Four additional medium priority recommendations made to address the issues identified:

- Ensuring requests to set up new users are authorised appropriately;
- Identifying which users have access to which actions within the system;
- Disabling access for contract staff promptly once no longer working on Medway claims;
- Further strengthen password requirements.

All were accepted by relevant managers, with three actions already implemented by the time the report was issued. The follow up is scheduled for September 2013.

ANNUAL GOVERNANCE STATEMENT 2012/13
(final report issued 2.7.13)

Background

1. As detailed in the Accounts and Audit Regulations (2011) all local authorities are obliged to publish an annual governance statement (AGS) covering their systems of risk management and internal control. At Medway Council, the AGS is prepared by the Monitoring Officer and presented to the Audit Committee for approval.

2. The Society of Local Authority Chief Executives and Senior Managers (SOLACE), in collaboration with CIPFA, have provided a framework for corporate governance, for Local Authorities to use in order to develop a Code of Governance for inclusion in their council's constitution. Medway council's Code of Corporate Governance was approved in November 2008.

3. The AGS is subject to an Internal Audit review to provide independent assurance that the statement is a fair representation of the Authority's governance arrangements, is appropriately evidenced, and demonstrates that the Authority meets the Local Authority sector requirements of the CIPFA/SOLACE framework. The internal audit review provides a full evidence pack to support the AGS.

4. The AGS, and this internal audit report, are provided to Audit Committee in July. At that same meeting the Audit Committee receive the annual internal audit report which includes the overall opinion as to the internal control and risk management arrangements of the council. The overall opinion stated in the annual internal audit report for 2012/13 is that the arrangements are

satisfactory, and this overall audit opinion in turn supports the AGS and the audit thereof.

Findings

5. The Monitoring Officer provided a draft AGS for audit review. Internal Audit undertook a review of the AGS by cross referencing it to the CIPFA/ SOLACE delivering good governance in Local Government framework and Medway Council's Code of Corporate Governance. The audit determined whether there was sufficient and appropriate evidence to support all the information included within the AGS within the Authority's constitution, committee papers or other available documentation, and whether it incorporated all the requirements as set out in the CIPFA/SOLACE guidelines. The headings covered in this review were:
   ▪ Scope of responsibility
   ▪ The purpose of the governance framework
   ▪ The governance framework
   ▪ Review of effectiveness
   ▪ Significant governance issues.

6. Internal Audit then liaised with the Monitoring Officer regarding any queries arising and where necessary further evidence was obtained and/or the AGS revised.

7. The audit was able to find evidence to support the statements in the AGS and we are satisfied that there are no outstanding queries regarding the AGS.

8. The Monitoring Officer also confirmed that he had reviewed the current corporate governance code and considered it fit for purpose for 2012/13.

Conclusion and Audit Opinion

9. The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. The overall opinion on the AGS is therefore **good** (please see appendix B for the definition of audit definitions).

RISK MANAGEMENT 2012/13 *(final report issued 19.6.13)*

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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 assessed compliance with the Council's risk management strategy and also compared the strategy against recognised good practice, 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. Following the recommendation made in last year's audit regarding identifying inherent risks, Corporate Management Team (CMT) asked the SRMG to consider the impact of incorporating inherent risk in to the current processes. A briefing note outlining how other organisations deal with risk registers was also prepared for Audit Committee. We understand that CMT discussed this further on 20 February 2013.

4. Of the seven recommendations in the agreed management action plan from the last audit, two remain outstanding. Arrangements for training were suspended pending a decision on changing the processes and procedures to include inherent risk. This has also delayed the creation of directorate risk registers, although the Corporate Research and Review Team have carried out an exercise to collect and input service plans from across the council onto the Covalent performance management system.

5. As a result of ongoing discussions regarding potential changes to processes, it was decided this year's audit would only focus on the risk that **the council's risk management strategy may not be complied with**. The effectiveness of controls and opinion are shown below.

    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 still 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 (ADQ) reporting process;
    ♦ no further work has taken place on developing directorate risk registers due to potential changes to the way risk is recorded.

