

## **AUDIT COMMITTEE**

**14 JULY 2015**

### **INTERNAL AUDIT ACTIVITY**

Report from: Internal Audit

Author: Katey Arrowsmith, Head of Internal Audit & 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. Progress to date on the 2014-15 plan is set out at Appendix A.

2.5 This report also contains the outputs from each audit completed since the last update to the Committee. These are set out in Appendix 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 Appendix.

- 2.6 The definitions of the recommendation and audit opinion options, as endorsed by Audit Committee in July 2013, are shown at Appendix 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 Medway Council has entered into a shared management arrangement for Internal Audit & Counter Fraud Services, whereby the Head of Internal Audit & Fraud at Gravesham Borough Council is spending 60% of her time managing the teams at Medway. The two councils are exploring opportunities to share the service to provide resilience, share best practice and reduce costs.

### **3. Risk Management, Financial and Legal implications**

- 3.1 There are no risk management, financial or legal implications arising from this report.

### **4. Recommendation**

- 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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#### **Appendices**

Appendix A – Audit Plan 2014/15 – Progress Report  
Appendix B – Summary Information on Completed Audits  
Appendix C – Definition of Audit Recommendation and Opinions

#### **Background Papers**

None

## Audit Plan 2014-15 – Progress Report

Activity ↓	Opinion	All	C&A	RCC	Health	BSD
<b>Key Financial Systems</b>						
Council Tax	2					07/15
Local Business Rates	2					07/15
Housing Benefit	2					07/15
Housing Rents	2					07/15
<b>Key System Audits</b>						
Treasury Management	NC					NC
Corporate Credit Cards	2					07/14
Taxation - Creditor Payments	2					07/15
Local Payment Arrangements (overall)	2	07/15				
Integra Financial System – Access Controls	2					07/15
School Financial Management	2		07/15			07/15
<b>Risk Based Audits</b>						
Capital Projects	2	07/15				
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		NC				
Domiciliary Care			NC			
Early Help Service - Financial Controls			NC			
Better Care Fund <b>New</b>			NC			
Staff Allowances and Loans <b>NEW</b>	3					01/15
Contract Management - Community Equipment <b>NEW</b>	n/a		03/15			03/15
Economic Development				NC		
<b>Governance Audits</b>						
Risk Management		07/15				
Annual Governance Statement	1	07/15				
Data Quality – Fraud Reporting		NC				
<b>Probity Audits</b>						
Schools –						
Hempstead Junior School	✓		07/14			

## Audit Plan 2014-15 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
<b>Activity ↓</b>						
St Benedict's RCP School	✓		07/14			
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			
<b>Abbey Court</b>	✓		<b>07/15</b>			
<b>Balfour Infants' School</b>	✓		<b>07/15</b>			
<b>Barnsole Primary School</b>	✓		<b>07/15</b>			
<b>Hoo St Werburgh and the Marlborough Centre</b>	✓		<b>07/15</b>			
<b>New Road School and Nursery Unit</b>	✓		<b>07/15</b>			
<b>St Helen's CEP</b>	✓		<b>07/15</b>			
<b>St Johns CEVC</b>	✓		<b>07/15</b>			
<b>St John Fisher</b>	✓		<b>07/15</b>			
<b>St Thomas of Canterbury RCP</b>	✓		<b>07/15</b>			
<b>Swingate Primary School</b>	✓		<b>07/15</b>			
<b>The Rowans</b>	✓		<b>07/15</b>			
<b>Walderslade Primary School</b>	✓		<b>07/15</b>			
<b>Wainscott Primary School</b>	✓		<b>07/15</b>			
<b>Will Adams Centre</b>	✓		<b>07/15</b>			
Fairview Community Primary School			F			
Greenvale Infant and Nursery School			F			
Halling Primary School			F			
St Mary's Catholic Primary School			F			
St William of Perth RCP			DR			
The Pilgrim's School			DR			
Children's Centres -						
Riverside Primary			DR			
Burnt Oak Primary School			DR			
Deanwood Primary School			DR			

## Audit Plan 2014-15 – Progress Report

	Opinion	All	C&A	RCC	Health	BSD
<b>Activity ↓</b>						
Delce Infant and Nursery School			DR			
Miers Court Primary			DR			
Oaklands Federation			DR			
St Margarets Troy Town CEVC			DR			
Featherby Infant and Nursery School	Not completed in 2014-15, deferred to 2015-16.					
Featherby Junior School	Not completed in 2014-15, deferred to 2015-16.					
St Augustine's	Not completed in 2014-15, deferred to 2015-16.					
St Mary's Island	Not completed in 2014-15, deferred to 2015-16.					
Twydall Primary School	Not completed in 2014-15, deferred to 2015-16.					
<b>Follow Ups</b>						
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			
Foster Care - DPA Issues*			NC*			
Grant Management			P			
Disclosure and Barring Service			P			
Staff Allowances and Loans		P				

\*We are placing reliance on the work completed by the Information Commissioner's Office to ensure the Authority's data protection arrangements are appropriate. Therefore we are not following up this work directly in order to avoid duplication.

Grant Certification						
Activity ↓	Opinion	All	C&A	RCC	Health	BSD
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			
<b>Medway Action for Families - Payment by Results May 2015</b>	✓		<b>07/15</b>			
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

Shaded – audits already reported to Audit Committee

AC = month & year reported to Audit Committee

DR = draft report issued

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

F = fieldwork in progress

NC = Audit not completed

P = audit in planning stage

Bold = audits are reported to this Audit Committee

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

### SUMMARY INFORMATION ON COMPLETED AUDITS

<b>COUNCIL TAX</b> <i>(final report issued 1 May 2015)</i>
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The budgeted gross Council Tax income for Medway Council in 2014/15 was approximately £91million from approximately 113,000 domestic properties. This is administered through the iWorld system. The charge for a band D property, excluding parish precepts, in 2014/15 was £1,164.24 but liable parties could apply for a range of discounts and exemptions in order to reduce the amount due. Without these discounts (including the Council Tax support scheme (CTS)), the total liability in Medway would have been approximately £30 million higher in 2014/15.

The audit of Council Tax forms part of the annual internal audit plan for 2014/15, approved by the Audit Committee in 20 March 2014. This audit will provide assurance over the collection of the Council Tax being accurate ensuring that income to the council is collected. Five risks relating to Council Tax were reviewed to determine the effectiveness of controls and the opinions are shown below:

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

**Strong:**

The current arrangements ensure there is regular liaison with the Valuation Office Agency and the tests confirm that the VOA amends the Medway council tax base; the changes are reflected accurately and promptly on iWorld.

**Risk 2: Charges and discounts are applied appropriately to Council Tax accounts**

**Sufficient:**

The council has a clear understanding of the statutory and local discounts and exemptions it gives and publicises these appropriately on the council's website and via a printed leaflet.

The billing arrangements ensure each household receives an annual bill that accurately reflects the current charge for the property band and any applicable discounts and exemptions. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a discount or exemption.

Management have instigated checking regimes to ensure new liable parties, single person, disabled band relief discounts and CTS entitlements are applied correctly and that entitlement to some discounts and exemptions continues. These are:

- 10% check on the validity of new exemptions;
- 10% DIP check of new discounts and relief awards;
- 1% check of the accuracy of input of new liable parties;
- Inspections to confirm empty properties have not been re-occupied;
- CTS-Monthly error checking for assessors.

Errors identified through the checking processes are corrected but there is not always an investigation to determine whether there are underlying issues.

In 2013/14, the team responsible for these checks reported directly to the Revenues and Benefits Manager (RBM). A restructure within Finance in 2014/15 moved most of this team to Finance Operations (the property inspectors moved to Customer Contact under a previous restructure).

The council's change management processes did not identify all responsibilities surrounding these checks and there was, for a period, no management oversight. These checks have now resumed.

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

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

If an incorrect reference number is quoted or there is missing information, payments are allocated to the suspense account. The suspense account is monitored regularly with adequate management oversight.

Refunds are given upon request when there is a balance on the account and those tested had been authorised appropriately.

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

The council monitors collection rates month by month and makes comparisons with previous years. The collection rates show an overall year on year improvement.

The iWorld system generates reminder letters automatically once accounts go into arrears and there is evidence that considerable efforts are made to pursue liable parties attempting to recover balances due, even after properties have been vacated. Manual suppressions can be added to accounts e.g. if the council is attempting to trace the liable party. The RBM requires manual suppressions to be checked prior to reminder letters being printed so that inappropriate suppressions can be cancelled. In a previous restructure, this check was moved from a specialist team to an administration hub. The person within the hub who did the check last year has now moved onto another role and the hub has lost the knowledge and understanding of these checks. This year, the suppression checks were reduced from 100% to 50% without the RBM's knowledge. This suggests that communication between the administration hub, Financial Operations Systems Team and the RBM is not fully effective and there is a risk the RBM is not aware of changes to the service for which he is responsible.

The council's constitution stipulates that the Chief Finance Officer (CFO) is able to approve council tax write-offs "within the approved provision agreed by Council when setting the Council tax base". The authority accepts this is ambiguous and the RBM has drafted an amendment to the constitution. At present, the Assistant Revenues and Benefits Manager authorises all write-offs, but without any formal delegation from the CFO. Once the constitution has been amended, the RBM will ensure that all write-offs are compliant with it and within limits formally delegated by the new CFO.

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

Daily electronic interfacing between the Radius, iWorld and Integra systems ensures that income is reflected promptly and correctly in the Council's financial records. Daily reconciliations of these systems are also undertaken and any un-reconciled items investigated promptly. Management oversight had lapsed during a restructure, but has now resumed.



## CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of The Council Tax process is **Sufficient**.

Controls are in place and working effectively to ensure billing is accurate, discounts and reliefs are only applied on receipt of appropriate supporting evidence. Checks are made to ensure there is on-going entitlement to existing discounts and reliefs. Income is recorded accurately and promptly with regular reconciliation and debts are actively pursued with robust debt monitoring and high collection rates.

We have a concern that some of the management checks were not identified prior to the restructure. Although most of these have now resumed, change management processes did not identify and allocate responsibility for these controls. The council will need to consider these issues when updating its change management processes.

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

- Ensuring there are appropriate checks on suppressed reminder letters.
- Updating the constitution to delegate authority for Council Tax write-offs.

Management agreed to implement appropriate corrective actions. They should be completed when the constitution is next updated. This scheduled for October 2015.

<p style="text-align: center;"><b>HOUSING BENEFITS</b> <i>(final report issued 29 May 2015)</i></p>
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The audit of Housing Benefits forms part of the annual internal audit plan for 2014/15 that was approved by the Audit Committee on 20 March 2014.

Housing Benefit payments are forecast to total £109 million in 2014/15.

