

AUDIT COMMITTEE

12 JANUARY 2016

INTERNAL AUDIT UPDATE

Report from: Internal Audit

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Summary

To inform Members of the internal audit work completed since the meeting of the Audit Committee on 24 September 2015.

1. Budget and Policy Framework

- 1.1. Council delegates responsibility for the oversight and monitoring of internal audit to the Audit Committee.

2. Background

- 2.1. The Accounts and Audit Regulations 2015 require the council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Public Sector Internal Audit Standards (PSIAS) require Internal Audit to report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility and performance relative to its plan. The Internal Audit Plan for 2015-16 was approved by the Audit Committee on 19 March 2015.

3. Update on planned audit work

- 3.1. Appendix A of this report shows the current status of all audit work from the 2014-15 Annual Audit Plan completed since the last meeting of the Audit Committee. Appendix A also shows the current status of all audit reviews on the 2015-16 Annual Audit Plan. An overall audit opinion is provided for each assurance review and management action plans are agreed with client management prior to a final report being issued. Opinions are not provided in the outputs of individual probity and site reviews; instead these form the basis of summary reports providing an overall opinion on each category of site reviewed.
- 3.2. Appendix B of this report provides a summary of the results of each audit review where a final report has been agreed since the last update provided to the Audit Committee in September 2015. This appendix also details the grant and payment by results claims certified by Internal Audit since September.
- 3.3. Appendix C of this report provides the definitions of the assurance opinions and

recommendation priorities in use, as agreed by the Audit Committee in July 2013.

4. Internal Audit Resources

- 4.1. As Members will be aware Medway Council has entered into a shared management arrangement for Internal Audit & Counter Fraud Services. The two councils entered into a partnership agreement to fully share internal audit & fraud services and a report outlining progress is provided elsewhere on this agenda.
- 4.2. The Internal Audit team has two vacant auditor posts; these are being held vacant due to the restructure of the Audit & Counter Fraud Teams. As a result the team has less resources than planned and will not therefore be able to deliver all audit work on the agreed plan for the year. A proposed revision to the audit plan is presented for Member approval elsewhere on this Agenda.

5. Risk management

- 5.1. This report, summarising the work of the internal audit function, provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements.

6. Financial implications

- 6.1. There are no direct financial implications to this report; however an adequate and effective internal audit function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.

7. Legal implications

- 7.1. Section 151 of the Local Government Act 1972 requires that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” Proper practice has been defined as that contained within the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards.

8. Recommendations

- 8.1. Members are asked to note progress on the 2015-16 Internal Audit Plan and the outcomes of the work of Internal Audit.

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Background Papers

None

Appendices

Appendix A – Annual Internal Audit Plan 2014-15 – Items Completed

Appendix B – Summary Information on Completed Audits

Appendix C – Definitions of Audit Opinions and Recommendation Levels

Annual Internal Audit Plan 2014-15 – items completed

| Audit review | Current status | Opinion |
|-------------------------------------|--|---------|
| Schools probity reviews: | | |
| St Mary's Catholic Primary School | Final report issued | --- |
| Greenvale Infant and Nursery School | Final report issued | --- |
| Halling Primary School | Draft report issued, with client for consideration | --- |

Annual Internal Audit Plan 2015-16 – progress update

| Audit review | Current status | Opinion |
|---|--|------------|
| Assurance – opinion reviews | | |
| Housing Maintenance | Final report issued | Strong |
| South Thames Gateway Building Control Partnership | Final report issued | Sufficient |
| Planning | Draft report issued, with client for consideration | |
| Health and Safety | Draft report issued, with client for consideration | |
| Corn Exchange | Fieldwork underway | |
| Debtors | Fieldwork underway | |
| Leisure Memberships | Fieldwork underway | |
| Data Quality – Transparency Reporting | Fieldwork underway | |
| Bank Account Management | Not yet started | |
| Adoption Services | Not yet started | |
| Care Act | Not yet started | |
| Risk Management | Not completed – to be removed from plan | |
| Annual Governance Statement | Not completed – to be removed from plan | |
| General Ledger | Not completed – to be removed from plan | |
| Council Tax | Not completed – to be removed from plan | |
| Local Business Rates | Not completed – to be removed from plan | |
| Business Continuity – Energy Resilience | Not completed – to be removed from plan | |
| Housing Benefit | Not completed – to be removed from plan | |
| Housing Rents | Not completed – to be removed from plan | |
| Assurance – Probity reviews | | |
| St Augustine's of Canterbury RCP | Final report issued | --- |
| Featherby Infant School and Nursery | Final report issued | --- |

