

AUDIT COMMITTEE

15 JANUARY 2015

INTERNAL AUDIT PROGRAMME

Report from: Internal Audit

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Summary

To advise Members of progress in delivering the approved 2014/15 work programme, and present outcomes completed since the last meeting of the Audit Committee.

1. Budget and Policy Framework

1.1 It is within the remit of the Audit Committee to take decisions regarding accounts and audit issues.

2. Background

2.1 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.

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 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 A**. This progress document includes any outstanding audit reports relating to the 2013/14 work programme.

2.4 The Audit Programme is reviewed in year to reflect any changes of priority since the plan was approved. The three additional audits being undertaken are as follows:

Audits	Change to Plan	Reason
Staff Allowances and Loans	Additional	Follow on from two investigations
Community Equipment	Additional	Impending procurement exercise
Preparation for Better Care Fund	Additional	Change will have a significant impact on the council

The three audits proposed for deferral, based on assessment of risk, are:

- Public Health
- Business Continuity - Energy Resilience
- General Ledger

- 2.5 This report also contains the outputs from each audit completed since the last update to the Committee. These are set out in **Annex B**. Each audit and follow up provides assurance over the appropriateness and effectiveness of the control arrangements in place. Controls are assessed in terms of whether they mitigate the identified risks, and maximise the likelihood of achieving stated objectives. Each output has been shared and agreed with management. A list of grant and payment by results certification is also included in this annex.
- 2.6 The definitions of the recommendation and audit opinion options, as endorsed by Audit Committee in July 2013, are shown at **Annex C**.
- 2.7 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.
- 2.8 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.
- 2.9 Internal Audit obtains confirmation of progress on recommendations made, usually within six months. Where the overall audit opinion is 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.
- 2.10 The audit programme includes audits of key financial systems and governance reviews, which are considered key activities and are given priority when resources are allocated.

Internal Audit Resources

- 2.11 An appointment has been made to one of the auditor vacancies, and the other vacancy is currently filled through a secondment from Finance. The level of vacancies in-year has affected progress on the delivery of the audit plan, meaning that it is unlikely that any of the three possible additional audits identified in the audit plan will be conducted in 2014/15.
- 2.12 The key financial systems and governance reviews in the revised plan are all on schedule for completion in accordance with the timetable.

- 2.13 The school probity review programme is on schedule for completion by the target date of July 2015. The consultant continues to deliver school probity reviews, his post funded through the school funds recovered through the courts following a successful prosecution of a school bursar.
- 2.14 The part time working arrangement for the Head of Internal Audit and Counter Fraud commenced 6 October for a trial three month period. It was agreed that the outcome of this trial period would be reported to this meeting of the Audit Committee meeting. After 6 weeks the part time hours were increased slightly to ensure that there was no detrimental effect to the delivery of service and the current arrangements are working well. The intention is to continue with this working pattern until the end of the financial year.

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 2014/15 audit programme, and the outcome of Internal Audit's work.

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Background Papers

None

Audit Plan 2014/15 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
Activity ↓						
2013/14 Audits for Completion						
Data Quality – Equality and Diversity	2	01/15				
Key Financial Systems						
Council Tax						P
Local Business Rates						P
Housing Benefit						P
Housing Rents						P
Key System Audits						
Treasury Management						P
Corporate Credit Cards	2					07/14
Taxation - Creditor Payments						F
Local Payment Arrangements		Q4				
IT Systems – Integra Access						F
School Financial Management			Q4			Q4
Risk Based Audits						
Capital Projects		F				
Client Financial Affairs			F			
Change Management – lessons learned from Better for Less		P				
Children's Services Action Plan	2		09/14			
Disclosure and Barring Service	3	01/15				
IT Systems - LAGAN		Q4				
Domiciliary Care			P			
Early Help Service - Financial Controls			P			
Better Care Fund NEW			P			
Staff Allowances and Loans NEW	3					01/15
Contract Management - Community Equipment NEW			DR			DR
Governance Audits						
Risk Management		Q4				
Corporate Governance		Q4				
Data Quality – Fraud Reporting		F				
Probity Audits						
Schools –						
Hempstead Junior School	✓		07/14			
St Benedict's RCP School	✓		07/14			

Audit Plan 2014/15 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
Activity ↓						
Thames View Primary School	✓		09/14			
Luton Junior School	✓		09/14			
Maundene School	✓		01/15			
English Martyrs RCP School	✓		01/15			
Hempstead Infant School	✓		01/15			
Horsted Federation	✓		01/15			
Danecourt School	✓		01/15			
Rivermead	✓		01/15			
Barnsole Primary			F			
New Road School and Nursery Unit			F			
St Mary's Catholic Primary			F			
St Thomas of Canterbury RCP			F			
Children's Centres -						
Riverside Primary			F			
Burnt Oak Primary School			F			
Deanwood Primary School			F			
Delce Infant and Nursery School			F			
Miers Court Primary			F			
Oaklands Federation			F			
St Margarets Troy Town CEVC			F			
Local Payment Arrangements -						
The Old Vicarage	✓		01/15			
Public Health	✓				01/15	
MACLS						F
Proposed Deferral						
Business Continuity - Energy Resilience						
General Ledger						
Public Health						
Follow Ups						
Medway Action for Families	2		07/14			
Corn Exchange Financial Systems	3		09/14			
Corn Exchange Post Management Review						
Medway Norse and SEN Transport			F			
Foster Care - DPA Issues						

Possible Audits						
<i>Planning</i>						
<i>Economic Development</i>						
<i>South Thames Gateway Building Control Partnership</i>						
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 2013/14				01/15		
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 – July 2014	✓		09/14			
Medway Action for Families - Payment by Results - October 2014	✓		01/15			
DCLG grant - Rogue Landlords	✓			01/15		
DfE Innovation Programme seed grant - Adolescents in Care or on Edge of Care	✓		01/15			

KEY

In Bold – audits completed since the last Audit Committee

F = fieldwork in progress

Shaded – audits already reported to Audit Committee

P = audit in planning stage

AC = month & year reported to Audit Committee

Bold = audits are reported to this Audit Committee

DR = draft report issued

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

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

SUMMARY INFORMATION ON COMPLETED AUDITS

Disclosure and Barring Service

(final report issued 31 December 2014)

The audit of compliance with Disclosure and Barring Service (DBS) - formerly Criminal Records Bureau (CRB) – requirements was carried out in two parts. The first part was carried out in 2013/14 and reviewed the council's procedures to ensure that checking of eligible staff / contractors / volunteers is undertaken in accordance with DBS guidelines. The overall audit opinion was 'sufficient'. A follow-up was carried out in June, which confirmed that the risks identified in the first part of the audit had been fully addressed.