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

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

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

There was evidence that some of the registered claims and claim monitoring reports are checked, but not recorded. There was also no evidence of interim awards being reviewed on a regular basis by a senior officer (or equivalent acting officer) as reports supporting these are not kept. We reported the same issue last year and were advised that reports would be retained from April 2014, to provide evidence of the reviews. Any checks which may have been undertaken were not recorded, so it is unclear whether any reviews of these interim awards were undertaken promptly. There is a risk that extended payment of interim awards may result in an overpayment.

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

Appropriate controls are in place and operating effectively, including independent validation of changes to standing data, adjustments to rent-free periods, set up and verification of landlords

where payments are not made directly to claimants and monitoring of reconciliation of payment runs to MHS Homes, landlords and tenants.

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

It is expected that performance on verifying claimants' ongoing entitlement will be improved by the introduction of the Fraud and Error Reduction Incentive Scheme (FERIS). The Department for Work and Pensions (DWP) has a target to reduce the Monetary Value of Fraud and Error (MVFE) to 1.7% of total benefit expenditure by the end of 14/15 as set out in the 2010 Fraud and Error (F&E) Strategy. FERIS launched on 24 November 2014 and will run through 2015/16. FERIS will offer financial reward to local authorities (LAs) who further tackle F&E in their Housing Benefit (HB) caseload. The scheme will offer financial reward to any LA that finds reductions to HB entitlement of total weekly value above a threshold set by DWP. The level of the reward being dependent on the degree to which the LA exceeds the threshold. FERIS funding should be available to the council via bid as savings are on target.

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

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

The monthly monitoring spreadsheet (overpayments dashboard) was completed from April to September 2014 but there was no evidence of review by the Revenue and Benefits Manager. At the time of reviewing the dashboard data had not been entered/reviewed since October, although some data for January and February 2015 has been added since.

For the period 1999-2001 there are 78 overpayments, with a total of £306,317.24, the balance has decreased by £20,792.54 from last year. There are 6 debtor invoices at final balance for the period 1999-2001 with a total balance of £25,783.16, which has increased from last year due the modification of one invoice. Although the overpayment policy does not stipulate timescales for write off, management should consider what action should be taken for balances that have remained static for over ten years.

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

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

## **CONCLUSION AND AUDIT OPINION**

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

Two material level recommendations made to ensure the checking processes to confirm the accuracy of claims and that overpayments are monitored properly. The recommendations will both be implemented fully by the end of July 2015.

<b>HOUSING RENTS</b> <i>(final report issued 30 April 2015)</i>
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The annual audit of Housing Rents provides assurance over the arrangements in place for identifying, collecting and recording income due to the council from tenants of its housing stock. Failure to identify and collect all income due impacts on the liquidity of the council's Housing Revenue Account (HRA) and could limit the level of essential maintenance carried out on the residential property portfolio.

Medway Council has more than 3,000 residential properties, generating an annual rental income of just over £14 million. The Academy system holds information relating to the council's residential and associated properties available (e.g. garages) for rent, and all income generated from them.

The audit focused on controls to ensure the completeness, promptness, accuracy and validity of Housing Rents transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.

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

**Risk 1: Weekly charges and system parameters on the Academy system may be inaccurate**  
**Sufficient**

Rents are reviewed annually and those for the current year were formally approved by Council in February 2014. Checks are carried out to confirm the accuracy of the annual amendment to records on the Academy system, and our sample testing confirmed that rents were reflected accurately on Academy.

Whilst changes to rental rates held on Academy are reviewed and checked for accuracy, the number of bedrooms is not included within this check, which could result in any inaccuracy in the number of rooms recorded remaining undetected.

Local procedures stipulate that only nominated officers can amend standing property data held on the Academy system (e.g. number of bedrooms, rental rate). However, access controls within Academy cannot be restricted to these designated officers only, as limiting permissions would impact on the ability of others to carry out other tasks. Compensating controls are in place to monitor amendments to property details and rental charges and these are authorised appropriately.

**Risk 2: Rental charges may not be applied accurately or promptly**  
**Sufficient**

We confirmed that new tenancies and terminations are input to Academy promptly. New tenancy agreements are retained and were signed by both the tenant and Housing Officer. Adjustments to rent or service charges and repairs (rechargeable to tenants) are supported by appropriate documentation and repairs are recharged to cover the costs incurred.

Local procedures stipulate that new tenancies can be created only by the Tenancy Services Manager and terminated only by Housing Officers but, as with standing property data, access controls within Academy do not restrict the ability to create and terminate tenancies to these officers. There was no compensating control in place to monitor that only these nominated officers had created/terminated tenancies, but improvements have been identified to address this.

The tenancy fraud policy stipulates proof of identification (I.D) is required on sign up, in order to cross reference the identity of the occupant at subsequent visits to the property and for the

prevention of obtaining the property by misrepresentation. Our testing of a sample of 20 new tenancies created during the year indicated that there was no evidence of identification checks being carried out for six of them and the records retained for the remainder did not meet the requirements set out in the tenancy fraud policy of a photograph and photo I.D.

A sample of verification checks are carried out on a monthly basis on new and cancelled tenancies and on transaction postings (e.g. refunds, transfer of funds) on a quarterly basis for each month by an officer within the Performance and Intelligence Hub RCC. The purpose of the checks is to compensate for the limitations within Academy to restrict the access to specific roles and to protect the position of the Housing Rents Officer (HRO) in providing some separation of duties within the role. Testing showed that the checks are in operation, but the percentage of checks undertaken of transaction postings was not sufficient for one of the months selected and verification checks for January had not been undertaken at the time of testing. If these checks are delayed there is a risk that the HRO could be open to accusations of misappropriation. The Housing Income Manager was made aware of the risk during the audit and is working towards a contingency plan for the functions and duties of the HRO, and until this is agreed and in place, the verification checks should remain.

**Risk 3: Income received may not be accounted for accurately or promptly**  
**Strong**

Income is transferred accurately and promptly to the correct rental account on the Academy system. Reconciliations are completed regularly and are supported by local records to confirm the totals agree and were subject to management review.

Refund requests are completed and signed by an appropriate manager prior to submission to Exchequer for payment.

The Academy suspense account for unidentified income is cleared on a daily basis and transactions not related to housing are transferred by cashiers, with supporting documents to confirm the request, but there was no evidence of a review by an independent person to confirm that housing transactions have been transferred to the correct rent accounts. This was discussed with management and we recommend this is included within the monthly verification checks.

**Risk 4: Arrears may not be identified, pursued effectively or, if irrecoverable, written off in a timely manner with appropriate authorisation**  
**Sufficient**

Arrears are identified and monitored on a regular basis. Current tenant arrears (overall) have decreased during 2014/15 financial year from £254,889 to £237,151.

Former tenant debt is monitored and action is being taken to recover older arrears. Since last year former tenant arrears (overall) have reduced from £451,789 to £402,943. Write offs of irrecoverable balances were approved within the delegated limits and were actioned within a reasonable timescale after approval.

Benefit overpayments are transferred to the relevant rent account and are being recovered. A significant reduction has been noted since last year from £76,551 to £47,932.

There was a lack of monitoring of suppressed recovery action by an independent person to confirm officers were not rejecting arrears reminders unnecessarily, but this was addressed during the audit. Rejections are now monitored by the Housing Income Manager and notes on Academy supported the decision for the rejected action.

## CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of Housing Rents is Sufficient. Three material level recommendations have been made to address the issues identified, which were:

- Checking identity at the start of the tenancy and retaining documentation on Idox.
- Spot checks to ensure new tenancies are only created on Academy by appropriate officers;
- Ensuring independent checks on transactions are carried out.

All have been implemented.

<p style="text-align: center;"><b>LOCAL BUSINESS RATES</b> <i>(final report issued 1 May 2015)</i></p>
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Local Authorities are responsible for billing and collection of the Local Business Rates (LBR). LBR income is processed through the iWorld system. iWorld is also used to process Council Tax income and Housing Benefit payments. Local authorities retain half their LBR receipts, with the remainder transferred to a Central Government pool and then redistributed according to formula assessed need. Medway Council's retained LBR income for 2013/14 was approximately £43m from a total income of approximately £88m. There are approximately 6,000 commercial properties in Medway.

Under the new arrangements, local authorities are incentivised to increase their local tax base and collection rates but bear risks associated with a reduction in receipts.

The audit of Local Business Rates forms part of the annual internal audit plan for 2014/15, which was approved by the Audit Committee on 20<sup>th</sup> March 2014. This audit will provide assurance over the collection of business rates being accurate ensuring that income to the council is collected. Five risks relating to Local Business Rates were reviewed to determine the effectiveness of controls and the opinions are shown below.

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

Current arrangements ensure regular liaison with the VOA and tests confirmed that VOA amendments to the ratable value (RV) are reflected accurately and promptly on iWorld.

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

The council has a clear understanding of the statutory and discretionary reliefs, discounts and exemptions it gives and publicises these appropriately through the council's website, via a business rates leaflet and the customer contact team.

Billing arrangements ensure each ratepayer receives an annual bill that accurately reflects the current charge and RV. In year bills are issued when a property has a new liable party or when there is a change to the amount due e.g. due to the application or removal of a relief or if an appeal amends the RV.

Management have instigated checking regimes to ensure reliefs and exemptions have been applied correctly and entitlement continues. These are:

- 10% check on the validity of new exemptions;
- 10% DIP check of new discounts and relief awards;
- 1% check of the accuracy of input of new liable parties;
- Inspections to confirm empty properties have not been re-occupied.

Errors identified through the checking processes are corrected but there is not always an investigation to determine whether there are underlying issues.

In 2013/14, the team responsible for these checks reported directly to the Revenues and Benefits Manager (RBM). A restructure within Finance in 2014/15 moved most of this team to Finance Operations (the property inspectors moved to Customer Contact under a previous restructure). The council's change management processes did not identify all responsibilities surrounding these checks and there was, for a period, no management oversight. These checks have now resumed.

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

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

If an incorrect reference number is quoted or there is missing information payments are allocated to the suspense account. The suspense account is monitored and cleared regularly, with appropriate management oversight.

Refunds are given upon request when there is a balance on the account and those tested had been authorised appropriately.

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

The council monitors collection rates month by month and makes comparisons with previous years. The collection rates show an overall year on year improvement.

The iWorld system generates reminder letters automatically once accounts go into arrears. Manual suppressions can be added to accounts e.g. if the council is attempting to trace the liable party. The RBM requires manual suppressions to be checked prior to reminder letters being printed so that inappropriate suppressions can be cancelled. In a previous restructure, this check was moved from a specialist team to an administration hub. The person within the hub who did the check last year has now moved onto another role and the hub has lost the knowledge and understanding of these checks. This year, the suppression checks were reduced from 100% to 50% without the RBM's knowledge. This suggests that communication between the administration hub, Financial Operations Systems Team and the RBM is not fully effective and there is a risk the RBM is not aware of changes to the service for which he is responsible.

