AUDIT COMMITTEE

17 JULY 2014

INTERNAL AUDIT PROGRAMME

Report from: Internal Audit

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Summary
To advise Members of progress in delivering the approved 2013/14 and 2014/15 work programmes, 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 Annual audit programmes, approved by the Audit Committee each March, are 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. Each audit programme includes an allocation of time to complete the outstanding prior year audits by July.

2.2 Annual audit programmes include audits of key financial systems and annual governance reviews, which are considered key activities and are given priority when resources are allocated.

2.3 Members approved the internal audit 2013/14 work programme on 21 March 2013 for year ending 31 March 2014 and for completion by July 2014. Delivery of the 2013/14 plan is set out at **Annex A**. Shaded rows indicate that the audit output was presented to a previous meeting of the Audit Committee. The numbers on the table indicate the level of assurance being provided:

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

2.4 Members approved the internal audit 2014/15 work programme on 20 March 2014 for year ending 31 March 2015. Progress to date on the 2014/15 plan is set out at **Annex B**.

2.5 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 2013/14 plan, and also includes the one deferred audit.

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 C**. 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. A list of grant and payment by results certification is also included in this annex.

2.7 The definitions of the recommendation and audit opinion options, as endorsed by Audit Committee in July 2013, are shown at **Annex D.**

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 and 2014/15 audit programmes, and the outcome of Internal Audit’s work.

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ANNEX A

Audit Plan 2013/14 – Progress Report

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

ANNEX A

Audit Plan 2013/14 – Progress Report

Activity ↓	Opinion	All	C&A	RCC	Health	BSD
Maintenance Contracts highways	2			03/14		
Medway Norse (Partnership audit c/f from 2012/13)	**2**					**07/14**
Governance Audits						
Risk Management	**2**	**07/14**				
Corporate Governance	**1**	**07/14**				
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/Commercial Environmental Health	**2**			**07/14**		
National Fraud Initiative	2					09/13
Medway Action for Families	3		03/14			
Deferred Audits						
Capital Projects						

ANNEX B

Audit Plan 2014/15 – Progress Report

Activity ↓	Opinion	All	C&A	RCC	Health	BSD
Key Financial Systems						
Council Tax						Q4
Local Business Rates						Q4
Housing Benefit						Q4
Housing Rents						Q4
Key System Audits						
General Ledger						Q3
Treasury Management						Q2/3
Corporate Credit Cards	**2**					**07/14**
Taxation - Creditor Payments						Q2
Local Payment Arrangements		Q4				
The Old Vicarage			P			P
IT Systems – Integra Access						Q2
IT Systems - Lagan		Q2				
Disclosure and Barring Service	F					
School Financial Management			Q4			Q4
Risk Based Audits						
Capital Projects		P				
Client Financial Affairs			P			
Change Management		Q4				
Children's Services Action Plan			F			
Public Health					Q2	
Domiciliary Care			Q3			
New Children's Centre Management			Q3			
Business Continuity – Energy Resilience						Q3
Governance Audits						
Risk Management		Q4				
Corporate Governance		Q4				
Data Quality – Fraud Reporting		Q4				
Probity Audits						
Schools –						
Hempstead Juniors	✓		**07/14**			
St Benedict's RCP	✓		**07/14**			
Children's Centres - – sites tbc -						
Local Payment Site Reviews - - sites tbc -						

ANNEX B **Audit Plan 2014/15 – Progress Report**						
Activity ➔	**Opinion**	**All**	**C&A**	**RCC**	**Health**	**BSD**
Follow Ups						
Medway Action for Families	2		**07/14**			
Possible Audits						
Planning						
Economic Development						
South Thames Gateway Building Control Partnership						
Grant Certification						
Adoption Reform Grant – 2013/14	✓		**07/14**			
Individual Electoral Registration – 2014/15	✓					**07/14**
Care Bill Implementation Grant – 2014/15	✓		**07/14**			
Local Transport Capital Block Funding 2014/15				Q2		
Medway Action for Families Payment by Results – May 2014	✓		**07/14**			
Medway Action for Families – Payment by Results – July 2013	✓		**07/14**			
Medway Action for Families Payment by Results – August 2014				Q2		

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

Annex C

SUMMARY INFORMATION ON COMPLETED AUDITS

Council Tax *(final report issued 19 June 2014)*

The budgeted gross Council Tax income for Medway Council in 2013/14 was approximately £140 million from approximately 110,000 domestic properties. This is administered through the iWorld system. The charge for a band D property, excluding parish precepts, in 2013/14 was £1,141.47 but liable parties could apply for a range of discounts and exemptions in order to reduce the amount due. Without these discounts (including the new Council Tax support scheme (CTS)), the total liability in Medway would have been approximately £30 million higher in 2013/14.

The audit of Council Tax forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013. Internal Audit provide assurance annually on the control arrangements for the management of council tax, and this audit reviewed management of the following risks:

- Property data may be incomplete, inaccurate or not updated promptly;
- Charges and discounts are not applied appropriately to Council tax accounts;
- All income received may not be accounted for accurately and promptly;
- Arrears may not be calculated accurately or recovered effectively;
- Income due and received may not appear in the main financial records accurately or promptly

Until March 2013, councils administered council tax benefit to people on low incomes, based on the Department for Work and Pension's (DWP's) national scheme. Councils could claim most of this money back from the DWP, which compensated them directly for any loss of council tax income. From 1 April 2013, this arrangement was replaced by local council tax support schemes. Councils now receive grant funding from government equal to 90 per cent of the value of council tax benefit expenditure previously paid to them. Therefore the council now bears a direct financial risk in relation to CTS. There are some national rules regarding the discount and exemption arrangements, but the scheme is largely set at a local level

Council Tax charges and reductions are always open to the risk of fraud. Various factors contribute to an increased level of fraud risk including:

- the current financial climate;
- on-going pressures on household finances due Welfare Benefit reform
- Medway working-age claimants, previously eligible for 100% CTB having to pay at least 25% of their Council Tax bill. This will also put increasing pressure on debt recovery processes, potentially increasing the number of relatively low value debts arising.

The Audit Commission estimates that 4% of Council Tax discounts and reliefs in England in 2012/13 (excluding CTS) and 0.7% of Housing Benefit claims (with a similar profile to CTS) were fraudulent. If these proportions are reflected in Medway, the Council's fraud losses would be approximately £0.7 million (£0.1 million CTS and £0.6 million others).

As a result of these factors, Audit Services has identified Council Tax as one of its highest priorities in this year's fraud resilience strategy and the scope of this year's audit was expanded from previous annual audits of the Council Tax systems to encompass consideration of the fraud resilience of current processes, particularly relating to discounts and exemptions.

Five risks relating to Council Tax were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: Property data may be incomplete, inaccurate or not updated promptly - Strong

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

Risk 2: Charges and discounts are applied appropriately to Council tax accounts - Sufficient

Whilst the processes for applying charges and discounts to Council tax accounts have been evaluated as sufficient but there are opportunities for enhancing the current arrangements. Since this is the first time this annual audit has focused on the fraud resilience of the arrangements, the report includes a detailed summary of the findings.

Billing arrangements ensure each household receives an annual bill that accurately reflects the current charge and property band. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a discount or exemption. Customers can apply for a discount or exemption online via the Medway Council website or through a manual form, with the Council encouraging increasing numbers of clients to apply through the internet. One result of the channel-shift is that the on-line application no longer requires a signature, and there is no record held of the source computer, which means that there is less clear evidence regarding who made the original application. This is something that is relevant to the undertaking of criminal investigations and whilst it is not a critical issue it has highlighted the benefit of involving Audit Services in change projects to ensure fraud resilience is not compromised.

Applicants are informed of the outcome of their award by letter and/or revised Council Tax bill and they are reminded of their duty to inform the Council of a change in circumstances. There are, however, instances where these letters may not be that easy for the reader to understand.

Each discount or exemption has its own set of terms and conditions laid out in regulations or local policy. The Council does not currently have a sanctions policy that covers all of these and therefore needs updating and consideration given to including policy regarding fines within this document.

In this audit we examined some of the discounts and exemptions in more detail and have made the following observations:

<u>CTS (Council Tax Benefit replacement)</u>

Councils were required to design and adopt a local scheme to come into effect from April 2013 to help some households pay their council tax, although there are some national limitations to this autonomy. These limitations include a requirement that pensioners, who were previously eligible for Council Tax Benefit, must continue to qualify for up to 100% reductions (subject to their income). The government provided a default scheme which replicated the previous council tax benefit provisions and the council adopted this with the following amendments, approved at full council January 2013:

- Reduces the maximum support available to working age adults to 75% of the total liability;
- Extends the minimum deduction in respect of non-dependants to include any such person in the household, aged 18 years or more, who is in receipt of a means tested benefit;
- Removes the Second Adult Rebate scheme;
- Extends the protection for pensioners to those people who receive a war widow or war disablement pension.

Approximately 22,000 households in Medway receive CTS (just under 20% of the total). Applications for CTS are often combined with claims for Housing Benefits. There is a detailed Medway application form that requires the provision of appropriate supporting evidence (e.g. proof of identity, National Insurance Number, residence and personal circumstances). Applicants are required to sign declarations (or requested to provide an email address). There is an appropriate fair processing notice on the Medway application informing the applicant of the use the Council will make of the data provided along with details of the possible consequences of failing to comply with requirements.

Supporting documentation is checked to ensure its validity and cross-referenced to the application form. A sample of applications is checked independently of input by the MRBS control team to ensure it is accurate.

Applicants are informed of the outcome of their award by letter and revised bill and are reminded of their duty to inform the Council of a change in circumstances.

Students

Applicants for student discounts are asked to complete a declaration confirming their student status and required to provide evidence of their student status in the form of a certificate furnished by the educational establishment. The Authority has an arrangement with the University of Kent which enables them to check student status at the start of the academic year. In households solely occupied by students each student resident is required to prove evidence of their student status in order for a 100% discount to be applied. This evidence is checked on application. Students are not informed of the use the Council will make of their data.

The MRBS control team look to include student discounts and exemptions in their sample of input to ensure it is accurate. However, due to staff vacancies within the team for most of the year, these checks have not included student discounts in 2013/14. CAFT investigations have identified instances where student discounts have been applied without retention of supporting evidence.

Students are only entitled to retain their student discount as long as they remain on their course. Applicants are advised at the application stage they are required to inform the Council within one month of a change in circumstances. There is no mechanism for the council to be informed of students leaving their course by a third party such as a university or the Student Loans Company. Consequently there is a risk that student discounts continue when they are no longer entitled. This is a national issue and extends beyond council tax to many other discounts and benefits awarded to students. Whilst largely outside the Council's control, consideration could be given to closer links with Medway Universities and/or the introduction of in-year checks.

Single Person Discount (SPD)

Applicants for SPD are asked to complete a declaration confirming they are the sole occupier of a property and informed of the use the Council will make of their data. These are granted automatically as there is no evidence that could easily be supplied to confirm the sole occupancy, although they are asked for a forwarding address of any person reported to be leaving the address. They are also asked to inform the Council of a change in their circumstances but are not given a timeframe within which to make that declaration. There are no warnings on the application form regarding potential sanctions / penalties / court action / recovery of excess discount applied to the account.

The MRBS control team keeps SPDs under review and periodically write to recipients of the discount to confirm it still applies. This process is supplemented with the biennial NFI matching of Council Tax to electoral registration data. On 31 March 2014, 29.6% of Medway households had been awarded SPD compared to a Kent average of 31.4%. This indicates that Medway Council's review processes are keeping the level of SPDs below the County average.

Empty properties

Applications for empty property discounts and exemptions are normally granted without supporting evidence for similar reasons to SPD. Periodic inspections are used to confirm the continued vacancy of properties and therefore that the discount is still valid. The risks to Council Tax income were reduced following changes to Council Tax regulations which abolished two classes of empty exemptions namely classes A and C. These were replaced by giving discretion to each local council to adopt its own Local Discount. Medway has chosen to replace the Class A (Empty & unfurnished home that needs major repairs or structural changes) with an discount of 100% for a maximum period of 12 months following which full Council Tax will become payable. Class C (Empty and unfurnished home) has been replaced with a discount of 100% for a maximum of 3 months. This reduces the risk of loss to the Council. Other classes of empty exemptions are unaffected by the change. .

One area of potential concern is tenanted properties. We understand that if a tenant informs the Council they are moving out of a property but does not give details of the new tenant, the landlord will be set as the liable party for Council Tax. The assumption is made that the property is empty and an "empty and unfurnished home" property discount is applied without any declaration from the landlord. There is a risk that landlords could abuse the system by creating a succession of (potentially false and untraceable) tenants who leave the property with an unrecoverable debt. It may be worth exploring whether analysis of the Council Tax database could identify patterns at some properties or for some landlords.

Fraud resilience could potentially be further strengthened through enhanced data sharing across the council. The planned work of the Corporate Anti-Fraud Team regarding council tax as part of the delivery of the 2014/16 FRS will include liaison with management to identify data sharing opportunities and potential proactive work around those areas deemed to be higher risk.

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

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

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

The IWorld system generates reminder letters automatically once accounts go into arrears. Reports of aged debts are produced from the system and there is evidence that considerable efforts are made to pursue liable parties attempting to recover balances due, even after properties have been vacated. The replacement of CTB with CTS in April 2013 meant that large numbers of working age adults were required to make a contribution to their Council Tax where they would previously have received 100% support. There are approximately 22,000 households in Medway which receive CTS and have a balance to pay. Management anticipated these clients were at greater risk of default and are therefore monitoring these debts in a targeted way. The Revenues Manager estimates that collection rates are approximately 1.6% lower than in 2012/13.

Council Plan monitoring shows that Housing Benefit and CTS processing times are behind target rates. A delay in processing creates worries for clients and could put customers in financial difficulty and increase the level of debt.

The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve council tax write-offs "within the approved provision agreed by Council when setting the Council tax base", but the Revenues Manager authorises all write-offs, without any formal delegation from the CFO.

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

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

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the Council Tax system is that it is **sufficient**.

Expected controls were found to be in place and operating effectively. With the new discount and exemption procedures it is timely for management to review the fraud resilience of the Council's arrangements to determine if there are further opportunities to strengthen them.

Two material level management actions were agreed relating to the fraud resilience strategy and ensuring debts are written off in accordance with the constitution. Both are due for implementation by December 2014.

Local Business Rates II *(final report issued 19 June 2014)*

Local Authorities are responsible for billing and collection of the Local Business Rates (LBR). Prior to the 2013/14 financial year, Local Authority LBR receipts were transferred to Central Government, pooled centrally, and then redistributed according to formula assessed need. Under the terms of the Local Government Finance Act (2012), local authorities retain half their LBR receipts. The remaining half is still pooled centrally for redistribution.

The budgeted gross Local Business Rates (LBR) income for Medway Council in 2013/14 was approximately £40 million from approximately 6,000 commercial properties. This is administered through the iWorld system. The charge for a property is based on a multiplier of a notional rental value (RV) set by the Valuation Office Agency (VOA) but liable parties can apply for a range of reliefs to reduce the amount due. Medway Council granted exemptions and reliefs totalling approximately £12 million in the 2013/14 financial year. Medway retains approximately half the LBR income collected with a small portion paid to the Kent Fire and Rescue Service and the remainder passed to the DCLG.

Under the new arrangements, local authorities are incentivised to increase their local tax base and collection rates but bear risks associated with a reduction in receipts. Appeals and other in-year changes to the RV (often outside the Council's direct control) represents the greatest risk to authority's LBR income. A separate audit reviewed arrangements for identifying, mitigating and reporting on these financial risks (report 13025) and the opinion was that the arrangements were "sufficient". The Authority has more direct influence over operational issues such as the granting of LBR reliefs and collection rates. These operational issues are the focus of this audit.