This second part of the audit reviewed compliance with procedures, including management's checking of individuals' disclosures. Audit testing included looking at:

- HR DBS records for all council staff;
- contracts that involve contract staff working in regulated activities for the council;
- HR DBS records and DBS single central register information held by the Looked after Children's (LAC) Team for foster carers, family members etc. and,
- HR DBS records for a sample of council volunteers / non-staff (due to the numbers involved testing was not undertaken on all services – for instance taxi drivers and personal advisers were excluded from the sample).

Risks relating to the failure to obtain the necessary DBS checks, review the evidence provided, or assess the disclosures promptly, were reviewed to determine the effectiveness of controls. The findings and the opinions are shown below.

Council staff - sufficient

DBS checks (including three-yearly renewals) are carried out on over 1,000 council employees. Audit testing showed that the DBS process for staff is generally strong.

New council employees are not allowed to start employment until a DBS check has been undertaken and verified by the council.

The council has a comprehensive ID checker proforma that needs to be completed by the person who has checked the ID (in accordance with the council DBS guidance for managers' document). The ID checker also signs the relevant section of the DBS application form to confirm ID has been checked. HR staff check the proforma has been completed accurately. Once the DBS application form has been submitted to the DBS, the ID checker form is destroyed.

An issue with the transfer of data from the ResourceLink HR system to the current database resulted in some of the DBS expiry date information becoming corrupted. Our testing also identified that no DBS disclosure number was shown on the database for 52 staff who have professional registration with the Health and Care Professionals Council (HCPC) plus Occupational Therapy (HCPCOT) and the General Social Care Council (GSCC). HR have advised that this can be rechecked against ResourceLink to ensure that all staff affected have a disclosure that has been renewed in the last three years. Although HR commented that it is also a line management responsibility to ensure staff have up-to-date checks by keeping single central records for their staff, it would appear that service areas rely on HR to keep records and so HR need to ensure this issue is rectified.

Information came to light from a separate piece of work, that managers may not be aware of the changes to DBS including the revised eligibility criteria and are asking staff to complete DBS application forms when there is no longer a requirement for a check. This could contravene the Data Protection Act 1998, principle 3 which states that data requested and held should be “adequate, relevant and not excessive”. The seeking of such sensitive information unnecessarily could also be a breach of the Human Rights Act 1998 Article 8 which is the “right to respect of private and family life”.

Contract staff – sufficient

From a sample of contracts for both children and adults it was found that the need for contract staff to have the relevant DBS check was covered in contracts (although for a contract issued in January 2014 reference was still made to CRB/ISA checks rather than DBS – Category Management staff have been made aware of this). The DBS policy stipulates that council staff should obtain evidence from the contractor that disclosure has been received for any person working with vulnerable groups on a regular basis. In our view this policy is not practicable for all contracts and our review has confirmed that for some contracts relating to services delivered outside of the council’s offices, this requirement is not being met. We have made a recommendation to revise the policy and ensure contract management arrangements are sufficiently robust to mitigate the risk. It should be noted that a compensating factor is that care establishments / providers for children are included in Ofsted inspections and the Care Quality Commission conduct inspections on adult facilities, both of which include reviews of DBS checks.

Foster carers, family members and regular visitors – needs strengthening

New foster carers are not allowed to start employment until a DBS check has been undertaken and verified by the council.

The process for checking ID is as described above.

The management of DBS checks for foster carers, currently the responsibility of Children’s Services, is strong. From a sample of 50 foster carers, four were currently in the process of being updated in accordance with the three-yearly renewal process. As with the staff records the HR records held some errors due to the transfer of the data to a new database, which meant that two carers were missing from the database.

Some control issues were found relating to family members, regular visitors and non-contract transport providers which could put a LAC at risk:

- From a list provided by the LAC team of non-contract transport providers, there was no evidence that two individuals had up-to-date checks.
- There are issues with the return of DBS application forms for foster carer family members, regular visitors etc. with 28 forms outstanding, although LAC staff are looking into this. This could put LAC at risk.
- Due to the council no longer receiving a copy of the DBS disclosure and being reliant on the individual to bring the disclosure in to be verified, there are issues with the timeliness of this relating to foster carers and associated family members/regular visitors. From a check on the foster care single central register for checks undertaken since the change in the DBS procedure there are ten disclosures from 2013 still in need of verification by a member of council staff and 16 from January/February 2014.

We understand that, following the move of the LAC Team to mhs Broadside at the end of August, it is not possible for foster carers or family members etc. to visit the building in order to have their DBS check verified, so alternative arrangements need to be put in place.

Council volunteers / non-staff – needs strengthening

There is a robust process for the sending of DBS forms in relation to volunteers and non-staff positions, but unlike council staff where HR can ensure that the individual does not start work before the verification is complete, with volunteers this is a responsibility that lies with managers and therefore cannot be centrally monitored. From a sample of ten council volunteers / non-staff, HR are awaiting verification of disclosure from managers on seven individuals - four youth volunteers including three for DofE, a chaperone, a care worker and a Shared Lives carer – three are from 2013 and four from 2014. If these individuals have been allowed to begin their role before the verification is complete then children / adults could be put at risk.

CONCLUSION AND AUDIT OPINION

The findings relating to the sample of groups included in our review are summarised as:

- council employees – no significant weaknesses identified;
- contract staff working in regulated activities – sufficient controls in place;
- foster carers - some delays in verifying completed DBS checks (under the revised legislation copies of disclosures are no longer received by HR);
- foster care family members and regular visitors – issues regarding non-completion/ return of DBS application forms;
- volunteers and non-staff – similar issues regarding verification of completed checks and an absence of effective measures to prevent such individuals commencing their role until this has been done (the sample of ten checked included seven who could have access to children or ‘vulnerable’ adults).

The weaknesses in respect of foster carers, family members, regular visitors and volunteers are considered to present a risk to the safeguarding of children and adults – it is possible that similar weaknesses may exist in other services within Children & Adults, not included in our review.

Our overall opinion is, therefore, that compliance with DBS requirements across the council **Needs Strengthening**.

