

AUDIT COMMITTEE

19 MARCH 2015

INTERNAL AUDIT PROGRAMME

Report from: Internal Audit

Author: Alison Russell, Head of Internal Audit and Counter Fraud

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**. The 2014/15 audit plan is due for completion by July 2015.

2.4 There are no proposed amendments to the internal audit plan since the report to the Audit Committee in January 2015.

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.

Internal Audit Resources

- 2.10 The post of Head of Internal Audit and Counter Fraud is currently being advertised, with interviews scheduled for week beginning 20 April 2015. The structure and resourcing of the Internal Audit team is currently subject to consultation. A verbal update will be provided at the Audit Committee meeting.

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

Activity ↓	Opinion	All	C&A	RCC	Health	BSD
Key Financial Systems						
Council Tax						F
Local Business Rates						F
Housing Benefit						F
Housing Rents						F
Key System Audits						
Treasury Management						F
Corporate Credit Cards	2					07/14
Taxation - Creditor Payments						DR
Local Payment Arrangements (overall)		DR				
IT Systems – Integra Access						F
School Financial Management			JULY			JULY
Risk Based Audits						
Capital Projects		DR				
Client Financial Affairs			03/15			
Change Management – lessons learned from Better for Less	3	03/15				
Children's Services Action Plan	2		09/14			
Disclosure and Barring Service	3	01/15				
IT Systems - LAGAN		P				
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	n/a		03/15			03/15
Economic Development				F		
Governance Audits						
Risk Management		JULY				
Corporate Governance		JULY				
Data Quality – Fraud Reporting		F				
Probity Audits						
Schools –						
Hempstead Junior School	✓		07/14			
St Benedict's RCP School	✓		07/14			
Thames View Primary School	✓		09/14			

Audit Plan 2014/15 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
Activity ↓						
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			
Abbey Court			DR			
Balfour Infants			DR			
Barnsole Primary			DR			
New Road School and Nursery Unit			DR			
St Johns CEVC			DR			
St John Fisher			F			
St Mary's Catholic Primary			F			
St Thomas of Canterbury RCP			F			
St William of Perth RCP			F			
Walderslade Primary School			F			
Wainscott Primary School			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	✓					03/15
Follow Ups						
Medway Action for Families	2		07/14			
Corn Exchange Financial Systems	3		09/14			
Medway Norse and SEN Transport - update	3		03/15			
Local Welfare Provision - update	✓		03/15			

Audit Plan 2014/15 – Progress Report

Activity ↓	Opinion	All	C&A	RCC	Health	BSD
Foster Care - DPA Issues						
Grant Management						
Disclosure and Barring Service - update						
Disclosure and Barring Service full follow up						
Staff Allowances and Loans						

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			
Medway Action for Families - Payment by Results February 2015	✓		03/15			
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

CHANGE MANAGEMENT

(final report issued 9 March 2015)

Local Authorities have been undergoing a significant level of change in the last few years, driven by a number of external factors such as financial pressures, changes and increases in demand for council services, technological advances, and changes to regulatory requirements. It is likely that there will be further significant changes in the short and longer term, and the pace of change means it is important that the council can respond in an efficient way that ensures the required changes are delivered whilst minimising risks and costs. Change management projects range from small, relatively simple projects affecting single teams or systems, to complex programmes of change that will have a significant impact on the council as a whole. Whilst the nature of change management projects can vary there are key issues inherent in managing any type of change, all of which need to be given due consideration. A small number of these projects will have council-wide implications and historically consultants have supported the council in the delivery of these projects. Consultants bring their own expertise, knowledge and experience to the process.

This audit was initially intended to be an internal audit review of the way that the delivery of the changes in the Better for Less programme were handled. Better for Less was devised in 2010 to respond to the reduction in government funding and increasing demand for council services. It was a significant change management programme to introduce more effective working arrangements, to achieve significant savings without reducing front line services.

The Corporate Management Team commissioned a review of the lessons learned from the delivery of Better for Less in order to inform future transformational projects. Rather than re-perform the work undertaken by CMT this audit involved an independent review of the evidence available to support the findings of the review by CMT in order to provide independent assurance that the findings of the review were sound.

Internal Audit extended the audit to include a review of the Project Management toolkit on the council's intranet, which is intended to provide a framework for managing all projects, including change management. We have reviewed this toolkit to determine whether it provides sufficient guidance to managers.