The audit of Local Business Rates forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013. Internal Audit provides assurance annually on the control arrangements for the management of business rates and this audit reviewed management of the following risks:

- Property data may be incomplete, inaccurate or not updated promptly;
- Charges and discounts are not applied appropriately to Local Business Rate accounts;
- All income received may not be accounted for accurately and promptly;
- Arrears may not be calculated accurately or recovered effectively;
- Income due and received may not appear in the main financial records accurately or promptly

LBR charges and reliefs provide opportunities for the evasion of liability, the exploitation of relief and incentive schemes and fraud. The Audit Commission reported nationally 149 cases of detected LBR fraud in 2012/13, with a value of £7.2 million. It is difficult to estimate the true cost of LBR fraud to Local Authorities as until April 2013 councils had no direct financial incentive in preventing and detecting fraud losses.

As a result of these factors, Audit Services has identified LBR as one of its highest priorities in the 2014/16 fraud resilience strategy and the scope of this year's audit was expanded from previous annual audits of the LBR system to encompass consideration of the fraud resilience of the current processes, particularly relating to the granting of reliefs.

Five risks relating to LBR were reviewed to determine the effectiveness of the controls and the opinions are shown below:

Risk 1: Property data may be incomplete, inaccurate or not updated promptly - Strong

Current arrangements ensure regular liaison with the Valuation Office Agency (VOA) and tests confirmed that as the VOA amends the Medway LBR RV, the changes are reflected accurately and promptly on iWorld.

In the audit report regarding the budgetary implications of the changes to the LBR arrangements (13025), we explored the risks to the Council from material changes in the RV through, for example appeals to the VOA by liable parties. We were satisfied that the assumptions built into the budget by the Revenues and Benefits Contracts Manager were reasonable and that mechanisms are in place to provide early warning of significant deviation from the current figures. The Revenues and Benefits Contracts Manager has informed us that the year-end figures will be close to the original forecast.

Risk 2: Charges and discounts are applied appropriately to local business rate accounts - Sufficient

Billing arrangements ensure each ratepayer receives an annual bill that accurately reflects the current charge and RV. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a relief or if an appeal amends the RV. Customers are informed of all applicable reliefs online, although currently they can only apply for some reliefs through a manual form. Electronic applications are allowed for some reliefs (e.g. Retail Relief) and consideration is being given to electronic applications through the Council's website for all other reliefs. There is the potential for efficiency saving to be made with this approach but management should consult with Audit Services before making this channel shift in order to ensure the arrangements provide fraud resilience.

Applicants are informed of the outcome of their award by letter and/or revised bill. The reverse of the bill also reminds them of their duty to inform the council of a change in circumstances and provides a link to the information leaflet on the Council's website.

Each relief has its own set of terms and conditions laid out in statute or local policy. The council does not currently have a sanctions policy that covers these LBR reliefs. Consideration needs to be given to this when the Authority's sanctions policy is updated.

In this audit we examined some of the discounts and reliefs in more detail and have made the following observations:

<u>Charity Relief</u>

Approximately £7 million was granted in charity relief in 2013/14. This is split between 80% mandatory relief and 20% discretionary relief. Members approved the continuation of the 20% discretionary relief in March 2013.

Applicants need to provide their charity registration number, company number, constitution and three years of accounts when applying for relief. These details are checked with the Charity Commission prior to the award of relief. Additionally, the proposed use of the building must be stated on the application form and the building use must be charitable for the charity reliefs to be applied. Checks are made where practicable e.g. places of worship must be registered with Bereavement and

Registration Services and charity shops are inspected to ensure properties have at least 50% donated goods.

After the award, the systems and control team would normally check 10% of the charity reliefs awarded to ensure the award was valid. However, staffing issues have prevented this check from being performed this year.

Visiting Officers from Customer Contact undertake inspections of these properties to ensure the occupier and usage remains the same. The Revenues Manager reviews the progress of these inspections to ensure there are no backlogs.

The Charity Commission have received information from a number of local authorities concerned about situations where charities are entering into tenancy agreements on commercial property but where in practice the property is, or appears to be, empty. One example that the Revenues and Benefits Contracts Manager has come across is the installation of a wireless wifi network in an otherwise empty property used to broadcast “charitable” messages. Councils, including Medway are assessing these schemes and challenging the usage where they become apparent, although it is recognized that reviews need to be conducted very carefully since charities may not have the funds to pay the LBR liability and so could go out of business, leaving a debt to be written-off.

<u>Unoccupied Property Relief</u>

Unoccupied properties do not attract business rates for the first 3 months and for certain industrial properties this is extended to 6 months. Approximately £1m was granted in unoccupied property reliefs in 2013/14.

Often empty property discounts are given when a former occupant notifies that they are moving. If the council is not notified of the new occupant, the owner becomes the liable party. In these cases an owner is automatically given the empty property discount even without confirming that they have not moved in and there is no new leaseholder. Unfortunately, regulations do not require owners to inform the local authority of the name of a new occupant when they take over the lease.

There is an inspection regime which verifies that the property is empty. This often identifies new occupation and the bills are raised accordingly. However, occupation cannot be presumed to cover the void period and income is lost.

<u>Small Business Rates</u>

The LBR paid for small businesses is based on a lower multiplier of the RV than for larger businesses. In addition, occupation of properties with RV less than £12,000 may give entitlement to small business rate relief. This has traditionally been 50% but Central Government doubled this to 100% from 1 October 2010 until 31 March 2015. This change makes small business rate relief more attractive for those seeking to evade tax. Approximately £4 million was granted in small business rate relief in 2013/14.
Applicants for small business rate relief must confirm that they are small businesses but there is no requirement to provide documentary evidence and there are no checks to ensure that the business is genuine, is entitled to the relief (i.e. does not have undeclared business properties) and is occupying the building. This audit identified one property for which small business rate relief has been granted but there were doubts that this business was resident in the property. This matter was referred to the Corporate Anti-Fraud team for investigation. Whilst initial enquires established the liable person appears to be running a business from the premises, this case indicated possible planning and building regulation anomalies (which are currently under investigation by the relevant teams) and highlights the need for a robust inspection regime for properties receiving small business rate relief.

New reliefs

April 2014 saw the introduction of three new reliefs in Medway that have recently been introduced by the government in order to mitigate the effects of the economic downturn:

- New builds empty property – a 100% discount on business rates for all newly built empty commercial property completed after 1 October 2013 and before 30 September 2016. The relief lasts for 18 months after completion. This is to ensure that e.g. builders completing industrial estates are not penalised whilst they are waiting for tenants. The Revenues and Benefits Contract Manager is not aware of any current developments which will qualify for this relief.
- Retail rate relief – a £1000 discount to all occupied retail properties with a RV of £50,000 or less in each of the years 2014-15 and 2015-16.
- Re-occupation rate relief – a 50% discount for 18 months on any retail property that has been empty for 12 months or more.

Each of these is fully funded by the government. Policies on each of these has been defined and agreed by the Chief Finance Officer and Portfolio Holder for Finance. These policies outline the circumstances in which each of these can be claimed and defines which categories of business can qualify for the "retail" reliefs. In order to comply with EU regulation, these reliefs contribute to the maximum of 200,000 Euros that any organisation can receive in state aid. However, there is no central record of state aid that can be used to check the entitlement of the organisation to the aid. This will impact on the Authority's ability to build fraud resilience into the system for these reliefs, especially for the larger businesses.

The planned work of the Corporate Anti-Fraud Team regarding LBR as part of the delivery of the 2014/16 FRS will include liaison with management to identify data sharing opportunities and potential proactive work around those areas deemed to be higher risk. The Business Rates team have recently started downloading reports of empty properties with exemptions which are exported to a spreadsheet for investigation where appropriate. Extended use of exception reporting, coupled with enhanced data sharing across the council could further reduce revenue leakage within the LBR system.

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

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

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

The iWorld system generates reminder letters automatically once accounts go into arrears. If there is no response from this, the debts are passed onto collection agencies and there is evidence that considerable efforts are made to pursue liable parties, attempting to recover balances due even after properties have been vacated. Reports of aged debts are produced from the system and these are used for monitoring and reporting purposes. Collection rates in 2013/14 (at 96%) are 2% lower than in the previous year. It is not clear whether this is a factor of the economic climate, weaker performance by the bailiffs or is due to some other circumstance. Now that the council has a direct financial interest in recovering the LBR debt, there is scope for reviewing the current monitoring arrangements in order to ensure they provide sufficient information to manage performance.

The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve Business Rates "within the provisions recommended by the Office of the Deputy Prime Minister", but the Revenues Manager authorises all write-offs, without any formal delegation from the CFO.

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

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

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the LBR system is that the arrangements are **sufficient**.

Three material level management actions were agreed to address the issues identified. These related to the fraud resilience strategy, debt monitoring and ensuring debts are written off in accordance with the constitution. All are due for implementation by December 2014.

Housing Rents *(final report issued 15 May 2014)*

The Housing Revenue Account (HRA) is a separate account that all local authorities with housing stock are required to maintain by law. It contains the costs arising from the provision and management of the council's housing stock, offset by tenants' rents and service charges, housing subsidiary, leaseholder service charges and other income. The Council is obliged by statute to agree a balanced HRA budget, where income and expenditure levels for the forthcoming year match. HRA income for 2013/14 is approximately £14 million.

In April 2013 reforms to the benefits system came into effect. This introduced the under-occupancy rules and the overall benefits cap, both of which reduce the housing benefit entitlement of some Medway Council tenants. This increases the challenges the Authority faces, especially in relation to debt recovery.

The last audit of Housing Rents was carried out in 2012/13, our overall opinion being that control was satisfactory.

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

Risk 1: Weekly charges and system parameters on Academy may not be correct - Sufficient: We found that the weekly charging system, including the application of the annual increase was operating well.

Housing have established that the rent for one property has been incorrect for an unknown number of years as Academy has an incorrect size recorded. As a consequence the rental value of this property has been reduced by £416. This rental charge needs to be backdated which will have no direct impact on the tenant but will have an impact on the housing benefit grant claim. In 2012, a similar issue to that came to light regarding properties at Beatty Avenue and Cornwallis Avenue. Members decided that in these instances the current tenancies should be retrospectively adjusted for the change since the Council assumed responsibility for the stock (i.e. April 1998) but refunds would only be made to current (and not former) tenants. We feel that in the absence of any other evidence as to when the error in the property database occurred, the rent should be adjusted back to this date.

Since the last audit, Housing have employed a system support and development officer. One of his tasks has been to review the access rights of each user and ensure they are appropriate for their role. To this end, the permissions of each role have been mapped and 24 generic sets of permissions have been created. We have been able to confirm that all active users have been identified as current employees and users have been allocated an appropriate set of permissions.

Academy does not allow full refinement of these access rights which means that, for instance, the Housing Officers who deal directly with tenants can create / terminate tenancies on Academy without any independent check or authorisation. Reliance is placed on independent checks of tenancy starts and terminations by the Performance and Intelligence Hub to review the tenancies and ensure start and end dates are accurate. This control has been shown to be operational and we have been informed that corrective action has been taken where problems have been found with tenancy termination dates.

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

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

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

Income is accurately recorded, promptly accounted for and regularly reconciled to systems records. The latter are supported by documentary evidence and reviewed by management.

Risk 4: Arrears may not be identified and pursued - Sufficient

There are appropriate arrangements for the identification and pursuit of rental debt, with automated reminders of overdue debt being sent to tenants periodically.

Housing Officers have responsibility for debt on designated patches and are aided in targeting recovery action by regular reports on debt. The Housing Income Manager meets regularly with these officers and challenges them on action taken.

At the time of the audit, the current tenant rental debt was £254,000 compared to approximately £273,000 at the same time in 2012/13 and £287,000 in 2011/12. This reduction is very encouraging when set in the context of benefit reform as debt levels would normally have been expected to increase. Management highlighted action taken to promote moves and exchanges to reduce the number of “extra” rooms and to ensure tenants in need are passed to the Council’s Welfare Reform Team.

In the same period, former tenant rental arrears have fallen to £272,000 from £311,000 and sub account debt (including that for housing benefit overpayments) is also reducing. Since the total debt written off in 2013/14 was approximately £58,000 compared to £132,000 in 2012/13, this reduction in debt shows that recovery rates have improved in the last year.

Irrecoverable debt has been identified correctly and put forward for write-off. Authorisation has been by senior management within the directorate but not in accordance with the Council’s constitution i.e. debt under £5,000 has been authorised for write-off by the Assistant Director instead of the Director and debt over £5,000 has been written off by the Director instead of the Chief Finance Officer.

CONCLUSION AND AUDIT OPINION

The HRA debt position has improved throughout the year in spite of the challenges of benefit reform. We are also pleased that Academy access rights have been subject to a rigorous review. The overall opinion on management controls over the Housing rental system in 2013/14 is **sufficient.**

Two material priority management actions were agreed to address the issues raised in this report relating to ensuring debts are written off in accordance with the constitution and corrections to the housing benefit subsidy grant claim arising from the adjustment to a property size. These have both been implemented.

Housing Benefit *(final report issued 30 April 2014)*

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

Housing Benefit payments are forecast to total £106 million in 2013/14.

Five risks relating to Housing Benefits system were reviewed to determine the effectiveness of controls and the opinions are shown below. We did not review the claim verification process as part of this audit, only management sample monitoring of completed assessments to confirm their accuracy.

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

New claims are logged, verified and assessed promptly. Checks to confirm the accuracy and validity of claimants assessed are undertaken, with evidence of monthly performance monitoring by management.

Registered claims not passed for payment and claim monitoring reports are checked and old claims are investigated, but the review undertaken is not always recorded, so it is unclear as to the regularity and promptness of all reviews by a senior officer.

There was no evidence of Interim awards being reviewed on a regular basis by a senior officer (or equivalent acting officer) as reports supporting these are not kept, although we were advised that from April the reports will be kept by the senior officer for the purpose of spot checks. Any checks which may have been undertaken were not recorded, so it is unclear whether any reviews of these interim awards were undertaken promptly. There is a risk that extended payment of interim awards may result in an overpayment.

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

Appropriate controls are in place and operating effectively, including independent validation of changes to standing data, adjustments to rent-free periods, set up and verification of landlords where payments are not made directly to claimants and monitoring of reconciliation of payment runs to MHS Homes, landlords and tenants.

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

Notifications of changes in circumstances are logged and processed promptly, to ensure claimants remain eligible to receive benefit payments. The automated system ATLAS (Automated Transfer to LA Systems) also provides changes in circumstances notified by DWP.

A recent NFI exercise identified that activity to verify continuing entitlement, when changes of circumstance should be identified through HBMS data matches, was not being carried out effectively, some claims having not been reviewed for several years. MRBS management are aware of this issue and are working towards implementing changes to the current reviewing regime.

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

Overpayments are recovered from on-going entitlement where possible. Where there is no continuing entitlement claimants are invoiced and, if repayment is not received, recovery action, sometimes exhaustive, on such overpayments is undertaken. Documentation supporting the actions and reasons for the decisions to write-off overpayments was evident. Debts identified as irrecoverable are approved within the delegated authorised limits, although testing found one instance where this was exceeded.

There are 18 overpayments, with a total of £4,165.45 from 1994-1999 and 7 debtor invoices at final balance, with a total of £10,124.77 from 1999-2004, of which all are over ten years old and the balances have remained unchanged since last year's audit was undertaken. The overpayment policy does not stipulate timescales for write off, so due to the static balances and age these would be deemed reasonable to consider for write off.