Two significant recommendations were made to address the issues identified:

Finding:	Foster care a) Verification of DBS disclosures is not always undertaken promptly due to a delay in the individual producing the disclosure to be verified by council staff. b) DBS application forms issued to foster carer family members and regular visitors to enable a check to be carried out are not always returned. c) Two individuals on the list of transport providers do not have up-to-date DBS disclosures. d) Some of the queries raised were due to data errors following the transfer of the HR database to a new one.
Risk:	Looked After Children could be put at risk should a DBS check not be undertaken or a positive disclosure is not picked up promptly.
Management Action:	a) Foster carers to make an appointment to meet their SSW at Broadside to share DBS completion. Fostering service to inform all carers of new process. b) All foster carers have been contacted and asked to confirm that all members of their support network have disclosures. The Foster Care Team Manager to emphasise to carers

	<p>that current and future placements may be affected if disclosures not obtained for all members of their support network. Reminder also to be given to supervising social workers and Medway Foster Carers' Association with DBS requirements included in quarterly newsletters.</p> <p>c) Management will issue a reminder to supervising social workers that transport providers are not to be used if there is no evidence of DBS disclosure; have now confirmed that the two people identified do have current disclosures.</p> <p>d) Head of HR & Organisational Change will discuss options for maintaining a single register with the Head of Looked After Children's Service.</p> <p>(Head of Looked After Children's Service / Head of HR & Organisational Change – by end of January 2015)</p>
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Finding:	Council volunteers and non-staff There is a lack of evidence that disclosures obtained for council volunteers / non-staff have been verified by managers, or in a timely manner.
Risk:	'Positive' disclosures may not be identified / checked which could lead to a regulated activity being carried out by an unsuitable person.
Management Action:	Regular reminders and re-issuing of procedures have been and will continue to be sent out on a regular basis by the HR Support Team. (Head of HR & Organisational Change – now actioned and ongoing)

Three material recommendations were also made, relating to:

- Updating the HR database of DBS records for council staff to include disclosure information;
- Reviewing the HR list of posts requiring DBS checks to ensure it matches the level of check required under the revised DBS guidelines, and notifying managers of posts where CRB disclosure was previously required but DBS is not;
- Amending the DBS policy to distinguish between the requirements for school staff, agency staff and contract staff who are based outside of council premises, and Children & Adults commissioning managers determining appropriate mechanisms for provision of reasonable assurance appropriate to individual contracts, with consideration given to the assurance provided through external bodies such as the CQC and Ofsted.

All were accepted by management, with an undertaking to implement appropriate action by April 2015.

Equality and Diversity

(final report issued 16 December 2014)

The Equality Act 2010 consolidated anti-discrimination legislation and regulations in the UK into a single Act of Parliament. It established both a general equality and a specific duty for public authorities in relation to people with any one of eight protected characteristics (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation). In the exercise of their functions, public authorities must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the act;
- Advance equality of opportunity between people who share a protected characteristic and those who do not;
- Foster good relations between people who share a protected characteristic and those who do not;
- Publish evidence of analysis undertaken to establish whether their policies and practices further the aims of the general equality duty;
- Prepare and publish equality objectives and performance measures it reasonably thinks it should achieve in order to meet one or more aims of the general equality duty.

The Authority is aware of its duties, both to Medway residents and employees, and has identified failure to respond to its equality duties as a key risk to the organisation. As stated in the council plan 2013-15 the current financial pressures facing the council requires it to find new ways of managing need and providing services. It is critical that the council ensures it continues to meet its equality duties through these revised arrangements.

A consultant was commissioned to carry out a review of the council's equalities activity and the effectiveness of the current governance arrangements. The report highlighted current good practice but also some opportunities for improvement. Management used this report to create a seven point action plan to address the gaps identified in the consultant's report.

The audit, included on the 2013/14 Internal Audit plan, was intended initially to provide assurance on data quality for monitoring and reporting purposes. Given the actions identified by management the original audit scope was extended to include a review of the governance arrangements and progress on delivery of the seven point action plan. We agreed to review management arrangements for mitigating four key risks and our findings and opinions over the sufficiency of the controls are noted below.

Risk 1: Governance arrangements surrounding the equality and diversity duty are unclear.

Sufficient

The Authority's commitment to equalities is captured in its Fair Access and Inclusion policy, which is made available to all staff and the public via the council's internet and intranet sites. The Council publishes an annual report in line with its statutory duty, which outlines its seven equality objectives and performance measures. The report published in January 2014 describes the activity undertaken by the Council. The legislative timetable requires that equality objectives are reviewed every four years. This is currently underway, in line with that timetable.

There are sound governance structures for the management of the Authority's equality duties, with a nominated lead from both cabinet and Corporate Management Team

(CMT). The Equalities Action Group (EAG) is an officer group drawn from relevant representatives across the Council chaired by the Regeneration, Community and Culture (RCC) Director and receives reports on equality and diversity issues affecting the council. The performance hubs provide a core of expertise on equality and diversity issues and compile the reports for both internal use and external publication.

Consultants were engaged from 1st December 2011- 31st May 2013 at a total cost of £40,000. The consultants provided advice on complex diversity impact assessments, bespoke advice to services undergoing reorganization, management workshops and support to community groups. In addition, the consultants carried out a review of the council's equalities activities which informed a report to the Council's extended management team. Management identified that there was a concern that value for money from this arrangement could not be evidenced and we share this concern, given there was a lack of performance measures in place against which to monitor delivery. Since there is evidence of the consultants providing relevant services and management have now ended the arrangement we have not made a recommendation regarding the contractual arrangements. We are able to provide assurance that the council now has sufficient knowledge and expertise in house to deliver the council's objectives relating to equalities and diversity.

The Council has chosen to continue to produce Diversity Impact Assessments (DIAs) for all new policies and strategies in order to ensure these comply with equality legislation, even though the DIA itself is no longer a legal requirement. Testing showed that these were completed for a range of strategies and policies identified from the Authority's risk register and that the impact on customers who share different protected characteristics had been considered. However, as the Authority does not have a collated record of all its departmental policies and strategies, it is not possible to provide assurance that DIAs have been completed for each and every one.

In completion of their service plans, managers are prompted to assess each service objective across a range of cross-cutting priorities. Fair access to services is one of these. This is captured on the performance management system, Covalent, and provides the basis of directorate equalities plans.

The hubs provide day to day advice for management and this has been supplemented by training courses and workshops. There are also several equality and diversity courses available through the council's online training resource, ishare. The council recognises the benefit of all staff receiving equality training and it has the infrastructure in place to provide this. Management has decided against mandatory training and therefore there is a risk that some staff may not be aware of their responsibilities for ensuring all colleagues and members of the community are treated fairly. In addition there is no oversight to determine the impact of the training.

Employment Matters Committee has responsibility for employee relations and has created an equalities working group (EWG) to ensure the authority is meeting its duties under the Equalities Act. Representatives from three staff forums (Black Workers Forum (BWF), Disabled Workers Forum (DWF) and Lesbian, Gay, Bisexual, Transgender (LGBT) report to both EWG and EAG.

The Authority has achieved the "two ticks" award for good practice in relation to disabled employees and is proud of its annual improvement on the Stonewall Index which provides an equality benchmarking system across employers.

Risk 2: Data Quality – Monitoring Risk: Source data is inaccurate or incomplete, or inconsistent resulting in trend evaluation not effective.
Strong

The performance hubs act as centres of expertise on equality and diversity and provide a central point for collating the data necessary for measuring performance. This centralised service provides a framework for ensuring performance against the equality objectives meets the required reporting timetable and the data and expertise is ready to be used on new policy and strategy initiatives. The DIA process embeds this.