The audit, based on lessons learned from Better for Less and a review of the project management toolkit, focused on the management of five key risks:

- Failure to achieve the desired outcome
- Reputational damage to the council
- Overrun in terms of time and/or costs
- Demotivation of staff
- Failure to identify lessons learned.

Project Management Toolkit

The project management toolkit provides a sound generic framework for managing projects of all types. It is presented in a way that is easy to use, and accessible to those who have not necessarily had previous experience in managing a project. The toolkit breaks down the process into constituent parts, from developing the plan to monitoring and reporting delivery, and closing a project. The toolkit also sets out decision points

and authorisation levels, financial management requirements and the recording of risks and issues, and overall provides a sound framework for ensuring good governance.

The toolkit also provides a series of helpful templates for use by the project manager, which should ensure a consistency of approach.

The toolkit is based on a tool for managing capital projects, and as such, whilst it does provide a useful guidance for change management, there are a number of specific considerations which are not covered in the toolkit. Particular issues for change management projects not covered in the toolkit and where further clarity needs to be provided to staff are detailed in Appendix A of the report. The issues identified relate to the following areas:

- Benefits realisation and impact assessment
- Stakeholder engagement and communications
- Implementation considerations
- Resourcing
- Governance and monitoring

These potential additions have been discussed with management and the intention is for management to add an annex dealing specifically with change management to address these points.

Management review of the delivery of Better for Less

Better for Less was a major change management programme, and has recently completed its third phase. A management review of the delivery of a major change project is critical to ensuring that lessons are learned, and improvements and benefits captured, for future projects. The review by CMT of the Better for Less programme was undertaken in a timely and comprehensive manner, seeking input from managers across the council as well as the staff most directly affected by the changes. We were able to confirm that the findings of the review by CMT were based on sound evidence.

The report, undertaken on completion of the third phase of the programme, highlighted the fact that significant savings had been achieved, with reported customer satisfaction having been sustained. The programme has provided a number of opportunities for staff, with 30% of staff who have had job changes gaining promotion. Staff redundancies have been kept to a minimum.

The management review did identify key areas where the change management process might have been stronger, and these learning points are being taken forward :

- There was a lack of baseline performance data in many service areas prior to the launch of the change management programme, making it difficult to gauge 'before and after' and measure the difference to performance made by the programme
- There was a strong focus on system changes with less consideration and focus on the necessary cultural and behavioural issues
- Capacity issues were not fully identified up-front and therefore there was significant pressure on resources, particularly for ensuring on-going delivery of the service whilst resources were diverted to deliver the change programme
- Communications which were effective in the early phase of the programme were less effective as the programme progressed, and this emphasises the need for a full communications plan which covers the whole life cycle of the change management programme. The recent results of the staff survey seem to underline the need to improve communication during times of change, including advertising the successes achieved.

- The programme deliberately focused on changes to customer contact and administration. It did not look at the whole customer journey or end to end process. The learning from the programme has shown that there are further improvements and efficiency gains to be had from looking at the whole customer journey and that will be the focus of the council's digital transformation programme that is being developed to start in 2015/16.

One further issue that was identified by management related to the need to ensure that there is an objective assessment exercise undertaken in the planning stage of change management programmes to determine how the project will be resourced. This assessment should determine whether the resources for delivering the project will be drawn from existing staff resources, whether interim or fixed term appointments need to be made, or whether it is appropriate to appoint consultants.

CONCLUSION AND AUDIT OPINION

The overall opinion on the change management aspects of the Better for Less programme and the project management toolkit is that the arrangements **Need Strengthening**. This opinion is based on the fact that the council is continuing with a transformation programme and is likely to face continuing need to redesign delivery and structure to meet the ever increasing financial pressures and rising demand for services. There is clearly a commitment by management to continue to adapt and improve its approach to change management in light of lessons learned. Implementation of the agreed management actions should strengthen the arrangements so that it is anticipated that the audit opinion will be raised to "sufficient" on completion of the audit follow-up which is scheduled for August 2015.

There is one significant action identified, detailed below, and a further two material actions relating to communicating the lessons learned from the management review of Better for Less, and ensuring there is a documented assessment of resourcing requirements undertaken at the planning stage of all large change management programmes.