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

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

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of Housing Benefits system is **sufficient.**
Two material level management actions were agreed to address the issues identified, relating to evidencing checks performed and increasing the level of checking of continuing entitlement following changes in circumstances.

Procurement *(final report issued 25 June 2014)*

Medway Council spends approximately £230 million a year procuring goods and services and procurement has been identified to be one of its strategic risks. The council has contract procedure rules and adherence to these should mitigate a number of risks – in addition there is a Procurement Code of Practice.

The audit reviewed medium/high risk projects valued at over £100K. In order to establish whether the Gateway process had been followed, a sample of ten projects was selected for review by identifying sizeable payments made on the council's financial management system during the past two years and establishing whether these procurements had been subject to the Gateway approval process. An e-tendering system has been in place since September 2013. We also reviewed two additional, more recent, projects to evaluate the effectiveness of the new process.

The audit did not review:

- procurements valued up to £100K – categorised as low risk - nor contract extensions and procurement activities in Medway's schools;
- the operation of the Category Management approach, which will now be included in the forthcoming audit of the Better for Less programme; we did, however, evaluate the function's involvement in purchasing decisions;
- procurement appraisal and on-going contract management (Gateway stages 4 & 5).

Four risks relating to procurement were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: Goods or services procured may not further the council's objectives - Strong

Contract procedure rules require a link to council objectives. From a sample of procurements, within both Procurement Board and Cabinet papers, all included details of how the project related to the council's objectives including strategic priorities and core values as well as strategic obligations such as the relationship to the Council Plan and relevant strategies.

Risk 2: UK and EU procurement legislation may not be complied with - Strong

Officers and members of the council are required to comply with the council's Contract Procedure Rules (part of the council's constitution) whenever they are engaged in procurement or contract management activities. The rules provide compliance in respect of UK and EU law.

The Procurement Code of Practice available on the council's intranet site sets out contract procurement rules and Gateway thresholds and categories giving in-depth details relating to the various stages of the Procurement Gateway Process including flow diagrams for the different levels of procurement.

Standard Terms and Conditions of Contract including statutory obligations, Code of Practice and Regulations are issued at the invitation to tender stage of projects.

The new e-tendering system requires that various processes/steps are followed in the correct sequence and will not allow users to miss a mandatory step in the procurement process.

From the sample of ten projects initially selected, two were classified as exemptions from the Gateway process (which need to be reported to Procurement Board) and another was an exception (which do not need to be reported). The remaining nine projects (including the additional two selected to review the e-tendering system process) had followed the Procurement Gateway process which, along with the Contract Procedure Rules, includes compliance to relevant UK and EU procurement legislation including publicly advertising new tender opportunities and publishing Contract Notices in the Supplement to the Official Journal of the European Union (OJEU) where relevant, any potential implications of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) etc.

Risk 3: Sufficient authorisation to proceed may not be obtained - Strong

The sample of procurements demonstrated that all projects and exemptions were routed via directorate management before going to Procurement Board at Gateway stages 1 and 3 and those that were high risk also went to Cabinet for approval. Procurement Board and Cabinet decisions were recorded in the relevant minutes of meetings.

The e-tendering system has not always been updated with details such as dates and minutes of meetings (e.g. Procurement Board, Cabinet etc.) where approval to proceed was given and reliance is based on reference to the procurement forward plans or Category Management network drive procurement board folders to find information. We believe that it is intended to enhance information on the system by including such detail and that access to certain documents can be restricted should that be necessary.

Risk 4: Fraud and/or corruption may occur and may not be detected - Sufficient

The council operates a risk and value based approach to its procurement activity and as such all Category B Procurements (£100K+) (Levels 3 and 4 e.g. medium and high risk) are subject to the council's Gateway Process.

The Gateway Process examines and challenges the procurement project at critical stages in its lifecycle with the involvement of Directorate management, the relevant Head of Category, Procurement Board (made up of Members and officers) and also Cabinet if the project is high risk. This process was evidenced in the sample of projects reviewed.

The e-tendering system contains an audit trail for each project, which records details of user, activity, date and time. There is also a visitor history. All communications, emails etc. are via the system so all potential suppliers can access them.

Although there is the facility for tender evaluation within the e-tendering system this is not currently used and this task is performed offline, but relevant documents are uploaded into the system, to allow for transparency.

Apart from running reports from the council's financial management system, it is not easy to identify procurements that may have bypassed Category Management.

Insufficient competition may occur on purchases below £100K, especially if these are treated as annual purchases and not aggregated across the life of the contract.

A review of fraud resilience in connection to procurement fraud is included in the 2014/16 Fraud Resilience Strategy. In 2013/14 the National Fraud Authority estimated procurement fraud cost local authorities £876m[1], making it the largest area of financial loss to fraud in local government.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the Procurement Gateway process on medium and high risk projects over £100K is **strong**. We believe the introduction of the e-tendering portal has improved the procurement process, but this could be enhanced by recording details of meetings where approval to proceed was given. In addition, we consider the process could be further strengthened by the introduction of periodic reviews of expenditure to increase fraud resilience.

One material level management action was agreed to trial, as part of enhancing fraud resilience, a periodic review of procurement transactions.

Payroll *(final report issued 30 April 2014)*

The audit of Payroll forms part of the annual internal audit plan for 2013/14, approved by the Audit Committee in March 2013. The last audit of the Payroll system was carried out in 2010/11, our overall opinion being that control was "satisfactory".

A number of systems and manual forms are used for the authorisation of payroll documents. Resourcelink is used to record employee pay history and post details, Esource for online recruitment and Selfserve for the authorisation of travel claims (approx. 75% online). Manual forms are used as an alternative to Esource and Selfserve for starters, leavers, change in employee details, additional payments, overtime and travel claims.

Three risks relating to financial controls in Payroll were reviewed to determine their effectiveness and the opinions are shown below.

Risk 1: Payments may be made to ineligible individuals, or may be inaccurate - Sufficient

Appropriate controls are in place to ensure payments are made to legitimate employees only. Access to make changes to pay and deductions is restricted and reports are produced monthly, with evidence of checks by Payroll Supervisors and authorised by the Operations Manager.

An authorised signatory list is held for the purpose of verifying the authenticity of signatures on all payroll documents, but we were advised this had not been updated recently due to a shortage of resources. Paper authorised signatory forms are held centrally with a specimen signature for those authorised to sign payroll documents.

[1] In the same year the total value of detected procurement fraud by local authorities was £1.9m (Protecting the Public Purse 2013).

Management were aware during the audit that Selfserve authorisations may not mirror the authorised signatory list and work took place to match roles with managers to users in Resourcelink, resulting in 80 people able to authorise on Selfserve that did not have a paper authorised signatory form, which has now been addressed.

Testing was carried out on the authorisation of starters, change in details and leavers and found that a degree of common sense is applied when using Esource and the checking of signatures on manual forms to the suitability of the recruiting manager to the appointee, who may not be an authorised signatory.

For example, 17 of the sample of 20 changes to employee grade/hours worked had been approved by an appropriate line manager (or person deemed reasonable due to their role) and authorised by an authorised payroll signatory. Two forms had been signed twice by the same person and another by the person the form related to, rather than the line manager. However, we confirmed that the non-authorised payroll signatories were authorised financial signatories, which we consider reduces the risk that inappropriate changes may have been made. Similar issues were identified on the sample of 20 leavers, 14 had been approved by an appropriate line manager (or person deemed reasonable due to their role) and authorised by an authorised signatory. However, the remaining six forms had been signed twice by the same person.

Risk 2: Payments/deductions may not be reflected accurately in the main financial records - Strong

Pay runs are interfaced between Resourcelink and Integra accurately and promptly, evidence of timely reconciliations and checks was found confirming accuracy of payments made to staff.

Risk 3: Overpayments may occur and may not be recovered in a timely manner - Sufficient

Manual payments (advances) are requested on a designated form stating reason for payment and authorised appropriately. They are recovered from the next scheduled pay run, so do not generate overpayments. Data provided for testing showed that as at 30.9.13, there were 225 manual payments for the financial year 2013/14, a total of £279.822.53.

Overpayments relating to current employees typically occur due to late notification to payroll of changes in post details, or an error in calculating additional hours worked (six of the 10 examined related to schools). These are recorded and monitored on local records showing reasons for the overpayment and are recovered from future payments. Data supplied for testing showed that as at 30.9.13, the amount of overpayments for the financial year 2013/14 was £28,038.62.

Budget managers are not provided with information relating to overpayments and the causes of them, therefore increasing the risk of recurrence in the future.

Where an overpayment relates to a former employee, action is taken to recover the current debt. These typically occur due to late notification to payroll of a leaver. Historically there has been an issue where old unrecovered debts have not been written off and we are pleased to note that progress has been made in this respect. As at 31.3.13 there were 277 outstanding overpayments, a total of £115,756.62, of which £71,117.55 related to 2010 and prior years. As at 6.3.14 the current outstanding balance of overpayments is £88,667.96 of which £53,542.75 relates to 2010 and prior years. This reduction was achieved mainly through recovery, with only a nominal amount written back.

Processes are in place for the recovery of overpayments, responsibility for which sits within Finance. The recovery process begins with a letter from Payroll to the former employee, detailing reasons and the amount of the overpayment, and a debtor invoice request is raised promptly for the full amount by Payroll and processed by Finance. Progression of recovery is recorded in the diary note facility within each debtor account by Finance.

Payroll place a note on former employees' records within Resourcelink to act as a prompt that, should the former employee be re-engaged to work for Medway, the overpayment needs to be recovered from salary.

Although there are local processes in place, there are no formal procedures for the write off or write back of overpayments which are deemed irrecoverable. A decision was made by the Chief Finance Officer in April 2013 that debts of 2 years or older would be written back, but a timescale was not stipulated as to when this would be completed. 22 of 24 write-backs approved by the Payroll Operations Manager in July 2013 had not yet been actioned at the end of February 2014.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of key controls that ensure the completeness, promptness, accuracy and validity of payroll transactions is **sufficient**.

Three material level management actions were agreed to address the issues relating to financial authorisation and formalisation of the process of write offs/write backs.

PCIS DSS Compliance *(final report issued 1 July 2014)*

Internal Audit carries out audits of various financial and operational systems to provide management with assurance that the controls being relied on to mitigate risks to achievement of the Council's objectives are in place and operating effectively.

The audit of compliance with the Payment Card Industry Data Security Standard (PCI DSS) forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013. The audit follows the implementation of the new income recording system (ICON) in June 2013, which we understand contributed, along with a number of other measures, to the Council becoming compliant with PCI DSS.

PCI DSS is a set of comprehensive requirements for enhancing payment account data security. Changes to the PCI DSS Standards follow a defined 36 month lifecycle.

PCI DSS compliance requires the gathering of information relating to security policies, change control records, operational procedures and network diagrams and this information is used to validate the self-assessment questionnaire (SAQ) submitted to Worldpay on a quarterly basis, and confirms card data is processed and stored securely. There is also the additional requirement for security scans to be run by an approved external scanning vendor as part of ongoing compliance with PCI DSS.

We reviewed the work undertaken to ensure that the Council met, and continues to meet, the 12 requirements of the PCI DSS, and also reviewed the arrangements of eight teams where card payments are taken to confirm whether the requirement not to retain card details is in place and arrangements comply with PCI DSS.

The audit established that a review of the PCI DSS compliance project was undertaken in August 2009 by ECSC Limited, a qualified security assessor. Following this a further review was carried out in October 2010, with the aim to validate the approach taken in completing the PCI DSS project, to recommend solutions to areas of concern and to provide an independent view of progress towards PCI DSS compliance.

The review identified present status and the actions required to achieve compliance. At this point systems were not compliant, but the approach taken was considered to be thorough and requirements in most cases were understood.

Two major recommendations came from the review with proposed solutions, relating to infrastructure design and software supplier. The report also referred to the requirements that needed further work and those requirements under the PCI DSS prioritised approach Version 1.2 that had already been met.

As at November 2011 according to the review the council was 93% complete to achieving compliance. There was no progress made with the project between November 2011 and October 2012, due to a pending decision to upgrade applications with the software provider.

Work on the project resumed in October 2012, using a consultant, and as mandatory changes had taken place, a comparison of the prioritised approach version 1.2 to the new prioritised approach version 2.0 was undertaken. Changes to the 12 requirements were addressed and interviews were held with staff to gain information where the requirements needed further action.

ECSC Limited returned in July 2013 to assist with completing PCI DSS compliance, with the aim of completing the SAQ that needs to be submitted on a quarterly basis to evidence compliance.

Two aspects of non-compliance requiring action were recorded within the report and are currently included in the SAQ. The first issue relates to the recording of customer calls within Customer Contact, including details of cards used to make payment. The second issue relates to the backup tapes held within ICT which contained card details, from both recorded telephone calls and the legacy income recording system (Radius). This results in prohibited data being held on the council server and on backup tapes, it not being possible to destroy the data as this is shared with other system backups.

ICT are addressing the call recordings issue with the testing of call pausing software, masking the recording of the call at the time card details are given, but this is currently still ongoing. The proposed solution was originally intended to have been in place by July 2013, but it has not been implemented due to technical problems, and the fault has been referred back to the software provider for resolution. To compensate for this a call recording policy is in place which restricts access to the voice recording files.

Control over access to backup tapes has been further improved by a tape management and backup policy, restricting access to tapes containing card data which are now stored within a safe located within secure storage area, with access monitored and restricted. Our testing confirmed that this control is in place.

With the compensating controls for the aspects of non-compliance in place and declared within the SAQ, along with the quarterly security scans run by an external vendor, the quality security assessor and those involved agreed that compliance with PCI DSS had been achieved.

We carried out testing on arrangements in place within eight teams who currently accept card payments and the requirement not to retain card data. We found that three teams recorded card data directly through ICON and the remaining five teams write down card details. Notes of card numbers are destroyed after processing with the exception of one team where card data (which forms part of the application/registration form) is retained and held securely, but the card data is rendered unreadable, which is compliant with PCI DSS.

ICON users are issued with the Medway Payment Card Security Policy through NETconsent prior to accessing the system for the first time and must agree to the terms and conditions of the policy, which applies to all employees that handle or deal with payment cards so the risk of requirements not being understood is reduced. NETconsent is a tool that publishes policies and documents to a targeted audience and records individuals' agreement to comply with that policy. NETconsent will limit access to systems until the reader has agreed with its contents.

We noted that there is not a consistent arrangement for taking payments in the event of system or power failure with ICON, and therefore there would be a risk of non-compliance.

The Medway Payment Card Security Policy does not include any sanctions/consequences should an individual fail to comply with its requirements. Non-compliance could lead to damage to reputation and/or financial costs to the Council.

CONCLUSION AND AUDIT OPINION

On the basis of the external review, the SAQ and our review of local arrangements and guidance to staff we are satisfied that the processes are sufficient – albeit there are still improvements to be made. Our overall opinion is therefore **sufficient**.

Two material level management actions were agreed to address the issues identified relating to the recording of telephone communications and documenting in the guidelines the consequences of non-compliance.

Residential Care Payments Part I *(final report issued 6 June 2014)*

In 2012/13, the Authority paid approximately £38.6m (gross) for residential and nursing care, most of which was paid through the Care Director system. Since its inception, there have been problems with payments through the Care Director system and management have had to operate a series of workarounds. External and Internal audit have identified problems the control environment and management took the decision to replace Care Director with framework-i. Framework-i went live in December 2013.

