

AUDIT COMMITTEE

20 MARCH 2014

INTERNAL AUDIT PROGRAMME

Report from: Internal Audit

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Summary

To advise Members of progress in delivering the approved 2013/14 work programme, and present outcomes 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 Members approved the internal audit 2013/14 work programme on 21 March 2013 for year ending 31 March 2014. The programme is derived using a risk based approach to ensure that the assurance provided by Internal Audit through this work is of added value to the council.

2.2 The programme includes audits of key financial systems and annual governance reviews, which are considered key activities and are given priority when resources are allocated. The aim is that all of the key assurance audits will be completed prior to the approval of the annual governance statement. The approved programme also includes audits of other financial systems, risk assessed audits, probity reviews, follow-ups, and the completion of any prior year audits outstanding as at May 2013.

2.3 Progress to date on the 2013/14 plan is set out at **Annex A**.

2.4 The Audit Programme is reviewed in year to reflect any changes of priority in year. Any proposed changes are presented to the Audit Committee for approval. Annex A provides details of three additional audits to the plan, and also includes the one deferred audit.

- 2.5 The escalated programme of school probity reviews is currently underway. The consultant began working in January 2014 and outputs from these reviews will be presented to future meetings.
- 2.6 This report also contains the outputs from each audit completed since the last update to the committee. These are set out in **Annex B**. Each audit and follow up provides assurance over the appropriateness and effectiveness of the control arrangements in place. Controls are assessed in terms of whether they mitigate the identified risks, and maximise the likelihood of achieving stated objectives. Each output has been shared and agreed with management.
- 2.7 The definitions of the recommendation and audit opinion options, as endorsed by Audit Committee in July 2013, are shown at **Annex C**.
- 2.8 An overall audit opinion is provided for each full audit. Audit opinions are not provided in the outputs of individual probity and site reviews, but these outputs form the basis of full audit reports which will contain an opinion on the council-wide procedures in place.
- 2.9 All audit recommendations are shared with management and agreed actions recorded, along with the implementation date and the officer responsible. The agreed management action plan relating to significant or material recommendations is incorporated in the issued final audit report, and summarised for Audit Committee.
- 2.10 Internal Audit obtains confirmation of progress on recommendations made, usually within six months. Where the audit resulted in an overall opinion that the control arrangements “Need Strengthening” or are “Weak”, a follow up is undertaken of the revised arrangements. The original audit opinion is reviewed in light of these findings, and the outputs of these follow ups are presented to Audit Committee.

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 progress on the 2013/14 audit programme, including the three additional audits and the proposed deferment of one audit, and the outcome of Internal Audit’s work.

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Audit Plan 2013/14 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
Activity ↓						
Key Financial Systems						
Council Tax						F
Local Business Rates (1) (Review of introduction)	2					11/13
Local Business Rates (2)						F
Housing Benefit						F
Housing Rents						F
Other Financial Systems						
Procurement (and category management c/f from 12/13)		F				
Social Care Payments			F			F
Payroll						F
PCIS Compliance						P
Local Income Management		DR				
<i>Visitor Information Centre</i>	✓			07/13		
<i>The Villager (minibus hire)</i>	✓			09/13		
<i>Trading Standards</i>	✓			09/13		
<i>Duke of Edinburgh Awards</i>	✓		09/13			
Handitills	✓					11/13
<i>Lifeline/Telecare service</i>	✓			03/14		
<i>Upnor Castle</i>	✓			11/13		11/13
AASSA	✓		11/13			11/13
<i>Community Hubs</i>						DR
School Financial Management	3		03/14			03/14
Risk Assessed Audits						
Local Welfare Provision			F			
Better for Less		P				
Health - Information Governance					F	
Foster Care (DBS and DP)	3		03/14			
Innovation Centre Medway	2	09/13				
Grant Payments		DR				
<i>Rural Liaison Grant</i>	✓					09/13
Adaptations	✓		03/14			
Succes	✓			11/13		
Data Quality – Equality and Diversity		F				
Asset Management – Divestments		DR				
DBS – central processes	2	11/13				
Maintenance Contracts highways				03/14		

Audit Plan 2013/14 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
Activity ↓						
Medway Norse (Partnership audit c/f from 2012/13)		P				
Governance Audits						
Risk Management		F				
Corporate Governance		P				
Carbon Reduction (c/f from 12/13)	✓					09/13
School Probity Audits						
St Margaret's Infants	✓		09/13			
Park Wood Infants	✓		09/13			
St Nicholas CEVC Infant	✓		09/13			
Hilltop Primary	✓		09/13			
Balfour Junior	✓		11/13			
Bligh Federation	✓		11/13			
Byron Primary	✓		03/14			
Park Wood Junior	✓		03/14			
St Thomas More RC Primary	✓		03/14			
Luton Infant	✓		03/14			
Follow Ups						
Debtors	2					09/13
IWorld system Access controls	2					03/14
Waste Management	2			11/13		
HR data security	2					11/13
Local Bank Accounts in schools	2		03/14			03/14
Additional/Replacement Audits						
Trading Standards/Community Environmental Health	2			DR		
National Fraud Initiative	2					09/13
Medway Action for Families	3		03/14			
DEFERRED AUDITS						
Capital Projects						

KEY

AC = month & year reported to Audit Committee

DR = draft report issued

F = fieldwork in progress

P = audit in planning stage

Bold = audits are reported to this Audit Committee

Key: 1 = Strong 2 = Sufficient 3= Needs Strengthening 4 = Weak

✓ = work carried out but no opinion provided in that output

SUMMARY INFORMATION ON COMPLETED AUDITS**Foster Care DBS and DPA** *(final report issued 16.1.14)*

The audit of foster care forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013.

From discussions with senior management we agreed to provide assurance over compliance with the revised Disclosure and Barring legislation, as well as with existing Data Protection requirements.

It is acknowledged that following the recent changes to Disclosure and Barring legislation, the revised council DBS policy has yet to be finalised and circulated to staff, although some training sessions have been undertaken and revised guidance published on the Intranet. The council Data Protection policy is also still at consultation stage.

As an audit of council-wide compliance to DBS legislation has also recently been undertaken, some of the issues identified in this audit have been included in that audit output where appropriate.

Although this audit began by focusing on foster care, it became apparent, especially in respect of data protection, that the findings from our testing went further than foster care so we have reported on the wider issues identified and our opinion covers data protection arrangements in Children and Adults generally.

FINDINGS**Disclosure and Barring Service (DBS) Audit Opinion - Needs Strengthening**

From a sample of foster carers selected, all had the appropriate level of disclosure and an appropriate record of this is being kept. However, documentation relating to identity checks and DBS application form is being held on personal files indefinitely which contravenes Data Protection legislation and should be updated when a new disclosure is required.

Following changes to DBS legislation, checks can now be carried out from age 16 (previously 18), however these checks are not being carried out on members of fostering households until 17-18 years which could put looked after children (LAC) at risk.

Service specific DBS guidance for staff is in the process of being updated, when finalised and issued this will assist in ensuring the correct process is followed. Consideration should be given to identifying specific staff involved in the DBS process and ensuring they have the relevant training.

Data Protection Act Audit Opinion - Needs Strengthening

The directorate is largely compliant in Gun Wharf in ensuring that working files are held securely, following a clear desk policy and having secure office filing arrangements.

Although improvements have been made to the confidential archive area on Level 1 at Gun Wharf, including the room being locked and a member of Children and Adults staff in attendance when at Gun Wharf, once access is gained to the archive area staff are able to view files which they do not have a legitimate need to see. This is in part due to the amount of legacy files in the archive (many on open shelving) and service areas following different document retention guidance. From

a brief review, we identified a number of files relating to adult social care and some service areas within Children's that are not in locked cabinets.

Closed and back files relating to Children's Social Care are stored off-site by an external archive company. File location is recorded on the social care electronic system and the retrieval process appears to work well, with twice-weekly delivery/collection of boxes. However, boxes awaiting collection (retained in the archive) and those delivered by the storage company (sometimes left unattended in the loading bay) are not secure and could result in a breach of data protection legislation.

We have also made the Deputy Director aware of our concerns regarding a clause identified in the 'terms of business' of the company contracted to provide the data storage/transit service. This requires the client to "warrant that the Personal Data is not sensitive personal data (as defined in the Data Protection Act 1998 or any modification or re-enactment thereof)". As we believe that files relating to looked after children are likely to include 'sensitive personal data' the council could be placed in a vulnerable, and highly embarrassing, situation should any misuse of information sent to the company occur.