The council's constitution stipulates that the Chief Finance Officer (CFO) is able to approve Business Rates "within the provisions recommended by the Office of the Deputy Prime Minister". The authority accepts this is out of date and the RBM has drafted an amendment to the constitution. At present, the Assistant Revenues and Benefits Manager authorises all write-offs, but without any formal delegation from the CFO. Once the constitution has been amended, the RBM will ensure that all write-offs are compliant with it and within limits formally delegated by the new CFO.

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

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

systems are also undertaken and any unreconciled items investigated promptly. Management oversight had lapsed during a restructure, but has now resumed.

## **CONCLUSION AND AUDIT OPINION**

Our overall opinion on the effectiveness of Local Business Rates process is **Sufficient**.

Controls are in place and working effectively to ensure billing is accurate, discounts and reliefs are only applied on receipt of appropriate supporting evidence. Checks are made to ensure there is on-going entitlement to existing discounts and reliefs. Income is recorded accurately and promptly with regular reconciliation and debts are actively pursued with robust debt monitoring and high collection rates.

We have a concern that some of the management checks were not identified prior to the restructure. Although most of these have now resumed, change management processes did not identify and allocate responsibility for these controls. The council will need to consider these issues when updating its change management processes.

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

- Ensuring there are appropriate checks on suppressed reminder letters.
- Review of the property inspection regime
- Updating the constitution to delegate authority for Council Tax write-offs.

Management agreed to implement appropriate corrective actions. They should be completed when the constitution is next updated. This scheduled for October 2015.

## **CAPITAL PROJECTS** *(final report issued 27 April 2015)*

The audit of Capital Projects forms part of the annual internal audit plan for 2014/15, approved by Audit Committee on 20 March 2014. The capital programme for 2014/15 and future years is valued at £70.8 million (£47.4 million of which relates to completion of existing schemes), and as such represents a significant proportion of the Council's anticipated expenditure.

The audit covered projects managed by the Property & Capital Projects team, and excluded school/academy new builds and transport infrastructure.

The Property & Capital Projects team are Chartered Building Consultants (in association with the Chartered Institute of Builders) and also Corporate Members of the Association for Project Management.

The council's Project Management Toolkit was introduced in July 2012, to standardise the process for project management and achieve a consistency of approach and best practice across all council departments. The toolkit is applicable to all projects, both capital and revenue.

Three projects managed by the Property & Capital Projects team, for clients within Education, Housing and Greenspaces, were reviewed to evaluate the effectiveness of the overall project management and budget monitoring processes. We also reviewed the accuracy of budget monitoring reports submitted to members.

Two of the projects reviewed commenced prior to the introduction of the toolkit, so could not be expected to have used all the documents included in it - we therefore reviewed the documentation that was deemed to be a suitable alternative for these projects. The templates included in the toolkit have been adapted and developed from the methodology already being used by the

Property & Capital Projects team, and are therefore particularly suitable for use in construction projects.

Three risks relating to Capital Projects were reviewed to determine the effectiveness of controls and the opinions are shown below. Additional findings relating to reporting capital budget monitoring to senior management and members, for which client management is responsible, are shown separately, after the risks.

**Risk 1: Capital Projects may not be fit for purpose, due to poor specification or ineffective monitoring of work carried out**  
**Sufficient**

All projects reviewed followed the Gateway Procurement process. Gateway reports to Procurement Board (and Cabinet if applicable) confirmed that a business case was submitted outlining estimated costs, benefits and timescales, as well as how these outcomes would be measured and managed.

Gantt charts showed in detail how and when outcomes were to be delivered, with site visit and progress reports prepared for monitoring project performance against the plan.

The Property & Capital Projects team maintained an individual 'dashboard' to monitor project progress against time, costs and risks. This information was used to update client groups, project boards and service managers on a regular basis.

Projects were approved by the relevant Directorate or Departmental Management Team (DMT), Procurement Board and Cabinet where applicable.

Whilst reporting capital budget monitoring to senior management and members is not the responsibility of the Property & Capital Projects team, we confirmed that monitoring reports, including financial summary and project status, had been submitted to DMT and Cabinet on a quarterly basis, confirming progress against time and budget position.

An area of weakness was identified within all three projects, around the closure of a project. The Project Management Toolkit includes a section around closing a project, but testing confirmed that:

- no end of project reviews were undertaken;
- no formal approval was found from project boards or management groups to confirm satisfaction with the building delivered or work carried out; and
- a post implementation review was not undertaken (where practical) to confirm what went well and whether outcomes were achieved or not.

By not undertaking an end of project review and a post implementation review, lessons cannot be learned, outstanding issues may remain unresolved and mistakes may recur during future projects, which could result in a risk of financial and/or reputational loss to the council. However, we were advised that the Property & Capital Projects team had already recognised this weakness and end of project and post project reviews have now been introduced.

We are aware that the Property & Capital Projects team, in consultation with Category Management, Housing, Education, Legal and Finance, have developed a chart that shows roles and responsibilities and project delivery process from inception to close, to develop standardisation within the team and is pending approval to be incorporated within the council's contract rules.



**Risk 2: Capital Projects may not be completed within the specified timescale**  
**Sufficient**

Progress reports, site visit reports, Gantt charts, dashboards, exception reports and risk registers were found showing monitoring of performance against timescales, including slippage, deviations, any issues and revisions affecting the project delivery.

Progress on the Education and Housing projects was reported to the Education Project Board and Asset Management Group on a periodic basis. Whilst no formal officer project board was set up for the Greenspaces project, programme delivery reviews with senior management were held and clear lines of responsibility for project delivery were in place. The Project Management Toolkit was introduced whilst the Greenspaces project was underway and from that point the toolkit template 'highlight reporting dashboard' was used to monitor time and progress against the plan. This dashboard uses the same 'smiley face' symbols for project progress as used in capital budget monitoring reports, whereas the version used by Property & Capital Projects uses 'RAG' ratings (red, amber green) - as there appears to be no definition of what the RAG ratings mean, it is difficult to equate these to the symbols used on the capital budget monitoring reports.

**Risk 3: Capital Projects may not be delivered within the financial budget**  
**Sufficient**

Budgets for individual capital projects and the overall Housing annual planned maintenance programme are formally approved by the relevant DMTs, Cabinet and full Council.

Revisions to budgets are reflected through the capital budget monitoring process and are approved by DMTs and Cabinet.

Expenditure was monitored and recorded via dashboards, financial update spreadsheets and highlight reports, with some cost reports provided by external consultants/quantity surveyors.

Dashboards for the Education project had been completed on an ad-hoc basis and did not coincide with the timing of the capital budget monitoring reports, and therefore did not support the financial figures reported in the latter. In addition, on three occasions the total scheme budget noted on the dashboard differed from the figures reported in capital budget monitoring reports, and screen prints or Integra downloads were not retained with the dashboard to support the figures reported.

**Reporting to Senior Management and Members**

At the time the projects reviewed were undertaken, the process for reporting financial information began with the project manager who completed the dashboard, the budget manager completed the capital budget monitoring spreadsheet and Finance reported this information to DMT and Cabinet on a quarterly basis, progress being shown using a pictorial summary:

- ☺ scheme progressing on time and within budget
- ☹ scheme progressing on budget but not within expected timescales
- ☹ scheme neither progressing within expected timescales nor within budget.

We compared the reported progress on capital budget monitoring reports for the projects reviewed against the monitoring dashboards maintained by the Property & Capital Projects team. Dashboards relating to two of the projects did not appear to support the progress indicated in the corresponding capital budget monitoring reports.

The dashboard for the Greenspaces project indicated slippage against timescale but was shown as ☺ on the budget monitoring report, whilst the dashboard relating to the Education project

included a red 'RAG' rating for cost, coupled with an amber rating for time, but was shown as ☹ on the report. Even with no definition of what 'RAG' ratings mean, a combination of red and orange suggests that neither progress against time nor cost was on target.

We also discussed with management a further recent example where there was an identified concern regarding the viability of a project but the report to Cabinet indicated a ☺, on the basis that the client considers that a potential overspend and/or overrun being forecast by the Property & Capital Projects team can be controlled. However, we understand that the Children & Adults Capital Programme Cabinet Advisory Group, which includes three Cabinet members, has been advised of the situation regarding this project.

The accuracy of the capital budget monitoring reporting process is still dependent on accurate information being provided by the client manager but we have been advised that some enhancements are in place to automate the process. Under the new arrangements the budget manager inputs the financial data directly into Integra, and the pictorial summary included in the report is now produced automatically using an algorithm. Furthermore, to improve clarity the report now contains two pictorial summaries - one relating to cost and one relating to time.

It is therefore evident from these projects that capital budget monitoring reports do not always necessarily provide senior management and members with a totally accurate reflection of project managers' documented assessment of progress against budgeted timescale or cost. Furthermore the pictorial summary does not provide any indication of level of risk, in terms of likelihood, in relation to time or cost slippages, nor does it cover any potential quality issues and therefore there is a risk senior management and members may have an erroneous understanding of the current state of play.

## CONCLUSION AND AUDIT OPINION

Our overall opinion on the effectiveness of the overall management process of Capital Projects, including the involvement of clients in planning and reporting progress against budget, is **Sufficient** - but we acknowledge that management of the Property & Capital Projects team had already taken action (in October 2014) to implement project completion/ post-implementation reviews. Two material recommendations have been made to address the issues identified.

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

- Ensuring end of project reviews take place;
- Ensuring capital budget monitoring reports provide an accurate reflection of expenditure.

Management agreed to implement appropriate corrective actions, by the end of May 2015.

## INTEGRA FINANCIAL SYSTEM – ACCESS CONTROLS

*(final report issued 21 April 2015)*

The audit of access controls to the Integra financial system forms part of the annual internal audit plan for 2014/15, approved by Audit Committee on 20 March 2014. Integra is the council's finance system and contains general and sales ledgers, requisition and supply and the cash management system. This audit provides assurance over the arrangements in place for ensuring that management and financial accounting information is not compromised, including inappropriate access which could lead to fraud.

The audit focussed on management arrangements for setting-up and maintaining access and did not review the technical functionality of the system.

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

**Risk 1: Only appropriate users are granted access to Integra  
Sufficient**

Information relating to gaining access to Integra and also training can be found on the council's Intranet site. Access should be requested by an approved signatory or line manager. For users requiring 'approver' rights for the requisition and supply ledger, checks are made to ensure they have been set-up as an authorised signatory and to check their financial limit. Sample testing of new users, including some that had changed post, demonstrated that the correct procedure had been followed.