The 2011 census (published in 2013) is used as a baseline to understand the distribution of people with each protected characteristic within Medway's population. Service-specific information is drawn from a relevant source (i.e. school data is drawn from the school census and DfE website, crime figures come from the Police, social care data is taken from the Council's systems). Before use, third party data is checked for reasonableness and local data is reconciled to relevant national returns.

Employee data, including diversity information, is embedded in the HR systems from the point of application. The Authority can therefore extract all standard HR data to measure the breakdown of staff by protected characteristic (e.g. within each service or grade, turnover, employee relations cases).

Risk 3: Data Quality - reporting: Internal and external reporting of Medway data and progress against objectives is inaccurate, incomplete, not timely, misleading, or not publicised effectively.

Sufficient

The Authority has a clear understanding of its specific duty to publish an annual report demonstrating its compliance with the general equality duty by 31st January each year. One officer is tasked with the compilation of this report and the output is reviewed by the EAG, RCC Director, and Assistant Director, Communications, Performance and Partnerships, prior to publication on the Authority's website. Whilst the report can be made available in other formats it is not clear how customers without internet access will be aware of this.

The report published in January 2014 outlined the activities the council had undertaken in meeting its general equality duty and some of the achievements where it had delivered against its equality objectives. It lists the performance measures the council has identified as its means of showing the progress it is making in meeting these specific objectives but does not include the latest performance statistics. Customers would have to search the council's website to find the latest performance from within council plan monitoring papers.

Overview and Scrutiny receive six-monthly updates on the corporate risk register. The update on the equalities and diversity risk is discussed in greater detail at EAG. The key themes and actions identified by CMT as a result of the external review are discussed under risk 4 below.

Historically, Employment Matters Committee has been presented with employment and employee relations diversity data but this has not happened since 2010. There is no evidence of management reporting to the Assistant Director, Organisational Services.

Risk 4: Improvement Actions – progress against actions agreed by CMT
Sufficient

In August 2013, CMT received a report from the Assistant Director, Performance, Communications and Partnerships that recommended seven actions to address identified opportunities to further improve the Authority's track record on equalities. Progress has been reported periodically to CMT and EAG. We reviewed the April 2014 progress report and found that the update was accurate for most of the action points. We did identify one error in the report where we were informed that quotes have been

obtained for conversion of the customer charter into an easy-read format and this action was reported as complete but it would be fairer to describe the action as in progress.

The audit found the status of each action point to be:

1. EAG's role and responsibilities has been completed and membership has been reviewed with new members added to ensure attendance from all directorates; equality considerations are now embedded in the internal audit process; internal audit has completed this review. This action has been completed.
2. The membership of the citizens' panel has been refreshed following the 2011 census, in order to ensure it continues to be representative of the population and ensure consultation continues to be meaningful; alternative engagement channels are used for hard to reach groups. This action has been completed.
3. The Social Regeneration team uses a range of mechanisms to engage with local communities to ensure that projects meet the key needs of all groups within the area. This action has been completed.
4. Action is underway to publish the customer charter in easy read format. This action is in progress.
5. The refresh of the citizens' panel has improved our understanding of our customer profile and their needs. This action has been completed.
6. Equality training courses are now available on i-share which enables all staff to access the training from their desks. This action is in progress.
7. Equality pages on the intranet and internet have been reviewed and updated. Equality and diversity advice and information is now more accessible to customers and members of staff. This action has been completed.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of management of equality and diversity processes is "**Sufficient**". Five material level recommendations have been made to ensure:

- The council should list all its policies and strategies in order to ensure DIAs have been completed where necessary;
- Ensuring regular monitoring and reporting on employee equality data;
- EAG to monitor and review the effectiveness of equality and diversity training;
- Performance data to be included in the annual equality report, rather than signposted to elsewhere on the website;
- Customer Charter document to be made available in easy read format and a review undertaken of which other documents need to be made available in this format.

Staff Allowances and Loans *(final report issued 18 December 2014)*

A review of allowances and loans to staff was originally intended to form part of the Payroll audit, which itself formed part of the approved annual internal audit plan for 2013/14.

However, as this was an addition to the scope of the cyclical reviews of financial controls within the payroll system, and to provide the required assurance has necessitated a significant additional level of testing and review, the audit findings, conclusions and recommendations were segregated into a separate report. Findings were updated to reflect the implementation of the Medpay scheme from 1 April 2014, which we confirmed to have reduced the number of staff receiving allowances.

The two risks reviewed, and our opinion on the effectiveness of controls, are shown below.

Risk 1: Allowances paid to staff may not be justified, approved appropriately or restricted to a certain period of time - Needs Strengthening

Allowances available

Non-school staff may be eligible to receive additional payments for:

- acting-up by undertaking all or part of the duties of a higher-graded post;
- carrying out other additional duties, for example a special project beyond the normal scope of the job description or additional duties not related to a specific post.;
- market premia, when pay rates for specific posts are considered insufficient to enable recruitment and/or retention of staff with the required knowledge, skills and expertise.

The first two of these are covered by the Additional Duties Payments Policy, requiring line manager recommendation for approval by the relevant director and notification of agreed payments to the Assistant Director, Organisational Services. The policy states that “any acting up payment should be for a clearly specified and time limited period only and should be kept under regular review to ensure it does not become an on-going arrangement”, but is less specific about additional duties payments, requiring only that the employee is advised in writing of the period to which the allowance applies.

The separate market premia scheme states that authority to agree any payment is delegated to the Chief Finance Officer and Assistant Director, Organisational Services, following approval/recommendation by the relevant director.

Non-teaching staff employed in LA controlled schools are council employees and are, therefore, covered by the same arrangements. However, there appears to be no corresponding policy specific to schools, though the variant of form AC002 for use by schools for additional duties payments (which appears to no longer be available on the school forums website) indicated that authorisation by the headteacher and chair of governors is required.

Recruitment/retention payments to teachers and discretionary payments to headteachers are covered by the national Teachers’ Pay and Conditions, published by the Department for Education (DfE); authorisation by the headteacher, or governing body in the case of payments to headteachers, is considered appropriate.

Initial findings – non-school staff

The overall report of staff receiving allowances indicated that three current additional duties allowances had no end date stipulated and, due to an evident input error, another had an unrealistically long end date, being awarded for a period of 11 years. It was also evident initially that a significant number of acting-up payments and additional duties allowances had been paid for long periods of time, being renewed on an annual basis - this applied mostly to service managers and senior management (several of whom had been receiving these allowances for more than seven years having absorbed extra responsibilities as a result of management restructures).