The significant action should be completed by May 2015 and the audit follow up is scheduled for August 2015

Significant Finding:	Guidance
	<p>The project management toolkit is intended to provide guidance to managers on the delivery of change management projects. Using this generic project management guidance means that there are some change management specific issues not included in the toolkit.</p> <p>The issues identified as missing from the toolkit were shared with management in a separate document, but in summary relate to:</p> <ul style="list-style-type: none"> • collation of baseline data • knowledge of current processes, stakeholders and interfaces • adequate resourcing - to be able to continue delivery of steady state and provide appropriate training • input from specialist areas across the council • documenting a communication plan including celebrating success • Build in contingency • consideration of business continuity and equality issues • provide change management specific templates where necessary <p>document how the project supports council objectives and risk management</p>

Risk:	Change management projects may not be managed effectively.
Management Action:	<p>a) A change management appendix will be added to the project management toolkit by the AD Communication, Performance and Partnerships which will address the issues identified in this audit report</p> <p>b) The toolkit will require those conducting project reviews to feedback to AD Communication, Performance and Partnerships, on any key lessons learned in relation to change management so that these can be reflected in the toolkit.</p> <p>c) The AD Communication, Performance and Partnerships is responsible for the maintenance of the change management annex of the toolkit and this will be made clear within the toolkit change management annex</p>

CLIENT FINANCIAL AFFAIRS

(final report issued 17 February 2015)

The audit of Client Financial Affairs (CFA) was included in the annual internal audit plan to provide assurance on the robustness of arrangements in place for the management of clients' funds administered by the council. We did not review the financial assessment process as part of the audit.

The CFA Team currently manage the financial affairs of nearly 600 clients across Medway who are unable to do so themselves, controlling some £13 million of client funds. Currently CFA pay cash to clients from Riverside One.

Client finances are only managed by the CFA Team as a last resort when there is no family/next of kin to act or they are unsuitable. A care professional completes a complex Mental Capacity Assessment form to ensure that each referral adheres to the five key principles of the Mental Capacity Act. CFA can only manage the finances and affairs of clients who lack mental capacity, although they will also consider managing the finances of a client who has capacity but is physically unable to manage their finances under a General Power of Attorney (currently four clients).

All clients (apart from General Power of Attorney) are initially managed under 'appointeeship' (in excess of 300 clients), this involves CFA making an application to the Department for Work and Pensions (DWP) and focusses on:

- claiming and receipt of a client's State Benefits paid by the DWP;
- reconciliation of bank accounts;
- establishing/reviewing an appropriate budget plan;
- paying any relevant expenses, ensuring the client, if in residential care, receives their personal allowance and,
- reporting any changes in circumstances to the DWP and ensuring that funds are dealt with appropriately on the death of a client.

An application for 'deputyship' (in excess of 200 clients) is made when a person is thought to lack capacity to manage their property and affairs and has assets. The application is made to the Court of Protection and if approved a sealed order is sent by the Office of the Public Guardian.

The council does not charge to act as an appointee, however they do charge clients for providing a non-statutory service – this also applies to General Power of Attorney clients.

The council is allowed to charge to act as a deputy with fixed costs set by the Court of Protection.

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

Risk 1: Clients' funds may not be recorded and accounted for fully, accurately and promptly - Sufficient

The audit test sample contained a mix of both appointeeship and deputyship clients and although there was evidence that the council has formal authority to act on behalf of deputyship clients (all had a sealed order), we were advised that due to the DWP not returning the relevant form we were unable to view the document for the appointees in the sample, although all had evidence of 'appointee' fees being charged. Clients are allocated to CFA officers by an alphabetical split, however due to the absence of two officers, other officers are picking up their clients. Admin assistants are also responsible for recording transactions that have been approved by officers.

All clients are set-up with a current account that is in the name of the client and Medway Council and can be viewed/reconciled via Bankline. Client bank account details can only be amended by two signatories - there is a bank mandate listing signatories. Currently Excel spreadsheets are created for all clients that are used as ledgers to record income and expenditure. From a sample test the majority had been reconciled via Bankline within the last two months, with only one taking longer than that. We were advised that due to problems accessing Bankline via thin client, it is taking the team longer to reconcile client accounts. Management also review a summary sheet of accounts regularly. Copies of bank statements (and other documents relevant to clients e.g. invoices, utility bills etc.) are stored on the council's electronic documents and records management system (IDOX) in folders set-up for each client, although for two of the clients in the sample there were some gaps in bank statement dates. To aid reconciliation of income (and expenditure) and to make it easier to pick-up any errors, we suggested it would be useful if there was a summary sheet for each client detailing regular payments into and out of a client's account, but we were advised this would be impractical to maintain for nearly 600 clients.