Where children and adult files are destroyed directly from the archive the papers are placed in standard wheelie bins marked "confidential waste". These wheelie bins are used throughout Gun Wharf for bulk 'confidential' waste and are not locked. The archives' bin is located in the corridor outside the confidential file area. Unrestricted access to confidential waste could result in a breach of data protection legislation.

There are clear guidelines regarding the sharing of sensitive information by email with individuals and organisations external to the council. However, there is no council policy regarding security marking of confidential documents sent by post, which could lead to inappropriate access to confidential information.

We are unclear as to whether any appropriate conditions/protocols regarding sharing information with Independent Fostering Agencies are in place or for charitable and voluntary organisations that may be involved in the care of LAC.

The DPA issues identified were discussed with the Deputy Director, Children & Adults and the Assistant Director, Legal and Corporate Services on 27 September 2013. Another particular concern related to our finding that personal possessions such as birth certificates, passports, money etc. held by the council on behalf of LAC are not documented / held securely / necessarily returned to the LAC when they move out of the council's care. Through discussion it was agreed that this could be a wider issue regarding various papers held by the council on LAC's files, and it was agreed that this needs to be addressed as a matter of urgency. It was also agreed that there is a need to build more robust processes to ensure data protection compliance.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the DBS arrangements for foster care, and the wider DPA arrangements within Children and Adults, is **Needs Strengthening**.

Six significant recommendations, all relating to DPA compliance, are detailed below along with an update from management on progress in delivering these actions.

Finding:	<p>Although access to the confidential archive area at Gun Wharf has been improved, it is still possible to access the area and some of the files contained within without rigorous challenge.</p> <p>There is insufficient locked racking and a number of legacy files that it may be possible to destruct. Service areas are also following different file retention schedules and not the council records management policy that can be found on the Intranet.</p>
Risks:	Breach of Data Protection legislation
Management action:	AD, Legal and Corporate Services will liaise with DD C&A in order to further minimise the risk of unauthorised access to archived files and also look at ways of reducing the volume of data stored in order to minimise the cost of buying-in an external archive service.
Management Update:	AD, L&CS has liaised with the DD C&A to consider if there are ways to achieve greater control. This matter will be considered as part of the development of the basement area in the overall plans for Gun Wharf.

Finding:	Boxes of client files awaiting collection by, or following return from, the external storage company are not always protected adequately against unauthorised access. A clause in the company's terms of business requires the client to "warrant that the Personal Data is not sensitive personal data" but we believe that files relating to looked after children are likely to include 'sensitive personal data'.
Risks:	<p>Potential breach of data protection legislation</p> <p>Reputational damage should any misuse of information sent to the company occur</p> <p>Increased costs incurred through retrieving/returning files rather than storing them in-house</p>
Management action:	AD, Legal and Corporate Services will liaise with DD C&A to review the arrangements for offsite storage of sensitive files in line with property rationalisation and category management principles.
Management Update:	AD, L&CS will ask DD C&A to remind staff to follow the procedure and not leave bins in an unsecure area unless they are locked. Offsite arrangements have been reviewed and will be amended as property rationalisation occurs.

Finding:	Unlocked wheelie bins are used at Gun Wharf for bulk collection of confidential waste. Client records for disposal from the archives are placed in a bin outside, in the corridor, so could be accessed by inappropriate persons.
Risks:	Breach of Data Protection legislation
Management action:	AD, Legal and Corporate Services will ensure all bins marked "confidential" are lockable.
Management Update:	The procedure for confidential waste in wheelie bins is that the service fill the bins and the notify Facilities Management for the bins to be collected and kept in a secure area before destruction. ATD L&CS will ask DD C&A to remind staff to follow the procedure and not leave bins in an insecure area unless they are locked.

Finding:	There is no council policy regarding security marking of confidential documents sent by post.
Risks:	Breach of Data Protection legislation
Management action:	Deputy Director C&A will arrange for a risk assessment to be undertaken in order to determine when special measures for postal delivery may need to be considered.
Management Update:	Deputy Director C&A has instructed that a risk assessment be undertaken and an action plan drafted for any remedial action required by 31/03/14. At the very least this will result in a management instruction and guidance for staff when sending material by post with clear instruction on mode of delivery (special delivery / registered / signed-for) and security marking of confidential documents.

Finding:	Personal possessions such as birth certificates, passports, money etc. held by the council on behalf of LAC are not documented / held securely / returned to the LAC when they leave care.
Risks:	Irrecoverable loss of possessions Failure to demonstrate due care
Management action:	Deputy Director C&A will look into the possibility of introducing a "treasury box" arrangement for keeping all personal documents safe and secure.
Management Update:	Deputy Director C&A has instructed the service management to scope options for local and archive arrangements to establish a secure process as helpfully recommended and the timeline is by 31/03/14.

Finding:	The level of non-compliance found indicates that staff are not fully aware of data protection requirements.
Risks:	Non-compliance to Data Protection legislation
Management action:	AD, Legal and Corporate Services will ensure council-wide sign off annually by service managers re. DPA compliance.
Management Update:	AD L&CS has written to all Service Managers regarding DPA and information governance compliance. A 50% return rate on Service manager sign off has been achieved to date and Legal Services continue to chase for outstanding responses.

A further four material level recommendations have been made.

Three related to DBS arrangements and the need for a documented protocol to detail requirements and ensure consistency of application. Issues identified which need to be addressed in the protocol were:

- Confirming policy regarding DBS checks of 16 and 17 year olds in, or regular visitors to the household of a looked after child*
- Limiting the check of identification documentation for DBS checks to those who have received the appropriate training*
- Confirming document retention requirements for DBS checks*

The other material recommendation related to DPA compliance and the need to review physical security at off-site locations

Highways Maintenance Contract *(final report issued 24.1.14)*

We have audited management of the highways term maintenance contract twice previously since its inception in August 2007. The most recent audit in 2010/11 (final report issued 17 August 2010) concluding that management controls were satisfactory (ie 'instances of failure to comply with the control process were identified and there are opportunities to strengthen the control system'). Five recommendations to further improve controls were made and implemented promptly by management. This review has confirmed that the actions taken remain in place and continue to operate effectively.

This internal audit review of the highways term maintenance contract was carried out to evaluate whether:

- Use of the contract for structural work is appropriate; and
- Medway is achieving value for money on other repairs and not paying again for rectifying defective work.

The audit review therefore concentrated on the appropriateness of the maintenance contract for structural work and controls existing in the contract management process over the authorisation of orders and payments. Structural work is defined as reactive repairs to, or programmed maintenance of, highways structures such as bridges and retaining walls. Total expenditure incurred on the term maintenance contract to the end of its sixth year (ie July 2013) is recorded as £33.5 million. Financial records indicate that only £384K of this relates to structural repairs carried out since the decision to route this type of work through the contract at the beginning of 2012.

FINDINGS

Use of the term maintenance contract for structural work

Historically, work on highways-related structures was carried out using two KCC contracts, for consultancy and engineering works. This continued after Medway's new highways term maintenance contract came into effect in August 2007. When the KCC contracts were retendered in 2011 it was proposed that KCC's new contract for maintenance/repair works should be used for Medway's highways structures, a report seeking permission to do this being submitted to Procurement Board in November 2011.

This request was approved, the minutes of the meeting indicating that referral to Cabinet was not required. However, in January 2012 the Head of Highways and Parking Services issued an instruction that all structural work should be routed through Medway's highways term maintenance contract rather than the KCC equivalent.

The Medway term maintenance contract itself clearly includes work on structures, these being shown in appendices 17/70, 20/1, 32/70 and 32/71 of the specification.

Discussions with management established a clear rationale for the decision to place structural work with Medway's own maintenance contractor rather than using the new contractor engaged by KCC to provide maintenance/repair work to their own highway structures. The Head of Highways & Parking Services had established that the former already had capacity to undertake the type of work involved, and obtained assurances on their ability to carry out further work. Whilst there is no evidence of further referral to Procurement Board, which had approved an alternative course of action, the decision to use Medway's term maintenance contractor for structural work was agreed with the portfolio holders for Frontline Services and Finance.

The contract is based on a bill of quantities, an arrangement that is particularly appropriate for low value repeat works, and the vast proportion of the works delivered through this contract are of this nature. There is a risk that the council does not obtain such good value for money in relation to the structural works, which are one-off and as such cannot be costed fully through the bill of quantities. Management have recognised this but are satisfied that the benefits of utilising a single contract for highways maintenance outweighs this risk. We acknowledge the benefits of having a single contract, were pleased to note that there was clear evidence of good partnership working between the council and the contractor, and noted that it is incumbent on the contractor to obtain good value from any sub-contracted services. We also noted that the volume and value of structural work carried out through the contract to date is such that the financial risk is not high.

