AUDIT COMMITTEE

30 JUNE 2016

ANNUAL INTERNAL AUDIT REPORT 2015-16

Report from: Katey Arrowsmith, Head of Audit & Counter Fraud
Shared Service (Chief Audit Executive)

Summary

This report provides the annual internal audit opinion on the overall adequacy and effectiveness of the council's governance, risk and control framework, in support of the Annual Governance Statement.

1.   Budget and Policy Framework

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

2.   Background

2.1   The Accounts and Audit Regulations 2015 require 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."* The Public Sector Internal Audit Standards (PSIAS) require internal audit to report periodically to those charged with governance on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. The PSIAS also require the Head of Audit & Counter Fraud Shared Service to *"deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement."*

2.2   The purpose of this report therefore, is to inform members of the annual opinion by the Head of Internal & Counter Fraud Shared Service on the overall adequacy and effectiveness of the council's internal control environment and to provide a summary of the internal audit work completed to support that opinion.

2.3   Members will be aware that during the 2015-16 financial year the Audit & Counter Fraud Shared Service was established with Gravesham. At its meeting in March 2016, the Audit Committee approved a suite of documents setting out the combined work plan and reporting arrangements for Audit & Counter Fraud for the 2016-17 year onwards. This report is therefore the final report in this format and is complemented elsewhere on this agenda by the Annual Corporate Fraud Report 2015-16.

3. **Opinion of the Head of Internal Audit & Counter Fraud on the council's internal control environment**

> In my capacity as the Chief Audit Executive, with responsibility for the provision of internal audit services to the council, it is my opinion 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. This opinion is based on the work of internal audit during 2015-16.
>
> Whilst it has been identified that the authority has mainly established adequate internal controls within the areas subject to internal audit review during 2015-16, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made by internal audit, recommendations have been made to management to improve the controls within the systems and processes they operate. The results of all audit work completed are reported to the Audit Committee in accordance with the Audit & Counter Fraud Charter.
>
> The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

4. **Internal Audit arrangements and details of work to support the opinion on the internal control environment**

4.1 <u>Internal Audit Resources</u>

4.2 The Internal Audit Team has experienced significant staffing changes in the 2015-16 financial year. As previously reported to Members, the previous Head of Internal Audit & Counter Fraud left the council's employment at the end of March 2015. From 1 June 2015 the post was shared with Gravesham Borough Council. The internal audit establishment at that point consisted of one Principal Auditor post, one Senior Investigator post shared with the then Corporate Anti-Fraud Team, and four Auditor posts. One Auditor left the council's employment in May 2015; a second Auditor left the council's employment in November 2015. Due to the implementation of the Shared Service with Gravesham the two Auditor posts were held vacant until the restructure was complete.

4.3 <u>Net staff out-turn</u>

4.4 Net staff resources available for the year (as detailed at appendix two) amounted to 888 days, against an original resource budget of 1,200 days.

4.5 <u>Annual Audit Plan</u>

4.6 The Internal Audit Plan for 2015-16 was presented to the Audit Committee on 19 March 2015. The annual audit plan for the year was determined based on the anticipated available resources and as such a revised plan was agreed with Members in January 2016. The revised plan ensured the resources available were

directed to the areas of highest risk and have delivered sufficient work to support this Annual Report and opinion given. The plan includes both Assurance & Consultancy work:

- Assurance work – this relates to audit work which informs the opinion of the control environment given in this report. This work focuses on planned audit reviews of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- Consultancy work – this relates to Internal Audit team members' involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in work conducted by the Corporate Anti-Fraud team.

4.7 As reported to the committee elsewhere on this agenda, the new shared service went live on 1 March 2016; this was a significant change for staff and involved significant changes to roles, working practices, work locations and ICT arrangements. Analysis of time recording shows that these changes adversely impacted on the team's productivity in March, and as a result the team has not been able to complete all items on the revised plan.

4.8 The team have completed fieldwork and issued reports to clients for a total of 95% of the revised plan compared to a target of 85%. A further review was being completed at the time of preparing this report, so the proportion of the plan completed will rise to 97%.