We identified that 46 non-school staff were receiving acting up payments and another 54 additional duties payments. Our sample testing of five acting up and 17 additional duties payments identified nine instances where the maximum criteria as per the policies had been exceeded. It should, however, be noted that our sample was not selected on a purely random basis, with priority being given to staff receiving larger amounts.

We also consider it better practice if, in cases where the line manager is a director, the allowance is actually approved by the Assistant Director, Organisational Services

We tested 26 market premia payments (61 employees were receiving a Scarcity/Market Premia allowance, 43 being social workers and 16 employed on a casual basis as sports coaches and community interpreters, paid an hourly rate). 24 of those tested (social workers and casual staff) complied with the criteria stipulated and had been authorised appropriately, but the remaining two had been processed on PMC002 'change of employee details' forms rather than the designated document for the market premia scheme. Neither of these had been approved by the AD Organisational Services, and one had also not been approved by the relevant director.

We discussed our initial findings with management and were advised that implementation of the Medpay scheme at the beginning of April 2014 should have considerably reduced the number of staff receiving additional duties payments. We therefore compared the results of our initial testing against the situation in the first four months of 2014/15.

Updated findings – non-school staff following introduction of the Medpay scheme

Payroll data for May-July 2014 indicated that implementation of Medpay had largely addressed the issue of staff at service manager grade and above receiving long term additional duties payments as a result of various organisational restructures since 2007. The number of non-school employees receiving acting-up payments had also decreased to 32, but the number of staff receiving additional duties payments had increased to 67 – this did not, therefore, totally support management's expectation that the Medpay scheme would significantly reduce the volume of such payments.

Re-performing our testing on the same sample of non-school staff identified that:

- only one of the employees receiving an acting-up payment continues to do so, this meeting the criteria specified and being justified and authorised appropriately;
- two of the employees receiving additional duties allowances have now left the council, nine are no longer receiving it and payments to four of those continuing to receive it complied with the criteria permissible as per the policy.

However, one of the additional duties allowances continues to exceed the maximum criteria specified in the policy - an award of £7,000 pa for three years from April 2013 and authorised by the Director of RCC, being an extension of an arrangement that commenced in 2006 and exceeds the maximum criteria by £2,466 (represents 15.4% of basic salary, 10% allowable). We have not found any documented discretion to override the maximum specified.

In addition, another employee in our sample was awarded a market premia payment of £2,000 pa for three years commencing in February 2014, this having been authorised (on a PMC002 form) by a senior practitioner only. From June 2014 this appears to have been subsumed into a regrading by two pay points, authorised by HR staff, increasing the annual salary by £1,755. However, an additional duties payment of £4,000 pa also commenced in June 2014, this awarded until January 2017 and authorised by the Deputy Director, C&A – therefore neither payment had been authorised correctly. The current additional duties payment also exceeds the maximum criteria applicable in this case (10% of salary) by £104.

We also noted that an additional duties payment previously paid to one service manager was replaced by a retention payment in June 2013. Since April 2014 the individual has been paid the revised ceiling for service managers, with a retention payment of £6,604 per year (11% of basic salary) also being paid. This payment was authorised by the Assistant Director Organisational Services and the Chief Executive, but no justification for the payment (as is required on the form for the market premia scheme) had been recorded.

School staff

Our testing of allowances being paid to a sample of 23 staff at LA-controlled schools in December 2013 indicated that:

- additional duties allowances paid to 10 of 11 non-teaching staff complied with the Medway additional payments policy and all had been authorised appropriately;
- an additional duties allowance being paid to an executive headteacher, whilst complying with the Teachers' Pay and Conditions, had been authorised by the assistant headteacher, there being no evidence of approval by the governing body;
- teacher recruitment/retention and headteacher discretionary payments to 12 employees complied with the Teachers' Pay and Conditions - 11 had been authorised appropriately – the exception was authorised by the headteacher only, with no second signature.

The remaining additional duties allowance, to a school business manager, equated to £7,000 per year and exceeded the maximum criteria applicable per the Medway policy by £3,511 (representing 20.1% of basic salary). This had been approved by the headteacher and chair of the governing body - we acknowledge that enforcement of Medway policies is difficult given the delegation of authority to school governing bodies, but the school involved had community status so its staff are employed by Medway Council.

Issues regarding additional allowances being paid for extended periods were also noted in respect of school staff, in particular senior teaching and administrative staff. For example annual awards to one headteacher since 2010 have been added to salary cumulatively, though it was not clear if this was intended by the governing body. The teachers' pay and conditions stipulate that retention incentives for existing teachers "may only be awarded for a fixed period not exceeding three years and may, in exceptional circumstances, be renewed" – which appears to give governing bodies scope to extend such allowances.

The payroll data obtained for May-July 2014 indicated that acting-up allowances were being paid to four deputy/assistant headteachers and some teaching staff were receiving additional duties payments – it is unclear whether the Medway Additional Payments Policy is intended to apply to teaching staff. However, it should be noted that the majority of the schools involved had already converted to academy status or were in the process of converting.

As payroll is one of the aspects included in the ongoing school probity review programme, the data extracted for this audit will be used to inform testing of the authorisation processes for additional payments in future probity audits. We will also advise school governing bodies that they should seek confirmation that all additional payments made at their school comply with the relevant policy and have been authorised appropriately.

Risk 2: Policies covering loans to staff may fail to protect the Council against fraud, may not be approved appropriately, used for the purpose intended or recovered on termination of employment - Needs Strengthening

Loans are available to eligible employees to assist the purchase of a car, cycle or season ticket for parking, bus or train for travel to and from work. They are covered by separate policies, but all require approval by an appropriate level of management and instalments are recovered automatically through payroll.

As at 31 January 2014, new loans approved during the 2013/14 financial year consisted of:

- nine assisted car purchase scheme loans totalling £67,616;
- 24 rail/bus season ticket loans totalling £13,466;
- 15 cycle loans totalling £11,685; and
- 11 car parking season ticket loans totalling £5,102.

We confirmed that all recipients of new loans under the assisted car purchase scheme met the eligibility criteria, receiving the special allowance (for service managers and above) or essential user allowance. Sample testing of three season ticket loans, two cycle loans and two car parking season ticket loans identified that all met the eligibility and general conditions of the applicable policies.

No proof of purchase had been submitted to Payroll for four of the ten loans examined (two car loans totalling £28,719 and two cycle loans totalling £1,650). This had not been pursued by Payroll, though the policies clearly state that proof of purchase must be produced after a period of time, to confirm that the loan has been used for the purpose intended.

The consequent risk that loans may not have been used for the purpose intended was confirmed by two recent investigations relating to cycle and season ticket loans.