CONCLUSION AND AUDIT OPINION

6. Our overall opinion on the effectiveness of the Council's risk management process is **satisfactory.** Although there are outstanding actions from the previous audit, we acknowledge this has in the main been due to ongoing discussions about how risk is recorded. It would still be desirable to record and monitor risks below the strategic risks appearing on the corporate risk register.

7. Three medium priority findings were reported, management agreeing to:
    • Appoint a representative from C&A Directorate to the SRMG;
    • Remind ADs of the need to monitor risks identified throughout the year and of the need to upload their quarterly reports to the Covalent system;
    • Provide service managers with training on the use of Covalent, then further training on risk, after which it may be possible to develop divisional or directorate risk registers.
    These actions to be implemented by the end of September 2013 at the latest.

1.   The audit of Prevention of Fraud and Corruption forms part of the annual internal audit plan for 2012/13 approved by the Audit Committee in March 2012. Our 2011/12 audit reported on the work led by the Audit Services Manager (ASM), responsible for both the Internal Audit team and the Corporate Anti-Fraud Team, to develop a strategic approach to improving the Authority's fraud resilience and the opinion was 'satisfactory'.

2.   Tackling fraud in the public sector is a key objective of government. It is recognised that in times of austerity the risk of fraud increases, both in terms of the likelihood of individuals seeking to defraud public bodies, and the difficulty of public bodies mitigating the risk due to the increasing pressure on their resources which can reduce the level of management control. Change, be it in terms of methods of service delivery or organisational restructuring, such as Better for Less in Medway, make it even more difficult for management to effectively mitigate the risk of fraud.

3.   For many years the Audit Commission has published an annual report "Protecting the Public Purse" which highlights key issues and emerging fraud risks faced by local authorities. Medway Council's response to these issues was captured in its 2012-14 Fraud Resilience Strategy (FRS), which was presented to Audit Committee in March 2012.

4.   In April 2012, these themes were further developed by the National Fraud Authority when they published "Fighting Fraud Locally" (FFL). This is a national anti-fraud strategy for local government, which provides a blueprint for a tougher approach to tackle fraud against local authorities organised around the three themes:
    ▪ Acknowledge - acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response;
    ▪ Prevent – preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud response;
    ▪ Pursue – punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

5.   This audit reviewed Medway Council's FRS in light of the new guidance provided by FFL and sought to give assurance that the key themes have been adopted appropriately and attention has been paid to the nationally identified highest fraud risk areas.

    ACKNOWLEDGE

6.   The FRS was developed using a Fraud Risk Assessment of all the nationally identified areas. Where the Authority has subsequently been made aware of

emerging fraud risks for local authorities (e.g. Local Welfare Provision), action has been identified to assess the Authority's vulnerability, either through planned internal audits or consultancy work.

7.   Actions to improve the Authority's fraud resilience were identified in the FRS. FFL highlights that if this action is to be fully effective in embedding an anti-fraud culture within the organisation, it needs to be driven by senior management. We understand discussions were held with senior management in the development of the FRS, but the development of the FRS for 2014 onwards provides the opportunity to increase senior management buy-in, and develop management ownership for specific identified actions.   The setting of clear deadlines for the actions included in the FRS should help to ensure timely review of current arrangements.

PREVENT

8.   The ASM has made a presentation to service managers in order to raise their awareness of fraud risk, and also delivered targeted presentations in key fraud risk areas. The planned audits and consultancy work is also targeted on the high risk areas to help management put in place robust controls to mitigate the risk of fraud. A "probity day" is being planned which will seek to engage staff council-wide and promote fraud awareness.

9.   FFL highlights the need for staff and the public to have access to a fraud and corruption whistle-blowing helpline. The Authority has established a whistle-blowing policy with telephone numbers and contacts provided and work is under way to enhance this with the provision of a single "fraud hotline" which will provide the public with a single phone number for reporting suspected fraud.