4.9 Assurance work

4.10 The Internal Audit team has primarily focused on assurance work in the year, spending 488 days on work of this type including finalising audits commenced during the 2014-15 financial year. A summary of all work carried out during the 2015-16 year is provided at Appendix A. All audit reports include an agreed management action plan to address and correct the issues identified including follow-up reviews in line with the Internal Audit Charter.

4.11 Consultancy work

4.12 The team spent a total of 98 days on work of this type in 2015-16, including providing control advice & information, working with teams to ensure appropriate controls are included where processes are changed, and through the specific items detailed on the plan at Appendix A.

4.13 Training

4.14 The total time spent on forma training throughout the year amounted to 67 days. The majority of this time relates to professional training with two members of the team beginning studies for the Certified Internal Auditor professional qualification, and another continuing studies for the AAT Level 4 Accountancy qualification. In addition team members attended training various training events during the year including report writing, use of specific ICT software and attendance of the Kent Audit Conference in October 2015.

4.15 Performance measurement

4.16 The team have previously reported against seven key performance indicators, though for two, there have not been mechanisms in place to record data. Performance against these measures is reported at Appendix C. The Audit Committee were presented with a Quality Assurance & Improvement Programme for 2016-17 and in future, the committee will receive performance information against the indicators it includes.

4.17 Summary

4.18 The team has provided the council with an effective internal audit service during the year and responded well to the evolving needs of the council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have played a key role in maintaining the governance and internal control arrangements of the council whilst maintaining professional and productive relationships with clients.

4.19 During the forthcoming year the Audit & Counter Fraud Shared Service will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the council.

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. 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 require *"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 requested to note the Annual Internal Audit Opinion for 2015-16 and consider this when considering the council's Annual Governance Statement.

Lead officer contact

Katey Arrowsmith, Head of Audit & Counter Fraud (Chief Audit Executive)

Appendices

Background papers

None

Annual Internal Audit Plan 2014-15 – items completed in 2015-16

Audit review	Current status	Opinion
Children's Centres probity reviews:		
Riverside Primary	Final report issued	---
Burnt Oak Primary School	Final report issued	---
Deanwood Primary School	Final report issued	---
Delce Infant and Nursery School	Final report issued	---
Miers Court Primary	Final report issued	---
Oaklands Federation	Final report issued	---
St Margarets Troy Town CEVC	Final report issued	---
Schools probity reviews:		
Fairview Community Primary School	Final report issued	---
St William of Perth RCP	Final report issued	---
The Pilgrim's School	Final report issued	---
Greenvale Infant and Nursery School	Final report issued	---
Halling Primary School	Final report issued	---
St Mary's Catholic Primary School	Final report issued	---
Halling Primary School	Final report issued	---

Annual Internal Audit Plan 2015-16

Audit review	Current status	Opinion
Assurance – opinion reviews		
Housing Maintenance	Final report issued	Strong
South Thames Gateway Building Control Partnership	Final report issued	Sufficient
Debtors	Final report issued	Sufficient
Planning	Final report issued	Strong
Health and Safety of staff	Final report issued	Sufficient
Libraries – Payroll	Final report issued	Needs Strengthening
Theatres – Income collection	Final report issued	Strong
Data Quality – Transparency Reporting	Final report issued	Needs Strengthening
Corn Exchange	Final report issued	Sufficient
Leisure Memberships	Draft report issued, with client for consideration	

Audit review	Current status	Opinion
Adoption Services	Draft report issued, with client for consideration	
Bank Account Management	Draft report issued, with client for consideration	
Care Act	Audit not completed	
Assurance – Probity reviews		
St Augustine's of Canterbury RCP	Final report issued	
Featherby Infant School and Nursery	Final report issued	---
Featherby Junior School	Final report issued	---
Cash security check – Splashes	Completed and reported to client	---
Cash security check – Deangate Ridge	Completed and reported to client	---
Cash security check – Strood Sports Centre	Completed and reported to client	---
Cash security check – Hoo Sports Centre	Completed and reported to client	---
Cash security check – The Strand	Completed and reported to client	---
Cash security check – Medway Park	Completed and reported to client	---
Hempstead Juniors	Final report issued	---
St Mary's Island	Draft report issued, with client for consideration	
Innovation Centre Medway	Fieldwork underway	
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
Grant Management	Final report issued	Sufficient
Change Management	Interim review completed and positive response received to each recommendation; full testing to be incorporated into audit of project management planned for 2016-17.	---
Assurance – Grant Certification		
Medway Action for Families May 2015 Claim	Completed	---