This audit seeks to provide assurance that payments made through the Care Director system are accurate and that any control issues that might affect the future residential care payments under framework-i have been addressed. Phase II of the audit will examine the transition to framework-i. The audit of Residential Care Payments forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013.

After a client was assessed as needing residential care, an agreement was made with the prospective care home about the care needs and the price Medway Council will pay. This price varied depending on the client's needs and whether the family was prepared to "top-up" Medway Council's normal contract price. For a large number of residential and nursing homes (particularly for the care of older persons), the Council had a standard contract and a placement agreement was put in place for the client. For other clients, an individual contract was agreed between Medway Council and the care home. These contracts or placement agreements should have been in place before the first payment was made.

Placements were entered onto Care Director as a service, with new services created for different elements of care (e.g. the residential and nursing parts of a care package being recorded as services at the correct contract rate for each element). Contractual changes to a care package could result in the termination of the old service and the creation of a new service, although the annual price uplift for ongoing services would normally have resulted in a change in the Care Director contract price.

Payment runs are scheduled at four-weekly intervals. Reports from Care Director were checked for accuracy and legitimacy of payments. Payments should have been flagged and put on hold where necessary (e.g. where the signed contract or placement agreement had not been returned by the provider). Audit testing found this control to be in place, but not applied consistently. There was no supporting documentation to support the payment of 2/43 services several months after the service had started. We were not provided with contracts or placement agreements for four other services, so the non-compliance rate could be 13%. Framework-i may address these issues.

Where documentation could be found, we were able to confirm payments were at the correct contract rate and there was only one client for whom the start date was incorrect. This error was not material.

After the payment runs have been checked, the payment run report was presented to the Deputy Director, Children and Adults, who authorised the total to be paid.   This file was interfaced with Integra and payments were made to the suppliers. Audit testing confirmed that this process was operating effectively.

If a home has been overpaid (e.g. due to the late notification of a client's death), Care Director created a credit which was offset against future payments to the home. However, if there are no further clients in the home this mechanism would not recover the overpayment. This audit identified Integra credit balances for residential care homes totaling approximately £185,000, of which £108,000 was over 3 years old. The situation has improved since the last audit in 2011, where the credit balance was approximately £550,000 but there is significant risk that the Authority will not recover these funds. Debt recovery processes have not changed as a result of the implementation of framework-i.

CONCLUSION

On the basis that Care Director has now been replaced and that our review of the transition to framework-i was deferred, the approach of this audit was limited to ensuring that payments for residential care made through the Care Director system are accurate and due. Therefore we are not providing our usual audit opinion in this report.

There is no evidence that Care Director Payments will cause material errors in the 2013/14 financial statements.

Two material level management actions were agreed to address issues raised in this report relating to document retention and review of long-standing credit balances. Both are due for implementation by the end of September 2014.

Residential Care Payments Part II *(final report issued 4 July 2014)*

Framework-i (FWI) is the Council's new Social Care system and it went live for Adult Social Care on 2 December 2013, having gone live for Children's Social Care in April 2014. It is an IT application on which social workers record activity and information pertaining to their clients. It interfaces with Integra in order to facilitate payment of providers and billing of users for care services. It replaced the CareDirector system, which has proved problematic since it was first used in 2009. Management had particular issues in the use of CareDirector to pay residential care providers and operated a series of manual processes to compensate for weaknesses in the system. Internal and External audit have also expressed concerns with the control environment whenever they have reviewed the system.

The audit of Adult Residential Care Payments forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013. The audit was undertaken in two parts. The first part (see above) reviewed residential payments made to care providers using CareDirector up to December 2013 and we were able to confirm that there were no material errors. This report relates to the second part of the audit which examined the transition to FWI in order to provide assurance on the data migration process.

The framework-i project board chaired by the Assistant Director Organisational Services had senior management representation from Social Care and Finance. Medway Council and CoreLogic (the software provider) appointed project managers with appropriate experience and they worked to an agreed project plan and specification. The project was monitored throughout the process, with feedback to the project board and AD to enable informed decisions.

The timetable for the project presented challenges but measures taken to ensure successful implementation included:

- Clarity over the historic data to be migrated for each client group;
- Check of the accuracy of CareDirector data by social care teams;
- Mapping of the CareDirector fields to the equivalent fields in FWI;
- Repeated testing of data migration to ensure data was in the correct format. Formatting errors resulted in import failures and were then rectified;
- Control totals ensured all data transferred correctly.
- User acceptance testing ensured users were able to use the system effectively for their day to day processes;
- Compulsory training of all users, supplemented by the use of floorwalkers and champions;
- CareDirector retained to provide access to non-migrated data for the retention period of closed cases;

In addition to the electronic records maintained on the care management system, social workers retain other documents, typically in a manual file. Audit report 13038 highlighted gaps in document retention. Idox (which is utilized within the council) has been identified as the scanning solution for framework-i. This will replace the manual records with scanned images that can be linked with framework-i and allow care workers to flick between the two systems. This will negate the need for a separate manual file. Electronic document storage gives opportunities through e.g. exception reporting to identify required documentation that is missing but this has not yet been developed.

The constrained timetable meant that when the project board made the decision to go live with framework-i, there were unresolved issues with financial data. Framework-i payment runs to date have required a significant amount of manual intervention before payments were made. Management justified this decision as this would ensure the care management module was not delayed further, and manual intervention was already used on the CareDirector payment runs. The project board, including the Chief Finance Officer, accepted this risk.   Similarly due to the short timeframe there was limited opportunity to undertake data cleansing prior to migration although as noted there were a number of data cleansing mechanisms included within the migration process which will have improved the data quality on the system.

CONCLUSION AND AUDIT OPINION

Our overall opinion is that the management of the migration of data from CareDirector to framework-i was **sufficient**.

One material management action was agreed relating to document retention on the document imaging system.

Local Income Management *(final report issued 30 June 2014)*

This report summarises the outcomes of a series of individual audits carried out during 2013/14 on the handling and recording of income received by a sample of seven services/ establishments. In addition, we reviewed corresponding processes for the Handitills (income collection machines located at Riverside and Strood) and within the new community hubs.

The services/establishments selected, at random, were:
- Visitor Information Centre
- Upnor Castle
- The Villager community transport service
- Trading Standards
- Lifeline / Telecare service
- Duke of Edinburgh Awards
- Attendance Advisory Service to Schools and Academies (AASSA).

Brief individual reports were produced for each of these audits, including conclusions and recommendations to strengthen the control environment where necessary, but no audit opinion was provided.

This report also provides an overall audit opinion on the effectiveness of controls to minimise four risks relating to the management of income, as shown below. An overarching issue is that no formal financial procedures for the handling and recording of income received have been produced by the central Finance function – whilst some of the services and establishments reviewed had their own local procedures there is a lack of consistency and a consequent risk that income may be misplaced or misappropriated.

Risk 1: All income due may not be identified or received - Sufficient

In general, fees and charges for services are reviewed annually and approved by full Council as part of the revenue budget setting process**.** We are satisfied that the majority of the services/establishments reviewed maintain suitable records of income due and received and customers are issued with appropriate receipts.

We did identify a number of instances where debtor invoices for services provided were not requested from Exchequer promptly. In one area audited half the sample of 10 invoices selected had not been raised within 30 days of the date of vehicle hire, and in another internal recharges to other services were not processed promptly.

Two of the establishments visited have gift shops and various goods are purchased for resale. There was a lack of clarity on the profit margin to be applied (though local arrangements were in place) and we noted that it was not always applied consistently. In addition, whilst annual stock checks of goods purchased for resale are carried out for year-end valuation purposes, no calculation is made to confirm whether a profit or loss has been made.

Risk 2: Income received may not be retained securely or banked promptly - Sufficient

The two establishments visited, and the community hubs, had tills and safes installed, the remainder of services reviewed had only cash tins – but in all cases access to income received was restricted to appropriate members of staff. The lack of safe facilities can present problems for services where cash payments are received, where cash accumulated between bankings can exceed the insurance limit for cash held but not secured in a locked safe.

Two issues were highlighted during one review where a cheque was found in the office five months after receipt and a cash payment of £105, accepted by reception at Gun Wharf outside office hours and passed to the team, could not subsequently be accounted for. This matter was fully investigated and reported separately to Audit Committee.

Apart from these exceptions, income received had generally been submitted to cashiers or the bank in a timely manner. However, in all areas audited there was no evidence of more than one person being involved in the checking, handling and banking of income – which could place the member of staff concerned in a vulnerable position should any discrepancy be identified subsequently on checking by cashiers or bank staff. There is also no protocol requiring discrepancies identified that exceed a certain value (or percentage of total income) to be reported to management and investigated as considered necessary.

There is a lack of consistency over arrangements for transporting income from the point of receipt to cashiers or the bank. The establishments outside Gun Wharf, including the community hubs and the Handitills, are included in the cash collection contract and thereby receive security collections on a frequency between daily and once a week. However, even within the contract there are variations in that some collections (eg from the community hubs) are taken directly to the bank while others are delivered to cashiers at Gun Wharf, where they are rechecked, co-ordinated into larger bankings then collected again for delivery to the bank. We acknowledge that the latter arrangement was introduced to reduce bank charges that would be incurred for substantial numbers of small deposits, and that Handitill income has to be processed onto the income recording system, but the logic of in effect paying twice for transporting the same income could be considered questionable.

Services within and outside Gun Wharf, that are not included in the cash collection contract, submit income received to cashiers either in person or occasionally (for cheques) via internal mail. Even if delivered by hand, receipts are not issued until cashiers process the payment onto the income recording system, a copy then being sent to the service by internal mail.

Risk 3: Budgetary control may be ineffective - Strong

We are satisfied that budgets for the establishments/services reviewed are monitored periodically against income received, by someone other than the person collecting/recording the income.

Risk 4: Local debt recovery processes may be ineffective - Not applicable

None of the establishments/services reviewed issued debtor invoices locally – where services needed to be invoiced these were requested from Exchequer using the sales ledger system.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of control over the receipt, recording and handling of income in establishments and by services other than cashiers is **sufficient**. There is, however, an opportunity to strengthen control through provision of formal financial procedures for the handling and recording of income received, and it may potentially be possible to streamline the current arrangements for the collection and banking of income from establishments and services outside Gun Wharf.

Three material management actions were agreed:
a) document centrally the income handling procedures
b) agree consistent mechanisms for banking income
c) agree anticipated profit margins for relevant sales outlets

Health – Information Governance *(final report issued 1 July 2014)*

Organisations wishing to access the NHS National Network must assess their compliance with a range of security related requirements and provide the NHS with assurance that they meet the required information governance standards. Medway Council needs access to NHS data in order to assist in the delivery of social care. Since transition in April 2013, the Authority has also needed access to NHS data in order to fulfil its Public Health duties. Medway Council has completed the NHS's online "Information Governance Toolkit" since 2009/10. The return covers the following areas:

- Information Governance Management
- Confidentiality and Data Protection Assurance
- Information Security Assurance
- Care Records Assurance
- Secondary Use Assurance
- Corporate Information Assurance

The objective of this audit is to ensure that Public Health processes and procedures provide documentary evidence to contribute to the Authority's Information Governance submission to the DoH. The five areas of the Information Governance Toolkit to which Public Health contribute were reviewed to determine the effectiveness of controls and the opinions are shown below.

Information Governance Management - Strong

Public Health has a representative on Kent and Medway IT Forum, which is chaired by the Health Regional Head of Information Governance. It ensures that Public Health are up to date in the latest advice on how patient data should be treated, such as the implications of the Caldicott report, and are in a position to advise the Authority on changes that are necessary.

The Authority's Security and Information Governance Group (SIGG) provides the Authority with a forum to oversee the development and monitoring of the policies and procedures it needs in order to comply with information governance legislation. It has representatives from across the organisation and is led by the assistant director legal and corporate services in his role as Strategic Information Risk Officer (SIRO). Public Health has a representative on SIGG.

Confidentiality and Data Protection Assurance - Sufficient

Public Health staff have all been trained on the principles of information governance. This is complemented by the availability on the Medway Council intranet of a suite of draft policies covering information governance, data protection and freedom of information.

Public Health service users are informed of the use that will be made of their data and of their right of access to that information through a consent form and the Council's website. Public Health are currently considering changing their form in light of the Caldicott report in order to make it more explicit as to what data sharing the client is consenting to. Public Health will be seeking support and input from Legal Services. It is likely that this will need to be kept under review to reflect evolving government guidance.

Public Health contracts and information sharing agreements protect the Authority's interests and require suppliers and support organisations to handle information appropriately.

Information Security Assurance - Sufficient

ICT have responsibility for ensuring the Authority's systems are secure and have ensured the Authority is compliant with the N3 industry standards. Public Health currently uses two application systems. There is an appropriate framework in place for ensuring access is suitably restricted.

Public Health is currently seeking to develop a new database system capable of handling data from all work streams. The development is being managed in conjunction with ICT and the plans demonstrate that Information Governance and security standards are being built into the system.

Prior to transition in March 2013, Public Health mapped how sensitive data is exchanged and risk assessed these data flows in order to determine the vulnerability of transfers of information. This data flow map has not been updated since transition and may now be out of date.

Care Records Assurance - Sufficient

The Public Health Directorate Management team has oversight of data quality for the directorate. They are used to reporting on the quality of their data under the previous clinical governance regime. They are addressing data quality in a variety of ways:

- Exception reports from and data analysis of current systems are used to identify data quality issues;
- Data quality audits;
- We have been informed that additional training is provided to staff where common issues are found;
- The new database system will have improved data validation and reporting tools.

Secondary Use Assurance - Strong

The Joint Health and Wellbeing Strategy for Medway 2012-17 sets out five key strategic themes:

- Give every child a good start
- Enable our older population to live independently and well
- Prevent early death and increase years of healthy life
- Improve physical and mental health and wellbeing
- Reduce health inequalities

Each Public Health activity is targeted at one or more of the key strategic themes. Service delivery is monitored via a “dashboard” and outlying performance is challenged before integrated into reports comparing local and national performance. Reporting is to the Health and Wellbeing Board.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of Information Governance within the Public Health directorate is **sufficient**.

Medway Council recently requested an audit by the Information Commissioner’s Office. It is expected that the corporate response to this will improve corporate information governance arrangements which, in turn, will further strengthen Public Health processes.

Two material management actions were agreed to ensure data sharing by Public Health always meets and continues to meet legislative requirements. This will require ongoing monitoring.

Grant Management *(final report issued 1 July 2014)*

In June 2013, as part of the internal audit plan for 2012/13, we reported on the high level processes in place to ensure grant income received is managed appropriately, and provided an overall assurance that the arrangements were sufficient. The 2013/14 internal audit plan included a series of short reviews regarding grant payments, each of which has been reported to Audit Committee.

This report provides assurance on the grant management arrangements based on:

- the findings of the grant income review
- an update on progress on the recommendations made in the grant income report
- the findings of the individual grant expenditure audits
- a wider review of corporate arrangements relating to grant payments.

Income

The council receives over £440m of revenue grant income of which 65% is ringfenced. All but 1% of this grant income is statutory, the remainder bid from funding agencies. There is a further £51m capital grant income, mainly from central government funds. We have previously reported that grant income is reported appropriately in the annual accounts, schemes of delegation for the management of grant income are sound, and future grant funding is built into the council's Medium Term Financial Plan. Certain grants require independent certification, and significant assurance is drawn from the External Audit Certification of 4 grants each year.

Two material issues were identified in the June 2013 internal audit report, relating to the need to complete the grant registers to record all revenue and grant income, and provision of guidance for bidding for external funding.