Users are set up with unique identification numbers (approximately 935 user IDs), with one generic account for training purposes and another for IT Operations. System administrators are allocated individual IDs. There are various prefixes to determine the type of access given, which may be 'enquiry only', although due to a limit on the number of IDs available, should users move post and still require access, they retain their original ID but their profile is updated to reflect their new access rights.

Passwords are required to access the system and the parameters meet the standard recommended in the ICT Security Policy.

The Systems Accountant is able to access staff HR records to indicate staff who are Integra users and also remove them when they leave or no longer need access. Payroll staff supply tailored reports monthly that are checked against Integra users so records can be updated and user IDs removed, although there has been some difficulty in accessing certain HR records that are restricted and cannot be accessed. Payroll staff have volunteered assistance with this and also suggested a process for better tracking of 'post movements' of users.

**Risk 2: Access levels within Integra may be inappropriate to users' needs  
Sufficient**

Levels of access are set-up within Integra, for example users raising purchase orders are not able to approve the orders they have raised. Only authorised signatories are able to approve orders with the limit of spend set accordingly.

From audit testing relating to Finance staff, there is reasonable assurance that the correct level of access has been assigned, although without drilling down individual profiles it is not possible to give complete assurance on this.

A periodic review of users and access levels against current roles and responsibilities is not undertaken. Reliance is placed upon the monthly payroll reports to identify leavers and changes of post.

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

Following the restructure of Finance, it is intended that staff become more multi-tasking, however management are aware of the need to ensure there is a segregation of duties to prevent income or payments being manipulated. There is a requirement for changes to user access to be approved by the Head of Finance Operations before being updated on the system.

We reviewed access to the council's receipting system (ICON) alongside Integra access. Excluding Integra users with 'enquiry only' access, only 12 users also have access to ICON and their access is appropriate to their needs. Two system administrators have access to ICON which, although this could present a risk, is considered 'acceptable' due to their roles. There is an 'automatic' import of income received from ICON into Integra.

The Head of Finance Operations is a System Administrator as well as being able to authorise payments, it is understood that the previous Chief Finance Officer had agreed to accept the potential risk relating to this.

#### **Additional observation:**

Although not included in the above risks, our testing identified that the process for removing users who no longer need access could be strengthened. Audit testing on user surnames A-C (187 users) found 39 users who were not on the payroll data report supplied to IA by Payroll. Further testing on 24 of these found that two were agency staff, two were non-Medway staff and one was work experience - the reasons why these users have user IDs was explained and accepted. Two had changed names (had different user IDs for past and present names), the remainder (17 of the 24) have left the council with the oldest leaving date in November 2004. Due to the requirement for users to have a network log-in to be able to access the system, this does not impact on the key risks, however, this is reliant upon IT removing the network log-in. Should users return to the council their network log-in would be reactivated in the same format, which after requesting a change in password would give them access to the system.

#### **CONCLUSION AND AUDIT OPINION**

Our overall opinion on the effectiveness of access controls to the Integra financial system is **Sufficient**. Due to problems with accessing HR records for some staff, there are a number of people on the user list who no longer need access. The complexities of the system and user profiles mean that it is not possible to give complete assurance that all users have the appropriate level of access. Risks relating to system administrator access are acknowledged as being unavoidable. One material level recommendation has been made to remove users who no longer require access to the system. This is due for implementation by the end of the month.

#### **LOCAL PAYMENTS**

*(final report issued 31 March 2015)*

This report summarises the outcomes of individual audits carried out during 2014/15 on local payment arrangements in a sample of three services, selected at random:

- The Old Vicarage (a residential unit for young people aged 14 to 18 years)
- Public Health
- Medway Adult and Community Learning Service (MACLS).

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

This report also provides an overall audit opinion on the effectiveness of controls to minimise three risks relating to the management of local payments, as shown below. The audits did not consider issues relating to the availability and security of safe facilities for retaining imprest account monies, cheque books and other related documents – these will be covered in a separate fraud resilience review.

Corporate 'regulations and guidelines' for the use of imprest accounts have been produced and have been made available to services with such local accounts (they are not available on the intranet). These were last amended in 2010 and make no reference to sanctions that may be applied in the case of such accounts being misused or funds being misappropriated. However, the corresponding document for petty cash accounts (updated in 2013 and available on the intranet) does state that officers using petty cash/cash advances could face disciplinary investigation, potentially leading to disciplinary action, if the petty cash/cash advance is abused in any way.

**Risk 1: Payment method may not be appropriate  
Needs strengthening**

The council's preferred method for purchasing goods and services is to use the Webreq electronic ordering module of the Integra financial system. This provides budget managers with the benefit of recording expenditure as a commitment immediately the order is placed, thereby improving the accuracy of financial forecasting without the need to maintain a separate budget monitoring spreadsheet. It also improves the efficiency of the payment process, as invoices received can be matched automatically without the need for authorisation and input to Integra by central Finance staff.

However, it was evident from our testing that Webreq orders are not being raised in all cases where this is possible (the supplier is already set-up on Integra), and that where orders are raised this is frequently not until the supplier invoice is received, rather than at the time expenditure is committed. This impacts on the accuracy of budget monitoring and financial forecasting, or results in the additional effort of maintaining a separate spreadsheet.

We also identified some instances of imprest accounts being used to purchase items that could have been obtained from approved suppliers via Webreq order, so may have failed to obtain best value for money.

**Risk 2: Expenditure incurred may not be for business purposes, or authorised appropriately  
Sufficient**

Overall, we were satisfied that expenditure had been incurred for genuine business purposes, had been authorised by an officer with appropriate delegated authority, and that imprest accounts (where held) were controlled and managed appropriately.

However, there was a lack of evidence of prior approval for purchases before expenditure is committed, where Webreq orders are not raised (with 'non purchase order' slips used instead) or these are raised only on receipt of the invoice; there was a similar lack of pre-approval for purchases via imprest accounts. We acknowledge that obtaining budget manager approval prior to ordering/purchasing goods/services is not stipulated as a requirement in the guidance provided, but consider that this would be good practice to improve the effectiveness of budget management.

Instances were identified of actual lack of, or lack of evidence of, segregation of duties in the checking, handling and authorisation of payments/reimbursements or ordering, receiving and paying for goods. These included a single person being responsible for the reimbursement and recording of imprest account/petty cash expenditure and checking/agreeing cash balances to the records without anyone else being present. In two services the 'goods received' section of the non-purchase order slip was frequently not completed, so there was no evidence of a second person being involved in the process of ordering, receiving and paying for goods.

### **Risk 3: Payments may not be accurate or timely Sufficient**

We were satisfied that all payments examined were accurate and timely, and that they had been recorded on the Integra financial system promptly.

However, our testing did identify a few anomalies in respect of VAT being recovered on expenditure where no valid VAT receipt had been obtained and, conversely, not being reclaimed where VAT receipts had been obtained. There were further examples where VAT could have been recovered if VAT receipts had been obtained – this related mainly to purchases via imprest account or petty cash. Due to the relatively isolated nature of these instances and the low values involved, we are content this does not represent a significant risk to the council.

### **CONCLUSION AND AUDIT OPINION**

Our overall opinion on the effectiveness of controls over local payments in the services audited is **sufficient**. There is, however, an opportunity to strengthen control through updating and enhancing the procedures for purchasing goods/services and managing local imprest and petty cash accounts.

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

- Reminding budget managers that Webreq orders should be raised in advance of the order being placed with the supplier;
- Updating guidelines for all purchases including petty cash and omprest and issuing these to all staff. ;

These have been implemented.

## **TAXATION – CREDITOR PAYMENTS**

*(final report issued 5 June 2015)*

An audit of Taxation on creditor payments forms part of the annual internal audit plan for 2014/15, approved by the Audit Committee on 20 March 2014. The objective of this audit was to provide assurance on the treatment of tax on payments to suppliers, with particular emphasis on gross payments (i.e. without tax deducted) made to construction contractors and self-employed individuals such as consultants.

The Construction Industry Scheme (CIS) is a scheme created by HM Revenue & Customs (HMRC) for contractors and subcontractors, who must be registered with the scheme to verify their status prior to receiving their first payment. There are currently 401 active CIS suppliers held on the council's Integra system.

Consultants are engaged to provide advice and support in a particular area of expertise for a specific project or task, where management consider in-house resources or capability are insufficient to meet the needs of the service. This should usually be time bound with clear start and end dates. It is important to determine whether a person is working under a contract of employment or a contract of services (self-employed) to determine income tax and national insurance liability, entitlement to statutory sick pay, employment protection and other employment rights.

Value added tax (VAT) is charged on most goods and services provided by registered businesses in the UK. There are currently three rates of VAT, standard (20%), reduced (5%) and zero (0%). In addition some goods and services are exempt from VAT or outside the VAT system. VAT is a complex area and comprehensive guidance is available from HMRC.

Three risks relating to Taxation - Creditor Payments were reviewed to determine the effectiveness of controls and the opinions are shown below.

**Risk 1: Gross payments may be made to contractors who are not registered under the HMRC Construction Industry Scheme**  
**Strong**

Sample testing of CIS suppliers confirmed that the CIS contractors' status was verified before payments were made to them. The verification details were recorded on the supplier master file within Integra.

**Risk 2: Gross payments may be made to consultants who do not meet the definition of being self-employed**  
**Sufficient**

A requirement for managers to discuss the proposed engagement of temporary staff (eg agency staff or consultants) with the HR resourcing team was introduced in April 2013. HR should undertake a variety of checks, including verifying employment status with HMRC, to determine whether gross payment can be made via invoice or whether they should be engaged as an employee and paid through payroll. However, as this requirement is available on the intranet under the title 'external recruitment' and searches such as 'using consultants' do not lead to it we believe that managers may not be aware of the requirement, particularly if they joined Medway after the introduction of this process in 2013 so did not receive any information publicising the new process.

Discussions with HR management identified that their responsibility for involvement in the appointment process is limited to 'employment' issues (those who would be either covering a vacant post or carrying out activities that would normally be associated with an employee, including agency/interim staff), not specialists engaged to deliver a specific project/piece of work (ie the normal definition of a 'consultant'). However, HR management believe they should be consulted in the first instance whenever managers are considering using additional resources, regardless of the type of work proposed.