Audit review	Current status	Opinion
Local Transport Capital Block Funding 2014-15	Completed	---
Medway Action for Families January 2016 Claim	Completed	---
Medway Action for Families May 2016 Claim	Completed	---
Consultancy work		
Medway Norse – SEN Transport	Consultancy support provided	---
Local Growth Fund – Transport Projects	Consultancy support provided	---
Purchase cards	Consultancy support provided	---
Payroll Electronic Notification Forms	Consultancy support provided	---
Procurement Governance	Consultancy support provided	---

SUMMARY INFORMATION ON COMPLETED AUDITS

> **Hempstead Juniors**
> *(final report issued 22 April 2016)*

1.   Introduction

1.1. 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 Medway Schools under Local Authority control.

1.2. The audit provides assurance on the overall financial management of the school by:
- Analysis of financial (transactional) data to determine a risk profile for income and expenditure;
- Determination of control arrangements, as set out in the school's finance policy and confirmed through interviews with the Headteacher and the School Business Manager;
- Targeted testing in the areas of greatest potential risk and / or potential anomalies identified during the risk assessment.

2.   Findings

2.1. Hempstead Junior School is a larger than average school and has approximately 345 pupils on roll between the ages of 7-11. The School Business Manager supports the Headteacher with the management of financial processes. The School Business Manager currently fulfils a dual role of a strategic business manager and finance officer.

2.2. The school's finance policy provides a sound framework for financial management, establishing roles and responsibilities for the governing body (GB), headteacher, the School Business Manager and other support staff. We were able to account for all staff on the payroll; while we are satisfied only genuine staff have been paid we recommend an improvement to the process to reduce the risk of erroneous payments in future. The school made creditor payments by cheque through SIMS. There were a few areas we examined in more detail due to the value or nature:
- Procurement & payments;
- Declarations of interest;
- Assets;
- Income from lettings;
- Petty cash

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

3.   Conclusion

3.1. 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.

SUMMARY INFORMATION ON COMPLETED AUDITS

> **Health & Safety of Staff**
> *(final report issued 25 April 2016)*

1.   Management Summary

1.1   The 2015-16 audit of Health & Safety (H&S) of staff provides assurance over the arrangements in place to assess and control risks across council services (excluding schools). It also assesses compliance with H&S law and the procedures in place covering contractors working in council premises.   Two risks relating to the H&S of staff were reviewed to determine the effectiveness of controls and the opinions are shown below.

2.   Risk 1: There may be gaps in the framework for managing H&S. Opinion: Sufficient

2.1   The council's *Statement and Organisation of Health & Safety* (H&S policy) was updated in 2015 and sets out the Chief Executive's 'statement of intent' and outlines the 'accountabilities and responsibilities' for all involved ranging from elected members to employees. The Assistant Director, Organisational Services has been appointed as the council's lead manager for health, safety and well-being matters. Elected Members are included in the H&S policy and a lead for health, safety and well-being matters has been appointed (Portfolio Holder for Corporate Services), and the Licensing and Safety Committee has responsibility for health and safety under any "relevant statutory provision" within the meaning of Part 1 of the Health and Safety at Work Act 1974, to the extent that those functions are discharged otherwise than in the Council's capacity as employer. Arrangements are in place for the lead Member to be briefed by the Assistant Director, Organisational Services and the Head of HR and Organisational Change on any H&S issues where appropriate at regular monthly meetings.