10.   Medway's FRS aims to ensure that there are appropriate mechanisms in place to prevent and detect where fraud has been committed. The FRS rightly highlights the importance of management controls in detecting fraud and the action plan includes work in the high risk areas. In addition, the FRS picks up on the importance of data analytic and data matching tools that are highlighted in FFL, although without the same prominence. Data matching or interrogation exercises of Medway data are carried out in individual audits where appropriate and these are used to enhance management's preventative and detective controls. Further local data matching exercises will be considered resources permitting.   The Authority is also participating in the National Fraud Initiative (NFI), which is a national data matching exercise run by the Audit Commission.

PURSUE

11.   Staff suspected of defrauding the council are investigated under the disciplinary procedure, with managers leading the investigation with input from Audit Services. Where potential fraud is identified in the progress of an audit the initial investigation is conducted by Audit Services and the matter referred to HR. Sanctions against staff are decided by a management panel, and may result in dismissal.

12.   Audit Services have the necessary professional skills and experience to undertake investigations to a criminal level, and where the individual being

investigated is an employee there is regular liaison between Audit Services and HR to ensure a streamlined approach with minimal duplication between the criminal and disciplinary investigation

13. Medway Council seeks to minimise overpayments through early intervention, and Medway policies are clear that management have a duty to recover irregular payments within a reasonable timeframe. The council has access to a financial investigator to enable recovery of funds through the Proceeds of Crime Act – either through the police or DWP.

14. The council has a clear sanctions policy relating to benefit fraud and Audit Services are working with managers in other areas identified nationally as being at high risk of fraud, to ensure the Authority has a consistent approach to sanctions across all fraud perpetrated against the Authority and this is highlighted as an action on the FRS.

15. In 2012/13 a total of £804,000 fraudulent overpayment was identified by the Corporate Anti-Fraud Team relating to Housing Benefit and Council Tax Benefit. In addition, a total of just over £200,000 was recovered in 2012/13 as a result of internal audit reviews and investigations, relating to a mixture of fraud and error.

CONCLUSION AND AUDIT OPINION

Medway's FRS is a good reflection of the national strategy and work is underway or planned for all key areas. There are opportunities for greater buy-in from senior management when the FRS is refreshed, with recognition that where appropriate ownership of key fraud resilience actions in the high-risk areas will be allocated to management. In our opinion, the controls in place for the Prevention of Fraud and Corruption are **satisfactory** and management have agreed three (3) medium priority recommendations to strengthen the Authority's Fraud Resilience:
- More direct engagement of senior management with the FRS;
- Ensuring the sanctions policy is developed as each fraud risk area is reviewed;
- Development of the anti-money laundering policy.

SITE REVIEWS

INCOME - VISITOR INFORMATION CENTRE *(final report issued 18.6.13)*

1. All local authorities are obliged to publish an annual governance statement covering their systems of risk management and internal control. To contribute towards this, Internal Audit carries out audits of various financial and operational systems to provide management with assurance that the controls being relied on to mitigate risks to achievement of the Council's objectives are in place and operating effectively.

2. This audit forms part of a series of income reviews undertaken within the Council over the coming 12 months. Issues arising from individual reviews will be reported to relevant management but no audit opinion will be allocated. Towards the end of the financial year the outcome of all the income reviews will be collated into an overview report, providing an overall audit opinion.

3. The Visitor Information Centre generated income of £73,246 in 2012/13, through general sales (gifts, souvenirs), commission from coach ticket sales and sales of publications.

4. Our review covered the checking and handling of income, income retention and budgetary control and began with arranging interviews with the staff responsible for the day-to-day arrangements for income and an assessment of the control arrangements in place, we then confirmed through testing. We obtained local income records and undertook sample and observational testing in order to provide assurance.

FINDINGS

5. Our review and testing of the financial control arrangements confirmed that, overall, there are robust processes in place for the management of income. Management have agreed some actions relating to banking and stock for resale to further strengthen current arrangements.

CONCLUSION

We are able to confirm that the Visitor Information Centre has robust controls in place for income collection and recording and that we did not identify any significant issues. We are also satisfied that management have adopted an action plan for further strengthening the current arrangements for handling/recording income and controlling stock purchased for resale.

As noted in paragraph 2, no audit opinion is being issued for these individual reviews, but an overall opinion will be provided in an overview report of all the income reviews towards the end of the financial year.