Sample testing of payments made through the subjective codes for 'consultants/specialist fees' and 'agency staff' identified that;

- There was no evidence of HR approving the engagement of three of the four consultants selected who had been appointed since April 2013, though HR management advised they would not expect to have been involved, as one was a DfE appointment as independent chair of the Children's Services Improvement Board and the others were working on capital projects;
- Council equipment (mobile phones or remote access fobs) had been issued to four of the ten consultants/self-employed persons selected initially (five of whom were first appointed prior to April 2013), and telephone extensions and email addresses had been issued to six of them; these are factors that can contribute towards employee status under a contract of employment;
- Checks of a sample of 10 employees whose address matched that of suppliers on Integra identified that six individuals had been paid both through payroll and via invoice during 2014; whilst payment was for different pieces of work, we believe the council could be liable for costs plus penalties for failing to pay the correct tax and NI contributions on payments via invoice. HR management advised us this is permissible under certain circumstances such as undertaking a statutory duty (eg authorising cremations) in the capacity of a doctor rather than an employee, but our understanding of HMRC regulations relating to 'office holders' is that PAYE and NI should be deducted from payments.

HR has set up a new database to record the approval of consultants/agency staff/self-employed persons in 'employment' roles. The data is updated on a daily basis and more stringent monitoring takes place on a monthly basis to ascertain engagements which need extending and further approval or options for delivery are discussed.

We consider that guidance on the engagement of consultants/self-employed persons, titled 'determining employment status - employed or self-employed', also available on the intranet, does not provide managers with a clear and comprehensive understanding of the process, the responsibilities and requirements expected of a manager, including any possible implications around the use of consultants/self-employed persons.

**Risk 3: Input VAT may be reclaimed on expenditure when there is insufficient evidence that the goods/service provided were subject to VAT, or reclaimed at an incorrect rate**  
**Strong**

Testing confirmed that expenditure is supported by valid VAT invoices and the correct rate of VAT was applied. Credit notes were also confirmed to have the correct VAT rate applied and agreed to the original invoices.

Although the VAT codes alone do not impact on the accuracy of VAT returns, we considered that some of the VAT codes used on the sample of transactions tested were incorrect. The errors were thought to have occurred due to staff not understanding the differences between the codes OE (outside the scope) and ZE (zero rated) because of the classification of services, which can prove difficult due to the technical nature of VAT.

VAT returns are authorised for submission by a senior officer and submitted on a monthly basis, the submission receipt being retained to confirm claim successfully received by HMRC. However, there was no evidence of any checks being made by another officer prior to authorisation by the senior officer. VAT control account reconciliations are completed accurately.

Standard VAT procedures would be unable to cover all aspects of VAT due to its complex nature, so advice from Finance staff is available when required. Guidance is available to staff on obtaining the correct documents to support the expenditure made, ensuring VAT is claimed correctly. Comprehensive procedures also exist for the completion of the VAT claims and the submission of the returns online.

## **CONCLUSION AND AUDIT OPINION**

Our overall opinion on the effectiveness of Taxation - Creditor Payments, is **Sufficient**. Two material level recommendations made to address the issues identified, which were:

- Updating guidance for managers on the use of consultants;
- seeking specialist tax advice regarding payments to individuals who are paid both by payroll and creditors. ;

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



# SCHOOLS – FINANCIAL MANAGEMENT

*(final report issued 1 July 2015)*

## INTRODUCTION

1. Under Section 151 of the Local Government Act 1972, Medway Council's Chief Finance Officer has a legal responsibility for ensuring the proper administration of the council's financial affairs, including Medway Schools under Local Authority control. A programme of financial probity audits of schools is being undertaken. The output of the review at each school has been provided to the individual school, Senior Management within the council, and presented to the council's Audit Committee.
2. The Governors' Handbook provided by the Department for Education, defines the required school governance structure for ensuring financial probity. The Governing Body hold the headteacher to account for ensuring there are appropriate and effective financial management and governance arrangements in place. The School Business Manager (SBM) or equivalent is responsible for the delivery of sound financial administration.
3. Medway Council currently has responsibility for 60 maintained schools (54 primary, one secondary, three special and two pupil referral units), with an annual budget of approximately £70 million. Three of these primary schools will become academies in August 2015 and a special school is due to convert in September 2015. During the three years of this programme, audits have been carried out or are underway in 55 of the remaining maintained schools and three schools that have subsequently become academies. We intend to visit four of the final schools in September and will add Twydall Primary School to the programme if it remains a maintained school in the medium term.
4. This overarching report draws together the findings from the 24 individual school audit reports finalised as part of the 2014/15 internal audit plan. It provides an overall assurance on the financial management arrangements for the schools reviewed in that year and includes a summary of issues and lessons learned that is shared with all of Medway's schools. Audit report 14028 will summarise the issues arising from the seven schools visited with children's centres.
5. In addition to the audit programme, Audit Services has worked with Governor Services and Education Finance in the delivery of fraud awareness and financial management training for governors. We have also responded to requests for advice and information from schools where needed. Issues arising have helped inform this review and have been passed on to the Finance Business Partner (Education) for inclusion in the on-going review and updating of the school's finance manual.
6. The accounts within schools relating to voluntary funds and the Parent Teacher Association are not subject to Medway control and are not included in the scope of probity reviews, and no assurance is being provided by Internal Audit in relation to these accounts. Schools have a responsibility to ensure that the voluntary fund accounts are audited by an independent person and confirmation provided to the council that this audit has been undertaken. There is an on-going exercise to chase those schools which have failed to provide the required confirmation that their voluntary fund has been audited.

## MANAGEMENT SUMMARY

7. This audit report provides an overall summary and opinion on the financial management within schools based on the audits that have been undertaken in 2014/15, the further liaison and review of schools arrangements, and with recognition of the enhancements made in the council arrangements for supporting schools in their financial management.
8. The audit work undertaken over the year indicates that whilst there continues to be variability in the effectiveness of financial management, the general improvement in the school financial management processes identified in 2013/14 has continued into 2014/15. In particular we found that headteachers were more active in supervising financial transactions and financial management at the schools. It was particularly pleasing to see examples of new management reviewing historic photocopier lease agreements and taking steps to improve value for money. Appendix B sets out the schools visited in 2014/15 and provides a summary of the issues identified. This appendix also includes a summary of the 2013/14 and 2012/13 probity review programme, provided for information.
9. There were however actions identified to strengthen the arrangements in place to ensure procurement decisions were documented better, income streams are accounted for fully and assets are secured. Appendix A sets out the key issues identified during the 2014/15 probity review programme and the key mechanisms that schools should ensure are in place to address these risks. The main body of the report and Appendix A will be circulated to Chairs of Governing Bodies with the recommendation that it is presented to the full Governing Body to help them consider the effectiveness of the financial management within their School. We are working with the Finance Business Partner (Education) to update the school finance manual and model finance policy to improve these areas.
10. While positive improvements were noted in many schools, the review programme also found evidence of some significant failings. The particular issues were:
  - ✓ One school did not have a finance policy; this school has been offered support by Education Finance to enable it to build and embed a sound financial framework. This new framework will be audited in May 2016.
  - ✓ Two schools made significant contributions to staff provisions from its main fund. One of these schools has agreed to change the practice in future. The governing body of one of the other school (Abbey Court) continues to support this expenditure and refuses to comply with the council's guidance.

## CONCLUSION AND AUDIT OPINION

11. Having almost completed the probity audits in Medway schools our experience suggests that, with a few exceptions, the standard of financial management is gradually improving across Medway. Those schools that have had the benefit of a visit have corrected historic failings and there is evidence that good practice is being shared between schools. There are still opportunities for improving the standard of financial control in Medway schools, so we conclude that the overall financial control in Medway schools is “**sufficient**”.

## Significant findings and probity issues arising from the 2014/15 reviews

Issue	Outcome
<p>The finance policies in most schools provided a sound framework for financial management. However, one school did not have a finance policy and therefore roles and responsibilities were not defined.</p>	<p>The school now has a finance policy. The school has agreed to seek advice from Education Finance and Audit Services over the coming year to ensure a sound financial framework is embedded in the school. The school will be subject to a full audit in May 2016.</p>
<p>During the three years of the audit programme we have found that approximately a quarter of schools visited had used public funds to pay for staff gifts and hospitality. The council's guidance prohibits this type of expenditure.</p> <p>In the overwhelming majority of these schools, the amount spent was relatively low. In 2013/14, one school was identified that had spent over £1,000 on gifts for staff. Two further examples of very high expenditure have been identified from this year's audits:</p> <ul style="list-style-type: none"> <li>• One school spent approximately £12,350 on staff breakfasts in the 2014/15 financial year.</li> <li>• The audit identified £1,600 in expenditure on provisions in the period 1 January to 30 June 2014.</li> </ul>	<p>The council's gifts and hospitality policy states that such expenditure is not acceptable. The Finance Business Partner (Education) will ensure a school-specific version of the guidance is available via the school finance manual.</p> <p>Every school visited, with the exception of Abbey Court, agreed to stop using school funds for staff gifts and hospitality.</p>

## Summary of other recurring weaknesses identified

Issue	Actions Needed
<p><b>Governance Issues</b></p> <p>We have identified a few schools where governors are married to staff (e.g. teaching assistants) but not necessarily declaring this as an interest - governor declarations of interest are traditionally seen as covering business and not personal interests. As a result, governors could be in the awkward position if asked to make pay decisions regarding staffing structures or pay awards that directly affect members of their family.</p> <p>We identified a staffing committee at one school where five out of eight governors had a direct interest in staffing matters. The committee consisted of three governors were all married to teaching assistants, the headteacher, the deputy headteacher and three others.</p>	<p>School governing bodies should ensure all potential conflicts of interests are declared and appropriate action is taken to mitigate any conflicts that are identified.</p>
<p><b>Procurement</b></p> <p>In 21 / 24 schools we identified gaps in the documentation to support procurement decisions. Whilst the practices varied from school to school and no school exhibited all these weaknesses, the common issues were:</p> <ul style="list-style-type: none"> <li>• Governing body decisions not documented clearly;</li> <li>• evidence of quotes not always retained;</li> <li>• poor specification of work resulting in variations in quotes from different suppliers and / or additional work to complete the job;</li> <li>• declarations of interest not always completed for governors or staff influencing procurement decisions;</li> <li>• aggregate spend not taken into account when considering whether quotes are needed or who can authorise the expenditure;</li> <li>• purchase orders not raised on the Schools Information Management System (SIMS).</li> </ul>	<p>Schools should ensure that procedures are in place to ensure procurement is properly documented and evidence retained. In particular:</p> <ul style="list-style-type: none"> <li>• Tender and quotation evaluation</li> <li>• Purchase orders</li> <li>• Declarations of Interest forms for staff involved in procurement.</li> </ul> <p>Schools should ensure that governing body minutes capture financial decisions.</p>