2.2   The H&S policy indicates that Directors are accountable to the Chief Executive for implementing and monitoring the council's general H&S policy. Part of this is to 'ensure that the senior management team have personal performance targets, which strive towards continuous improvement in H&S with the intention of improving the overall quality and performance of the directorate's services'. However, as this requirement has not been included in the competency framework it is not currently explicitly part of the performance process for senior management or other levels of staff. This could risk H&S not being prioritised. As indicated in the H&S policy, the council has a Corporate H&S Team to help it meet legal duties and responsibilities. The team uses the Barbour Index (a H&S information service) to identify any changes in the legal framework.

2.3   Each Directorate operates a H&S Committee and these meet quarterly in advance of the Corporate H&S Committee; representatives from the Corporate H&S Team also attend these meetings and provide quarterly incident reports including information related to the 'Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 2013' (RIDDORS).; Representatives from the Directorate committees also sit on the Corporate H&S committee to ensure the flow of information.

2.4   A comprehensive range of H&S training is available to staff and Members with a number of courses via e-learning/IShare. Arrangements are in place for bespoke training to be provided, and for attendance at National Examination Board in

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Occupational Safety and Health (NEBOSH) training to be undertaken where relevant, for example staff involved in managing events and markets are NEBOSH trained. Audit sample testing indicated that the take-up of H&S basic training (as identified in directorate induction packs on the intranet) for new starters including managers is low: for the period 1 January 2014 – 30 June 2015 there were 627 new starters, 82 of these had undertaken basic H&S training. This could risk preventable workplace accidents and health issues such as repetitive strain injury, which in turn risks staff absence and insurance claims against the council. Analysis of insurance claims made found no issue with employees claiming compensation for workplace injuries; however not all staff injured may claim, and it may not be possible to identify employee sickness absence due to an injury sustained at work or as a result of the office environment from the sickness form.

2.5 The council's NETconsent IT application is used to publish policies and documents to targeted groups of staff. The control of asbestos policy has been distributed via this software to relevant members of staff and the Gun Wharf fire procedures have been distributed to occupants of the building. The H&S Team are advised should anyone decline to read policies to enable them to follow this up and there is evidence of this being done. There are a number of H&S policies available via the council's intranet; though some are past their review date, it is understood that most have been amended and are awaiting approval at the Corporate H&S Committee this year.

2.6 The H&S policy indicates that line managers are responsible for 'undertaking health and safety risk assessments and audits' and ensuring remedial action is put in place to eliminate or reduce risks. Although the H&S Team are involved in deciding if teams are low risk and can therefore 'self-audit', the team do not have the resources to monitor the completion / updating of risk assessments by managers, unless the H&S Team carry out the audit. As it is a legal requirement to complete risk assessments this could leave the council in a vulnerable position, however sample testing in five 'high risk' areas found that four of the areas were completing risk assessments. In the fifth area not all teams were completing risk assessments and were not aware of the risk assessment template. A recommendation was made for the team to contact the H&S Team for guidance on completing these.

2.7 For contractors working on council premises, H&S is the responsibility of the person / contractor managing the contract (e.g. NORSE). Permits to work, risk assessments and method statements are undertaken / issued / checked. As part of the procurement process and included in the tender/contract templates is the requirement that all contractors should be Safety Schemes in Procurement (SSIP) approved (e.g. Contractors Health & Safety Scheme (CHAS).

3. **Risk 2: On-going changes to working practices may lead to H&S implications not being assessed appropriately. Opinion: Sufficient**

3.1 In order for the rationalisation of council premises to work, the council is adopting a principle that as many staff as possible are considered as 'flexible workers' supported by the roll out of agile working and the use of Thin Client to allow staff to work from any desk. Changes to working practices include more staff working away from central council premises including working from home and in locations such as hubs which have facilities to allow staff to work more flexibly.

3.2 There is a flexible working policy in place which indicates that employees working at or from home have the same duties under the Health and Safety at Work Act as all other employees. Managers also have the same duty of care to those employees. This

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includes ensuring that a basic risk assessment is carried out by the employee. H&S audits also include a section on homeworking and the completion of risk assessments. All employees are responsible for their own safety as indicated in the H&S policy and also in contracts of employment; this includes carrying out display screen equipment (DSE) assessments. Small specialist items such as a pc mouse are retained by the member of staff who needs it and specialist chairs are labelled to indicate they should not be adjusted.