The policies covering the various types of staff loan have evidently been produced at different times and are not, therefore, totally consistent – for example the positions of some authorising officers referred to, such as *Director of Finance and Corporate Services*, no longer exist. The policy for cycle and scooter loans is also ambiguous in stating ‘wherever possible the cycle/scooter **should** be used for home to work’ but that ‘management are expected to carry out checks that the cycle/scooter **is** being used for work to home’. We also consider the stipulation in the policy for the assisted car purchase scheme that cars “shall be available at all times by the employee for council business” to be questionable.

Furthermore, the policies lack certain information that would make the staff loan schemes more resilient to fraud, for example there are no references to:

- managers authorising loans providing confirmation that the loan was used for the purpose intended (they will have better knowledge of the individual’s travel habits than Payroll);
- what action will be taken if proof of purchase is not provided to Payroll as required;
- the right to investigate/take disciplinary action if non-use or misuse of loans is proven;
- balances outstanding at the point of leaving being deducted from final salary where funds suffice;
- managers being responsible for checking whether loans are still needed if an employee’s home address or workplace has changed (Payroll do not monitor outstanding loans against changes of address).

As a result of investigations into non-use or misuse of travel loans, the Fraud Manager is to liaise with HR management to develop policies and processes which are more resilient to fraud.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of controls surrounding allowances and loans to staff is **Needs Strengthening**.

Three significant recommendations were made to address the issues identified:

Finding:	<p>Allowances - Additional duties + Market premia</p> <p>a) Some additional duties allowances, although authorised appropriately, exceed the maximum criteria specified in the policy.</p> <p>b) Three current additional duties allowances have no end date stipulated and another has an unrealistically long end date, being awarded for a period of 11 years.</p> <p>c) Additional duties allowance for an executive headteacher authorised by the acting head of school, who would be a subordinate. All issues relating to Headteacher remuneration should be approved by the governing body.</p>
Risk:	<p>Policies overridden by senior management.</p> <p>Inappropriate payments may be made.</p>
Management Action:	<p>a) This will be raised with the Assistant Director, Organisational Services, HR Business Partners and the directors of service.</p> <p>b) The cases identified will be investigated and referred to HR business partners and the relevant director of service for review.</p> <p>c) Payroll staff will be reminded, at the next team meeting, of the additional payment policies and will be instructed to return these if the expected criteria is not met.</p> <p>(Payroll Manager - by end of March 2015)</p>

Finding:	<p>Loan policies/processes – fraud resilience</p> <p>a) There is an absence of fraud deterrence measures in policies covering the various types of staff loan.</p> <p>b) Policies covering staff loans are not consistent, some include ambiguous wording and authorisation levels that are outdated.</p> <p>c) No checks made to identify changes in employee circumstances (eg moved house and therefore no longer requires the ticket/ vehicle/cycle) and follow up repayment of any potential refund/sale proceeds received by employee.</p> <p>d) A note of any unrecovered loan is not made on former employees' HR record, so it can be identified and recovered should they be re-engaged subsequently.</p>
Risk:	<p>Disciplinary or other action may not be possible should the loan be misused.</p> <p>Loans may be misused as policies are unclear and/or outdated.</p> <p>Outstanding loans not repaid on receipt of refund by employee.</p> <p>Person may be re-engaged as an employee and unrecovered loan not identified or recovered from salary.</p>
Management Action:	<p>a) The requirement for staff loans will be reviewed in line with the new proposed salary sacrifice scheme for cars. We will then liaise with the Fraud Manager to assist with a review of policies.</p> <p>b) As above.</p> <p>c) A monthly housekeeping report and checking process has</p>

	<p>been put into place to identify changes to individual circumstances.</p> <p>d) Payroll staff who administer loans have been instructed to place a note on employee records, which will identify outstanding balances should the employee re-join the Authority.</p> <p>(Payroll Manager - by end of March 2015)</p>
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Finding:	<p>Loans - non-compliance with policies</p> <p>The policies clearly state that proof of purchase must be produced after a period of time, but on more than one occasion this had not been provided or pursued by Payroll any further:</p> <ul style="list-style-type: none"> - Cycle loans - proof of purchase was not provided for either of the two applications selected, it being identified subsequently that no cycle had been purchased with one of these loans; - Assisted car purchase scheme - documents required to be provided, as specified in the policy, were missing for two of the three loans selected. Documents were not provided after the purchase of a vehicle was complete to show ownership for one of the loans.
Risk:	Loans may not have been used for the purpose intended.
Management Action:	<ul style="list-style-type: none"> a) The review of our loan policies will include a new application form and checklist for staff to follow. b) The relevant staff have been advised to escalate any cases of employees not conforming to requirements of the loan policy <p>(Payroll Manager - by end of March 2015)</p>

SCHOOL PROBITY REVIEWS

The Guide to the Law, provided by the Department for Education, defines the required school governance structure for ensuring financial probity. The governing body hold the headteacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place. The school business manager (SBM) or equivalent is responsible for the delivery of sound financial administration. Medway Council's Chief Finance Officer, under Section 151 of the Local Government Act 1972, has a legal responsibility for ensuring the proper administration of the Council's financial affairs, including schools in Medway under Local Authority control.

Internal Audit is conducting a programme of financial probity audits in all the schools Medway Council has oversight responsibility for. Each probity audit seeks to identify any weaknesses in the financial management arrangements, provide guidance and advice to the school on how to strengthen current arrangements, and provide reasonable assurance that there are no financial irregularities.

Each 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 the school's finance policy and confirmed through interviews with the headteacher and the finance officer;

- Targeted testing in the areas of greatest potential risk and / or potential anomalies identified during the risk assessment.

An overarching report is provided at year end to provide assurance and an overall audit opinion on the financial management arrangements in Medway Schools.

<p>Danecourt School <i>(final report issued 15 September 2014)</i></p>

Danecourt was originally designated as a school for pupils with moderate learning difficulties but is now increasingly catering for pupils with severe learning difficulties and more complex needs. The school caters for children aged 4-11 years and currently has a pupil roll of 151 children. The school business manager supports the headteacher with the management of financial processes.

The school site runs a training centre, Rainbow Court, which provides an extensive programme of professional development across the local authority and beyond. The centre generated approximately £59k income in 2013/14.

By undertaking a risk assessment, which included the analysis of financial data, review of key finance and governance documents, and interviews with the headteacher and business manager, we obtained a level of assurance over the schools financial management and governance arrangements. We found that the highest risk area in terms of value was creditor payments, some of which were used to fund the purchase of IT equipment. There were also significant payments to staff on the basis of submitted timesheets and the income was higher than at most schools due to Rainbow Court. For this reason our audit focused on procurement, payments to staff via timesheet, Rainbow Court income and asset management.

Our review and testing of the purchasing arrangements confirmed that there are reasonable processes in place, but the school is not documenting the procurement decisions by the Finance Committee or the reasons for choice of contractor in line with the Finance Policy.