However, we believe that if any significant structural works were required, with costs projected to exceed the threshold for the Gateway procurement process, this should be treated as a separate project and reported through Procurement Board as necessary. We have discussed this with the Head of Highways and Parking Services who informed us that, since the establishment of the centralised capital team in Category Management, all high value/high risk projects will be viewed individually by DMT and placed either with the capital team within Highways to progress through the term maintenance contract or with Category Management, who will develop the capital project and procure through an appropriate route.

Contract Management procedures

We reviewed the management processes with members of the team, covering planned maintenance, responsive repairs and structural works. The audit confirmed that management have put in place a robust control environment to mitigate contractual risks:

- Work required is specified clearly, costed accurately, and authorised appropriately;
- Quality of work carried out is monitored by council staff and where rectification is required this is passed back to the contractor and then rechecked;
- Where rectification is insufficient the job is recorded as a defect and referred to as “a KPI” on the performance monitoring spreadsheet;
- Payment rates are based on the bill of quantities included in the original contract and uplifted annually, on the anniversary of the contract (1 August) to reflect increases in construction costs (based on indices for the costs of labour, providing/maintaining plant/equipment and material prices);
- Payment requests from the contractor are authorised appropriately and any variances from cost at the time of order are queried and resolved appropriately;
- Variances from cost at time of order are queried and resolved appropriately;
- Key Performance Indicators were specified in the original contract and have subsequently been reviewed and revised to ensure that they provide effective mechanisms for measuring performance;
- Regular meetings are held between client and contractor, when order status, issues arising, programmed work, compensation issues, health and safety, KPI measures and outstanding quoted works are discussed;
- Regular workshops are held for both parties to identify improvements and efficiencies to working practices.

We did identify two areas where the arrangements are not as robust as anticipated. Firstly there is no formal defect notice raised and the discussion and decision as to whether a KPI should be raised is not documented formally – which means there is not a full management trail of contractual enforcement and leaves individuals and the council at risk of claims of not holding the contractor to account.

Secondly there is diluted effectiveness of the authorisation of the monthly payment to the contractor since the delegated financial authority levels were revised in 2012. Whilst we understand the logic of the revision, as the majority of contract certificates (payment requests) exceed the service manager's reduced authority level these now need to be authorised by the Director of Regeneration, Community & Culture (or, in some cases, another senior officer). Contract certificates are not signed by the Head of Highways and Parking Services and, as these senior officers do not have access to the Confirm system to verify accuracy, they are, in effect, 'rubber stamping' payment requests on the basis of trusting officers in the Highways section.

Application of controls

We carried out sample testing of jobs completed during the six months February-July 2013 inclusive in order to verify that costs charged are accurate, and that payment is made only once for the same piece of work.

We reviewed records of 3,996 jobs completed, with the aim of identifying any instances where similar work had been carried out at the same location. Such an exercise cannot be regarded as totally reliable as, for example, it is not possible to establish whether a repair to a pothole related to precisely the same piece of carriageway as that repaired on a previous occasion. However, it did identify four apparently duplicated job orders, resulting in an overall overcharge of £412.56 (inc VAT), which will be reclaimed from the contractor - details have been provided to management. It has subsequently been identified that two of these were due to Traffic Management rather than Highways officers.

Querying some of the other potentially duplicated job orders highlighted a few apparently normal practices that appear to impact adversely on the value for money the Council is obtaining:

- Two consecutive emergency callouts are normally raised if more than six potholes need to be repaired at a given location, regardless of the length of time taken. We accept management's contention that this agreement represents a reasonable compromise between the interests of the council and contractor.
- If a gully cleaning job cannot be carried out due to a parked vehicle blocking access to the gully on the first visit, an emergency call may be booked when it has been moved, both jobs being paid for and thereby significantly increasing the cost.
- Two jobs raised for cleaning a gully at the same location, the first with a response time of 'within 3 days' (which now equates to 7 working days) and the second an emergency callout. The inspector involved apparently forgot the first order had been raised (eight days previously) when the resident expressed concerns about potential flooding and raised an emergency callout, thereby significantly increasing the cost.

An analysis of the 3,996 jobs completed indicated that 65% of them had been booked for completion during working hours, when no additional price factor is applicable. However, 13.4% of the jobs were emergency callouts to 'make safe' defects, normally followed by another job to effect a more permanent repair. We do not know whether this is typical if compared against other highways authorities, but the cost of emergency callouts is invariably higher than that for relatively minor repairs to be carried out in a longer timescale.

There is evidence of the term maintenance contract being used for work not included in the bill of quantities, for example cutting back vegetation and attending to a damaged pay & display parking machine. In such cases the contractor should obtain quotations from sub-contractors and obtain best value for the council – whilst details of quoted costs are not provided, Medway management should be able to judge whether this is competitive on the basis of their experience and judgement. We also acknowledge that Medway staff not needing to obtain quotations will offset any additional costs incurred, but it is difficult to quantify how much staff time is saved.

Overall, we identified a very small number of duplicated orders and an apparently higher volume of emergency callouts than expected, which impacts on the cost-effectiveness of the work carried out. We also believe that strengthening the audit trail regarding the reporting and rectification of any defective work identified would be beneficial. Management expressed the view that booking emergency callouts if a parked vehicle prevented the initial repair being carried out is regarded as good practice to minimise the likelihood of public dissatisfaction and, consequently, Member complaints. They also wished to highlight that the standard of highways maintenance is much higher, and the level of customer complaints much lower, than under the previous contract.

CONCLUSION AND AUDIT OPINION

Our overall opinion is that arrangements are **Sufficient**, and we conclude that:

- Use of the term maintenance contract for structural repair work does not appear inappropriate, especially given the scope and value of such work currently being undertaken;
- Appropriate controls are in place and are, generally, operating effectively to ensure that works commissioned are completed to an acceptable standard, charged accurately and paid for only once.

There were four material recommendations relating to documentation of management decisions regarding potential defects, the need to monitor the level of emergency callouts, ensure revised contracting arrangements are formally presented to the Procurement Board, and ensure the Head of Highways and Parking Services signs off contract invoices prior to being submitted to the Director for authorisation. All recommendations agreed for implementation by 31 March 2014.

Schools Financial Management *(final report issued 6.3.14)*

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 has been provided to the individual School, Senior Management within the Council, and presented to the Council's Audit Committee.

The Governors' Handbook provided by the Department for Education, defines the required School governance structure for ensuring financial probity. The Governing Body hold the headteacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place. The School Business Manager (SBM) or equivalent is responsible for the delivery of sound financial administration.

This is the second year in a three-year programme of reviewing financial management in Medway's schools, through undertaking a series of probity reviews. It was agreed that an overarching report would be prepared each year providing an overall assurance on the financial management arrangements for the schools reviewed in that year. These reports also include a summary of issues and lessons learned which is shared with all of Medway's Schools. A consultant has begun the 2014/15 programme of school reviews, funded by the monies received from the Crown Court following a successful prosecution of a school business manager within a Medway school. The intention is to progress the programme of reviews significantly in 2014/15 and to have completed the probity reviews of all Medway schools by July 2015/16.

The accounts within Schools relating to voluntary funds and the PTA are not subject to Medway control, not included in the scope of probity reviews, and no assurance is being provided by Internal Audit in relation to these accounts. Schools have a responsibility to ensure that the voluntary fund accounts are audited by an independent person and confirmation provided to the Council that this audit has been undertaken. An exercise was undertaken in 2013/14 by Education Finance and the Chief Finance Officer to chase those Schools which have failed to provide the required confirmation that their voluntary fund has been audited.

The transfer of Medway schools to Academy status continues but at the beginning of 2013/14 Medway still had overall financial responsibility for 72 schools providing schooling for over 22,000 primary and secondary pupils (excluding special needs and early years which will be subject to audit review in our 2014/15 probity review programme). The total 2013/14 budget for these schools is over £92m. Taking into account the probity audits conducted in 2012/13 and 2013/14, and the visits to the schools as part of the audit of School Bank Accounts (follow up completed 2013/14), we have reviewed 23 schools, with a total pupil roll of over 7,000. Further to the completed probity work we visited and/or undertook initial reviews of a further 9 schools, either in preparation of probity reviews which did not get progressed, or to provide advice and guidance to management. The work undertaken in these schools has helped in raising fraud risk awareness and does contribute to the overall assurance being provided in this report.