Appendix A

| Audit review | Current status | Opinion |
|--|--|------------|
| Featherby Junior School | Draft report issued, with client for consideration | |
| Cash security – Splashes | Draft report issued, with client for consideration | |
| Cash security – Deangate Ridge | Draft report issued, with client for consideration | |
| Cash security – Strood Sports Centre | Draft report issued, with client for consideration | |
| Cash security – Hoo Sports Centre | Draft report issued, with client for consideration | |
| Cash security – The Strand | Draft report issued, with client for consideration | |
| Cash security – Medway Park | Fieldwork underway | |
| St Mary's Island | Fieldwork underway | |
| Central Theatre and Theatre Staffing | Not yet started | |
| Innovation Centre Medway | Not yet started | |
| Libraries Staffing | Not yet started | |
| Assurance – Follow up reviews | | |
| Capital Projects | Audit Committee briefing note issued | Sufficient |
| Staff Allowances and Loans | Final report issued | Sufficient |
| Disclosure and Barring Service | Final report issued | Sufficient |
| Change Management | Fieldwork underway | |
| Grant Management | At planning stage | |
| Assurance – Grant Certification | | |
| Medway Action for Families May 2015 Claim | Completed | --- |
| Local Transport Capital Block Funding 2014-15 | Completed | --- |
| Medway Action for Families January 2016 Claim | Not yet started | |
| Consultancy work | | |
| Medway Action for Families | Completed check of process to evidence claims | |
| Medway Norse – SEN Transport | Fieldwork underway | |
| Local Growth Fund – Transport Projects | Fieldwork underway | |
| Purchase cards | Fieldwork underway | |
| Payroll Electronic Notification Forms | Not yet started | |
| Procurement Governance | Not yet started | |

SUMMARY INFORMATION ON COMPLETED AUDITS

HOUSING MAINTENANCE
(final report issued 2 October 2015)

Medway Council currently has approximately 3,000 properties that are available to rent. A new five year maintenance contract was signed in September 2014 with Mears Limited which covers the provision of responsive repairs, voids, cyclical decorations, planned work and gas servicing for all Medway Council's housing stock. The budget for this contract for 2015-16 is £2.6m.

"Housing Matters" is a quarterly newsletter for Medway Council tenants and leaseholders and includes information on how the maintenance contract is performing. The spring 2015 edition reports that 99% of customers are satisfied with the overall repairs service.

Three risks relating to the Housing maintenance contract management were reviewed to determine the effectiveness of controls of the housing maintenance contract and the opinions for each are shown below

Risk 1: The contract management framework may not be complete or effective in practice. Opinion: Strong

The roles and responsibilities between Medway Council and Mears Limited are clearly defined in the contract. There are regular monitoring meetings that are set out in a partnering timetable included in the contract. These meetings are used to discuss all operational issues arising, monitoring the performance of each element of the contract and monitoring Mears' accounts for potential savings that may be available at the end of each 12 month period.

As part of the monitoring process if a problem arises and needs to be escalated a clear line of authority has been established. The problem-solving hierarchy document lists the staff at Medway Council and at Mears who are responsible, in what order they should be involved and the time in which a resolution to the problem should be found; this process is working well.

Risk 2: Performance reporting may be inaccurate, incomplete or not timely. Opinion: Strong

The original contract contained a total of 56 key performance indicators (KPIs), covering all elements of the contract e.g. responsive repair, handyman service, aids and adaptations (currently not being done by Mears), void refurbishments, gas service & breakdown, capital works (not reviewed as part of this audit), the call centre and health & safety. The number of KPIs relating to the areas covered by this audit was 43.

The KPIs are reported in five sections, customer experience and satisfaction, quality, resources, time and the gas contract. The data used is collected by:

- Medway Council through the Academy system and by customer surveys,
- Mears through their MCM system which is linked to Academy, and,
- An independent company, Gas Contract Services (GCS) who collect and supply all the data relating to the gas contract.