Payments

There were three individual reviews completed and reported in 2014/15 regarding the management of grant payments, and overall we can confirm that the arrangements in place for the management of these individual grants were sufficient:

- Succes (Report Number 13023 issued 13 November 2013) – bid for by the council and funded by European Regional Development Fund. This is one of 15 ERDF projects, and in this particular case Medway was the lead partner. As such the council was responsible for ensuring appropriate disbursement of funds to partners and for making contractual payments. The review found that the processes in place were robust and met the stringent EU requirements. The grant was signed off by the external first level controller.
- OT Build Adaptations (Report Number 13022 issued 23 January 2014) - this is a grant relating to a statutory duty and has an annual spend of between £200k and £240k. The payments, including the financial assessments of the claims, were well managed.
- Rural Liaison Grant (Report Number 13021 issued 12 September 2013) is a discretionary grant made from general funds, providing up to £75k for the 11 rural parish councils of Medway. The review found that the bids and payments procedures were robust.

In relation to the follow up of the two actions relating to grant income management we are pleased to note that the grant income registers, for both revenue and capital grants, are now complete and are up to date. The action relating to the provision of guidance to managers highlighting issues they need to consider when bidding for external funds is outstanding. This action is repeated in the management action plan of this report.

The findings from our individual grant payment reviews provided assurance that administration and management of individual grant payments was effective.

In relation to the wider review of corporate arrangements for grant payment management we identified concerns regarding the management information available:

- There are no collated records of grant payments
- There is no dedicated subjective code on the council's financial systems for recording grant payments and as such it has not been possible to confirm the level of expenditure by the council through grant payments.
- There is no repository for the documentation of the initial arrangements for discretionary grant payments
- We found only limited evidence of any review of the value for money provided by the continuation of the discretionary grant arrangements

Given the lack of corporate information available it is not possible for management to ensure effective mechanisms are in place for monitoring the governance arrangements around these payments or to effectively assess the overall value for money that these arrangements provide.

Children and Adults are required to find efficiency savings of £488,000 through a review of their agreements with the voluntary sector. Most of these savings will be realised from contractual arrangements but some will be grant payments e.g. the Gateway 5 contract management report to Cabinet in April 2014 recommended termination of three low value grants.

To date there has been no requirement to report the value of grant payments made to individuals and other organisations. On 1 May 2014, the DCLG published its Local Government Transparency Code. This will create, for the first time, a requirement for Local Authorities to publish details of all grants to voluntary, community and social enterprise organisations. This code is likely to come into force by August 2014 (subject to Parliamentary approval). Assuming these recommendations are adopted, the following information must be published as a minimum for each identified grant:

- Date the grant was incurred;
- The time period for which the grant has been given;
- The local authority department which awarded the grant;
- The beneficiary;
- The beneficiaries registration number (e.g. company or charity registration number);
- The summary of the purpose of the expenditure;
- The amount.

The management of grants will continue to be a subject of audit review. There is a proposed audit in the 2014/15 audit plan regarding grants related to economic development, and also an audit of capital projects where internal audit will review and provide assurance on the management of capital grants.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the management of grants is that controls **need strengthening** due to the poor level of management information regarding grant payments or demonstration of effective assessment of the pursuit of value for money. It is not possible to fully assess the level of risk posed by this lack of management information since we have been unable to confirm the level of grant payments made by the council.

This audit will be subject to a formal internal audit follow-up beginning in November 2014.

There were two significant agreed management actions:

Finding:	There is no collated record of grant payments made by the council and therefore no overarching monitoring of the arrangements is possible. The lack of dedicated subjective code for grant payments hinders collation of this information.
Risk:	It is a weakness in the council's corporate governance that there is no definitive record of the number, value and nature of grant payments it makes Without effective oversight there is a risk of fraud and mismanagement. The Authority cannot meet the requirements of the Code of Recommended Practice for Local Authorities on Data Transpare
Management Action:	Management will review subjective codes to consider whether grants to third sector bodies and contractual payments could be separately identified and determine, with advice from external audit, what constitutes a 'grant' as distinct from a contract for services. (March 2015)

Finding:	There is no repository of information pertaining to discretionary grants, in terms of the decision to award, or the intended benefits of the award. There is no evidence that the grants are monitored to assess the achievement of the anticipated benefits or review the continuation of the payments.
Risk:	Failure to achieve value for money.
Management Action:	This activity should be carried out by the services awarding the grants. However, the response to recommendation 1 above should ensure that grant payments are more easily identifiable on Integra and would allow for more robust challenge by the accountants of the services awarding such grants, to ensure that they deliver value for money. (March 2015)

In addition, one material priority recommendation was raised relating the provision of guidance for bidding.

Local Welfare Provision *(final report issued 13 June 2014)*

The audit of the Local Welfare Provision (LWP) scheme forms part of the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013. Local authorities assumed responsibility for issuing grants to vulnerable/needy people in April 2013, under the provisions of the Welfare Reform Act 2012, which abolished the Discretionary Social Fund (DSF) previously administered by the Department for Work and Pensions (DWP).

Funding has been transferred from central government to administer the service and for service delivery. The funding was initially confirmed up to March 2015, but the Local Government Finance Settlement for 2014-16 revealed that the Local Welfare Assistance Fund will not be renewed in 2015.

In order to meet the statutory timetable for the introduction of LWP in Medway, an exemption to the council's contract rules was agreed to enable interim arrangements to be made with Caring Hands in the Community, a voluntary group based in Medway, for administration and delivery of the service from April 2013 until 30 June 2013 – this was subsequently extended to 31 July 2013.

A formal procurement exercise was carried out for the longer-term operation and administration of Medway's LWP scheme. Following this, the contract was awarded to West Kent Extra (WKE), who also manage the corresponding scheme for KCC, the new arrangements being effective from 1 August 2013.

Fraud Risk

The DSF as administered by the DWP was identified as a significant fraud risk and as such when local authorities became responsible for the LWP the Audit Commission identified this as a key emerging fraud risk for councils. The Audit Commission highlighted that local authorities needed to ensure that they had fully assessed the risk of fraud, put in place balanced counter fraud controls, and have the capacity to investigate possible fraud and recover debts. This audit was included in the annual audit plan in order to provide assurance on Medway's arrangements for mitigating the risk of fraud.

It became apparent early in the audit process that the level of fraud risk is relatively low due to three facts:

a) Medway Council does not provide cash via the LWP (as was the case with the DSF) but typically provides a solution to a need by providing food, clothing, household goods etc;
b) the level of grant payments since the scheme's inception has been low;
c) the majority of applicants are referred to the current provider by a recognised professional support worker (such as social workers and housing officers), though claimants are also able to contact the provider directly.

Level of awards

We appreciate that setting up the new scheme, then revising the arrangements after four months, is likely to have impacted on the level of applications for assistance and grants awarded. However, comparison of the awards made by Caring Hands/West Kent Extra in April 2013-March 2014 against those made by the DWP for the corresponding aspects of the old Discretionary Social Fund in the same months of 2011/12 indicate a very substantial reduction, from 5,640 awards totaling £797,400 to just 552 awards totaling £105,277.

This funding is not ring-fenced and central government has informed local authorities that there is no requirement for the service to be delivered in its previous form and councils have been encouraged to look at new ways of meeting the needs of local people living in their area. We do however consider it possible that the low level of LWP grants provided could be impacting on other council services, and as such might not be supporting effective delivery of services or providing value for money. KCC offer an electronic application service from their website for their claimants. A similar form may help to increase the uptake of funding in Medway and this has now been set-up. A link to this was made available on the Medway website during May 2014.

Medway management advised us that the new provider had promoted the scheme to council teams, key partners, charities, service providers, supported housing forum, CAB, voluntary sector and housing associations, and would be making presentations to a number of partners to help clarify the scheme. Information on the council website has been updated to reflect the change in provider and a leaflet is being produced.

Programme funding available for the entire year amounts to £676,963, of which just £105,277 (15.5%) was allocated in twelve months (April 2013-March 2014) of the LWP scheme. An additional £123,579 has been paid to the two providers for administration of the scheme – the cost of administering the scheme is therefore currently exceeding the awards made. There is a risk that the central government policy regarding 'ringfencing' could change and funding remaining unspent at the end of the current arrangement might be clawed-back.

Audit findings

Three risks relating to the Local Welfare Provision scheme were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: Funding issued to the service provider may not be accounted for adequately - Sufficient

The council's main financial system has been regularly updated with funding allocated for both the interim and current provider.

We visited the current provider to review the processes in use and are satisfied that appropriate records of referrals/applications, decisions and details of awards granted are being maintained. We also confirmed that the Access database being used contains information input by the interim provider, though hard copy records for claims handled by Caring Hands have been passed to Medway.

Monitoring reports covering the statistical areas specified in the contract, such as equality data and the name of the assessor within WKE, have been submitted to the council. However, as at mid-January, no detailed award information had been received from WKE, although following FoI requests this has now been received up to the end of January. The detailed information supplied by the interim provider at the end of their contract did not contain sufficient detail to identify if eligibility criteria (eg resident in Medway) had been met or if repeat awards had been made for the same item. We are aware that officers have attended quarterly monitoring meetings with WKE, and reviewed monthly monitoring reports supplied by WKE, but that as yet more detailed monitoring has not been carried out, as we have been advised the programme of compliance monitoring of contracts is undertaken on a risk based approach.

Funding issued to Caring Hands in the Community has been accounted for adequately, ie paid out to claimants or returned to the council on cessation of the contract. However, monthly monitoring returns submitted by Caring Hands in the Community indicated a lower level of grants issued than that shown on the detailed award schedule provided.

Risk 2: Claimants' eligibility may not be assessed adequately before grants are awarded - Needs Strengthening

As access to DWP records to the providers has not been granted, Medway management were uncertain of what checks were being carried out to confirm the providers were taking appropriate steps to verify claimants' eligibility for the support requested. We visited the current provider and confirmed that they require a declaration from the claimant and either copies of appropriate documentation (evidence of resources, income and residence), which may be delivered in person or submitted by email, or a signed form from the referrer stating that they have seen this documentation. In the latter case, copies of documents are not normally provided.

We examined the documentation supporting a sample of 10 awards made during October and November 2013, four being supported by a 'verification of evidence' form completed by either WKE staff or referrers from supported accommodation providers. No proof of new residence had been recorded for one of these. For the remaining six cases, copies of bank statements, benefit award letters and tenancy agreements were generally held to provide proof of resources, income and residency, but there was no proof of new residence for one and no proof of resources for another; this applicant (referred by Medway's Housing team) had also not signed the declaration form.

In addition to eligibility checks there is a need to undertake some identity checks which, given WKE do not usually meet the individuals but work via the referrers, is necessarily a responsibility of the referrer. Reliance is placed on referrers to check applicants' identity, though it is unclear whether they have been provided with any guidance on the necessity of doing this or of what checks should be carried out. WKE staff stated that a recent benefit award letter is the normal requirement, photographic evidence of identity not being requested, or considered practical, as understandably, few applicants have a passport or driving licence. Only one of the 10 awards we reviewed had any evidence of identity being checked, the referrer (a supported accommodation provider) indicating that a birth certificate had been seen.

We acknowledge that the risk of fraudulent applications being made should be mitigated by the majority of claimants being referred by professional support workers, who will already be aware of their circumstances, rather than people simply requesting support. However, we believe that the acceptance of benefits award letters as proof of identity, coupled with a lack of sample checks by Medway management, presents a risk that grants could be awarded to people who are not eligible to receive them, and the scheme is vulnerable to the risk of fraud.

The provider is contractually obliged to deter fraudulent claims, but there is no requirement in the contract that any actual or suspected fraud should be reported to the council. This could lead to reputational damage to the council should it come to light that fraudulent activity has taken place that the council is unaware of. Management have since requested Category Management make a variation to the contract to include this.

Risk 3: Grants issued may not be used for the purpose intended - Needs Strengthening

Medway management expressed the view that potential misuse of grants was not a particularly high risk, given that a limit of £400 per application/household is stipulated in the 'Policy and Qualifying Criteria' document.

No checks were made during the period of the interim contract to verify that awards had been used for the purpose intended, and although management advised us initially that they were intending to introduce sample checking of awards under the current contract once it had become more established this has not yet taken place. Quarterly contract monitoring meetings are however being undertaken, as well as reviewing overview information contained within monthly monitoring reports supplied by WKE. Records provided by Caring Hands in the Community are insufficient to identify what grants were used for, and we noted instances of awards exceeding the £400 limit.

Based on existing experience with KCC, the current provider has put in place various methods to minimise the risk of awards being misused, including issuing vouchers for specific goods or services. Although no detailed information of grants awarded, recipients and goods/services provided had been submitted to Medway management, five months after the contract commenced, from our visit to the provider we are satisfied that appropriate records are being maintained.

However, records of the 220 awards made by WKE in the first four months of their contract indicate that 27 (12%) had exceeded the £400 limit for furniture and white goods alone[2]. Nine of these were included in the sample of awards checked, including one where £780 had been spent on furniture – WKE staff advised us that the family needed beds for five children and had purchased these themselves rather than using the vouchers provided. WKE are now providing details of ineligible applications – though not detail of awards made, although management stated they will be requested to provide this and following on from the introduction of the electronic application form, management are now able to access the data via a secure log-in, which will enable more detailed analysis to be undertaken in the future.

[2] Figures taken from specific information requested from WKE

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the Local Welfare Provision scheme is that it **needs strengthening**. Although, from its experience with KCC, the current provider has introduced various methods to reduce the risk of the scheme being misused, whilst attending quarterly contract management meetings, monthly reports providing overview information and queries from the provider relating to the appropriateness of some applications, Medway management could strengthen this further by performing detailed monitoring to check the scheme is running appropriately. Through placing total reliance on the provider to operate and monitor the scheme, we consider there is a risk that any inappropriate or fraudulent use of LWP funding will not be identified by the council.

The audit will be subject to a follow up in September 2014.

Two significant management actions have been agreed.

Finding:	The provider places reliance on third-party referrers (mostly professional support workers) to verify claimants' eligibility. There is no assurance that referrers understand eligibility criteria or that any checks are carried out to verify applicants' identity.
Risk:	Grants may be awarded to people who are not eligible to receive them. Fraudulent applications may not be identified.
Management Action:	A guidance note will be produced and issued to referrers to clarify Eligibility (July 2014)

Finding:	The award information supplied by Caring Hands contained insufficient detail to enable the council to monitor that awards have been made only to Medway residents, or to confirm that awards had been used appropriately and not on excluded items/ services. No detailed award information has yet been received from WKE.
Risk:	The Council is not fully managing the risks that grants may be: awarded to people who are not eligible to receive them; used to obtain inappropriate items, or make repeat purchases of the same item.
Management Action:	The provider has been requested to provide and is now providing details on monthly basis – these will be monitored (implemented)

There was also one material recommendation relating to ensuring there is a contractual obligation for the provider to inform the council of any suspected fraudulent activity.

Trading Standards/Commercial Environmental Health

(final report issued 27 March 2014)

The audit of Trading Standards and Commercial Environmental Health is an addition to the annual internal audit plan for 2013/14 that was approved by the Audit Committee on 21 March 2013.

Trading Standards and Commercial Environmental Health have a number of statutory responsibilities that involve the purchase or seizure of goods, which need to be retained securely until no longer needed for evidential purposes and then disposed of in an appropriate and safe manner. The services also need specialist equipment to enable officers to perform their role.