Ledgers can be viewed/amended by anyone within the CFA Team although there are plans underway to introduce a new IT system (in 2015/16) that will replace the need to use Excel ledgers and will include an audit trail facility and also, if set-up correctly, allow for missing regular income/payments to be flagged. While there are procedures relating to recording cheques and cash, there is no guidance on completing ledgers, we were advised that this would be produced when the new IT system is introduced.

Testing on a sample of clients found that all benefit payments/regular income (i.e. private pensions) were recorded on ledgers/bank statements and all clients entitled to receive a state pension were in receipt of it apart from one client where it was deemed by the DWP that another type of benefit payment was more beneficial to the client.

Both electronic and paper copies of client correspondence are retained securely in accordance with data protection requirements with access restricted to CFA staff.

Risk 2: Clients' funds may be misused or used fraudulently - Sufficient

From sample testing, it was found that direct debits and standing orders are set-up for clients wherever possible to avoid too many payments via cheque. However, there is limited evidence of set-up and/or any changes stored on IDOX and so it was not possible to identify what some payments relate to although payees were legitimate (e.g. Medway Council). For one client in the sample who still owns a property but is in a

nursing home there was evidence of CFA requesting a reduction in monthly utility payments to prevent a large credit accumulating, but this has not been done for another client who has been in a nursing home since December 2013, due to issues gaining access to the property to read meters.

Currently payments (apart from standing orders/direct debits) are made from client accounts by writing individual cheques (client cheque books are held in the safe), which then need to be signed by two authorised signatories. In order to make this process more efficient, discussions have been held with the Finance Team regarding making more BACS payments although there has been a delay in this being put in place.

Invoices are stamped with a three-part stamp to indicate who agreed the payment, who raised the cheque and who authorised the cheque. From sample testing it was found that the majority demonstrated separation of duties with three different signatures. The remainder contained two signatures with the separation of duties on who raised the cheque. Authorisation of the cheque on all was signed by an authorised signatory although there was no record of the other person who signed the cheque. Cheque counterfoils contain details of the payment, but not who signed the cheque, although this can be checked on Bankline.

All payments in the sample were signed-off by either the Corporate Appointee and Deputy Decision Maker or the Team Leader. CFA ask care managers/social workers to make a decision on some spend or the Corporate Appointee and Deputy Decision Maker or Team Leader in his absence make the decision. All payments appeared to be reasonable and for the benefit of the client and none had been paid twice according to ledgers and bank statements.

Included in the deputyship policy and procedure notes there is information about investing client funds which for larger investments states that the Corporate Deputy and a representative from Finance will review investment options and sign off, although we were advised that Finance do not take part in this (we were advised by the Corporate Deputy that he can make these decisions in isolation as part of his role). It also states in one part of the policy that 'from January 2014 no further monies will be deposited with the Court Funds Office and all monies will be withdrawn and accounts closed', although we were advised that in some circumstances it is better to leave funds with the Court Funds Office. To avoid any misconception both areas should be reviewed and clarified in the policy/procedure notes.

From sample testing, investments in the stipulated accounts for one client are underway. We were advised this would also be carried out for three other clients in the sample who have sufficient funds. We understand that the relevant form regarding the eligibility to tax-free savings has not been completed for CFA clients, which could lead to a reduction in interest paid to clients.

For deputyship clients, there is a requirement to complete an annual report to the OPG detailing a summary statement of income and expenditure and listing decisions that have been made in the year including alterations in financial arrangements, change of accommodation etc., copies of which were evidenced for the audit sample. Following on from this the OPG can request a compliance visit.