The data is collated by Medway Council's Performance and Intelligence hub. Reliance is placed on the robustness of the data within Academy but they check the data for reasonableness and consistency. The KPIs are reported to the weekly, monthly and quarterly meetings. Our review of the KPIs showed that all elements of the contract are monitored and

reported to monitoring meetings in accordance with the timetable. We were able to confirm that reporting was complete and timely and there were not obvious inconsistencies in the data.

Risk 3: The council does not receive value for money from the contract.

Opinion: Strong

In April 2012 approval was given by cabinet to trial a new scheme for a fixed fee per property approach for the responsive repairs element within the housing maintenance contract. This replaced the previous method of paying for each job individually. The original fixed fee was calculated using the average price for responsive repairs for 2011-12; this gave a fixed fee of £245.

In June 2013 it was decided to extend and expand the fixed fee scheme to include a price per property (PPP) for responsive repairs, a price per void for refurbishment and a PPP for gas service and maintenance. The ceiling prices set out in the tender document were calculated to set the PPP so as not to exceed any previous year's spending levels. A clause was included that set out that if the service provider made any savings on their tendered prices for repairs and voids there would be a 50/50 split between Medway Council and the service provider.

The contract was awarded to Mears with the following figures:

- Responsive repairs are charged at a PPP of £298.90, the ceiling was £305, which gives a potential saving of £184,000 on the Council's 3030 properties.
- Void refurbishment is the process that occurs when properties become vacant and are then 'made good' for the new tenant. This is charged at a set cost of £1,396.50 per void compared to the ceiling of £1,425. It is estimated that approximately 280 properties will be made 'void' each year giving a potential annual saving of £8,000. Medway Council receive a full copy of all work carried out during the void refurbishments and if there are any call backs to these properties it is checked to see if the work was carried out during the void refurbishment or if it should be classed as a new repair call. This ensures that payments are not made twice for the same work.
- The gas service and maintenance element of the contract is charged at PPP of £151.90, compared to the ceiling of £155, giving a potential saving of £9,000.

All other work that is detailed in the contract as being excluded from the above categories is charged as an individual job and is based on the National Housing Federation (NHF) v6.1 schedule of rates less a discount of 13.89%. Audit testing confirmed that this process was working effectively in practice.

The above savings on the responsive repairs, voids and gas maintenance and servicing elements together with the discounted rates on the NHF rates and the 50/50 share of any potential savings means the council are considered to be receiving value for money from this contract.

The contract has been running now for ten months and the open book accounts which are received from Mears on a monthly basis show that currently there are no savings to be shared. The detail of the accounts is very comprehensive but it is considered that the explanation and the apportionment of the overheads incurred could be clearer.

One small area where there are opportunities for improvement is in the collection rate for repairs charged for to tenants for damage to their homes. In signing tenancy agreements tenants accept liability for any damage caused deliberately; the service provider identifies this damage at the point of repair and the cost is then charged to the tenant's rent account. This debt is difficult to recover, particularly for former tenants who may have left no forwarding address and this is reflected in the low recovery rate (over the past three years £63,000 has been passed on to tenants as rechargeable work and approximately £6,000 has been recovered). Debt monitoring reports show that recovery rates are starting to improve. The

Head of Housing Management would like to include former tenant arrears in a corporate response to debt recovery and is liaising with the Head Revenue and Benefits Manager on this matter.

Conclusion and overall audit opinion

The framework in place to manage and monitor the housing maintenance contract is effective and works well. The contract offers good value for money with the price per property scheme and our overall opinion on the effectiveness of the housing maintenance contract management is **Strong**.

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

- Enhancements to improve the transparency of the open book accountancy;
- Investigate opportunities for incorporating former tenant arrears into corporate debt recovery arrangements.

SOUTH THAMES GATEWAY BUILDING CONTROL PARTNERSHIP

(final report issued 5 October 2015)

Building Control is an advisory and enforcement function which ensures that the construction of new buildings and alterations and extensions to existing buildings, are completed in accordance with the health, safety and convenience of the people in and around the buildings. Private and commercial developers are required to obtain building regulations approval for building works. Applications are subject to works inspection at key stages, for which charges may be payable.

South Thames Gateway (STG) is a partnership of three authorities (Gravesham, Medway and Swale) that was established on 1st October 2007 originally for a five year period, this was extended in December 2011 for a further five years. The partnership is hosted by Medway Council and all staff are directly employed by Medway.