Audit Services is currently liaising with Governor Services and Education Finance, in the delivery of governance and financial management training for governors. A follow up of the audit regarding schools bank accounts has been completed and has confirmed that the arrangements within the council have been strengthened, providing robust monitoring arrangements of school bank accounts and the provision of up to date guidance through the updating of the schools finance manual.

Schools are now required to sign off the Schools Financial Value Standard which includes confirmation that key financial procedures are in place and working correctly. Education Finance provide training on completion of this document and monitor completion rates. Appendix A sets out the key issues identified during the 2013/14 probity review programme and the key mechanisms that schools should ensure are in place to address these risks. The main body of the report and Appendix A will be circulated to Chairs of Governing Bodies with the recommendation that it is presented to the full Governing Body to help them consider the effectiveness of the financial management within their School.

Appendix B sets out the schools visited in 2013/14 and provides a summary of the issues identified. This appendix also includes a summary of the 2012/13 probity review programme, provided for information. Appendix C details the 9 schools where additional work has been undertaken in 2013/14.

MANAGEMENT SUMMARY

This audit report provides an overall summary and opinion on the financial management within Schools based on the audits that have been undertaken in 2013/14, the further liaison and review of schools arrangements, and with recognition of the enhancements made in the council arrangements for supporting schools in their financial management.

The work undertaken over the last two years has identified that the effectiveness of financial management within Medway's schools varies significantly. We have found that some schools have relatively robust processes in place, and in other schools the financial management is weak. From our reviews we have found that small schools can struggle to ensure effective separation of duties whilst in larger schools the headteacher can become remote from the financial management processes.

The overall findings were that current arrangements are largely sufficient, an improvement on the findings from the 2012/13 audits. In particular we found that headteachers were more active in supervising financial transactions and financial management at the schools. There were however actions identified to strengthen the arrangements in place to ensure school assets and staff are properly protected, including the need to better oversee relatively low value income streams and retain documentation relating to procurement decisions.

Unfortunately we also found evidence of some significant failings in the financial controls which largely related to historic arrangements but which continue to have an impact on the schools finances and management practices. The particular issues were:

- ✓ Lease arrangements entered into which have resulted in schools paying significantly over the value of the equipment leased
- ✓ Pay forms being authorised by a member of staff who is a relative of the individual
- ✓ Use of school funds to pay for gifts for staff

CONCLUSION AND AUDIT OPINION

Having completed just under one third of the probity audits in Medway schools our experience suggests that despite some improvements, particularly in the area of financial awareness, those schools that have had the benefit of a visit have corrected historic failings where identified and consequently support the statement that notable improvements have been made. However the majority of schools remain unvisited and on the evidence of the tranche completed the only opinion that can be concluded is that overall financial control in Medway schools still **needs strengthening**.

Significant findings and probity issues arising from the 2013/14 reviews

Issue	Outcome
<p>Schools entered into Lease Agreements where the cost of the lease significantly exceeds the value of the equipment. The arrangement involved committing to a payment to a financing company whilst entering a separate agreement with the original supplier for the equivalent amount to be paid to the school. The result was the schools owing significant sums to the financing company, when the intermediate companies ceased trading.</p> <p>It was identified that financial authorities were exceeded in signing these agreements. This was largely due to the fact that the agreements were not seen as a financial commitment as the intention was for the arrangement to be at zero net cost.</p> <p>It also became clear that one of these schools was considering annual and not total costs of contracts when determining the level of financial authority needed.</p>	<p>Reminder circulated to all schools regarding the risk of entering lease arrangements, guidance provided advises that</p> <ul style="list-style-type: none"> • the guidance in the Finance Manual should be followed • professional advice relating to leases is available... • any engagement in leases of this nature be reported to the Head of Internal Audit and Counter Fraud <p>Schools need to ensure that any financial commitment is properly authorised, with full costs of the procurement considered when determining the level of financial authority required.</p> <p>Full report regarding this matter provided to Audit Committee March 2014</p>
<p>Similar to a finding in one school in the 2012/13 reviews, we identified a headteacher signing off a relatives pay forms.</p> <p>We also found in another school that the headteacher and bursar were signing off their own reimbursements</p>	<p>School management and governing bodies/finance committees need to make sure that where there are relatives working in or for the school that there is appropriate separation of duties maintained.</p> <p>Similarly governing bodies/finance committees should seek assurance that no-one signs off their own financial transactions.</p>
<p>Whilst over the two years of probity reviews we have found schools where there has been expenditure on staff gifts, one school reviewed this year had spent over £1000 on gifts for staff. The Governing Body were aware of the expenditure and approved it.</p>	<p>The council's gifts and hospitality policy states that such expenditure is not acceptable. This guidance has not been made available to schools. The guidance will be circulated to the schools alongside this audit report</p>

Summary of other recurring weaknesses identified

Issue	Actions Needed
<p>For some income streams involving cash handling there are points in the process where income could go missing as one individual is responsible for the cash with no independent oversight. There is the potential for embarrassment to the school when disputes arise over cash amounts paid, for instance by parents paying for school trips or contributing to the voluntary fund.</p>	<p>Schools need to ensure all income streams involving cash handling are identified and the procedures for handling the income reviewed to ensure the cash and the individuals involved in the process are properly protected. This includes ensuring prompt banking of the cash income and effective reconciliation processes in place.</p>
<p>Bank card management insufficiently robust with sometimes one person holding the card, authority to make payments using the card, and same individual responsible for reconciling the monthly statements</p>	<p>Schools should ensure there is a division between the credit card handling and monitoring duties, and periodic checks made by the Finance Committee on expenditure made using the card (as there should be periodic checks by Finance Committee of the level of all types of expenditure including manual cheques and petty cash)</p>
<p>In a number of schools we identified a lack of documentation to support procurement undertaken in the recent past, including documentation of decisions taken regarding quotations and tenders. Furthermore a number of schools do not use purchase orders for the majority of their procurement of goods and services. The concern is increased by the fact that most staff involved in procurement have not been advised of the need to declare any interest</p>	<p>Schools should ensure that procedures are in place to ensure procurement is properly documented and evidence retained. In particular:</p> <ul style="list-style-type: none"> • Tender and quotation evaluation • Purchase orders • Declarations of Interest forms for staff involved in procurement

Appendix B

2013/14 School Probity Reviews				
*	School	Pupil No's	Probity Issues	Control Issues
F	Balfour Junior	480	None	Insufficient documentation available to provide assurance over probity of past transactions under previous school management Arrangements have been revised by current headteacher and school business manager – advice provided to strengthen current income handling arrangements
I	Bligh Federation (and full audit of Bligh Federation Children's Centre)	420	None	No significant issues arising – actions to strengthen control arrangements focused on accuracy of income coding, increased use of purchase orders, and prompt banking
F	Byron Primary	501	Exceeding of authorisation levels, including entering into a lease agreement which has resulted in the school paying significantly more than the equipment was worth	Issues related to procurement – including decisions not fully documented, declarations of interest not recorded for all governors or staff involved in procurement decisions, and arrangements around credit card expenditure needed to be strengthened.
I	Hilltop Primary	425	None	No issues arising
P	Luton Infants	270	None	Actions agreed to strengthen procurement documentation and authorisation, ensure no potential conflicts of interest arising in relation to procurement decisions, and ensure the bank mandate is current.
P	St Nicholas Infants	116	None	No significant issues arising - actions to strengthen procurement documentation and authorisation, and a need to liaise with council payroll regarding HMRC compliance re payment to individual for specialist lessons
P	St Margarets Infants	243	None	No significant issues arising – need to liaise with council payroll regarding HMRC compliance re payment to individual for specialist lessons

P	Parkwood Infants	257	Over £1000 spent in year on gifts for staff – although all approved by governing body this is excessive	One significant issue - Other issues related to not requesting declarations of interest, Finance Manual unclear re procurement delegation limits, quotations for procurement not sufficient, lack of control around the school credit card and lack of documentation to support some purchases, lack of segregation of duties around ordering, receipting and payment
I	Park Wood Junior	358	None	No issues arising
P	St Thomas More RCP	413	Pay forms signed off by a relative of the member of staff	Actions agreed to document procurement authorisation limits and ensure declarations of interest recorded for all staff involved in procurement
	TOTAL: 10 schools	3,483 pupils	3 probity issues identified	