Risk 3: Cash obtained for payments to clients may not be accounted for properly and protected adequately against loss or misuse/fraudulent use - Sufficient

There are 'cash procedures' which give details of how cash payments to clients/third parties from the CFA imprest account are processed and reconciled. The procedures do not give details of verification of ID of the person collecting the cash, although the cash slip that has to be signed by the person collecting the cash contains a tick box relating to

this and questions relating to ID were observed during cash collection by a third party. If someone is collecting the cash on behalf of a client, then the person is given a slip to be signed by the client and returned to CFA at the next collection. Sample testing indicated that cash slips had been signed by both the third party collecting the money and the client, although evidence of ID was not always indicated. We were advised that this is due to CFA Officers knowing the people collecting the cash.

A review of Integra and CFA records (between April and September) indicated that there were some delays in retrieval of monies given out to clients from the imprest account which appeared to be due to client cashflow issues, although all the ones identified have now been paid back. We were advised that delays in repayment are sometimes due to the time it takes DWP to action appointeeship. To safeguard CFA if they are unable to recoup money from client's benefits, service areas sign a form giving details of the cost centre that should be used to reclaim the cash should this be necessary. The amount of cash held in the safe did not exceed the insurance limit with the most held in the region of £30k.

During audit testing, a cheque (in a sealed envelope) from the imprest account made payable to the bank was found in an unlocked safe. We were advised that this had been given to the security guard to pass onto contract security the following week to enable them to collect monies from the bank to pay clients. The collection time is usually around 7.30am which is prior to CFA staff starting work. A new procedure has now been put in place (and issued to staff) to prevent this from happening in future.

Due to the planned relocation of the CFA team with the possibility of restricted access for clients to collect cash, there is a proposal to move to a mainly cashless system whereby clients will collect cash via a Paypoint type of system. It is hoped this will make the process more efficient whilst reducing security issues surrounding holding cash.

Risk 4: Clients' personal possessions taken into the council's care may not be accounted for properly and protected adequately against loss or misuse - Strong

The protection of property office procedures and guidance notes gives details about recording/safeguarding possessions (e.g. jewellery) including an inventory of items removed from property, and also information about returning to clients and/or relatives or disposing via quotes from two valuers, although it does not include where the resultant funds would be recorded.

From sample testing it was found that items recorded on the securities ledger matched those held. Records of items removed from properties were also signed by two people. Items were held securely. From a small sample, there was evidence of disposing of items in accordance with the policy with enquiries being made regarding selling items that may have been of value.

CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of Client Financial Affairs is **Sufficient**. There are some robust processes in place to manage the financial affairs of clients with no significant issues. The audit did identify some areas that if addressed will strengthen the process further. Plans to introduce an IT system will enhance record keeping and the use of BACS will improve efficiency. If approved, the option to go cashless will reduce risks to staff and also the workload for Finance staff who will no longer have to reconcile the imprest account.

Six material level recommendations made to address the issues identified, which were:

- reviewing and updating the various policies and procedure notes;
- improving the monitoring clients' income to identify any missing receipts;
- retaining evidence that at least two officers have been involved in approving payments from clients' accounts, writing and authorising cheques;
- retaining records of initiation/amendment of standing order/direct debit instructions on clients' accounts;
- clarifying whether the identification of persons collecting cash has been checked, or whether they are already known to CFA;
- reinvesting some clients' funds to improve the interest rate receivable, and completing R85 forms for clients who are not taxpayers.

Management agreed to implement appropriate corrective actions, by the end of November 2015 at the latest.

MCH COMMUNITY EQUIPMENT LOAN SERVICE

(final report issued 27 February 2015)

As part of its commitment to keep people independent and safe in their own homes, Medway Council loans clients equipment such as walking aids, bathing aids, mobile hoists. The Council currently has contracts with three suppliers, each of which provides a different range of equipment. One of these providers (Medway Community Health (MCH)) also provides an equivalent service to the health service. Medway Council and the health service are currently looking to integrate all the community equipment loan contracts into a single integrated contract. During this process, management had particular concerns about the MCH contract and a question arose concerning the stock held by MCH on behalf of Medway Council. Internal Audit was asked to help management identify lessons learned from the management of this contract to help inform the tendering process for the new integrated contract. No audit opinion is given as the work was focussed on improvements to the management of the service rather than on providing assurance on historical matters.

Most of stock items procured by MCH on behalf of the council are low value high volume core items (e.g. bathing aids and walking aids). These are referred to as "core stock". The remaining items are relatively high value, low volume equipment, such as hoists. These are referred to as "moving and handling".