The partnership delivers three services;

- the building regulation service which consists mainly of checking building plans, the inspection of building work in progress.
- A public protection service which includes both inspection and information which councils are required to provide such as dangerous structures, demolitions, enforcement and unauthorised works.
- A consultancy service which delivers additional discretionary services including energy, fire risk, condition and decent homes surveys.

STG partnership is led by a Joint Committee advised by a steering group of senior officers. The chair of the joint committee is rotated between authorities and each partner has one vote.

The income for the whole partnership from charges for 2014-15 was £1,027,833 and the contributions from partners totalled £303,427. Medway Council's contribution is set at 53% this was £160,816. Medway's contributions are estimated to reduce by 12% to £141,432 by 2017-18.

Risks relating to STG reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: The STG Partnership may not have appropriate governance arrangements in place. Opinion: Strong

There is a comprehensive Memorandum of Agreement (MoA) in place covering the partnership; this sets out the contractual requirements of all parties and includes a full exit strategy to protect all partners. The constitution for the STG Building control joint committee provides a sound framework of the functions that have been delegated to the Joint Committee. The scheme of delegation is clear, and any amendments or additional delegated responsibilities are documented through the joint committee. Business Plans are thorough and presented to the steering group and joint committee for discussion and approval. There is on-going monitoring of the partnership delivery and budget at the steering group with frequent communication to partners on the current financial position, resources and performance.

In practice there have been slight variations in how the partnership works to that set out in the MoA; these all relate to back-office/support functions i.e. the provision of legal and committee support. These changes were made by mutual agreement between servicing departments and STG. If the restricted legal support due to resources proves to cause difficulties for the partnership action may need to be taken to ensure adequate support can be provided.

The STG Delivery Plan that is presented and discussed at the joint committee meetings sets out the service objectives and identified risks to the achievement of those objectives. The risks identified are rated in terms of impact and likelihood in line with the council's Risk Management Strategy, with trigger points to identify when risks materialise and details of any existing mitigation arrangements and further action points to avoid the risk being realised.

Medway Council also include any relevant risks relating to STG into their Divisional plan. If significant these would also be held on the directorate and corporate risk registers for the council. STG has not been deemed a risk at this level.

Risk 2: Appropriate arrangements may not be in place to ensure income is securely and accurately billed, recovered and recorded on the financial management systems. Opinion: Strong

Information on charges in place are published both in hard copy and online and STG actively seek working partners to promote and generate income. The Building Control Charging Regulations allow STG to set their own charging policy and this has been delegated to the Director of STG.

Due to the economic downturn and negative impact on available work, fees set in 2010 have not increased to enable the partnership to remain able to compete with other providers in the market, with discounts of up to 40%-60% applied to win work at times. In order to breakeven the Director of STG constantly reviews resources and moves these between chargeable, non-chargeable and consultancy work. It is therefore difficult to demonstrate partnership contributions are only required to cover non-chargeable services and that chargeable services are covered by the charges as detailed in the MoA 3.14.4 "Budgetary Contribution will be required only to fund the costs of the non-chargeable services." The accounts for 2014-15 show a surplus of £32,532 but this was achieved using reserves of £40,212, yet partnership contributions have continued to decrease over the length of the partnership. It is therefore concluded that that the resources of the partnership are being best used in a difficult market.

The annual business plan includes financial projections that include income estimates and partner contributions to cover the non-chargeable service costs; this is adopted by the joint committee annually. Testing on the partner contributions from Medway showed these had been billed and processed accurately.

Applications for approval of works require payment in advance, while inspections and chargeable works have invoices raised. Audit testing found that income is collected and held

securely, with income received recorded on accounts on the STG's Tascomi system and Medway's Integra finance system accurately and on a timely basis. Works undertaken directly for Medway Council, for example the housing stock condition surveys, are paid through journal transfers based on invoices; audit testing confirmed this is done accurately with appropriate authorisation.

Arrangements are in place for budget monitoring to be carried out in line with Medway Council's budget monitoring framework via Integra, and a monitoring report is presented to the steering group to allow for any decisions to be made if necessary.