Although both services need to handle, record and retain evidential material in accordance with the requirements of the Police and Criminal Evidence Act in order to support prosecutions, the nature of their activities regarding purchase or seizure of goods differs markedly. For example, Trading Standards obtain goods, either through purchase or seizure, that need to be retained to provide evidence of traders selling unsafe or counterfeit products or selling restricted items such as alcohol and tobacco to minors. Commercial Environmental Health purchase food items such as sandwiches for safety testing, these being destroyed during the testing process and the laboratory report produced forming the evidential material; in other cases, photographic evidence of, for example, vermin infestation is used rather than any goods being seized.

Four risks relating to Trading Standards and Commercial Environmental Health were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: Cash advances obtained to make test purchases may not be used or accounted for properly - Sufficient

Trading Standards

Cash advances are obtained for purchasing goods for testing and conducting under-age sales operations. We confirmed that claim forms were completed by a member of staff and approved by another authorised signatory. The claims contained reasons for the purchases and receipts were provided where possible – however, due to the type of traders goods are often purchased from, for example markets, boot fairs and smaller retailers, receipts are not always provided.

During testing we identified that whilst the items purchased by underage volunteers that were deemed inappropriate for their age could be traced to the property register and were confirmed to be held as evidential property, other sundry items purchased during these exercises were not always backed up by a receipt or otherwise recorded. In respect of other items purchased as part of the operation, it is unclear which were retained and which (e.g. confectionery) may have been consumed by the volunteers during the operation. There is a risk that all items purchased may not be accounted for or used for business purposes and officers involved may be open to accusations of misuse.

During the audit, management put in place new procedures to account for all expenditure including sundries, linking purchases made in the pursuit of their duties to the cash advance forms, compensating for the lack of receipts and therefore protecting the officers involved from any accusations.

Commercial Environmental Health

Cash advances are not used, expenditure on purchases for food sampling being reimbursed through petty cash claims. We confirmed that claim forms were approved by authorised signatory, showed reasons for the purchases and receipts were provided.

Information relating to purchases of food samples for testing is entered into the M3 management system, but we were advised that the system is not capable of running reports of goods purchased and there is no link/cross reference to the petty cash claims held by Cashiers. There is a very small risk that all purchases may not be accurately accounted for or used for business purposes and this could leave officers open to accusation of personal use of items purchased.

Risk 2: Goods purchased or seized may not be accounted for properly and retained securely - Sufficient

Overall

Goods retained by both services are held in various storage facilities within Gun Wharf, Trading Standards also using Riverside 1. Whilst the keys for the Riverside 1 store are held by two nominated officers, those for the Gun Wharf facilities are held in the main key cupboard in the Commercial Services office area. Retention of the key to this key cupboard is not sufficiently secure, with a risk that if desk areas are left unattended this could lead to unauthorised access to goods held.

Trading Standards
Written procedures are available for the retention of goods purchased for test purposes and/or goods seized. Testing confirmed that test purchases were recorded accurately on local records and that goods seized for evidential purposes were recorded within the property register. During the audit we confirmed that a sample of goods purchased/seized was retained, but there was no clear evidence to suggest that regular checks of goods retained are carried out to identify any possible losses. Management have agreed that six- monthly audits will be introduced from April 2014.

Commercial Environmental Health
Procedures are in the process of being updated to ensure that appropriate records and evidential trail are maintained for any goods seized that need to be retained. However, we acknowledge that this risk has not been significant, given the low overall volume and value of goods purchased or seized and the fact that most of it is destroyed during testing, with certificates of destruction provided and records on the M3 system updated accordingly.

Risk 3: Goods no longer required for evidential purposes may not be disposed of in an appropriate manner - Needs Strengthening

Trading Standards
Goods required for evidential purposes are held securely within sealed bags for use in prosecution or until the service has no further reason to retain the goods as evidence. Once no longer needed, goods proven not to be unsafe or counterfeit are returned to the owner (if known), but otherwise goods are used for educational purposes (e.g. to identify counterfeits), and recorded appropriately, or destroyed.

Goods no longer required for evidential purposes should be disposed of promptly, but we found they are not disposed of on a regular basis due to time and capacity, resulting in goods being retained when there is no further need for them. Goods stored pending disposal are not necessarily retained under seal and there is a risk that items could be removed before disposal, leaving staff open to allegations of misuse if goods cannot be accounted for.

Goods are destroyed by officers where safe to do so, or taken to the local incinerator. Testing confirmed that details of disposals are recorded, but the destruction is not witnessed by another person. Property forms did not clearly distinguish between which items had been taken to the incinerator and which goods were destroyed by hand. There is a risk that this could place staff in a vulnerable position.

Commercial Environmental Health
There were no records of any recent disposals, but we acknowledge that the majority of food purchased is destroyed during the testing process and that, in the event of a sizeable seizure, the goods are most likely to be perishable and, therefore, disposed of promptly. However, we consider it important that procedures are updated to ensure that disposal is authorised appropriately and that evidence of destruction is obtained and retained, especially in view of increased management scrutiny following the Food Standards Agency audit in October 2012.

Risk 4: Equipment obtained to enable officers to undertake their duties may not be recorded or controlled adequately - Sufficient

Overall
Records are maintained of equipment allocated to staff and items kept in storage, but date of purchase and cost is not shown. Equipment is issued to officers for the purpose of their role and was confirmed to be recorded as returned, retained or reallocated on a member of staff leaving.

There is no formal procedure for the write off of damaged or redundant equipment. There is a risk that equipment no longer fit for purpose is held onto unnecessarily which could cause harm to officers, if this equipment was used by mistake, for example stab vests.

Trading Standards
Team leaders are responsible for maintaining and checking the equipment lists, although there was no evidence of recording the stock control checks, when they occurred or by which team leader. There is no segregation of duties when performing stock control which could place the member of staff concerned in a vulnerable position.

Commercial Environmental Health
A designated enforcement officer is responsible for maintaining and checking the allocation of equipment issued to staff for the purpose of their role and, as required, the calibration of specialist equipment on a regular basis.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of controls over cash advances/reimbursement, goods purchased or seized and equipment purchased within the two services is **sufficient.**

Four material management actions were agreed to improve controls around disposals, storage security, cash advance claims and equipment inventory.

Corporate Credit Cards *(final report issued 3 July 2014)*

The audit of Corporate Credit Cards forms part of the annual internal audit plan for 2014/15 that was approved by the Audit Committee on 20 March 2014. The audit follows an investigation into fraudulent expenditure involving a corporate credit card.

There are 30 credit cardholders across the council. BSD have 11 cardholders, RCC have 12 cardholders and C&A have 6. The Chief Executive also holds a credit card.

Four risks relating to Corporate Credit Cards were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: The allocation of credit cards does not reflect business need - Sufficient

Applications for corporate credit cards are authorised appropriately. The reasons given on the applications for the need for a credit card were mainly for the purchases of European travel and costs associated with this, or for the procurement of specialist equipment. We found there were three applications which stated the main reason for needing a credit card was to purchase UK train tickets. This is not a valid reason for holding a card since central processes and guidelines state UK rail travel should be ordered via a travel warrant. We also found two applications which cited training and payment of membership fees which could be processed via Exchequer, subject to the payment methods which are accepted by the suppliers.

Review of expenditure across the 30 credit cards showed credit cards provide a solution where it would be impractical to raise a purchase order prior to purchasing an item, particularly for emergency housing and European travel and expenses. Credit cards are also useful for reserving hotels (although guidelines state an invoice should be requested), or procuring from suppliers that provide specialist equipment that our general suppliers would not stock and online/overseas companies who do not accept purchase orders.

Buying equipment through existing recognised suppliers, where Category Management would have negotiated the best deal and perhaps be of better quality is also not always practised where purchases were made via the credit card.

Management undertook an exercise around card usage in December 2013 following an investigation into fraudulent expenditure on one of the credit cards. A review of card allocation is in progress which will consider whether the current credit card distribution is appropriate. Where credit cards have not been used for a period of time management will need to determine whether these should be withdrawn since fees are £35 per annum per card held. We have provided management with our audit observations from the review of usage we carried out during testing.

Credit cards are returned and accounts are closed on holders leaving the council's employment, or if the card is no longer required. Historically the dates when the credit cards were returned have not always been noted consistently. Testing showed that cards had not been noted as destroyed, except on one occasion.

Risk 2: Council procedures may fail to prevent misuse of cards - Needs Strengthening

Credit card limits are set at £2000 as standard, with a single transaction limit of £1000. If there is a specific need for this to be above or below these limits then they are set at the point that the application is sent to Natwest, they are not reviewed after this. Testing confirmed that any requests for an increase in limits are authorised appropriately, set for a specific time period and limits are adhered to by the cardholder.

Credit cards are issued to named individuals who have the responsibility to ensure the safe custody of this card at all times. Our testing confirmed that eight credit cards are used by PAs as a delegated function for Director and Assistant Directors. The Natwest credit card terms and conditions require named individuals to maintain responsibility for the card. The current process of PAs holding and using the credit cards, place the Council and PAs in a vulnerable position. Given the bank's terms and conditions of holding the card there is a financial risk to the council that the full cost would have to be met if any misuse was reported.

Our testing identified that two credit cards, held by PAs, were found to be used by others away from the cardholders'/PAs' area of work, therefore increasing the risk of fraud.

Guidelines and procedures are issued to all cardholders who are required to sign and agree to the conditions of use. Guidelines outline the monthly process and state what credit cards should not be used for**.** During the audit, Finance management circulated interim revised guidelines around card security to all cardholders to address this potential risk.

Guidelines require updating to specify cardholder responsibilities for security of the cards, in order to protect the council and the cardholders. Interim revised guidelines around improving card security were circulated by Finance management during the audit, but these will need to be included in the revised guidelines. There is an absence of documented fraud deterrence measures and the guidelines do not state what action may or could be taken should expenditure be considered inappropriate. There is an absence of any warning about the right to investigate/take disciplinary action if misuse is proven.

Enquiries with a sample of cardholders indicated that credit card numbers are not noted down, in line with PCI DSS although there is a risk of this occurring as some cards have been passed to other members of staff within the council. Two PIN's were noted as being recorded on the original bank paperwork, which is accessible by persons other than the named cardholder.

Credit cards held within safes or locked receptacles are not covered by council insurance. There is a risk that theft and/or misuse of credit cards not held by cardholders on their person may result in financial and/or reputational loss to the council, knowing that the current arrangements negate the bank's terms and conditions.

Risk 3: Expenditure incurred may not be for business purposes, or authorised appropriately - Sufficient

Statements and supporting receipts are retained securely. Testing confirmed that expenditure is supported by receipts and any that is not, or appears questionable, is queried by the Control Team within Finance.

Statements with supporting receipts should be submitted on a monthly basis and those that are received by the monthly deadline are reconciled promptly by the Control Team. From a sample of statements selected we noted late submission of returns of expenditure for December 2013 by two cardholders of between 2-3 months. Ten of the twenty-five cardholders with expenditure for April 2014 had not returned their statements to Finance by the deadline at the end of May. There is a risk that non-legitimate expenditure would not be identified promptly.

In those cases where a PA uses the card through a delegated authority from a Director or AD, there was no evidence found of expenditure being approved prior to a transaction. Prior approval may have been agreed in some cases, but this is not evidenced. There is a risk that expenditure may be inappropriate and not authorised by the cardholder or budget manager.

Two cardholders had approved their own return of card expenditure, one form having been returned by Finance and resubmitted with the appropriate authorising signature required. Guidelines for completing the credit card expenditure return are unclear as to who should sign the form and what the signature is actually confirming i.e. is it authorising the expenditure from the card or authorising expenditure from a given budget code. There is a risk that expenditure may not be for business purposes and this could leave cardholders open to accusation of personal use of items purchased.

Risk 4: All relevant VAT may not be claimed and duplicate or personal expenses may be submitted by another method - Strong

Testing of the returns of credit card expenditure for travel and subsistence confirmed that expenditure had not also been claimed via another payment method, for example through the officers’ expenses system.

Expenditure is supported by VAT receipts where applicable, and whilst VAT is not always recorded on the expenses form accurately by the cardholders it is checked and amended by the Control Team Leader before input to Integra.

Credit card expenditure is input accurately and promptly to Integra on a monthly basis, but is subject to receipt of returns of expenditure from cardholders. Returns received after the deadline are entered separately to Integra, to prevent delays to budget monitoring for those who met the deadline.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of controls over Corporate Credit Cards is **sufficient.**

Four material level management actions were agreed relating to reviewing and revising the guidelines and card allocation.

Medway Norse – SEN Home to School Transport

(final report issued 4 July 2014)

At the request of the Chief Finance Officer the internal audit resource allocated on the annual audit plan to provide assurance on the provision of services by Medway Norse is being used to provide assurance on the financial management arrangements of SEN Home to School Transport. The management of this service was transferred to Medway Norse in April 2014.

The audit sought to provide assurance over the transfer of the service to Medway Norse and the arrangements put in place to manage the finances of the delivery of this service. The audit was undertaken as the arrangements were still being developed and as such there has been an opportunity for Internal Audit to provide some control advice regarding the transfer of the arrangements and the contract variation documentation. An initial memorandum setting out key issues to be resolved was shared with management 7 May 2014 along with a proposed action plan. This report provides assurance on the arrangements now in place following the remedial actions undertaken.

The arrangements have not been in place for a sufficient amount of time to support effective audit testing and for this reason a further audit is proposed for later in 2014/15 to provide assurance on the application of the financial management controls.

This is the first internal audit undertaken relating to the Medway Council/Norse partnership and has identified some more general queries around the partnership. These have been discussed with management and are detailed in this report.

From 1 April Medway Norse became responsible for the management of the SEN Home to School transport arrangements. Management calculated that this service would be provided by Medway Norse at an annual cost of £58k. Two staff transferred to Medway Norse under TUPE.

The individual taxi routes in place to provide home to school transport will be managed by Medway Norse although the firms remain contracted by the council. There are at present nearly 250 routes.

The long standing arrangement of letting individual contracts for each route has not provided the desired value for money and the level of expenditure has been volatile. The 2013/14 budget was overspent by £1.2m. The intention is to move away from individual routes to site arrangements, whereby a firm would be responsible for all transportation to a given school site. Medway Norse has taken responsibility for the delivery of the first 3 site contracts (Warren Wood, Brompton Academy and Rivermead) and a total of £380k is being paid to Norse for the delivery of these routes.

When further individual route contracts come up for retendering, the majority in 2015, the intention is to move these to site contracts, and provide Medway Norse first refusal on those routes. There are however a number of routes which are contracted until 2019 so the full roll out of these new arrangements will not be achieved for a number of years.

There will continue to be a need for individual taxi route procurement, delivering not only specific routes but also to meet the demands driven by respite care and home tutoring, and a new framework is currently being developed which seeks to improve the value for money achieved.

The revised SEN home to school transport arrangements have been determined based on the identified need to reduce the level and volatility of expenditure whilst continuing to deliver a service of the required standard.

Identification of services to be transferred

All the services relating to the delivery of the SEN home to school transport, previously provided by the Transport Procurement Unit (TPU) within the council, has been transferred to Medway Norse. The commissioning of the service is retained by the council within the Children and Adults SEN team.

The three site routes were subject to a full procurement tender exercise and as such the nature and details of the service were fully documented. The specification was shared with Medway Norse when the decision was taken that they, through a subsidiary called Medway Norse Transport Ltd, would provide the service.

The nature of the management services being transferred from the Transport Procurement Unit (TPU) to Medway Norse, and the exact requirements of the council in relation to the delivery of SEN home to school transport, were not sufficiently clarified prior to transfer on 1 April this year. The decision to transfer the management of the service was not approved until February 2014 and with the pressure to transfer the service in time for the new financial year a number of issues were not fully resolved at the time of transfer. In particular the council's SEN home to school transport policy had not been considered as part of the transfer process.