2012/13 School Probity Reviews

*	School	Pupil Numbers	Probity Issues	Control Issues
F	All Saints CE Primary	310	<ol style="list-style-type: none"> 1. Separate current bank account held for the breakfast club, - £51,604 being clawed back by the council. 2. Chair of Governors on the school payroll as breakfast club manager – stood down as Chair of Governors 	No significant issues arising – identified the need to: enforce segregation of duties in procurement and use purchase orders seek declarations of interest for staff strengthen asset security ensure financial management of the breakfast club is robust
F	St Michaels RCP	378	Overpayment of office staff member's overtime	In 2010 there was a period of time when there was a lack of effective management at the school and a number of significant control issues identified. A new headteacher has addressed the historical issues and a follow up confirmed that procedures are now robust
F	Temple Mill Primary	241	Headteacher authorising husband's overtime claims	No significant issues arising – need to ensure requisition and purchase order forms used, declarations of interest for staff sought, prompt banking and fully updated and maintained asset register
F	St Peters Infant	107	None	No significant issues arising – need to ensure segregation of duties for income handling, proper use of purchase orders and increased detail on the asset register

F	St Margarets CoE Junior	350	None	Insufficient documentation or formal authorisation of expenditure, poor level of use of purchase orders, overtime for a member of staff not properly recorded, lack of reconciliation for two income streams, headteacher does not have access to internet banking
F	Sherwin Knight Junior	259	None	No significant issues arising but a number of weaknesses identified – Gaps in CRB renewal forms Payroll authorisation list out of date Late payforms Employees retained on payroll in case of casual and relief work Purchasing card obtained without authorisation Requisition forms not used Insufficient documentation of procurement process and authorisation Cheque counterfoils not completed Income coding anomalies Breakfast club accounts not reflecting full costs and not reported to Governing Body Asset register missing key details
F	Sherwin Knight Infant	270	None	No significant issues arising – there were gaps in the CRB renewals , lack of reconciliation of stock and income re uniforms, asset register not got sufficient detail, school finance manual out of date, VAT receipts not always provided for staff reimbursement claims, and a sickness absence not supported by a Dr certificate
F	Woodlands Primary	380	VAT on income from catering and gym sessions not declared - transfer to Academy status being progressed and resolution of the VAT issue forms part of these transfer arrangements	School finance policy needs updating to fully comply with requirements, Nursery income not reconciled to attendance, inconsistent recording of information on overtime claims
F	The Howard	1500	Subsidised accommodation scheme not providing VFM – full investigation undertaken and scheme now stopped	There were significant weaknesses identified. Casual staff left on payroll Gap in CRB renewal records Large number of staff salary advances

				Inappropriate authorisation of some overtime claims No reconciliation of stock and income, and a lack of receipting for payments received Misuse of petty cash including payments for overtime and supplies Significant number of manual cheques with poorly documented reasons for expenditure, and some lack of documentation for both manual and automated cheque payments No enforced segregation of duties around procurement using the credit card and late checks of credit card statements Certification of overtime claims not appropriate
F	Saxon Way Primary and childrens centre	222	None	No significant issues arising – actions to strengthen control arrangements focused on ensuring asset register complete,
	TOTAL: 10 schools	4,017 pupils	6 probity issues identified	

***Key**

F = Full

I = Income

P = Procurement, Purchasing and Payments

Appendix C

Additional School Reviews		
School	Audit Involvement	Outcome
St John Fisher	School requested guidance from internal audit on their financial management arrangements	Provision of advice
Oaklands School	School requested advice from internal audit on their financial management arrangements.	Provision of advice
Kingfisher Primary	Initial work undertaken for a probity review	Now an Academy
Skinner Street Primary	Initial work undertaken for a probity review	Now an Academy
Warren Wood Primary	Initial work undertaken for a probity review	Deferred until 2014/15 by management request
Fairview Community Primary	Initial work undertaken for a probity review	Deferred until 2014/15
Featherby Junior	Initial work undertaken for a probity review	Deferred until 2014/15
Hempstead Infant	Initial work undertaken for a probity review	Deferred until 2014/15
St Mary's Island CE Primary	Initial work undertaken for a probity review	Deferred until 2014/14 by management request

Medway Action for Families (*final report issued 4.3.14*)

Medway Action for Families (MAfF) is the local delivery model of the national Troubled Families Programme. In December 2010 the Prime Minister launched the troubled families programme, seeking to turn around the lives of 120,000 of the countries most troubled families. The total estimated cost of these families to the public purse was calculated to be £9b per year. The programme began in April 2012 when an investment of £448m was announced. The scheme is designed to support multi-agency working, providing a co-ordinated and integrated programme of intervention.

Troubled families are identified based on strict criteria relating to crime and anti-social behaviour, education and employment. The application of the criteria seeks to identify the families in an area with the most significant and complex needs. The whole family is evaluated and where two or more criteria are met the family is eligible for inclusion within the programme.

Medway was awarded funding to work with 560 families, with a total of £1.16m funds being paid up-front over a three year period, and a further £700k claimable under the payment by results scheme, bringing the anticipated total funding for Medway to £1.8m. The national scheme has now been extended, with funding announced for one more year and the overall scheme extended by five years. The programme is subject to government review and revision and the extended scheme is based on reduced criteria. It is the government's intention that as the programme develops the intervention arrangements should be funded through recognised savings of reactive support by all the partners. The government provided an estimated baseline cost of each family to be £75k, for reactive support, but this has been reduced to £15k under the revised criteria. The possible savings of the interventions put in place therefore have to be calculated against the appropriate baseline.

A small dedicated team was set up within the council to oversee the delivery of the programme, and a strategic group was formed to provide a high level decision making body for partnership working. Some of the MAfF funds have been used to support key posts both within and external to the council, including a police officer, probation officer, posts in an academy and Medway Youth Trust.

This audit is focused on providing assurance over the management and administration arrangements in place to deliver the programme, achieve value for money, and ensure a lasting legacy. This audit does not provide assurance over the payment by results claims, its preparation or submission – separate audits of individual claims are to be undertaken, to meet the requirements of the programme's Financial Framework. Management failed to request the audit of the July 2013 claim, and therefore the first payment by results review by Internal Audit is being conducted in 2014, covering the February 2014 claim and the previous claim in July 2013.

Assurance on arrangements is also being provided through the ongoing monitoring by the DCLG. Medway were successful in their application to be a Level 1 Authority, and as such receives greater oversight from DCLG, and DCLG will be following up on a significant number of the families included in the programme. Legal Services have liaised regarding compliance with Data Protection issues, including a review of the standard operating procedure drawn up by management for data sharing with partners. The Service Manager has also completed his annual DPA return to the monitoring officer. Neither review has identified any areas of non-compliance.

FINDINGS

In the report to EMT in October 2013 it was confirmed that MAfF had delivered positive results for 123 families, as had been reflected in the payment by results claim. There was also confirmation that at that date 180 families were included in the programme and receiving some level of support. This is 60% ahead of target and placed Medway a long way ahead of similar local authorities. MAfF now have an on-going programme of work, identifying 30 families per month for inclusion in the programme, applying one of four levels of intervention based on the needs of the family.

Data

Effective data management underpins the delivery of the programme. Referrals for the programme come from a variety of sources but then need to be developed to ensure accurate family data is obtained, evaluated against the criteria, and then presented to the Service Manager and Strategic Group for determining families to be included in the programme. The data then needs to be maintained, shared appropriately with partners, and collated and presented for support of the claim under the payment by results arrangements. The Performance Intelligence Hub within Children and Adults Directorate provides the data service for MAfF.

Family data is held on an Access database, is shared internally and revised using spreadsheets, and once agreed by the Strategic Group is then loaded onto the IYSS system (an externally provided system used previously by the Youth Service and adapted for sharing data with partners and key workers delivering the MAfF programme). Payment by results begins with a download of the IYSS information onto a spreadsheet which is then updated as required. These arrangements involve a significant amount of data transfer between systems and a need for regular data cleansing and totals checks to ensure all records are accurate, up to date and complete. The methodology will be tested through the impending audit review of the payment by results claims, reviewing accuracy and also confirming the existence of a clear audit trail. On this basis I do not intend to make any recommendations in this report regarding these procedures.

The success of the programme depends on the data collection and management processes in place being resilient, as the programme is data-driven and involves some tight timescales. At the time of the audit the key knowledge of the data processing arrangements rested with one individual within the Hub, maintaining and amending records on a series of spreadsheets. This individual is supported by another member of staff within the Hub who has responsibility for the Access database, which contains the full family records. At present the knowledge and expertise has not been shared between the two and therefore there are single points of failure within the process. The risk is increased by the fact that DCLG do review and amend the scheme as a result of national performance of the programme and as such there need to be robust arrangements in place for ensuring these changes are reflected in the data management processes. I understand that procedure notes are being prepared which will ensure a clear set of requirements and deliverables, but at present the level of resilience in these arrangements is not adequate.