There is a clear debt recovery process in place with letters to customers being informative and clear. Debt is monitored monthly and the aged debtor reports have comments added as to what stage debt is at and action being taken. There is no overarching debt monitoring currently being produced, though a yearly debt report presented to the joint committee to help inform partners of the success rate of debt collection and outstanding debt due.

Partners financial contributions to support the delivery of the non-chargeable services are charged the percentages as detailed in the MoA. The original parentages were based on number of hereditaments within the boroughs in 2006. While the value of contributions have reduced since the partnership was formed, the percentages paid by each partner have not been reviewed or adjusted. There is a risk if number of hereditaments have significantly increased or decreased in one of the partner areas that a disproportionate percentage contribution could be being charged. On request of the partner authorities, STG produce an analysis of the work undertaken for each authority; this was last produced in 2010-11 and evidenced that the percentage contributions were still relevant. Data also sourced from the Census showed person numbers by area and based on this the partnership contribution percentages were still applicable. This piece of work along with a check on number of hereditaments should be included in the Business Plan, on a frequency to be agreed at the joint committee.

Risk 3: There may not be appropriate arrangements in place to monitor the performance of the partnership, including ensuring delivery of the requirements of the service agreement between partners. Opinion: Strong

Performance indicators and targets set are considered reasonable with arrangements in place for performance to be monitored monthly, and reported to the steering group and joint committee. Action is taken to address issues and improve targets if necessary based on the outturn against these indicators. Performance has been strong over a number of years and while resource issues in 2014 meant targets were not met in 2014-15, action taken to re-direct resources during the year resulted in improved performance towards the end of the financial year.

The partnership actively surveys customers and partner companies on a regular basis. Results for larger surveys are analysed and reported to the joint committee and working changes made as a result of comments made.

Since the consultancy service was introduced, the majority of work put to the service has come from Medway Council and this work has helped to balance the budget in the years since the introduction of this service. The partnership is considering moving the consultancy work into a local authority company; this would enable the partnership to make a profit on this element of work. Any surpluses or profit produced by the new consultancy company will be subject to an agreement at joint committee as to how it will be distributed amongst the partners.

Risk 4: The partnership may not continue to provide good value for money for Medway Council. Opinion: Sufficient

The partner authorities only undertake a value for money exercise as part of an audit, with both Swale and Gravesham having previously done work on this and both concluded that the partnership continued to provide best value for them. Medway has not previously audited STG and therefore this exercise has not been completed since the partnership was formed.

Information obtained from the Local Government Revenue Outturns data published on the Gov.uk website found that the cost of Building Control services to Medway Council in 2011 was £271k. According to this data, the cost of Building Control services to Medway Council in 2014 was £214k showing a cost saving.

The partnership and partners should work together and produce a cost comparison to demonstrate the partnership is still providing value for money. The exact details and how often this should be produced can be agreed by the joint committee but should be able to demonstrate the cost to the authorities if the partnership would be dispersed and services brought back in house.

Risk 5: The partnership may not deliver building control (on behalf of Medway Council) to a high standard to allow it to satisfy responsibilities for building control (chargeable and non-chargeable) Opinion: Strong

The duties to be undertaken by the STG are clear in the Memorandum of Agreement; these duties fulfil the local authority statutory duty to ensure building regulations are adhered to where an approved inspector is not being used.

The STG produce an annual governance statement and this is reviewed by the joint committee of which one member is a Medway Council employee and representative. The MoA also appoints a monitoring officer to ensure the lawfulness and fairness of the partnerships decision making; currently this is a Gravesham Borough Council employee.

Conclusion and overall audit opinion

The audit considered the adequacy of the governance arrangements surrounding the building control partnership; the adequacy of the financial arrangements of the building control partnership and whether the partnership enables the Council to meet its statutory and responsibilities in relation to building control.

Our overall opinion on the effectiveness of The South Thames Gateway Building Control Partnership is **Strong**.

Three material level recommendations have been made to address the issues identified, which were:

- Ensuring the Steering Group and Joint Committee receive appropriate debt monitoring reports;
- Review partner contributions, which have been based on historic figures on the number of residential and commercial properties, are still valid;
- Demonstrating to the Steering Group and Joint Committee that the partnership continues to provide value for money.

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.