For both the management of the service and the three site routes the contract variations to the main Medway Norse contract, detailing the services to be provided, was not in place at the time of the transfer and at the time of drafting this report had not been finalised. Whilst the documentation remains outstanding, during the audit a number of issues were identified and addressed, and there is now reasonable assurance that the full nature of the service transferred to Medway Norse is understood by all relevant parties.

Linked to the lack of clarity around the services at the time of transfer, the inter-relationship between TPU and other parts of the council were not fully considered and addressed. In particular the council's role in relation to taxi licensing was not fully considered in terms of information sharing with Medway Norse. Again these matters have now been addressed.

Budgetary Control

The transfer of the budget will be implemented once the contract variations have been agreed. In transferring other service to Medway Norse, during the first year of the partnership, the transfer of the budget was made prior to the contract variation being finalised. This has led to a mismatch between the budget transferred and the services to be delivered, and remedial action being required to address the funding errors. We therefore fully endorse the decision to defer budget transfer until the agreed transfer of services is fully and formally documented. This does however highlight the need for agreeing a contract variation at the earliest opportunity.

The SEN team within children and adults will continue to have the overall responsibility for the budget, which includes the forecasting of expenditure. Historically the budget forecasting has not been effective due in part to the volatility of expenditure but also through a lack of accepted ownership of the process. The revised contractual arrangements under the new framework agreement should reduce volatility of the expenditure, and the SEN team now accept full responsibility for the management of the budget. I understand that resources have been made available within the SEN team to progress these arrangements, and colleagues within Finance Division and the old TPU have met with those responsible to help develop effective budget management arrangements.

Pursuit of Value For Money

The pursuit of value for money was a main driver for the proposal to transfer services, with a recognised need to reduce costs. The procurement gateway papers and the proposal presented to Cabinet highlight the intended savings.

Three Pilot Site Contracts

It was identified that savings on the overall cost of home to school transport provision for SEN children could be made by moving away from the individual contracts for a specific route and putting in place contracts relating to individual school sites – with one provider being contracted to provide home to school transport for a school site at a fixed price. The fixed price allows for a 25% variance in pupil numbers.

The fixed price budget for the tender for the initial three site routes was calculated based on achieving 20% savings over current expenditure levels. A full tender exercise was undertaken in relation to these three sites, and following the tender selection process Medway Norse proposed that they might deliver the service within the set budget and in line with the teckal exemption the council was able to award the contract to Medway Norse.

The actual delivery costs were comparable to those provided by other companies which tendered and met the criteria. Additional financial benefit to the council is possible through the surplus/profit share arrangement, with an anticipated surplus of just over £10k being returned to the council.

Administration

The administration of the SEN home to school transport arrangements has been delivered in the past by the TPU, acting on the instructions of the SEN team in children and adults who commission the services. Following the decision to award the three site routes to Medway Norse the decision was taken to also transfer the responsibility for delivering the administration of the service to Medway Norse who have a track record of delivering transportation services, and SEN transport services in particular. The TPU used to deliver the service under a Service Level Agreement payment from the SEN team in children and adults and there was an identified saving of just over £16k, a figure is retained within the SEN team's budget.

There was a relatively short time frame from the decision to transfer the administration (taken in February 2014) and the actual transfer of the service. It is my belief that this short timeframe has led to some initial operational difficulties.

One key obstacle to effective transfer of the service was the ICT arrangements, and in particular the TPU database. The database was unsupported and not sufficiently resilient to transfer to Medway Norse and there were difficulties in arranging remote access. As a result members of staff who had transferred to Medway Norse are still having to return to the council offices regularly in order to access and maintain the records. We have been advised that Medway Norse are now sourcing a replacement IT system and arrangements are being progressed to transfer the data from the council's database to Medway Norse.

The transfer of the service also included the proposal that Medway Norse staff were granted access to the council's financial systems – Integra – but the practicalities of this had not been resolved at the time of transfer. As noted below under "Operational Financial management" the eventual agreed arrangement does not require Medway Norse staff to have access to Integra but it is another example of issues not having been resolved at the time of the transfer.

The draft contract variation documentation which was made available in the course of the audit did not fully reflect the full nature of the transferred services. In terms of issues which could have had an impact on value for money it did not for instance reflect the discretion that the SEN team has to provide the service to non-SEN children if appropriate (albeit this would not be relevant at the three school sites delivered by Medway Norse). Had this matter not been satisfactorily resolved post transfer then Medway Norse would have been within their rights to refuse to provide transport for these children which would have resulted in additional costs to the council.

New Framework Agreement

A new framework agreement is being developed for the delivery of individual routes which cannot be covered through the new site route arrangements. These cases may relate to journeys where only one or two children are attending a particular school, ad hoc requirements which would not be covered under the new site arrangements, and transportation for respite care and home tutoring.

Management have advised that the new framework agreement will require all companies to quote their rates as part of their application to be on the framework, and selection for inclusion on the framework will be based on price as well as quality thereby ensuring only companies with acceptable rates will be included. Any routes that are then allocated to a company on the framework would be priced at the rate included in their initial bid. This should reduce the risk of spiralling costs.

Future roll out of Site Contracts

The decision was taken to allow Medway Norse first refusal on the delivery of the new site routes, rather than run each of these as individual tender exercises. Open competition is generally seen as the best way to achieve value for money, however in this instance there are valid reasons for permitting Medway Norse to take those site routes:

- The intended process for determining the budget for these routes is robust in that it will be based on the new framework costs.
- The surplus sharing arrangements between Medway Norse and the council will apply to all new routes.
- There will be administration cost savings achieved through avoiding a significant number of tender exercises.

Whilst Medway Norse will assist management in the evaluation and identification of potential new site routes, management have advised that all decisions regarding determination of these routes to be let, and appropriate budget for delivering those routes, will be proposed by council staff, and reported to the council's procurement board. With these safeguards in place I am satisfied that the council is retaining an appropriate level of accountability over the future procurement decisions relating to SEN home to school transport.

Operational Financial Management

The most significant part of the administration service transferred to Medway Norse is the authorisation and payment of the invoices received from those taxi firms providing the transportation for the individually contracted routes. The intention was to provide Medway Norse staff with access to Integra to process these invoices but at the time of the transfer the ICT issues had not been resolved. Furthermore senior management had some serious reservations regarding this solution given it required providing input and authorisation access to non-Medway staff which could undermine the system's security. At the time of the audit no new invoices had been processed.

During the audit this matter was discussed with management within Medway and Medway Norse and a solution was agreed whereby the processing of the invoices will be on a Medway Norse financial system, and the council will then be invoiced for reimbursement. The SEN team in children and adults will authorise the invoices for reimbursement as part of their budget management responsibilities. Until this new arrangement is in place, which will be from the new academic year, an interim solution was agreed where Medway Norse staff will input the invoice onto integra and the payment will be authorised by the previous manager of the TPU who is still a member of Medway staff. We are satisfied with the current arrangements for authorising and monitoring input access to Integra.

Generic Issues

The AD Legal and Corporate Services is currently preparing a briefing note for the Audit Committee clarifying the Audit Committee's role and responsibilities within the council's joint venture with Norse. The arrangements for internal auditing and counter fraud also need further clarification and I have liaised with the AD Legal and Corporate Services regarding these points.

At the time of the transfer of the TPU service to Medway Norse the contract variation had not been completed, a number of issues still required clarification and there were some operational issues not resolved. Whilst the council would always want to avoid unnecessary delays in the transfer of services and minimise any delay in achieving anticipated savings, it can lead to operational difficulties when the transfer happens before all the issues are resolved. I have made no recommendation relating to this point but it is something worth noting for future reference.

Management Actions

Whilst contract management is outside the scope of this audit I have included a management action regarding the need to put in place effective service delivery monitoring arrangements once the contract variation has been formally agreed.

I have not included on the action plan all the actions already in progress. The key matters currently being progressed relate to:

a) finalisation of the contract variation
b) finalisation of the arrangements for ensuring there is clear documentation of all future procurement of site routes, which will be reported to the council's procurement board
c) finalisation of administrative arrangements for the payment of contractor invoices and budgetary management

I intend to undertake a follow up of the audit in October 2014 to review:

a) full implementation of the actions currently being progressed
b) application of the financial controls
c) service delivery monitoring and contract management arrangements.

CONCLUSION AND AUDIT OPINION

I am able to provide assurance that, on the basis of the arrangements in place and being progressed the financial controls for the transfer and on-going delivery of the service are **sufficient.**

There was one material agreed action to ensure sound contract monitoring and management is put in place. The arrangements should be finalised by September 2014.

Asset Management - Divestments *(final report issued 4 July 2014)*

Medway Council holds a significant portfolio of both operational and non-operational property assets including:

- Operational buildings
- Car parks
- Parks and green spaces
- Shops and small business units
- Regeneration sites such as Rochester Riverside.

Property is the Council's second largest single cost after staff. When local government is facing continuing reductions in the grant it receives from central government, rationalisation of the property portfolio and achieving value for money in disposals plays a key role in ensuring a balanced budget.

Strategic Approach:

Medway Council has an appropriate governance framework in place for decisions on its property portfolio. CMT has delegated responsibility for oversight of the council's property assets to the Assistant Director, Corporate and Legal Services supported by a property board led by the Portfolio holder for Finance. Links with project boards in RCC, C&A and Better 4 Less provide a route for ensuring the property implications of changes in service delivery can be assessed.

Medway Council has laid out the core objectives and guiding principles for the effective management of its property assets in its Corporate Property strategy 2013-18. This document also includes a three year action plan which specifies a number of key objectives property-related and actions, and we are pleased to note the progress being made in a number of areas – for instance:

- To only own property that we need to deliver the services we provide.
- To sell those properties that are surplus and recover capital receipts e.g. Shalder House sheltered housing and Gillingham Adult Education Centre.
- To maintain ambitious minimum occupancy rates in all our corporate properties.
- To reduce space requirements for all our staff based on their work styles.
- To promote a flexible working environment that enhances professional practice and staff morale. We note the progress in the review of working practices across the Authority and the provision of a touchdown space within Gun Wharf that has been facilitated by the rollout of thin-client technology.
- To promote the shift of our services to other channels of delivery to ensure customers can obtain answers as efficiently as possible e.g. self-service through the Council's website.
- To support the Community Hub model transforming local libraries into community spaces allowing customers to access a wide range of council services in one place Community hubs have been established in Rochester, Chatham and Gillingham.
- To use a wide range of energy solutions to reduce costs. This area is due to be audited in 2014/15.
- To enable the property portfolio to adapt to changes in staff numbers.
- To allow partners and other Medway organisations to spot opportunities to share accommodation with us.

The property strategy has been developed with the knowledge of the property board and key senior staff and service delivery plans. It largely maps to overall strategic aims, documenting both key significant changes and overarching aims re: service delivery and funding, but the actions are due for completion by the end of the 2015/16 financial year. This relative short-term view of the action plan is necessary whilst the Council reacts to the year-on-year budget cuts enforced by Central government. As the future shape of the service delivery becomes apparent, it will be necessary to re-visit the property strategy to ensure the property portfolio meets the Council's long-term service delivery needs.

Disposal of properties:

The Authority has a structured process for identifying properties that are no longer required:

- Ongoing, systematic review of the asset register to identify spare capacity, running and future maintenance costs;
- Consideration given to alternative uses for the property, including co-location of services with other public sector organisations;
- Cost / benefit analysis of various options for disposal of the property;

- Formal declaration of the property as surplus to requirements by Cabinet, usually accompanied by delegation of the disposal to the Assistant Director, Corporate and Legal Services;
- Disposal of properties in a manner that ensures value for money. The Council's professionally qualified surveyors provide advice on value and disposal method to the Assistant Director Legal and Corporate Services. Independent surveyors are instructed to value the property and any necessary consent is obtained from the central government. The independent valuation is considered when reserve price is set.

This process is considered to be sound.

A review of documentation to support the disposal of Shalder House, the Adult Education Centre (Gillingham) and Robert Bean Lodge confirmed the process to be operating effectively, with key decision makers receiving the information needed to make appropriate decisions on the future of Council properties.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the Asset management (divestment) arrangements is **strong**.

The Authority has a solid structure and processes in place for identifying properties as surplus to requirements. The property strategy reflects the current drive for ensuring our portfolio provides value for money in the short term in response to the annual reductions in central government funding.

Risk Management *(final report issued 7 July 2014)*

Internal Audit carries out an annual review of the Council's arrangements for identifying and managing its risks. The review this year, which forms part of the 2013/14 annual internal audit plan, seeks to provide assurance around compliance with the council strategy.

Managers have always managed the risks within their service areas, the purpose of a corporate approach to risk management is to ensure there is a consistent assessment of risk, a common language for discussing relative risks, and an assurance mechanism for demonstrating that the council has appropriate arrangements in place to achieve its stated objectives. With the pressure on current resources and the level of change in service delivery models it is more important than ever for managers to have a corporate approach to risk management.

The risk management arrangements within the council have not altered for a number of years and we can provide assurance that key elements of the arrangements continue to work as intended:

- the Strategic Risk Management Group (SRMG) co-ordinates risk management activities;
- the SRMG is chaired by the Director of Regeneration, Community & Culture, providing senior management sponsorship of the work;
- a corporate risk register is in place which records the nature of the risk, the level of the risk, the risk owner, mitigations and triggers – the register is on the performance management system (Covalent);
- the corporate risk register is presented to Extended Management Team (EMT) every six months and the content is debated and updated where necessary. The register then goes to Business Support Overview and Scrutiny Committee and Cabinet;
- a report regarding risk management is also provided annually to the Audit Committee;
- the risk management strategy is formally reviewed on an annual basis;
- service plans are required from every service manager to identify key objectives and key risks;

- standard report templates for Cabinet, committee and Procurement Board reports requires assessment of risk;
- risks relating to revenue budget are recorded.

The application of these controls provides assurance that the council is largely compliant with its strategy although we did identify certain areas of non-compliance.

The key finding of the audit was that Covalent, the performance management system intended to store all council plans, along with their identified risks, has a number of significant gaps. A substantial number of service plans are not on the system and whilst the strategy specifies the need for divisional plans, apart from RCC and some areas within BSD, there were no other divisional plans on Covalent (for 13/14). As such there is an incomplete management trail for risk identification and assessment.

We also noted that there is no representative from the Public Health Directorate on the SRMG and that no training or other events have been undertaken to embed risk management awareness across the council, particularly at service manager level.

We are concerned that the risk management process currently in place may have become stale and there is a risk that the benefits of sound risk management such as informed decision-making and assurance over the delivery of objectives may not be being fully realised.

We have discussed our findings with the Performance and Intelligence Manager (RCC) who has recently taken on the responsibility for administering the risk management process on behalf of the Director of RCC. This individual officer has experience of risk management in other organisations and has recently attended a two-day risk management training course to establish current industry standard. This will be discussed with the EMT with the intention of disseminating best practice to managers. We are pleased to note that the intention is then to provide training for service managers on risk management.

CONCLUSION AND AUDIT OPINION

We are able to provide assurance that the current arrangements in place are broadly compliant with the agreed strategy, and on that basis we are able to confirm that the level of compliance is **sufficient**.

However we strongly believe that the level of risk awareness across the council needs to be increased, and the documentation of current risk identification improved. We fully endorse the planned review of the current arrangements, since in order for the council to achieve the full benefits of risk management the arrangements need strengthening.

We will liaise with the Performance and Intelligence Manager (RCC) through the year and we will also review the development of risk management through a number of assignments in 2014/15, including the audit of change management where good risk identification and mitigation is a key success factor.