3.4 The consultant engaged to manage the smarter/agile working project advised that H&S was covered in the project governance with HR represented on the project board. The consultant advised that risk assessments were produced as part of the project, however these were not provided to Internal Audit so no assurance can be provided as to their completeness/quality. The consultant also advised that when teams are programmed to move, workshops / meetings are held to help address any specific issues including H&S. There is information on the intranet in the form of FAQs and the 'little book of smart working' along with input from the Medway Makers. The H&S Team were not initially directly involved in the smarter/agile working project, but following issues identified after the Level 4 move, a working party including members of the H&S Team undertook a sweep of the floor and a risk assessment. Some minor housekeeping issues were identified, and a lack of awareness of revised fire exit routes, evacuation procedures and assembly points was found. Other points raised included the proximity of the photocopier to staff desks, issues with wheelchair access and also the positioning of some storage facilities which could have been addressed via risk assessment.

4. Conclusion and overall audit opinion

4.1 Our overall opinion on the effectiveness of the H&S of staff is **Sufficient.** The council has a comprehensive framework for managing the H&S of staff including a H&S policy detailing roles and responsibilities, a Corporate H&S Team, H&S committees, policies and training. Although it is implicit that all employees understand their legal duty to take reasonable care for the health and safety of themselves and others, the role / responsibilities of line managers is pivotal in ensuring the H&S of their staff. The low uptake of H&S training by new starters indicates that line managers are not ensuring training is undertaken. The process followed for the smarter/agile working project in regard to risk assessments etc. is unclear. Five material level recommendations have been made to address the issues identified.

Libraries Payroll
(final report issued 13 May 2016)

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1. Management Summary

1.1 Medway Council has 16 public libraries, a community mobile library and also operates two libraries within local prisons. The library service employs approximately 140 staff with an annual staffing budget of £2.1m for the year 2015-16. The libraries are staffed by a combination of permanent full and part-time staff and some casual staff.

1.2 The staffing budget is made up of basic salaries and payments for additional duties, enhancements and expenses, these are made to staff for various reason including;
- Casual contract hours,
- Saturday enhancements,

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- Overtime at time & half,
- Casual mileage,
- Overtime at double time,
- Overtime at plain single time.

One risk relating to the payment process for additional duties and expenses was reviewed to determine the effectiveness of controls and the opinions are shown below.

2.   Risk 1: Payment for additional duties and enhancements to casual and permanent libraries staff may not be accurate. Opinion: Needs Strengthening

2.1   The current process for making payments for additional duties and enhancements is for staff to complete the claim form PMC008 (libraries) with details of hours to be claimed, with mileage claims made via the council's self-serve system. The PMC008 claim forms are then sent to the administration team, based in Strood, where they are collated onto a spreadsheet. This spreadsheet is authorised by the service manager and it is sent to payroll for processing. All of the payments for additional duties and enhancements that were tested during this audit were accompanied by completed claim forms.

2.2   The current process is for individual claims on the form to be verified by a colleague who is working at the same site at the same time but there is no check of the accuracy of the total claim submitted. Once the claims have been collated the service manager is responsible for authorising the total payment, however to satisfy himself that the entries are correct he carries out a random sample check rather than checking each line or each claim. Audit testing has identified errors in calculation of total hours claimed on some forms and instances of duplicate claims. The testing also identified that on two occasions the member of staff verifying the hours worked was not actually on site at the time. The Audit & Counter Fraud team will work with the service to assist in enhancing these procedures in the 2016-17 financial year.

2.3   There are new procedures in place for the Operations Managers at the Libraries to make random checks of claims. Each month all claims for three sites, selected at random, are sent to the Operations Managers and they are responsible for an accuracy check of all forms. Audit testing showed that this process was carried out for December 2015 but in January 2016 there was only evidence that one site had been checked. There is no procedure in place to confirm that this random check is taking place.