St Mary's Catholic Primary School

(final report issued 30 September 2015)

St Mary's Catholic Primary School is a larger than average primary school for children aged three to eleven years with a pupil roll of approximately 470 places. The Finance Officer supports the Headteacher with the management of financial processes. The school has an above average number of disabled pupils and those 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 and buildings sub-committee, headteacher, budget holders and the 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 a business card and petty cash.

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

- Agency supply teacher payments
- Staff paid by timesheets (e.g. overtime)
- Payments to staff
- Procurement
- Business Card
- Petty Cash

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

CONCLUSION

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

Greenvale Infant & Nursery School

(final report issued 1 December 2015)

Greenvale Infant & Nursery School is a larger than average sized primary school for children aged three to seven years with a pupil roll of approximately 290 places. The Personal Assistant supports the Headteacher with the management of financial processes. The school has an above average number of disabled pupils and 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 and headteacher. We were able to account for all staff on the payroll and were satisfied that the school's processes would continue to ensure only legitimate staff were paid. The school made creditor payments through SIMS. The school does not have a credit card although it does have a B&Q purchase card. The school does not use petty cash and receives very little income.

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

- Procurement
- Agency supply teacher payments
- Staff paid by timesheets (e.g. overtime)
- Payments to staff

The school's current three year budget plan shows a deficit in the third year (2017/18) and therefore the school needs to identify additional savings to address this. This audit has identified that value for money cannot always be demonstrated when services have been procured and this is an area that requires strengthening in the School. For instance, when the former caretaker (who earned approximately £8,000 per year) left, the school appointed two contractors for caretaking duties and spent approximately £24,000 with them over 9 months. Whilst it is likely the coverage from the two contractors is greater than that from the former caretaker, there is no evidence that the financial sustainability of the new arrangement has been considered, other quotes were obtained or that this received Governor approval.

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 Augustine's of Canterbury RCP

(final report issued 18 November 2015)

St Augustine of Canterbury Catholic Primary School is a smaller than average sized primary school that takes pupils from 4-11 years old. The school has approximately 200 pupils on roll. The proportion of pupils for whom the school receives the pupil premium is lower than average. The Business Manager supports the Headteacher with the management of financial processes.

The school's finance policy provides guidance and a framework for financial management, establishing appropriate roles and responsibilities for the governing body, finance committee and Headteacher. 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. Overtime and supply teacher payments were low and deemed low risk. There were no obvious missing income streams. The school makes the majority of its creditor payments by cheque through SIMS, but also uses a debit card.

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

- High value expenditure;
- The debit 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.

Featherby Infant School and Nursery

(final report issued 13 November 2015)

Featherby Infant & Nursery school is a larger than average school and has approximately 330 pupils on roll between the ages of 3 -11. There is a pre-school and out of school club which operates on the site but this is privately managed and run. The bursar 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 bursar 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. There were no obvious missing income streams and the income received is small. The school made creditor payments by cheque through SIMS and internet payments were made on the school credit card.

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

- Procurement & payments;
- Declarations of interest;

- Assets;
- Timesheets.

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.

Follow Ups

Staff Allowances and Loans

A review of allowances and loans to staff formed the second part of a payroll audit that was carried out in 2013/14. The first part of the audit reviewed the financial controls operating over the payroll system – the audit opinion was ‘sufficient’. The second part of the audit was deferred until after the Medpay scheme was implemented in April 2014 as this reduced the number of staff receiving allowances.

The overall opinion on the effectiveness of controls for the second part of the audit was ‘needs strengthening’. This report provides an update on the three recommendations made which covered:

- Reasonableness and authorisation of allowances for additional duties and market premia;
- Fraud resilience of staff loan policies;
- Compliance with loan policies.

This report summarises the results of further audit work carried out to confirm that high and medium priority actions have been completed and improvements have been sustained. This is shown in the updated management action plan.

Management have taken steps to ensure that additional duties allowances meet criteria, have been authorised appropriately and all allowances have a mandatory end date.

Work is now underway to review the current staff loan policies and ensure they are fraud resilient. It is hoped these will be drafted during October 2015. Reporting arrangements have been improved to better identify staff changes in circumstances and leavers who return to the council with outstanding debt.

Payroll supervisors are now more pro-active in checking that all post purchase documentation (such as receipts) are provided by the loan recipient and escalating matters to the payroll manager when necessary. A review of the application form and the possible introduction of a checklist will be considered alongside the overall review of the loan policies.