Performance monitoring

Benchmarking has shown that Medway has been achieving excellent results, with a level of outcomes significantly above other local authorities. Benchmarking is a very useful tool for assessing progress and provides the basis to investigate whether there were lessons to be learnt. As the Medway results far exceeded other comparator authorities in this benchmarking data it is appropriate to consider why.

Relevant factors may be that:

- Medway is a unitary authority and as such has responsibility for a whole range of local services
- Medway has built their programme on existing partnership arrangements, such as the Community Safety Partnership, utilising skills and communication pathways already well developed
- There has been, and continues to be, a high level of senior management support within the council.

Prior to the internal audit management had realised that some families identified for inclusion in the programme were only assessed against two criteria, as opposed to the required three. As such there was a risk that families did not receive the full levels of intervention that was required. The fact that some of these families could have been included in the payment by results return may have contributed to the Medway figures being higher than average. Management have now amended their processes, continue to work with those families to which this applies to ensure the desired turn around is achieved, and liaised with DCLG who have confirmed that they are satisfied with the remedial action being taken. DCLG do not intend to seek any repayment of the payment by results claims affected by this under-assessment of the criteria. This matter may have been missed due to the fact that there has been no formal sign off by the Service Manager prior to the list being presented to the strategic board. Without such a sign off there is no clear accountability for the list of families identified for potential inclusion in the programme.

There is regular monitoring of cases identified for intensive intervention but there is a lack of formal monitoring of delivery by individual key workers for those cases being addressed through enhanced or standard intervention although the Strategic Group does discuss general progress. The project manager is now putting in place regular monitoring of delivery on individual cases and is looking to provide regular reports to the newly formed operational group. Where there are delays in delivery on individual cases these will be highlighted to the strategic group who can then work with the partners to address the concerns identified.

In terms of the funded posts, whilst there are job descriptions and a generic specification, business cases have not been drawn up defining the intended benefit of the posts, and no Service Level Agreements have been put in place to ensure there is clarity over the key deliverables. This can lead to ineffective measurement of the impact of each allocated resource. This is significant in that it is difficult therefore to demonstrate the level of value for money currently being delivered by the funding of these posts, although management advised audit that the overall assurance on cost savings will be provided through the newly introduced government sponsored review of financial data. Furthermore it does not provide a robust platform for developing on-going arrangements once the initial programme ends.

On-going delivery

The troubled families funding ends in 2016 and the council has to identify mechanisms whereby the newly developed integrated approach to intervention is maintained. The stated government intention is that the required resources for on-going intervention work should be met through the savings on reactive costs. The success of on-going delivery post government funding depends on joint investment, where all partners contribute to intervention work, based on identified savings in reactive costs. There is a significant risk, in the current economic climate that the funding envelope will shrink in which case it becomes even more important to ensure any savings being made through the MAfF programme are being quantified.

The business cases for partner investment have to be built now. Work is underway in this area and some figures regarding police call-outs are being captured which is demonstrating reactive cost savings to the police. The same issue will apply to other public sector partners within the programme. Furthermore some funding has been allocated to the charity sector, which if they are

to continue to contribute to the integrated interventions in the future, will rely on funding provision. Monitoring of current delivery in those areas delivered by charities is critical if future funding decisions are to be taken based on sound data.

Whatever level of resource is provided by the partners of the programme, continuation of the integrated interventions will require some funding by the council. The MAfF team are acutely aware of the need to ensure that the benefits from the programme are long-lasting, and are currently forecasting a £500k carry forward after the programme ends (achieved through the retention of successful payment by results claims) for use in supporting the work. The level of funding required and the mechanisms for delivery need to be determined over the coming 12 months, and therefore there needs to be quantification of the savings that the council has realised in terms of reactive work. There will need to be senior management support to ensure resourcing is re-aligned appropriately.

The MAfF team works closely with a number of teams across the council, and is actively promoting the programme. One issue identified by this audit is that there is no effective liaison with council enforcement teams, which could cut across the intervention work being undertaken with the family.

CONCLUSION AND AUDIT OPINION

Notwithstanding the positive results achieved and the effectiveness of the integrated approach adopted, our overall opinion on the effectiveness of the management of the Troubled Families scheme within Medway is that the current arrangements **Need Strengthening**.

The positive response to the audit report and the clear commitment to delivering of a successful outcome with long term benefits to the community provides a good level of assurance that the required improvements will be implemented. We intend to review the implementation of the agreed actions in April when we will review our overall audit opinion.

There were 8 material recommendations and management have agreed actions which will be due to be implemented by April 2014. These actions will address the need for greater data resilience including documented procedures and a review of data collection and retention methodologies, business cases for funded posts or commissioned services, calculation of savings made by the programme delivery, strengthening of governance arrangements in relation to the strategic group oversight, evaluation of benchmarking data, and liaison with enforcement teams across the council.

Payment By Results (PBR)

A review of the February 2014 proposed PBR claim was undertaken. As a result of the audit review a revised claim was agreed and submitted to DCLG in February.

The retrospective audit review of the July 2013 claim was then undertaken and audit identified a number of gaps in documentation to support the claim that was made. Management have liaised with DCLG and will re-present the claim and accompanying documentation to internal audit for sign off in late April.

The PBR reviews have highlighted a number of data issues that will be addressed as part of the audit action plan. A joint meeting of all partners involved in MAfF has been arranged for March in order to ensure all parties are aware of the requirements.

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 is provided to the individual School, Senior Management within the Council, and once finalised it is presented to the Council's Audit Committee.

The Governors Handbook, published by the Department for Education, defines the required School governance structure for ensuring financial probity. The Governing Body hold the Headteacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place. The School Business Manager (SBM) or equivalent is responsible for the delivery of sound financial administration.

Park Wood Junior School (*final report issued 22.11.13*)

Park Wood Junior School has 358 pupils in Years 3-6. In 2012-13 £55k of income was recorded as being generated locally. On further investigation, it was found the majority of this income was from recharging of utility/rates bills and shared services with the adjoining Infant School. The remainder of the income was generated primarily through hire of facilities such as the hall. Income relating to the annual school visit to the Isle of Wight is paid into a separate bank account – further details are provided in the 'findings' section.

Our review assessed the effectiveness of controls operating over the checking, handling and recording of income - we did not cover issues such as expenditure, procurement and payroll. We interviewed the staff responsible for the day-to-day arrangements for income, assessed the control arrangements in place, obtained local income records and undertook sample and observational testing in order to provide assurance on the application of the controls.

FINDINGS

Our review and testing of the financial control arrangements confirmed that there are robust processes in place for the management of income and we did not identify any probity issues. A few minor control issues were identified and discussed with school management, including the need to bank income received more frequently now that the school is taking more income relating to the introduction of the creative curriculum at the start of the 2013/14 academic year.

The school has a separate bank account that is only used as a 'journey account' for the annual school visit to the Isle of Wight. School management have agreed to treat this as a voluntary fund, with an annual summary of accounts to be produced and subjected to audit/independent review before submission to Education Finance, in line with Medway's *School Voluntary Fund Guidelines*.

CONCLUSION

We are able to confirm that as the school has robust controls in place over income, no recommendations to improve control are considered necessary.

LUTON INFANT & NURSERY SCHOOL *(final report issued 6.3.14)*

Luton Infant & Nursery school is for children aged three to seven years with a pupil roll of approximately 270 plus 54 nursery places. The Bursar supports the headteacher with the management of financial processes.

Our review focussed on procurement, purchasing and payments processes within the school and commenced with an assessment of the control arrangements as set out in School's key documents and confirmed through interviews with the headteacher and the Bursar. We obtained transaction data and where we identified areas of potential anomalies, we undertook targeted testing in order to provide assurance that there were no concerns arising.

FINDINGS

Our review and testing of the financial control arrangements confirmed that there are reasonable processes in place, but action is required so that the school can demonstrate value for money in its procurement processes.

The school obtains quotes for significant purchases but there were inconsistencies in the school's processes:

- The level above which quotes needs to be obtained is not documented in the finance policy;
- Quotes from different suppliers appeared to specify different inclusions / exclusions;
- Reasons for choice of supplier or failure to obtain quotes from more than one supplier were not documented;
- Expenditure on contracts is not aggregated in order to determine if quotes are required.