The school spent a total of £47k on overtime between February 2013 and March 2014 and recognises that this is a high level of overtime. The headteacher explained that overtime is mainly incurred by classroom assistants who are only contacted for 26.25 hours per week and besides their regular duties, also escort children to and from school and are involved with after school clubs. The headteacher has not incorporated this regular overtime into contracts due to uncertainty around SEN funding formula. Testing a sample of timesheets for three employees for three consecutive months showed that there is evidence to support these payments.

Rainbow Court has a dedicated Centre Manager who arranges courses, accepts bookings and handles the centre administration. Financial transactions are processed through SIMS. The school provided records to show that each event broke even and also recorded the additional benefits to the school (e.g. free training courses). The Business Manager believes the Centre Manager's salary costs are covered by the centre income. However, the school had not performed a full cost/benefit analysis to take into account all the fixed costs (e.g. utilities) or completed reconciliations to show that all income due has been received. This has now been completed for 2013/14 and a small shortage was identified that can be attributed to weaknesses identified with collection, banking and reconciliation processes.

The school maintains an asset register that records IT equipment and cameras regardless of value. All other items above £200 are entered at the point of purchase.

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 processes at the school.

<p>Rivermead Special School <i>(final report issued 3i October 2014)</i></p>

Rivermead is a community special school for young people aged 11 to 19 years with a range of complex needs, specialising in Autistic Spectrum Disorders and Asperger's Syndrome. It has a pupil roll of 107 children. The school operates from two sites (Forge Lane and Mid Kent College) and has to provide tutoring for some pupils in hospital or at home. The finance officer supports the headteacher with the management of financial processes. A new headteacher was appointed with effect from 1 September 2014. The audit was carried out during the last term of the outgoing headteacher.

The school's finance policy provides a framework for financial management, establishing appropriate roles and responsibilities for the governing body, finance committee, headteacher, and finance officer. We were able to account for all staff on the payroll and were satisfied that the school's processes would continue to ensure only legitimate staff were paid. The school made the majority of its creditor payments through SIMS. There is a credit card (only used for the type of internet purchases expected at a school) and, a fuel card (with use restricted to four school-owned vehicles which transport learners between sites during the school day). There were no indications of missing income streams.

There were a few areas we examined in more detail due to their value or nature:

- School Meals, which was the only significant source of non-grant income
- Staff and governor reimbursements through SIMS;
- Procurement and payments;
- Payments to staff triggered by timesheets (e.g. overtime);
- Petty cash.

We confirm we found no probity issues but agreed an action plan to strengthen current arrangements. The school needs to ensure consistent compliance with its procurement policy and better document its procurement decisions in order to demonstrate value for money.

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 school meal income, payroll and procurement.

Hempstead Infant School
(final report issued 19 December 2014)

Hempstead Infant School is for children aged four to seven years with a pupil roll of approximately 260 places. The Bursar supports the Headteacher with the management of financial processes. The school has more than average number of pupils requiring support for special educational needs.

The school's finance policy provides a sound framework for financial management, and establishes appropriate roles and responsibilities for the governing body, finance committee, headteacher, and the Bursar. We were able to account for all staff on the payroll and were satisfied that the school's processes would ensure only legitimate staff were paid. There were no obvious missing income streams and the amount of cash received was relatively low. The majority of the school's payments are made by cheque through SIMS.

There were a few areas we examined in more detail due to the value or nature of the expenditure:

- High value expenditure;
- Staff paid by timesheets (e.g. overtime);
- Staff reimbursements
- The B&Q card
- Petty cash

We confirm we found no probity issues but agreed an action plan to strengthen current arrangements.

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 payments and procurement.

English Martyr's Catholic Primary School
(final report issued 25 September 2014)

English Martyr's Catholic Primary School is for children aged four to eleven years with a pupil roll of approximately 210 places. The bursar supports the headteacher with the management of financial processes. The school has a relatively high proportion of children requiring support for special educational needs.

The school's finance policy provides a sound framework for financial management, establishing appropriate roles and responsibilities for the governing body, finance committee, headteacher, and bursar. We were able to account for all staff on the payroll and were satisfied that the school's processes would continue to ensure only legitimate staff were paid. The school made creditor payments through SIMS. The school does not use either a business card or petty cash. Income, apart from the Dedicated School Grant, was very low, and there were no indications of missing income streams.

There were a few areas we examined in more detail due to the value or nature of the expenditure:

- Payments for agency supply teachers;

- Procurement and payments for a small number of other suppliers;
- Payments to staff triggered by timesheets (e.g. overtime);
- Staff reimbursements through SIMS.

We confirm we found no probity issues but agreed an action plan to strengthen current arrangements.

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 procurement, payments and payroll timesheets.

Horsted Infant and Junior Schools

(final report issued 19 November 2014)

Horsted School is a federation of the adjacent infant and junior schools, with both schools sharing the same governing body and executive headteacher. There are approximately 400 pupils across both schools and the numbers receiving support from pupil premium funding and those with special educational needs are roughly in line with the national average. There is a bursar at each site and they assist the headteacher with the management of financial processes.

The school's finance policy provides a sound framework for financial management, establishing appropriate roles and responsibilities for the governing body, headteacher and the bursars. We were able to account for all staff on the payroll and were satisfied that the school's processes would ensure only legitimate staff were paid. There were no obvious missing income streams. The majority of the school's payments are made by cheque through SIMS.

There were a few areas we examined in more detail due to the value or nature of the transactions:

- High value expenditure on building work and IT equipment;
- Contracts and leases;
- Staff paid by timesheets (e.g. overtime);
- Lettings and trip income;
- Business card payments;
- Petty cash;
- Staff reimbursements.

The audit identified an historic issue dating from 2009, whereby the previous school management entered into a photocopier leasing agreement that included an early settlement cost and did not provide for ongoing maintenance. This represented poor value for money. The current headteacher raised concerns in 2012 and renegotiated the lease. The arrangement ceased this year.

We confirm we found no other probity issues but agreed an action plan to strengthen current arrangements.

CONCLUSION

We are able to provide assurance that the school has reasonable controls in place to manage its financial processes and, apart from the historic leasing agreements, we did

not identify any probity issues in our testing of supply teacher payments and procurement.

Maundene Primary School
(final report issued 25 September 2014)

Maundene Primary School is for children aged seven to eleven years with a pupil roll of approximately 420 places. The School Business Manager (SBM) supports the headteacher with the management of financial processes. The school has more pupils than average requiring support for special educational needs. The school is currently awaiting a decision in respect of funding for a new school building to be built on the current school grounds to replace the existing facilities.