Conclusion and overall audit opinion

On the basis of the controls now in place and the action now underway to address the remaining issues, we can confirm that the overall audit opinion of the controls over

staff allowances and loans is now “sufficient”.

Disclosure and Barring Service

A review of the Council’s compliance with Disclosure and Barring Service (DBS) requirements was carried out during 2014 and the overall opinion was “needs strengthening”. The report made two significant and three material priority recommendations to address the issues raised. One of the significant priority recommendations concerned administration of checks for foster carers. The other recommendations cover processes for council staff, volunteers and contractors that are administered by HR.

HR processes

Testing from the initial audit found that the HR DBS eligibility spreadsheet did not cover all posts within the council, including some in social care. There were also some staff whose checks were out of date. Internal audit worked with HR and are now satisfied there is a complete list of posts that require DBS checks and that action has been taken to ensure all staff requiring a check have one.

HR administer DBS checks for council volunteers but are reliant on information from managers. At the time of the initial audit, there was no agreement on a central point record for volunteer DBSs and there were gaps in the HR record. The Head of HR and Organisational Change has now accepted that HR’s data will be the central record for volunteer DBS checks and action has been taken to remind managers of the need for volunteers/non-staff working in a regulated activity to have a DBS check. HR remain reliant on information received from managers.

The Head of HR and Organisational Change also agreed to review the Council’s DBS policy and amend as necessary to remove the onerous requirement for managers to check the DBS checks for all staff for all contractors, as long as the manager is in a position where reliance can be placed on contractors’ systems.

Foster Care

The audit established that HR and the Fostering team were both maintaining records of DBS checks for carers but there was no agreement on which was the master record. There were inconsistencies between the two records.

It has been agreed that the fostering team would hold the master record. This has historically been a spreadsheet and these records are in the process of being migrated to the social care system, Framework-i but the data in the spreadsheet is poor quality. Internal audit is assisting the Children’s Social Care Administration Hub with the data cleanse in order to ensure the Framework-i records are as complete as possible. It is expected this exercise will be completed by the end of the financial year.

Conclusion and overall audit opinions

On the basis of the controls now in place and the action now underway to address the remaining issues, we can confirm that the overall opinion over DBS processes is now “sufficient”.

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| Grant Certification |
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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 |
|--|-----------------|------------|
| Medway Action for Families Payment by Results May 2015 | 06.05.15 | n/a |
| Local Transport Capital Block Funding 2014-15 | 15.09.15 | £5,263,135 |

Definitions of Audit Opinions and Recommendation Levels

| Definitions of audit opinions | |
|--------------------------------|--|
| Strong (1) | <p><u>Risk Based:</u> Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the Council's risk exposure.</p> <p><u>Compliance:</u> Fully compliant, with an appropriate system in place for ensuring ongoing compliance with all requirements.</p> |
| Sufficient (2) | <p><u>Risk Based:</u> Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the Council's risk exposure.</p> <p><u>Compliance:</u> Compliant with all significant requirements, with an appropriate system in place for monitoring compliance. Very minor areas of non-compliance.</p> |
| Needs Strengthening (3) | <p><u>Risk Based:</u> There are one or more failings in the control process that leave the Council exposed to an unacceptable level of risk.</p> <p><u>Compliance:</u> Individual cases of non-compliance with significant requirements and/or systematic failure to ensure compliance with all requirements.</p> |
| Weak (4) | <p><u>Risk Based:</u> There are widespread or major failings in the control environment that leave the Council exposed to significant likelihood of critical risk. Urgent remedial action is required.</p> <p><u>Compliance:</u> Non-compliant, poor arrangements in place to ensure compliance. Urgent remedial action is required.</p> |

| Definitions of audit recommendation levels | |
|--|--|
| Significant (High) | The finding highlights a weakness in the control arrangements that expose the Council to significant risk (determined taking into account both the likelihood and the impact of the risk). |
| Material (Medium) | The finding identifies a weakness in the control arrangements that expose the Council to a material, but not significant, risk (determined taking into account both the likelihood and the impact of the risk). |
| Point of Practice | Where the finding highlights an opportunity to enhance the control arrangements but the level of risk in not doing so is minimal, the matter will be shared with management, but the detail will not be reflected in the audit report. |