Purchase orders were raised and authorised appropriately for most transactions but we identified a few high value items for which purchase orders had not been raised, one £30k order for construction that had not been authorised officially and one £20k order for renovation works that had been authorised by the Bursar (this was above her delegated authority).

CONCLUSION

We are able to confirm that the school has reasonable controls in place and we did not identify any probity issues. We are satisfied that the School has adopted an action plan, which records four actions to further strengthen the current financial arrangements.

BYRON PRIMARY SCHOOL *(final report issued 6.3.14)*

Byron Primary is much larger than the average community school with a school roll of approximately 500 children with ages ranging between 4-11 years.

Our review focussed on procurement, purchasing and payments processes within the school and commenced with an assessment of the control arrangements as set out in School's key documents and confirmed through interviews with the headteacher and the bursar. We obtained transaction data and where we identified areas of potential anomalies, we undertook targeted testing in order to provide assurance that there were no concerns arising. The audit did not examine payroll or income and cash handling processes, but the audit does provide an opportunity to offer for advice on best practice where incidental observations are made.

During the audit it came to light that the school had been liaising with the council regarding a leasing arrangement which the school had entered into, where the school has become liable for payments exceeding the value of the equipment provided. This is a probity issue and will be reported to the Audit Committee in a separate document.

FINDINGS

Our review of arrangements and testing of transactions confirmed that there are reasonable arrangements in place. Two issues were identified:

- It is a requirement that a register of interests be maintained for members of the Governing Body, but we found that a number of these forms were missing, and where an interest had been declared there was also no evidence that the relevant Governing Body member exempted themselves from relevant decisions.
- We identified three cases where authorisation limits for procurement transactions had been exceeded. One related to an issue which is being reported separately as part of the probity investigation. The other two date back to 2009, and appear to largely have come about because annual costs rather than whole life costs were considered.

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

CONCLUSION

We are able to confirm that the school has sufficient controls in place to manage procurement, purchasing and payments, and the actions agreed should ensure that there are no further incidents of non-compliance regarding procurement authorisations.

ST THOMAS MORE RCP SCHOOL <i>(final report issued 6.3.14)</i>
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St Thomas More RCP School is a larger than average primary school for children with ages ranging between 4-11 years. On average there are 420 children in the school. Children are placed in 7 class groups from Reception to year 6, according to their age.

The school received an 'outstanding' report from Ofsted in February 2013.

Our review focused on procurement, purchasing and payments processes within the school. We commenced with an assessment of the control arrangements as set out in School's key documents and then confirmed through interviews with the headteacher and the School Business Manager. We obtained transaction data and where we identified areas of potential anomalies, we undertook targeted testing in order to provide assurance that there were no concerns arising.

The audit did not examine income and cash handling processes.

FINDINGS

Our review and testing confirmed that the processes in place for the management of procurement, purchasing and payments were sound.

In the course of the probity review we identified a breach of the council's Workplace Relationship Protocol in that pay forms were signed by the headteacher for her spouse who has worked at the school since 2001. The matter was investigated and assurance can be provided that the headteacher was transparent about the arrangements with both the

governing body and senior management within the council, and despite lack of documentation due to the length of time under investigation, reasonable assurance was obtained that there was nothing inappropriate about the payments made. School management and the governing body have agreed appropriate mechanisms to address this issue.

CONCLUSION

Given the issue noted above has now been resolved we are able to confirm that the school has robust controls in place to manage procurement, purchasing and payments. We are satisfied that the school has adopted the action plan to further strengthen the current financial arrangements.

INCOME AUDIT SITE REVIEWS

The following audit forms part of a series of income reviews being undertaken within the Council during the current financial year. Issues arising from individual reviews will be reported to relevant management but no audit opinion will be allocated. After 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.

Lifeline/Telecare Service <i>(final report issued 17.1.14)</i>

The Lifeline/Telecare service generated income of £546,198 in 2012/13, through installation, rental and monitoring of Lifeline equipment and sale/installation of key safes.

Our review covered the checking and handling of income, income retention and budgetary control and consisted of interviewing the staff responsible for the day-to-day arrangements for income and undertaking observational and sample testing of local income records in order to provide assurance that all income due is received and accounted for accurately.

In addition, having identified that equipment costing £32,723 was purchased during the 12 months to September 2013, we extended the scope of the audit to review stock control processes and carried out sample testing to evaluate the effectiveness of controls to minimise the risk that all equipment purchased may not be accounted for appropriately.

FINDINGS

Our review and testing of the financial control arrangements confirmed that, overall, there are appropriate processes in place for the management of income. Income for Lifeline equipment installed for private clients is received by cheque and controls are in place to ensure all income due is received, recorded, retained securely and cheques are sent to Cashiers by internal post.

Income for installations for social care clients is processed by journal transfer, via Finance, but only at year-end - although charges are internal, this impacts on the accuracy of quarterly budget monitoring for both Lifeline and Social Care. Historically information provided to Finance has not been accurate. Further checks by Finance are needed to verify data is correct before journal can be processed.

This is an area that needs further work to strengthen processes, for the information provided to Finance to be verified as accurate and reliable and to ensure Lifeline receive the income they are due in a timely manner. Lifeline are also working with Social Care to develop a better solution.

Stock control processes are satisfactory overall but, whilst we were advised that stocktakes are completed at least twice a year and reconciled against stock records, no evidence of this process could be produced.

CONCLUSION

We are able to confirm that the Lifeline/Telecare service has appropriate controls in place for income collection and recording, though we identified some areas requiring improvement. Overall, stock control processes are also effective, but no evidence of periodic stocktakes and reconciliation to stock records could be provided. We are also satisfied that management have adopted an action plan for further strengthening the current financial arrangements.

GRANT PAYMENT AUDIT SITE REVIEWS

The following audit forms part of a series of grant payment reviews to be undertaken within the Council during the current financial year. Issues arising from individual reviews will be reported to relevant management but no audit opinion will be allocated. After the end of the financial year the outcome of all the grant payment reviews will be collated into an overview report, providing an overall audit opinion

OCCUPATIONAL THERAPY BUILDING ADAPTATIONS *(final report issued 23. 1.14)*

This is an audit of the Occupational Therapy Adaptations Grant Scheme (OT Adaptations), which is managed within the Children and Adults Directorate. The local authority has a statutory duty under Section 2 of the Chronically Sick and Disabled Persons Act 1970 to 'make arrangements for home adaptations or for the provision of any additional facilities designed to secure their greater safety, comfort or convenience' but only where their needs have been determined to be eligible under the Fair Access to Care guidance (FACS). This guidance on eligibility criteria for Adult Social Care England 2010.

The OT Adaptations grant scheme has been set up to provide the financial assistance to support the disabled person and meet the authority's legislative responsibility. Grants are paid for adaptations such as installation of rails and hoists. In 2011/12 and 2012/13, the authority spent just over £200k in each year and £234k has been approved for current year's budget.

Approximately 60% of the OT adaptations grant is spent on small adaptations (e.g. galvanised rails) or the supply of equipment (e.g. hoists) that help clients to remain in their own home. The remainder of the OT adaptations grant is used for a loan scheme to facilitate larger adaptations (e.g. bathroom conversion/bedroom extensions) that are funded through the Disabled Facilities Grants (DFG). The DFG is capped at £30k and clients may be asked to contribute based on a financial assessment. The loan scheme allows the client to top-up the DFG if works are over £30k and allows clients with high incomes but low savings to proceed with the building work. The first £1k of the top-up is a grant and the remainder (usually capped at £9k) is loan. There are revenue savings available to the Council when adaptations are completed as the client will usually require less support and will therefore have a reduced care package. In February 2013, new guidance was introduced for the loan scheme.

The audit focused on providing assurance over the awarding of grants, the accuracy of payments, and that the awarded grants were used for the specified purpose.

The audit did not include a full review of the DFG. Consideration was however given of value for money risks regarding the relative use of these two related grants, and fraud risk mitigation through the initial assessments undertaken for the DFG.

GRANTS

Audit testing of a sample of five grant payments confirmed there is an appropriate level of control. The grant would only be given following an OT client referral and needs assessment by the OT team. Grant payments are authorised by the OT Services' team manager or service manager. Value for money is ensured either by the use of a preferred supplier (such as KCC's Commercial Services for hoists) or by the provision of quotes by the customer. Outcomes for the client are monitored and ongoing care is adjusted as necessary. Testing did not identify any inappropriate expenditure.