Issue	Actions Needed
<p><b>Payroll</b></p> <p>Most schools had sound processes in place to ensure only legitimate staff were paid. The audit programme identified three schools where the person submitting forms to payroll was also responsible for reviewing the monitoring reports without any independent check.</p> <p>We identified issues with timesheets at eleven schools. There is no evidence to suggest that time claimed had not been worked, but there was insufficient documentation for the authorising signatory to have known that the payment was correct. There were even instances where forms had been signed in advance of the last date claimed. We identified similar issues regarding lack of documentation to support staff reimbursements at six schools.</p> <p>There is a particular problem in respect of reimbursements to headteachers. Their expenses are, out of necessity, authorised by a subordinate and we have found that governing bodies have not made arrangements to oversee the process to protect the individuals involved.</p>	<p>Schools should ensure payroll monitoring reports are reviewed by someone independent of the payroll process.</p> <p>Schools should ensure that the authorising signatory is in a position to confirm the accuracy of timesheets and staff reimbursements; timesheets should never be authorised in advance of the last date claimed.</p> <p>School governing bodies should ensure they have oversight of headteacher expenses and reimbursements.</p>
<p><b>Income</b></p> <p>We are pleased to note a reduction in the cash handling issues identified compared to previous years, which could be indicative of improved practices in schools in this area. However, most of the schools visited with significant income streams still do not have effective reconciliation processes in place to ensure all income due has been received.</p>	<p>Schools need to ensure there are effective reconciliation processes in place for all significant income streams i.e.:</p> <ul style="list-style-type: none"> <li>• Breakfast / after school club income should be reconciled to attendance records;</li> <li>• trip income should be reconciled to records of pupil receipts and expenditure.</li> <li>• an annual stock count of school uniform should be reconciled to records of sales and purchases;</li> </ul> <p>The income section of the school finance manual should be updated to reflect this advice.</p>

Issue	Actions Needed
<p><b>Asset Management</b></p> <p>The audits confirmed that schools are retaining asset registers but we identified issues with either the consistency of recording information or failure to complete annual checks to ensure items are still in the school.</p>	<p>Schools should review their asset registers to ensure they contain appropriate details i.e. description, location, serial number.</p> <p>Schools need to ensure that there is an annual check of asset registers to confirm assets are still at the school.</p>
<p><b>Payment Cards</b></p> <p>A number of schools use debit / credit cards for e.g. internet purchases. The schools' finance policies outlined set card limits, usage restrictions and security arrangements. There were still a few schools where there was insufficient oversight of card usage, particularly where the headteacher was a nominated card holder, but this was at a smaller proportion of schools than last year.</p> <p>There were eight instances where schools were using trade cards, fuel cards or Paypal to make payments. Whilst these methods of payment are not necessarily problematic, they had not been documented within the finance policy and therefore had not been sanctioned by the governing body.</p> <p>We found no issues with the trade and fuel card arrangements but had concerns over the security of Paypal account details. Where Paypal accounts are linked to the payment card, the risk to the school was restricted to the card limit. We had greater concern where the Paypal account was linked directly to the school's bank account.</p>	<p>Where a school finds a need to introduce a new payment method such as a trade card, fuel card or Paypal, the school should ensure this payment method has been sanctioned by the governing body and this is captured in the finance policy.</p> <p>Schools should ensure there is a division between the credit card handling and monitoring duties, and periodic checks made by the Finance Committee on expenditure made using the card (as there should be periodic checks by Finance Committee of the level of all types of expenditure including manual cheques and petty cash).</p>

**Appendix B**

<b>2014/15 School Probity Reviews</b>			
<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
Abbey Court	150	The council's guidance prohibits the use of public funds to pay for tea / coffee and other provisions for staff. The audit identified £1,600 in expenditure on provisions in the period 1 January to 30 June 2014.	Governing body minutes did not clearly show approval of expenditure that required governor approval. The school's policy on leaving presents / other gifts / flowers contradicts the council's guidance on hospitality. The school's policy approves a scheme that rewards staff who do not take sick leave during the year. This scheme had not been explored fully and has equality and diversity implications.
Balfour Infant	270	None	Declarations of interest were not completed by members of staff other than those on the governing body. There were a large number of non-purchase orders.
Barnsole Primary	570	None	Declarations of interest were not completed by members of staff other than those on the governing body. Finance Policy does not state who can approve expenditure in excess of £10,000 or how many quotes are required. Verifications checks are not routinely undertaken of the asset register. There was no reconciliation performed of income received for the breakfast club to the numbers attending.
Danecourt	151	None	The school was not documenting the procurement decisions by the Finance Committee or the reasons for choice of contractor in line with the Finance Policy. Training centre income was not reconciled to booking records. Asset management arrangements were not clearly defined in the finance policy.

**2014/15 School Probity Reviews**

<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
English Martyrs RCP	210	None	<p>Declarations of interest had not been signed or dated, or completed for all staff in a role where they could influence procurement decisions.</p> <p>Governing Body / Clerk to Governor's decisions were not recorded appropriately.</p> <p>The headteacher was the only authorised signatory specified in the Finance Policy.</p> <p>Timesheet checks of hours worked to local records are not always evidenced.</p>
Hempstead Infant	260	None	<p>Signed declarations of interest were not updated on an annual basis.</p> <p>No spot checks or annual check of asset register.</p> <p>Trade card used to make purchases from the supplier was not recorded in the finance policy.</p>
Hempstead Junior	360	None	<p>Finance policy does not stipulate the number of quotes / tenders that should be obtained.</p> <p>Purchases that require Finance Committee approval are not recorded in the Finance Committee minutes as stipulated in the finance policy.</p> <p>The charging policy had not been reviewed since 2010.</p> <p>Staff declarations of interest had not been updated since 2011.</p> <p>There is evidence to supply teacher payments made but there were instances where the timesheets to support the invoice payments to the supply agencies had not been authorised.</p>
Hoo St Werburgh and the Marlborough Centre	480	None	<p>Finance policy does not reflect the school's governance model;</p> <p>Delegated authorisation limits stipulated in the finance policy are for single items and not aggregated spend.</p> <p>Not all declarations of interest completed on an annual basis; declarations restricted to business interests.</p> <p>Purchases exceeding the delegated authority;</p> <p>Gifts and hospitality bought using council funds;</p> <p>Trip paid for from main fund but income paid into voluntary fund;</p> <p>No reconciliation of SIMS to trip income and expenditure records.</p>



**2014/15 School Probity Reviews**

<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
Horsted Federation	400	None	<p>The governing body was considered too large for effective decision making.</p> <p>Declarations of interest had not been completed for all staff in a role where they could influence procurement decisions.</p> <p>Lettings income charges were raised in arrears.</p> <p>There was no separation of duties between handling of income and banking and no reconciliation of total income from trips to SIMS records.</p> <p>The school's finance policy identified some omissions around delegated authority and financial limits.</p> <p>Flowers and gifts for staff were paid for using council funds.</p>
Luton Junior	235	None	<p>Finance policy does not specify a value above which quotes should be obtained, or include a minimum number of quotes required.</p> <p>Procurement decisions made at governors meetings were not always recorded in the minutes of relevant GB meeting.</p> <p>Timesheets / supply claims were signed in advance of the final date worked and claimed for, although no evidence that payments had been made for work not completed.</p> <p>An overtime payment to a staff member was made by cheque rather than through payroll.</p> <p>Reporting the theft of a laptop did not comply with the council's financial rules.</p>
Maundene Primary	420	None	<p>There was no separation of duties when processing and checking payroll.</p> <p>Flowers and gifts for staff were paid for using council funds.</p>
New Road Primary	370	None	<p>There was no evidence to show how suppliers were selected to provide services to the school.</p> <p>The finance policy required updating to include the procedure for quotes to be obtained and appropriate use of the Business Card.</p> <p>Declarations of interest were not completed by members of staff other than those on the governing body.</p> <p>Issues around income and stock reconciliations.</p>

**2014/15 School Probity Reviews**

School	Pupil No's	Probity Issues	Control Issues
Rivermead	151	None	<p>Income cash handling processes need strengthening; income received not reconciled to income due.</p> <p>Governor reimbursements not subject to independent oversight.</p> <p>Compliance with school procurement policy and better documentation of procurement decisions were required in order to demonstrate value for money.</p> <p>Purchase orders were not raised in advance.</p>
St Benedict's RCP	210	None	<p>Registers of Business Interests were not completed by all relevant staff, or regularly updated.</p> <p>Specifications had not been prepared for work prior to obtaining quotes and the number of quotes obtained was not in accordance with the finance policy.</p> <p>Governor approval for purchases were not always obtained (or documented) in accordance with the finance policy.</p> <p>Purchase orders were not always used.</p>
St Helens CEP	200	None	<p>Finance policy updates to clarify roles and responsibilities, specify when quotes and tenders are required and to confirm that aggregate spend rather than individual prices need to be considered.</p> <p>Ensure the school retains access to the staff and governor declarations of interest so that the school can ensure any conflicts are taken into account during the decision making process.</p> <p>Reconciliation of income records to ensure all income due has been received.</p> <p>Annual asset checks to ensure the school's assets remain available for use.</p> <p>Retaining evidence that orders have been approved prior to them being placed with the supplier.</p>

**2014/15 School Probity Reviews**

<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
St John's CEVC	90	None	<p>Declarations of interest were not completed by members of staff other than those on the governing body.</p> <p>The schools finance policy did not state how many quotes should be obtained when procuring goods and services.</p> <p>There were a large number of non-purchase orders.</p>
St John Fisher	850	The school spent approximately £12,350 on staff breakfasts in the 2014/15 financial year.	<p>Reconciliation of trip expenditure to records of income received and income due.</p> <p>Improvements needed to asset register records and ensuring annual checks take place.</p> <p>Updates to the finance policy to provide guidance on aggregate spend and when to seek quotes and tenders.</p> <p>The school has a significant number of contracts but no contract register.</p> <p>Declarations of interest not completed annually for all staff and that there were incomplete records of action taken to protect individuals when a conflict of interest was declared.</p> <p>Purchase order process not always used.</p> <p>Petty cash use was higher than necessary.</p>
St Thomas of Canterbury RCP	235	None	<p>Declarations of interest were not completed by members of staff other than those on the governing body.</p> <p>The schools finance policy did not state how many quotes should be obtained when procuring goods and services.</p> <p>There were a large number of non-purchase orders.</p> <p>Swimming income and expenditure was not paid into and from the same fund.</p>