Core stock:

Most of stock items procured by MCH on behalf of the council are core items. The management concern was that MCH might be holding a large but unknown amount of council-owned stock in storage pending issue into the community. This audit found this not to be the case. There is an MCH warehouse storing items awaiting allocation, but none of this stock is owned by Medway Council. MCH only charges the council for an item of equipment at the point of issue to the client, and therefore the stock only becomes Medway owned when it is issued. When an item of equipment is returned from the community into the MCH warehouse MCH refunds the council the current market rate for re-usable returns, thus re-taking ownership of that particular piece of equipment.

Since this part of the contract covers the bulk of the equipment and costs, the risk to the Authority is significantly lower than had been anticipated. The contractor is not holding a significant level of stock on behalf of the council.

We are concerned that management was not aware of the stock holding arrangements and we had to determine these from the contractor. This has been flagged as a lessons

learned point and we are pleased that the new management in Partnership Commissioning and Adult Social Care is seeking to ensure this does not happen in the new contract.

The council does own the stock that is out in the community. MCH's stock control system (MSOFT) allows them to track the location of each item. MCH have estimated that Medway Council's core stock in the community to be approximately £250,000 (at current prices), a significant proportion of which could be expected to come back at some point in the next 5-10 years. MCH have informed us that they can provide a detailed list of all equipment in the community which unfortunately has not been provided in time to include in this audit report. We have recommended that management seek a copy of this list and that they receive regular updates of this list between now and the contract retender date.

Moving and Handling:

The council makes an annual contribution to a pooled budget (shared with health) that covers the purchase of hoists, servicing and maintenance. MSOFT records details of all hoists that have been purchased from this budget. Most of the hoists are out in the community (MCH estimate the value of stock in the community to be approximately £290k) but there are a few that are in the warehouse awaiting servicing or delivery to a client. This is the only council-owned stock that is in the warehouse and we have estimated the value of this stock to be approximately £25k. We have advised management of the need to ensure that in future, they have an up to date record of the value and nature of this stock.

The pooled budget increases the difficulty in managing this contract. The new contract will need to include effective mechanisms to monitor the council's share of the costs and stock.

CONCLUSION

The risk posed to the council by MCH holding stock on the council's behalf pending issue to the community is not as high as previously feared and is restricted to the Council's share of significant items procured through the moving and handling pooled budget.

This audit has found a number of areas where lessons can be learned and these have been shared with management. To achieve effective contract management requires the involvement of management in the service area, Partnership Commissioning and Category Management. We are pleased to note that all the managers involved in this area of work are committed to addressing these issues for the future procurement exercise. Now that the council, through the creation of the Category management team and a refreshed Partnership Commissioning team, has dedicated teams within the council, there are mechanisms in place to ensure contracts are drawn up in such a way as to support effective contract management. Furthermore category management have improved hand-over arrangements to the service area and Partnership Commissioning will performance manage the contract more rigorously in the future.

We have made four recommendations to help strengthen current arrangements for the remaining life of the current contract, which includes one significant recommendation that the lessons learned from this review are taken on board for the retendering of this contract and others where they apply and three material priority recommendations to ensure the council has accurate records of its stock holding and understands the pooled budget. We are pleased that management are committed to applying the lessons learnt from this work.

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.

MEDWAY ADULT & COMMUNITY LEARNING SERVICE (MACLS)

(final report issued 13 February 2015)

The net budget for Medway Adult & Community Learning Service (MACLS) in 2014/15 is £182K with a budgeted income of £2.9 million.

Our review covered the checking, handling and authorisation of payments made through the imprest accounts, Webreq, 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, and payments may not be accurate or made in a timely manner.

FINDINGS

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 raising more orders via Webreq (the ordering function that forms part of the council's finance system Integra).

All authorised signatories have completed signatory forms with financial limits set accordingly and there are up-to-date mandates for the imprest accounts.

There are two imprest accounts approved by Finance. As MACLS is based away from Gun Wharf there is a need to have access to funds (cash/cheque) when required. From sample testing all cash reimbursements had been signed for by the recipient. An imprest cash float is held at MACLS premises in Gillingham and Rochester and is retained in safes onsite. Reconciliation of the imprest float is carried out by staff responsible for it and is signed off monthly by the Head of Operations. E207 has been set-up purely for course standing order income to allow staff to monitor receipt of course payments and reallocate income to the correct cost centres on a monthly basis. Both accounts are reconciled by admin staff with overview by the Head of Operations and the Finance Team who input details onto Integra.