The school's finance policy provides a sound framework for financial management, establishing appropriate roles and responsibilities for the governing body, headteacher, personnel, finance and premises committee, budget holders, and the SBM. We were able to account for all staff on the payroll and were satisfied that the school's processes would ensure only legitimate staff were paid. There were no obvious missing income streams. The school made the majority of its creditor payments through SIMS.

There were a few areas we examined in more detail due to the value or nature of the transactions:

- Suppliers paid over £5,000
- Payments to staff triggered by timesheets (e.g. overtime)Income from lettings, school trips and uniform;
- Business card payments;
- Petty cash;
- Staff reimbursements.

We confirm we found no probity issues but agreed an action plan to strengthen current arrangements.

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.

LOCAL PAYMENT ARRANGEMENTS

The following audits form part of a series of reviews of local payment arrangements 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 payment reviews will be collated into an overview report, providing an overall audit opinion.

These reviews covered the checking, handling and authorisation of payments made through imprest accounts, petty cash/cash advances, Webreq orders or non-purchase orders, and any other non-payroll transactions, to mitigate the risks that:

- payment methods may not be appropriate;
- expenditure incurred may not be for business purposes or authorised appropriately;
- payments may not be accurate or timely.

The Old Vicarage

(final report issued 16 December 2014)

The Old Vicarage is a six-bedded residential unit for young people aged 14 to 18 years, currently managed for Medway Council by the Northern Care residential services group.

Our review and testing of the financial control arrangements confirmed that, overall, there are appropriate processes in place for the management of payments.

Expenditure is approved and authorised by appropriate Medway Council officers who were confirmed as authorised signatories. Expenditure is supported by valid VAT receipts or invoices and was deemed appropriate and legitimate to the needs of the establishment. However, we identified some areas where improvements could be made to strengthen the current arrangements.

The establishment has an imprest account of £5,800, but we noted that the balance of the imprest bank account was regularly overdrawn throughout the three months for which copy statements were obtained. Monthly expenditure through imprest averaged over £3,100 during this period - although this is within the imprest limit, monthly withdrawals are regularly made before the previous month's expenditure has been replenished in the account (typically in the third week of the following month), leaving a negative balance in the account. This breaches the Council's Imprest Account Regulations and Guidelines, which state "Bank accounts are not permitted to go overdrawn".

The Support Services Assistant (SSA) is responsible for the checking and handling of reimbursements, reconciliation of cash balances and the recording of the expenditure through the imprest account. Although processes are in place to confirm cash balances agree on a regular basis, they are not carried out in the presence of another person. Reimbursements via the imprest account are not always signed for by the recipient, but by the SSA on their behalf, although we acknowledge that this occurred in only one of the three months' transactions we reviewed. This could place the SSA in a vulnerable position should any allegation be made that cash was not received.

No evidence was found of expenditure being approved prior to orders being placed without a Webreq order being raised (we acknowledge this may not be practical for purchases made through the imprest account). Currently corporate guidelines do not state that this is a requirement, but it would ensure expenditure is appropriate and for business purposes only, prior to it being incurred.

CONCLUSION

We are able to confirm that The Old Vicarage has effective controls in place for checking, handling and authorisation of payments and that we did not identify any significant issues. Management have not, however, fully adopted the three recommendations made to further strengthen the current financial arrangements.

However, in view of the Cabinet decision on 30 September 2014 approving the transfer of the establishment to the independent sector from mid-2015 we acknowledge that current arrangements will cease at that point.

Public Health

(final report issued 10 October 2014)

The net budget for Public Health in 2014/15 is £12.8 million, over half of which is for commissioned services and almost £3.5 million for staffing costs. Additional cost centres have been introduced to improve reporting against Public Health grants received from central government.

Our review and testing of the financial control arrangements confirmed that, overall, there are appropriate processes in place for the management of payments, although there are areas where improvements could be made to strengthen the current arrangements including adherence to corporate guidelines.

The Head of Health Improvement holds a corporate credit card, the use of which was reviewed during a recent audit on corporate credit cards and was deemed to be used appropriately.

All service managers have been set-up as authorised signatories with signatory forms completed and financial limits set accordingly.

There was limited evidence of documented approval of expenditure prior to transactions being made through petty cash / cash advance or via non-purchase orders, although we were advised that verbal approval is sought. Currently corporate guidelines do not state that this is a requirement, but it would ensure expenditure is appropriate and for business purposes only.

From analysis of financial records for the cost centres constituting Public Health for 2014/15 to date we identified that:

- 22 orders were raised via the ordering section on Integra (Webreq) for all the cost centres under the code, although 49 were raised retrospectively, i.e. after receipt of the invoice, which means that approval may not have been received in advance and the cost was not committed on Integra;
- for one of the cost centres (4E820), 38 non-purchase orders and five Webreq orders had been raised. From analysis of this, more orders could have been raised on Webreq – including training, room bookings, promotional resources and others where the supplier was already set-up on Integra;
- one order had been raised on Webreq and the order number given to the supplier, but it was not processed properly on receipt, with two non-purchase orders raised instead, leaving the original commitment still on Integra. Further review of Integra records identified that six purchase orders raised in 2013/14 remain 'outstanding' (i.e. goods/ services not recorded as received), suggesting that this was not an isolated instance.

Failure to commit expenditure promptly or accurately on Integra impacts on the effectiveness of budget management, presenting a risk that budgets may become overspent.

From a sample of non-purchase orders reviewed, the 'goods received' box had not been initialled on any of them to confirm receipt of goods/services prior to payment being authorised and made. There is a resultant risk that payment could be made for goods or services that have not been received.

From a sample of petty cash / cash advance claims, three claims contained VAT receipts but as VAT was either not / or incorrectly indicated on the claim form, Cashiers did not process VAT. There were also incidences when claims contained vatable items, but VAT receipts had not been obtained. Corporate petty cash guidance stipulates that in

order for VAT to be recovered, it should be recorded correctly on claim forms and VAT receipts requested whenever possible.

A separate petty cash float for use by the Drugs and Alcohol Team (DAAT) had recently been closed with unspent funds repaid. Claim information since the end of May had not yet been entered onto Integra due to awaiting final receipts but this had now been passed to Finance for update.

CONCLUSION

We are able to confirm that Public Health has adequate controls in place for checking, handling and authorisation of payments and that we did not identify any significant issues. We are also satisfied that management have adopted the three recommendations made to further strengthen the current financial arrangements.

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, those in bold having been 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
Medway Action for Families Payment by Results July 2014	9.9.14	n/a
Local Transport Capital Block Funding 2013/14	30.9.14	£3,729,000
Medway Action for Families Payment by Results October 2014	31.10.14	n/a
DCLG grant - Rogue Landlords	14.10.14	£19,200
DfE Innovation Programme seed grant - Adolescents in Care or on Edge of Care	16.12.14	£10,000

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