**2014/15 School Probity Reviews**

<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
Swingate Primary School	690	None	<p>The school has a separate account for its breakfast and after school club;</p> <p>Reconciliation of attendance records income received to Finance policy update needed to endure requirements for quotes and tenders and asset write-offs are recorded appropriately.</p> <p>Declarations of interest not completed by staff.</p> <p>Declarations of interest do not cover family connections for governors.</p> <p>Headteacher reimbursements not subject to governor oversight.</p> <p>Governing body not overseeing significant aggregate expenditure</p> <p>No independent check of assets.</p>
Thames View	380	None	<p>The schools finance policy did not state minimum number of quotes to be obtained when procuring goods and services.</p> <p>Staff influencing decisions (other than the headteacher) were not asked to make a declaration of potential conflicts of interest.</p> <p>Purchase orders were not always raised.</p>
The Rowans	50	None	<p>The schools finance policy did not include guidance on aggregated spend, use of fuel card or trade cards, or that assets should be checked annually.</p> <p>Annual checks were not carried out to confirm drivers of lease vehicles hold a valid license.</p>

**2014/15 School Probity Reviews**

<b>School</b>	<b>Pupil No's</b>	<b>Probity Issues</b>	<b>Control Issues</b>
Wainscott	310	None	<p>Not all governing body members had completed declarations of interest; declarations of interest have not covered family relationships. Governors in a position to influence decisions relating the their spouses' employment.</p> <p>No independent oversight of the payroll reports.</p> <p>The schools finance policy did not include guidance on aggregated spend.</p> <p>Purchasing limits as set out in finance policy not always adhered to.</p> <p>Purchase orders not raised is advance.</p> <p>Asset register does not effectively record disposals; assets are not subject to annual checks.</p> <p>The school had a Paypal account that was linked to the school's bank account.</p>
Walderslade	210	None	<p>The photocopier lease was not, approved by the full governing body in accordance with the school's finance policy.</p> <p>There were a large number of non-purchase orders.</p> <p>There was no evidence of a reconciliation of income received to bank records or SIMS.</p>
Will Adams	50	The school does not have a finance policy.	Headteacher not in a position to verify school business manager overtime when authorising timesheets.
<b>TOTAL: 24 schools</b>	<b>7302 pupils</b>	<b>3 probity issues identified</b>	

## **ANNUAL GOVERNANCE STATEMENT**

*(final report issued 1 July 2015)*

As detailed in the Accounts and Audit Regulations (2015) all local authorities are obliged to publish an annual governance statement (AGS) covering their systems of risk management and internal control. At Medway Council, the AGS is prepared by the Monitoring Officer and presented to the Audit Committee for approval.

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

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

The AGS, and this internal audit report, are provided to Audit Committee in July. At that same meeting the Audit Committee receive the annual internal audit report which includes the overall opinion as to the internal control and risk management arrangements of the council. The overall opinion stated in the annual internal audit report for 2014/15 is that Medway Council's system of internal control adequately contributes to the proper, economic, efficient and effective use of resources in achieving the council's objectives, and this overall audit opinion in turn supports the AGS.

### **FINDINGS**

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

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

- Scope of responsibility
- The purpose of the governance framework
- The council's governance framework
- Review of effectiveness
- Governance: key areas of focus.

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

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

## **CONCLUSION AND AUDIT OPINION**

The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework.

<b>RISK MANAGEMENT</b> <i>(final report issued 18 June 2015)</i>
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Internal Audit carries out an annual review of the Council's arrangements for identifying and managing its risks. The review this year, which forms part of the 2014/15 annual internal audit plan, seeks to provide assurance around compliance with the council strategy.

Since last year's audit we can confirm that recommendations have been addressed or improvements have been made in the following areas;

- new service planning guidance including the need to identify risks as part of the annual service planning was issued to management;
- the Strategic Risk Management Group (SRMG) now includes a representative from each directorate;
- development of risk registers for each directorate, with the exception of Business Support Department as no directorate management team.

This year Covalent, the council's performance management system, was not relied on to confirm whether service plans, risk registers and divisional plans were held, as we were advised that the current version required updating. Instead documents were requested from individual services within each directorate.

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

- the SRMG is chaired by the Director of Regeneration, Community & Culture, providing senior management sponsorship of the work;
- a corporate risk register is in place and risks identified are evaluated in a consistent manner and mitigating actions are identified and generally assigned to a named officer;
- the corporate risk register is reviewed by Extended Management Team (EMT) and reported to Business Support Overview and Scrutiny Committee and Cabinet twice a year;
- a report regarding risk management is provided annually to the Audit Committee;
- the risk management strategy is formally reviewed on an annual basis;
- we acknowledge the efforts Performance & Intelligence managers have been making to raise the profile of risk management with Directorate Management Teams (DMTs).

The operation of these controls provides assurance that the council is broadly compliant with its strategy, although we did identify some areas within our review where there is scope for further improvement:

- Review of the sample of 2014-15 service plans provided indicated that those for RCC and Public Health identified risks, but those for C&A did not

(though this mitigated by a directorate risk register being compiled subsequently) and there was no evidence of any risks being identified in some of those for BSD.

- With the exception of the quarterly reports for Public Health, the sample of ADQ reports reviewed commented briefly on risks in general, but these tended to be emerging issues rather than individual risks identified in divisional plans as exceeding the tolerance level, with more emphasis on explaining how well each service had performed. There is a lack of evidence as to whether service / divisional risks are being monitored effectively as part of the AD quarterly reporting process.

## **CONCLUSION AND AUDIT OPINION**

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

One material level recommendation has been made to consider potential enhancements to the risk management process. This review will take place in July 2015.

## **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.



## **Abbey Court School**

*(final report issued 5 June 2015)*

Abbey Court is a special school for approximately 150 pupils aged 3-19 with severe or profound learning difficulties. Some have additional needs such as sensory impairment, severe autistic spectrum disorders (ASD) and physical disability. A few have life threatening medical conditions. All have statements of special educational needs.

The school is currently split over two sites and work is currently underway to expand and relocate the school to a single new site in Strood. This project was not reviewed as part of this audit as it is being managed by the council and is therefore outside the scope of the probity audit program.

The School Business Manager (SBM) and Finance Officer support the headteacher with the management and operation of financial processes. 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, business manager and the finance officer. 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;
- Fuel cards;
- Petty cash;
- Assets

Staff timesheets are completed and signed by the employee before being passed to a deputy head (who arranged the cover) for authorisation and the SBM for checking prior to submission to payroll. Both the deputy head and SBM use the supply cover diary to confirm the accuracy of time claimed. There were no errors in the sample of timesheets we tested. There were regular reconciliations to account for petty cash and fuel card usage.

The school has appropriate structures in place for making procurement decisions with the school adopting the council's "code of practice for tenders and contracts". However, Abbey Court's governing body minutes do not clearly show approval of expenditure that requires governor approval. This is an issue we have found in a most of the governing body minutes we have examined during the probity audit program.

The school has two asset registers – one for IT equipment and the other for items. This second register is particularly important for Abbey Court because there is a high level of specialist equipment (e.g. chairs) needed by the children. Over £30,000 was spent on this type of equipment in the period 1 January 2014 and 30 June 2014. At the time of the audit, the school was in the process of updating its asset register and instigating a new recording process. Three out of five asset purchases tested during the audit had not been recorded in the asset register and this is likely to be due to the change in

recording processes. The school has assured the council that no assets were missing and the registers are now up to date.

The school's governors have approved a policy on leaving presents / other gifts / flowers. This policy contradicts the council's guidance on hospitality, which explicitly states that "flowers and gifts for staff should not be paid for using council funds". The amount spent on staff flowers was relatively small (£102) but the governing body should ensure its policies are consistent with council guidance.

The policy also approves a scheme that rewards staff who do not take sick leave during the year. This scheme has equality and diversity implications which have not been explored fully, particularly in relation to maternity leave. Furthermore, this was one of three examples we found of employee-related payments which have been referred to Medway Council's payroll so that tax can be corrected.

The audit identified £1624 in expenditure on tea / coffee / other provisions for staff in the period 1 January to 30 June 2014, which is equivalent to approximately £3000 (or £24 per member of staff) for the year. Whilst this type of expenditure had the approval of the governing body, it is not mentioned in the school's leaving presents / gifts policy. Also, it is specifically prohibited in the council's hospitality guidance. We regard this as a probity issue.

On 20<sup>th</sup> May 2015, the school's full governing body discussed the school's gift and hospitality practices and council policy. The governing body decided that its own policy on gifts and hospitality is now embedded custom and practice at the school and that withdrawal of these benefits would be detrimental to staff attendance and morale. It is disappointing that the school has chosen not to comply with council guidance that has been designed to help demonstrate the proper use of public funds.

We confirm we found no other probity issues and that management agreed a plan of action to address the other issues identified in the audit.

## **CONCLUSION**

We are able to provide assurance that the school has reasonable controls in place to manage its financial processes. Apart from the issue with staff provisions, we did not identify any other probity issues in our testing of payments and procurement.

**Balfour Infants School**  
*(final report issued 11 May 2015)*

Balfour Infant School is a larger than average infant school for children aged four to seven years with a pupil roll of approximately 270 places. The School Business Manager and Finance Officer supports the Headteacher with the management of financial processes. The school has an average number of pupils with 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 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 creditor payments through SIMS. The school uses petty cash and this is well controlled.

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

- Discretionary payments
- Staff paid by timesheets (e.g. overtime)
- Assets.

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, procurement and income.

<p style="text-align: center;"><b>Balfour Infants School</b> <i>(final report issued 20 May 2015)</i></p>
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Barnsole Primary School is a larger than average primary school for children aged four to eleven years with a pupil roll of approximately 570 places. The Business Manager and Finance Officer support the Headteacher with the management of financial processes. The school has more than average qualifying for pupil premium.

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 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 creditor payments through SIMS and uses a business card. The school does not use petty cash.

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);
- The business card;
- Assets
- Income from swimming and the breakfast club

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, procurement and income.

## Hoo St Werburgh School and Marlborough Centre

*(final report issued 29 June 2015)*

Hoo St Werburgh Primary School and Marlborough Centre is a large community primary school with an attached Centre for children with a recognised diagnosis of Autism. There are over 480 children on roll, organised into 14 classes, with two classes per year group in the main school and an integrated Marlborough Centre of six classes catering for 65 children within the specialist setting.

The school's finance policy provides a sound framework for financial management although it includes reference to a finance committee when the school/centre operates a circle governor system (the governing body works as a 'whole team', without any separate committees). The policy establishes appropriate roles and responsibilities for the governing body, Executive Headteacher, Head of School, Head of Specialist Provision, School Business Manager 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 by cheque through SIMS. The school makes internet purchases using a credit card.

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

- Staff paid by timesheets (e.g. overtime)
- Procurement
- Leases
- Payments to staff
- Credit card
- Assets
- Income

As part of audit testing, it was noted that following the end of a five-year lease agreement for photocopiers the school/centre were able to secure a new lease with another company leading to a saving of just under £24k per year.

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, procurement and income.