Management actions to address three material management actions have been agreed, relating to ensuring service plans are completed and maintained, confirming the role of Directorate Management Teams in risk management and a full management review of the current risk management arrangements to ensure it maximizes the benefits to the organisation.

Corporate Governance *(final report issued 7 July 2014)*

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

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

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

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

The Monitoring Officer provided a draft AGS for audit review. Internal Audit undertook a review of the AGS by cross referencing it to the CIPFA/ SOLACE delivering good governance in Local Government framework and Medway Council's Code of Corporate Governance. In December 2012, CIPFA/SOLACE produced an addendum to the delivering good governance in local government framework which, whilst being broadly comparable to the original framework is more streamlined than the original code and gives greater clarity on partnership arrangements.

The audit determined whether there was sufficient and appropriate evidence to support all the information included within the AGS within the Authority's constitution, committee papers or other available documentation, and whether it incorporated all the requirements as set out in the CIPFA/SOLACE guidelines. The headings covered in this review were:

- Scope of responsibility
- The purpose of the governance framework
- The governance framework
- Review of effectiveness
- Significant governance issues.

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

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

The Monitoring Officer also confirmed that he had reviewed the current corporate governance code and, whilst it remained fit for purpose for 2013/14, there were opportunities to refresh and enhance the code as the arrangements for Medway NORSE and the Health and Wellbeing board bed in and in light of the revised CIPFA / SOLACE guidance.

CONCLUSION AND AUDIT OPINION

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

We have made one material priority recommendation to ensure the Council's Code of Corporate Governance continues to reflect the CIPFA / SOLACE framework.

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.

Hempstead Junior School *(final report issued 16 June 2014)*

Hempstead Junior School is for children aged seven to eleven years with a pupil roll of approximately 360 places. The Business Manager supports the headteacher with the management of financial processes.

The audit provides assurance on the overall financial management of the school by:

- Analysis of financial (transactional) data to determine a risk profile for income and expenditure;
- Determination of control arrangements, as set out in School's key documents and confirmed through interviews with the headteacher and the Business Manager;
- Targeted testing in the areas of greatest potential risk and / or potential anomalies identified during the risk assessment.

The school spent a total of £80,000 on supply teachers in the period April to December 2013. Two supply teachers paid through payroll and three supply agencies paid on invoices provided the supply cover. The school recognises that this is a high level of supply and explained this was due to cover arrangements following the last headteacher's departure in December 2012. Testing showed that there is evidence to support these payments.

Our review and testing of the purchasing arrangements confirmed that there are reasonable processes in place, but action is required so that the school can demonstrate appropriate approvals are obtained in its procurement processes:

- The level above which quotes needs to be obtained is not documented in the finance policy;
- Finance Committee approval is not always recorded;
- Evidence of all quotes obtained is not always retained.

The school received approximately £35,000 in income in the period April to December 2013. The majority was for recharges from Hempstead Infants School or contributions from the voluntary fund, so we regard this as low risk. However, we did note that the charging policy needs reviewing as it was last updated in 2010 and does not include charging third parties to use the school's facilities.

CONCLUSION

We are able to provide assurance that the school has reasonable controls in place to manage its financial processes and we did not identify any probity issues in our testing of supply teacher payments and procurement.

St Benedict's RCP *(final report issued 23 June 2014)*

St Benedict's Catholic School is for children aged four to eleven years with a pupil roll of approximately 210 places. The office manager supports the headteacher with the management of financial processes.

The audit provides assurance on the overall financial management of the school by:

- Analysis of financial (transactional) data to determine a risk profile for income and expenditure;
- Determination of control arrangements, as set out in School's key documents and confirmed through interviews with the headteacher and the business manager;
- Targeted testing in the areas of greatest potential risk and / or potential anomalies identified during the risk assessment.

In the period 1 April to 31 December 2013, approximately £450,000 was paid through payroll. The majority of this is for contractual hours, and for which the risk of error is low. £28,120 were payments triggered by timesheets, and a sample of these were selected for testing. In the same period, approximately £160,000 of creditor payments were made and we therefore focussed our testing on procurement. The school received approximately £4,000 in income in the period April to December 2013. We regard this small amount of income as low risk and did no specific testing in this area.

Our review and testing of the purchasing arrangements confirmed that there are reasonable processes in place, but action is required so that the school can demonstrate appropriate approvals are obtained in its procurement processes:

- The Register of Business Interests is not complete and is not regularly updated.
- Specifications have not been prepared for work prior to obtaining quotes;
- The number of quotes obtained are not in accordance with the Finance Policy;
- Governor approval for purchases is not always obtained (or documented) in accordance with the Finance Policy;
- Purchase orders are not always used.

Our risk assessment identified three employees who were paid more than £100 per month as a result of timesheets. We did not identify any errors in these payments but we did identify instances where the timesheets were authorised before the work had been completed. There is a risk that payments may be made for work not completed. In addition we noted that the payroll reports were checked by the person responsible for submitting payroll documentation for payment without review by the headteacher. The office manager may be placed in an awkward position should there be an error in her pay that later comes to light.

CONCLUSION

We are able to provide assurance that the school has reasonable controls in place to manage its financial processes and we did not identify any probity issues in our testing of payroll and procurement.

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. The outcome of all the income reviews has been collated into an overview report, providing an overall audit opinion.

Community Hubs *(final report issued 31 March 2014)*

Internal Audit carries out audits of various financial and operational systems to provide management with assurance that the controls being relied on to mitigate risks to achievement of the council's objectives are in place and operating effectively.

The audit of income collection, recording and handling processes in the new Community Hubs 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 at this stage. Towards the end of the financial year the outcome of all the income reviews will be collated into an overview report, providing an overall audit opinion.

Community Hubs are located in Chatham, Gillingham and Rochester. Chatham and Gillingham have been operating since October 2013 and Rochester from November 2013.

Our review covered the checking and handling of income, income retention and transportation of banking and began with interviewing the staff responsible for the day-to-day arrangements for income. We then assessed the control arrangements in place, which we confirmed by obtaining income records and undertaking sample and observational testing in order to provide assurance.

Our review and testing of the financial control arrangements confirmed that, overall, there are appropriate processes in place for the management of income. We have however identified three proposed actions to strengthen the current arrangements.

To minimise the risk of theft given the open-plan layout of the hub premises and to protect staff safety, a cash limit of £20 per payment transaction was set by senior management – we understood this had been in place since the first Hub was opened but were subsequently informed that it did not become effective until 24 October. An exception to this limit was agreed by senior management from the opening of the Rochester Hub in November 2013 to allow Medway Adult Community Learning Service (MACLS) customers to pay in excess of £20 cash, providing they have been assessed by a curriculum manager to be unable to pay by any other method. A further dispensation, allowing the two senior customer contact officers to authorise cash payments exceeding £20 for other types of payment, at all of the hubs, to mitigate the risk of potentially disruptive or violent behaviour by a customer, has been agreed by Customer Contact management. Whilst this is considered to be sensible, the 'cash cap procedure' document is not specific as to when this discretion can be used (stating it applies only if the customer does not have a bank account), or if there is any limit to this discretion.

Our testing identified that, as at the end of January, 64 cash payments exceeding £20 (excluding accumulated photocopier and vending machine income) had been recorded by the three hubs since 25 October. 36 of the 42 at Rochester related to adult education. The remaining six payments at Rochester, plus 14 at Gillingham and eight at Chatham, related to other types of income, primarily council tax, parking fines/vouchers and book fines, 17 of these being valued at £25 or less, the maximum being £70.35. The Senior Customer Contact Officer confirmed that a number of the non-adult education cash payments exceeding £20 had not been authorised and, in an attempt to prevent this happening in future, he has reiterated the cash cap limit to hub staff. Although hub staff are currently recording the number of customers requesting to pay more than £20 in cash, management had not been monitoring cash payments exceeding £20 actually accepted via the income recording system (ICON).

Income is reconciled to Integra by the Finance Team who commented that when operators fail to enter cheques during the cash-up procedure on ICON, 'cash suspense' errors are created, which need to be adjusted by the Finance Team.

CONCLUSION

We are able to confirm that there are appropriate controls in place for Community Hubs income retention, transportation, collection and recording, but we identified some areas requiring improvement. The issue of cash payments exceeding the £20 limit (not relating to adult education) is not considered to be a significant issue as these equated to a very small percentage of the total cash transactions processed to the end of January, and we acknowledge that the vast majority occurred within a month of the cash cap being introduced. However, we believe that the discretion assigned to local managers to exceptionally extend the dispensation to the limit for any payment to mitigate a potentially disruptive or violent incident should be reflected fully in the 'cash cap procedure'.

Four local management actions were agreed to strengthen the current arrangements in place.

FOLLOW UPS

Medway Action for Families Follow Up

(Final report issued 4 July 2014)

The final audit report regarding Medway Action for Families (MAfF) was issued in March 2014. The audit 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. At the time of the audit we were able to confirm that the council was achieving very positive outcomes through this programme but the overall audit opinion was that the management arrangements underpinning this delivery **needed strengthening**.

Funding of the scheme is through a mixture of up-front funding and payment by results (PBR). For the initial funding period 2012-2015 Medway should receive a total of £1.16m and a further £700k on payment by results. This funding was awarded to enable the council to work with 560 families to be identified using criteria set out by the DCLG. To date 565 families have been identified.

The scheme has now been extended to 2020 but with revised arrangements which provide flexibility for the Local Authority to determine relevant local criteria. To qualify for inclusion in the new scheme local authorities have to be able to demonstrate that progress is being made in terms of programme delivery. A report to Corporate Management Team (CMT) in May 2014 confirmed that the national financial framework for this revised scheme has yet to be finalised. It is anticipated that for the 2015-2020 scheme the council could be required to identify and turn around over a further 1800 families.

The PBR scheme, which requires families to achieve results which meet specified criteria, was not reviewed as part of the audit. Separate pre-submission audits have now been completed for the claims made in February and May 2014, and a retrospective review completed of the July 2013 claim (which was not reviewed by internal audit before it was submitted to DCLG). Observations relating to the PBR claims have been built into this follow up review.

By October 2013 Medway Council had made claims for payment by results on 60% of year 1 families (180) and also had clear plans for identifying and turning around 560 families by 2015. Management had however identified some potential issues with their current operational arrangements and requested an audit as they were keen to ensure that there were robust governance and management arrangements in place. It has become clear that the early success was not built on sufficiently robust arrangements and as such management have had to undertake a significant amount of remedial work. It was agreed that management would ensure that any future outlying results would be investigated and evaluated to ensure lessons would be learned from benchmarking and discussions with other authorities.

The audit follow up involved seeking assurance that the agreed actions were implemented or in progress, and to consider any issues arising from the audit reviews of the PBR claims.

Data

The audit identified concerns relating to the resilience of the data management arrangements. Effective data collection and accurate reporting are key to the management of the scheme and in particular the PBR process. We found there were single points of failure in the data collection and management process due to the reliance on individual's knowledge and a lack of documented process. We are pleased to note that knowledge of the processes and systems has now been extended to another member of the performance and intelligence hub. Furthermore a request went to Cabinet in June for two additional posts within the MAfF team, one to provide administrative support and the other for data management. The procedures document within the performance and intelligence hub has been progressed but has not yet been finalised. Given the proposed additional data management post within MAfF it is likely that the procedures will not be finalised until the new appointments are in place.

There have been three audit reviews of PBR claims. Two of these reviews, for February and May 2014, have been pre-submission. The third was a retrospective review of the July 2013 claim. A number of issues with the data provided have been identified by audit and discussed with management and a number of amendments have been made to the proposed claims provided. There has been a significant amount of work undertaken by the MAfF team to improve the quality and detail of the data provided to support the PBR claims and we are pleased to confirm that the quality of the data, and the arrangements for obtaining the data from the programme partners, is now much stronger. This is an area which management continue to work on but which I am satisfied should now be of sufficient quality to support future claims.

Pursuit of Value for Money

The scheme from April 2015 will be different in a number of ways, including allowing for the application of local criteria and the availability of a cost calculator from the Treasury which will assist in the identification of savings made through the turn-around of individual families. This should enable the council to identify cost savings and therefore help with agreeing future budgeting arrangements with the programme partners. This cost calculator will be used to help develop proper business cases for programme partners and also monitor their delivery. This will address the concerns identified in the report regarding the lack of specified and measured deliverables by the programme partners. The audit report also included reference to a concern regarding on-going funding arrangements, which although partially addressed through the extension of the scheme to 2020, still needs to be given consideration and the new cost calculator will provide a useful tool to support work in this area. The intention to review the current Service Level Agreements which were in place before April 2014 should also help prepare for the new regime. A limited review of cost reductions was undertaken as part of the preparation of the report to CMT in May 2014

A new funding application form for programme partners has been developed which requires the predicted impact and potential cost saving, and also requires a follow up confirmation of the actual impact.

Governance

We are pleased to note that the two agreed actions regarding the enhancement of the governance arrangements have been implemented, with management having made the following improvements:

- There is an electronic folder on the shared drive for each month's update on the programme to ensure there is a clear management trail of progress made with the identified families;
- The Service Manager now formally signs off the proposed list of families identified for inclusion in the programme;
- The minutes of the strategic board now document the approval of this list;
- The operational group now in place provides a forum for practitioners to discuss individual cases, leaving the strategic board free to deal with more general issues and any issues escalated from the operational group;
- New terms of reference have been developed for the strategic board which include clear reference to budgetary management and provide a standing agenda for the board.

At the time of the audit there was no communication between MAfF and enforcement teams cross the councils. An initial meeting between MAfF and the Corporate Anti-Fraud Team has been arranged for early July to discuss information sharing opportunities.

The initial exceptional results have slowed partly due to the greater stringency now being applied over the PBR submissions including the need to ensure there is robust baseline data for each family included on the programme. I am satisfied that the arrangements have been duly strengthened and therefore the claim rates should increase again. The council needs to provide PBR claims for all 560 identified families before April 2015 and this a significant task, but the current arrangements should be sufficient to enable the council to meet this target.

CONCLUSION AND AUDIT OPINION

There has been significant progress relating to the governance arrangements and the PBR data submissions indicate ever improving data management. On this basis I can confirm that the arrangements now in place are **sufficient**.

Grant Certification

Certain grants require certification by internal audit, and also some programmes of work include an element of payment by results (PBR) which need to be certified prior to claim. Below is a list of grant and PBR certificates completed since the last Audit Committee meeting.

Grant	Date Signed off	Value
Adoption Reform Grant 2013/14	5.6.14	£345,080
Individual Electoral Registration 2014/15	17.6.14	£18,096
Care Bill Implementation Grant 2014/15	16.6.14	£125,000
Medway Action for Families Payment by Results May 2014	19.5.14	n/a
Medway Action for Families Payment by Results July 2013 (Retrospective)	27.6.14	n/a

Annex D

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)	Risk Based: Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the Council's risk exposure. Compliance: Fully compliant, with an appropriate system in place for ensuring ongoing compliance with all requirements.
Sufficient (2)	Risk Based: Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the Council's risk exposure. Compliance: Compliant with all significant requirements, with an appropriate system in place for monitoring compliance. Very minor areas of non-compliance.
Needs Strengthening (3)	Risk Based: There are one or more failings in the control process that leave the Council exposed to an unacceptable level of risk. Compliance: Individual cases of non-compliance with significant requirements and/or systematic failure to ensure compliance with all requirements.
Weak (4)	Risk Based: 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. Compliance: Non-compliant, poor arrangements in place to ensure compliance. Urgent remedial action is required.