LOANS

In February 2013 processes were re-examined and a revised framework ('Eligibility for Social Care Funding for Major Adaptations Staff Policy and Practice Guidance' for the OT Adaptations Grant scheme) was published. This provided a more structured and transparent approach to the provision of top-up loans to the DFG. Whilst there is no evidence that prior to this date there was any inappropriate expenditure, there were inconsistencies in when and whether clients were charged for their contribution. This process does not include grants to terminally ill clients, who would qualify for full grants for the cost of work under a separate Medway Scheme.

At the time of the audit, there had only been one loan approved through the new scheme, for work costing £5,604, supported by a grant of £1,000 and a loan of £4,604. The letter to the client informing them of the charge and four weekly instalments was correct but client had been overcharged by £1,000 when the invoice was raised, with the Direct Debit set to collect for an additional seven months.

DFG

We reviewed the fraud resilience of the financial assessment processes as this provides a passport to the higher value OT Adaptations grant / loan scheme. We found this assessment process to be robust.

We also considered whether the relative utilisation of the DFG and OT Adaptations Grant provided effective use of public funds. At present, only 20% of the OT grant expenditure is for small adaptations, such as galvanised rails costing approximately £1k which could be funded through the ring-fenced DFG. Approximately 40% of the OT Adaptations grant provides top-up grants and loans for major adaptations that the Authority funds through the Disabled Facilities Grant (DFG). The remaining 40% of the money is spent in small grants on equipment falling outside the scope of the DFG e.g. overhead hoists.

From 2015/16 the funding streams will be integrated through the Better Care Fund. This gives the Authority an opportunity to offer clients a streamlined process that covers both the OT adaptations grant and the DFG.

CONCLUSION

We are able to confirm that the authority's OT Service Team has appropriate controls in place for grant payments for OT Building Adaptations Grant.

Social Care Management value the OT Buildings Adaptations Grants as work they facilitate contributes significantly to the re-enablement of the clients who benefit and can significantly reduce the ongoing cost of care. Whilst these benefits might be recognised on individual

client records they have not been collated in a way that can demonstrate the overall value of the grants to the Authority.

There is an opportunity to use the inclusion of the DFG in the Better Care Fund to redesign the adaptations grants schemes so that clients have one streamlined application process to follow.

FOLLOW UPS

LOCAL BANK ACCOUNTS IN SCHOOLS

(Final report issued 10.3.14)

A thematic review of controls over Local Bank Accounts (LBA) in Schools formed part of the annual internal audit plan for 2011/12, and a final report reference 11019 was issued on 27 July 2012 with an overall opinion that management controls were insufficient.

Under the scheme of delegation the council pays each school's budget instalment into the bank account named by the school, which has to be with a permitted provider as listed within the scheme of delegation. Governing bodies may spend their budget for the purposes of their school, but with in-built controls such as having to obtain secretary of state permission before entering into any borrowing arrangement, and the requirement for bank account signatories to be council employees (or in the case of non-maintained schools, employees of the governing body).

Schools are obliged to comply with the Authority's requirements on financial controls and monitoring. It should be recognised however that whilst the council retains the authority, as a last-resort, to suspend the schools right to the delegated budget, it has no operational day-to-day authority over the schools and how they manage their finances. This therefore limits the authority that Education Finance have to enforce good practice.

This audit focused on the controls in place within the council to support effective management of schools' bank accounts and actions were identified to strengthen existing arrangements. The audit process is not complete until an independent follow-up is performed in order to confirm progress in addressing the weaknesses identified in the original report, and on the basis of those findings reviewing the overall audit opinion. The follow-up has been delayed due to the absence of key members of staff within the Education Finance Team and it is recognised that the team is still not running at full capacity due to long-term sickness.

FINDINGS

The follow-up was carried out in two phases, initially following the issue of a revised schools finance manual in January 2014 with an update in March to monitor the implementation of further enhancements to the guidance provided to schools. This report summarises the results of further audit work carried out to confirm whether the agreed actions relating to controls over Local Bank Accounts in schools have been implemented.

Management have strengthened controls over school banking arrangements by updating the schools' finance manual and model school finance policy to include more involvement by the governing body in approving opening or closing of bank/building society accounts, authorised signatories and obtaining credit or debit cards. However, we identified that the updated finance manual had not fully addressed all the issues raised in the original audit, and management agreed to issue further updates by the end of March 2014. Although we are satisfied that the finance manual and policy have undergone updating (the manual was

previously updated in 2003-4), management commented that maintaining updates on a regular basis is difficult due to lack of resources.

Improvements have been made to ensuring the timely return and processing of LBA return submissions, including involvement by headteachers, and a sample of transactions on bank statements is now selected for checking by Education Finance. However, as highlighted above, it is acknowledged that there is limited sanction if schools fail to co-operate with requests to provide information and documents to facilitate these checks.

CONCLUSION AND AUDIT OPINION

On the basis of the progress made in addressing the recommendations from 2011/12 we have reviewed the audit opinion and are satisfied that we can raise the overall opinion from insufficient to **satisfactory**.

Risk	Original opinion	Revised opinion	Progress
School banking arrangements may be insufficiently robust to prevent misuse of delegated funding.	Insufficient	Satisfactory	▲
Central monitoring processes may fail to identify any potential misuse of school funding.	Insufficient	Satisfactory	▲

IWorld System Access Controls follow up

(final report issued 13.12.13)

An audit of the IWorld system access controls was carried out in early 2013 and a final report reference 12049 was issued on 17 April 2013 with an overall opinion that management controls were insufficient.

The audit process is not complete until an independent follow-up is performed in order to confirm progress in addressing the weaknesses identified in the original report, and on the basis of those findings reviewing the overall audit opinion.

FINDINGS

This report summarises the results of further audit work carried out to confirm whether the agreed actions relating to appropriate access levels within IWorld and associated access to other systems have been implemented.

CONCLUSION AND AUDIT OPINION

On the basis of the progress made in addressing the recommendations from 2012/13 we have reviewed the audit opinion and are satisfied that we can raise the overall opinion from insufficient to **satisfactory**.

Risk	Original opinion	Revised opinion	Progress
Only appropriate users are granted access to IWorld.	Insufficient	Good	▲
Access levels within IWorld may be inappropriate to users' needs.	Insufficient	Satisfactory	▲
Users of IWorld may have access to other systems, providing an opportunity for income or payments to be manipulated and, possibly, misappropriated.	Insufficient	Good	▲

Management have strengthened controls over setting up new users and are now able to produce reports identifying users, job roles and associated actions. Inappropriate access to Radius Icon (the council's new income receipting system) has been removed for users who previously had access that enabled them to input or amend records/transactions on both IWorld and the previous income receipting system. The restructuring of 'job roles' within IWorld to align to the new generic job titles is not yet complete, but has been put in place for Level 1 staff.

DEFINITIONS OF AUDIT RECOMMENDATION AND OPINIONS

DEFINITION OF AUDIT RECOMMENDATION LEVELS	
Significant (High)	The finding highlights a weakness in the control arrangements that expose the Council to significant risk (determined taking into account both the likelihood and the impact of the risk).
Material (Medium)	The finding identifies a weakness in the control arrangements that expose the Council to a material, but not significant, risk (determined taking into account both the likelihood and the impact of the risk).
Point of Practice	Where the finding highlights an opportunity to enhance the control arrangements but the level of risk in not doing so is minimal, the matter will be shared with management, but the detail will not be reflected in the audit report.
DEFINITIONS OF AUDIT OPINIONS	
Strong (1)	<p><u>Risk Based:</u> Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the Council's risk exposure.</p> <p><u>Compliance:</u> Fully compliant, with an appropriate system in place for ensuring ongoing compliance with all requirements.</p>
Sufficient (2)	<p><u>Risk Based:</u> Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the Council's risk exposure.</p> <p><u>Compliance:</u> Compliant with all significant requirements, with an appropriate system in place for monitoring compliance. Very minor areas of non-compliance.</p>
Needs Strengthening (3)	<p><u>Risk Based:</u> There are one or more failings in the control process that leave the Council exposed to an unacceptable level of risk.</p> <p><u>Compliance:</u> Individual cases of non-compliance with significant requirements and/or systematic failure to ensure compliance with all requirements.</p>
Weak (4)	<p><u>Risk Based:</u> There are widespread or major failings in the control environment that leave the Council exposed to significant likelihood of critical risk. Urgent remedial action is required.</p> <p><u>Compliance:</u> Non-compliant, poor arrangements in place to ensure compliance. Urgent remedial action is required.</p>