## **New Road School and Nursery Unit**

*(final report issued 5 May 2015)*

New Road Primary School is a larger than average primary school for children aged four to eleven years with a pupil roll of approximately 370 places. The Finance Officer supports the Headteacher with the management of financial processes. The school has an above average number of pupils with special educational needs and is well above the average for pupils entitled to pupil premium.

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 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 creditor payments 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);
- Business Card
- Income from uniform and breakfast club

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, procurement and income.

## **St Helen's CEP**

*(final report issued 29 June 2015)*

St Helen's Church of England Primary School is a small voluntary aided school situated in the village of Cliffe. The school has just under 200 pupils on roll between the ages of 4-11. The proportion of children known to be eligible for free school meals is normal but there is a higher than average proportion of pupils with a statement of special educational needs. The Finance officer supports the Headteacher with the management of financial processes.

The school's finance policy provides a framework for financial management, establishing roles and responsibilities for the governing body, headteacher, and the finance officer. 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. The school makes most of its creditor payments through SIMS but also uses a business credit card. There is no petty cash.

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

- high value expenditure;
- the credit card;
- assets;
- income

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.

<p><b>St John Fisher School</b> <i>(final report issued 16 June 2015)</i></p>
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St John Fisher is a catholic comprehensive school and is the only secondary school in Medway that is not an Academy. It is split over two sites one for years 7 to 8 and one for years 9 to 13. It has approximately 850 children on roll aged 11-18 years.

The School Business Manager (SBM) and Finance Officer support the headteacher with the management and operation of financial processes. The school's permanent business manager has been on long term sick since the summer of 2014 and an Interim Business Manager (IBM) has been in post since October 2014.

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, business manager and the finance officer. 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 through Schools Information Management System (SIMS) by BACs. There are sound systems in place to ensure orders are authorised in advanced, entered onto the system and that payments are checked, validated and authorised appropriately.

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;
- Credit and Fuel cards;
- Petty cash;
- Assets;
- Income.

We were pleased to see the relatively low number of staff being paid via timesheets. We understand this is because the school fixes the hours on staff contracts where possible and would recommend this practice elsewhere. Where staff are paid by timesheets, the school has robust procedures in place for ensuring staff sickness and cover is effectively managed. There is clear guidance on sickness procedures in the staff handbook and a supply cover diary is used to confirm the accuracy of time claimed. There were no errors in the hours worked from the sample of timesheets we tested.

The finance policy delegates the headteacher authority to spend up to £5,000 anything over £5,000 needs authorisation from the Finance Committee but the policy does not give guidance on aggregated spend. Therefore the school has not sought approval from the governing body for high value expenditure such as exams fees totalling £48,000 or the IT support contract renewal totalling £11,000. A review of the governing body minutes does not show evidence they have approved single items such as £6,000 tree surgery either. This is an issue that is not unique to St John Fisher and we have found it in most of the governing body minutes we have examined during the probity audit programme.

The school has a sound process for handling known conflicts of interest. For instance where a conflict was declared the school took appropriate steps to take the member of staff out of the decision making process so they could not unduly influence the decision making process. However, not all the actions taken around the decision making process were documented.

The school makes the majority of payments via BACs. There are sound systems in place to ensure orders are authorised in advanced, entered onto the system and that payments are checked, validated and authorised appropriately.

There were strong controls in place to ensure proper use of the school credit card. The school also has a fuel card that has been used to obtain diesel for the minibus. The IBM was not aware of the card's existence and it is not included in the finance policy. Its control was appropriate whilst it was managed by the SBM. It has remained in the safe and unused since the IBM has been in post.

The school's finance policy requires the school to record stocks and other assets to adequately safeguard against loss or theft. The school complies with this policy and maintains two asset registers - one for IT equipment and one for other items. The asset registers were maintained by the permanent Business Manager, but this lapsed when she went on long term sick leave. The school is aware of the need to attend to the asset registers but the IBM had more urgent priorities when he was appointed. Our testing showed that neither of the two items sampled could be matched to the asset registers.

The school organises trips for pupils. In the period 01/04/14-06/01/15 a total of nearly £30,000 was collected in relation to school trips. The school has a standard operating procedure for trips and uses the Evolve system to ensure appropriate planning, risk assessments and authorisation is sought. The trip leader is responsible for the collection and recording of income. The SBM is responsible for reconciling trips to ensure they are self-financing but not profit making. We reviewed the records for one trip and found no reconciliation had been completed at the time of the audit. This was later provided once completed and showed a profit had been made that was also refunded back to parents.

All staff are entitled to a free breakfast and the school is charged if the breakfast is taken up by the staff member or not. The audit identified £12,350 in expenditure on staff breakfasts per year. This type of expenditure is specifically prohibited in the council's hospitality guidance; this guidance has historically not been well publicised. This level of expenditure is significant and we therefore regard this as a probity issue.

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

## CONCLUSION

We are able to provide assurance that the school has reasonable controls in place to manage its financial processes. Apart from the issue with staff provisions, we did not identify any other probity issues in our testing of payments and procurement.

**St John's CEVC School**  
*(final report issued 13 April 2015)*

St John's CEVC Infant School is for children aged four to seven years with a pupil roll of approximately 90 places. The Finance Officer supports the Headteacher with the management of financial processes. The school has more than average qualifying for pupil premium.

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 the Finance Officer. 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 school made creditor payments through SIMS and uses a business card. The school does not use petty cash.

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 Business card

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.

**St Thomas of Canterbury RCP**  
*(final report issued 28 May 2015)*

St Thomas of Canterbury Catholic Primary School is a smaller than average primary school for children aged three to eleven years with a pupil roll of approximately 235 places. The Finance Officer supports the Headteacher with the management of financial processes. The school has an average number of pupils with 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 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 creditor payments through SIMS. The school uses petty cash and this is well controlled.



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

- Procurement of services
- Staff paid by timesheets (e.g. overtime)
- Income.

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, procurement and income.

<p><b>Swingate Primary School</b> <i>(final report issued 26 June 2015)</i></p>
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Swingate Primary School is a much larger than the average-sized primary school. It was formed by the amalgamation of Swingate Infant and Nursery School and Spinnens Acre Junior School in September 2013. The school has approximately 690 pupils on roll between the ages of 3 -11. Approximately one fifth of all pupils are supported by the pupil premium, this is a broadly average proportion compared nationally. The proportion of disabled pupils and those who have special educational needs is also broadly similar to the national average, at approximately 15% of pupils. The business manager supports the headteacher with the management of financial processes.

The school's finance policy provides a sound framework for financial management, establishing roles and responsibilities for the governing body, headteacher, the school business manager and other support staff. 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 has standardised contractual hours for support staff wherever possible, so the amount paid by timesheets was relatively low. The school made creditor payments through FMS6. From September the school began using a small amount of petty cash when other methods of payment are not possible.

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

- Procurement & payments;
- Assets;
- Income;
- 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, procurement and income.

## **The Rowans**

*(final report issued 18 May 2015)*

The Rowans is a pupil referral unit for 11-16 year olds who have been permanently excluded, or are at risk of permanent exclusion from mainstream schools. The provision takes on average 50 pupils on roll. The Business Manager supports the Headteacher with the management of financial processes. The school has more than average qualifying for pupil premium.

The school's finance policy provides a sound framework for financial management, establishing appropriate roles and responsibilities for the management committee, finance committee, headteacher, and the Business Manager. 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 school made creditor payments through SIMS and uses a business card. The school also uses a small amount of petty cash.

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

- High value expenditure;
- Staff reimbursements
- The business, fuel and trade cards
- Petty cash
- Assets
- Income

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.

## **Wainscott Primary School**

*(final report issued 19 June 2015)*

Wainscott Primary School is for children aged three to eleven years with a pupil roll of approximately 310 places. The Bursar supports the Headteacher with the management of financial processes. The proportion of disabled pupils and those who have special educational needs is similar to that of schools nationally.

The school has recently undergone major building works to support the transition from one form entry to a two form entry. This project was not reviewed as part of the audit as it was managed by the council and is therefore outside the scope of the probity audit program.

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.

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

- Payroll
- High value expenditure
- Assets
- Income from school trips
- Paypal Account

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 payroll and procurement.

<p style="text-align: center;"><b>Walderslade Primary School</b> <i>(final report issued 12 June 2015)</i></p>
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Walderslade Primary School is an average sized primary school for children aged three to eleven years with a pupil roll of approximately 210 places. The Finance Officer supports the Headteacher with the management of financial processes. The school has an average number of pupils with 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 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 creditor payments through SIMS.

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

- Discretionary payments
- Staff paid by timesheets (e.g. overtime)
- Payments to staff
- Procurement.
- Income

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, procurement and income.

**Will Adams Centre**  
*(final report issued 8 June 2015)*

Will Adams is a pupil referral unit for 14-16 year olds who have been permanently excluded, or are at risk of permanent exclusion from mainstream schools. There is an average 50 pupils on roll. The Business Manager supports the Headteacher with the management of financial processes. The school received a devolved budget and gained financial independence from 2014.

At the time of the audit visit, the school did not have a finance policy. When the school gained its financial independence it should have put the financial framework in place but did not dedicate the necessary resources. At this time the Business Manager was covering the duties of site manager and she did not have any finance support. One mitigating factor is that Education Finance was only able to provide the school with limited support owing to the long term absence through ill health of both the Principal Accountant and Senior Accountant with responsibility for support to schools.

The school has prepared a policy for ratification from the management committee but was not in a position to demonstrate there was a sound financial framework operating during the 2014/15 financial year. It was agreed the audit would be curtailed in order to give the new financial framework an opportunity to embed and these new processes would be subject to audit review in 2016. In the meantime, the school has agreed to seek support from education finance in order to ensure it builds robust financial processes.

The risk assessment identified one area of expenditure that required further examination. One member of staff received a high level of overtime payments. Our review concluded this level of overtime was likely to have been required due to gaps in the staffing structure but the authorised signatory was not providing robust checks on the hours claimed. We have been informed that the school has now recruited to the vacant roles and the level of overtime required should reduce. The school has also agreed to ensure timesheets are checked appropriately when authorised.

## **CONCLUSION**

The school did not have a sound financial framework in place during the 2014/15 financial year. The school is now putting in place a finance policy and will be seeking support from the Finance Business Partner (Education) throughout 2015/16 in order to put sound processes in place. We plan to audit these processes in 2016 in order to provide assurance that these are working effectively.

## 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
<b>Medway Action for Families Payment by Results May 2015</b>	<b>6.05.15</b>	<b>n/a</b>
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	
<b>Significant (High)</b>	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).
<b>Material (Medium)</b>	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).
<b>Point of Practice</b>	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	
<b>Strong (1)</b>	<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.
<b>Sufficient (2)</b>	<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.
<b>Needs Strengthening (3)</b>	<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.
<b>Weak (4)</b>	<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.