Although staff aim to keep imprest purchases below £200, testing identified the purchase of furniture costing £300 from a local supplier (although we were advised by

management this was due to the furniture being required urgently). Better value for money could possibly have been obtained through using a corporate contract to purchase the furniture.

No pre-authorisation was evident for nine of the sample of 20 imprest payments/non-purchase orders selected in audit testing. 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 2014/15 (April-Sept.) we identified that:

- 46 orders were raised via Webreq (mainly for stationery orders);
- 482 non-purchase orders were processed. From analysis of this, more orders could have been raised on Webreq – including those where the supplier was already set-up on Integra.

Using non-purchase orders does not register expenditure as committed on Integra until payment is made, which could impact on the effectiveness of budget management, presenting a risk that budgets may become overspent.

Although VAT had been claimed correctly for Webreq and non-purchase orders, only two of a sample of ten imprest payments met the criteria set out in the corporate imprest guidance – the exceptions being:

- VAT was claimed for one transaction although there was no VAT registration number on the receipt;
- three had valid VAT receipts but VAT was not reclaimed and;
- four transactions contained vatable items but did not have valid VAT receipts.

CONCLUSION

We are able to confirm that MACLS 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, relating to ensuring that:

- all expenditure is authorised before orders are placed;
- VAT receipts/invoices are obtained for purchases wherever possible;
- orders are placed via Webreq wherever possible when obtaining goods/services, so expenditure is committed on Integra and authorised appropriately.

Follow Ups

SEN Home to School Transport

The follow up of SEN Home to School Transport was due for completion October 2014. The original audit report was issued July 2014, following the transfer of this service to Medway Norse from April 2014. The overall conclusion was that the controls in place were sufficient based on the arrangements in place and being progressed. It was agreed that Internal Audit would undertake a follow up in October 2014 to review implementation of the agreed action.

The only action included on the original audit related to finalising the deed of variation - the formal contractual documentation between Medway Norse and the Council. This was due to be signed off by the end of September 2014. At the time of preparing this report the agreed documentation remains outstanding. The final proposed documentation was not sent to Medway Norse until February 2015 and to date it has not been signed off.

The Deed of Variation should include an agreed record of the requirements of the contract, and the way that compliance with the contract would be monitored. The intention was to undertake the audit based around compliance with this documented contractual arrangement. This being outstanding we have not undertaken an audit follow up. Furthermore there are due to be further changes to the service delivery arrangements from July 2015 and therefore it is now better to defer further audit work until after the new arrangements are in place.

In light of this delay in the formal documentation the overall opinion of "sufficient" has been downgraded to "**needs strengthening**". It should however be noted that in our on-going liaison with management regarding this matter we have obtained assurance that the administrative arrangements within the council for commissioning services from Medway Norse and processing their invoices are now working as intended.

Rather than undertake a specific follow up relating to SEN Home to School Transport in 2015/16 a full audit of Medway Norse contract management has been included in the internal audit plan for 2015/16 and that audit will review all the Deeds of Variation, contract management arrangements and performance monitoring mechanisms for all the services provided by Medway Norse.

Local Welfare Provision

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). The Council contracted out the management of this scheme to a third party.

The audit was undertaken as it was an area identified by the Audit Commission as being a high fraud risk, based on historical data from the DWP. 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, unlike the DWP but typically provided 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) whilst the claimants are able to contact the provider directly, the majority of applicants were referred to the current provider by a recognised professional support worker (such as social workers and housing officers).

Despite the low level of risk that the scheme represented to the council the overall audit opinion was that the arrangements needed strengthening and three management actions were agreed. Firstly to improve the eligibility checks performed by the professionals prior to referring them to the scheme, secondly improving the contract management of the third party provider and thirdly to ensure that any suspected frauds were reported to the Council.

The full implementation of the agreed management actions has been affected by staff changes within the business area. Given the current contract with the third party providers is ending at the end of March, and the overall level of risk is relatively low, the audit follow up is not going to be completed. We have liaised with management to advise them that they need to ensure that, should the contract be renewed, then the three issues identified in the audit need to be included within the contract documentation. We have requested management keep us informed of developments.

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
Medway Action for Families Payment by Results February 2015	17.02.15	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.