2.4   Due to the various types of payments and the different contracts among staff that are permanent, casual, full time or part time, it is not always clear which members of staff are entitled to which payments and this risks staff being paid incorrectly. The current version of the contract issued to new staff states that Saturday enhancements of time and a half should only be paid to staff at or below spine point 28 (Medpay Range 3) and Sunday double time should only be paid to staff at or below spine point 11(Medpay range 1). Audit testing found that currently 16 members of staff at Range 4 and above are receiving the Saturday enhancement payment and double time was paid to some staff at Range 3.

2.5   Saturday enhancements are currently being paid to library staff for Saturday working, which is part of their working week, equivalent to 'time and a half'. This is part of a national agreement on pay and the total value of this enhancement paid by Medway in 2014-15 was £58,807. Staff are paid a regular monthly amount, as per their contracts for the Saturdays they work or as additional payments for extra Saturdays worked. Only staff contracted to work solely on Saturdays are not entitled to this enhancement,

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except in certain circumstances. It is not common place for council staff to receive this type of extra payment and although Medway library staff have historically received this benefit, research carried out during this review found that a number of local authorities have now stopped this practice to save money, and it is suggested this option be considered at Medway Council.

3. Conclusion and overall audit opinion

3.1 Our overall opinion on the effectiveness of payment and authorisation of additional payments to library staff is **Needs Strengthening.** There are procedures in place for the process of making additional payments however it is not clear who responsible for checking the overall accuracy of the completed forms. It is clear that further random checks had been seen as necessary but these were not being completed on a regular basis. Three material level recommendations have been made to address the issues identified.

Theatres – Income Collection
(final report issued 2 June 2016)

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1. Management Summary

1.1 Medway Council have two box offices, one situated at the Central Theatre and one at the Brook Theatre. The combined value of the monies collected from the two box offices in 2015-16 was approximately £347,000. The 2015-16 audit of the cash collection process at the theatre box offices will provide assurance over the arrangements in place for cash and cheques collected at sites.

1.2 One risk relating to the cash collection process at the theatre box offices was reviewed to determine the effectiveness of controls and the opinions are shown below.

2. Risk 1: Appropriate arrangements exist for cash income to be collected and banked. Opinion: Strong.

2.1 Medway Council have a contract with a company call Contract Security Services (CSS) for cash collections from all the sites outside of Gun Wharf according to an agreed schedule. There are two collections each week from both Theatre sites and these are being carried out in accordance with the schedule.

2.2 The cash and cheques that are collected from the box office sites include income from the council's operations (box office tills, kiosk and ice cream sales) and also income from the bar and catering facilities operated at the sites by the council's partner, Medway Norse. Norse income collected at the Theatre sites is not separately banked; it is collated and prepared for collection by CSS by the Theatre duty manager. Arrangements relating to Medway Norse will be considered as part of the Audit & Counter Fraud Plan for 2016-17.

2.3 Arrangements are in place for the cash at both sites to be held securely at all times; either in a locked safe in the duty manager's office, or in one of the four tills. Entry to these areas is restricted to members of staff and is protected by a key pad entry system. The safes at both sites are kept locked and the safe keys are kept secure until the money is transferred to the tills or to CSS.

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2.4   Audit testing of a sample of 12 days banking found that comprehensive records were retained, and this testing confirmed that all income collected was passed on to the bank on a timely basis. The testing also confirmed that all income was accurately recorded on the general ledger. There were no discrepancies identified in this testing between till reports and income recorded on the bank account for the council's Theatre income. Discrepancies were identified between till reports and income recorded on the bank account for Medway Norse bar and catering income; however these were not investigated as part of this review.

2.5   There were no written procedure notes available at either site, however all staff currently employed at the two sites have been in post for a reasonable amount of time and are therefore competent in their roles; however issues may arise if new staff join the team.

3.   Conclusion and overall audit opinion

3.1   Our overall opinion on the effectiveness of the cash collecting process at the theatre box offices' is **Strong**. The processes being implemented are consistent across the sites for all the transactions tested. The service however would benefit from having written procedures clearly defining the roles and responsibilities if any new staff were to join the team. One material level recommendation has been made to address the issue identified.

Data Quality – Transparency Reporting
(final report issued 16 June 2016)

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1.   Management Summary

1.1   The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specified what open data local authorities must publish. The Government believes that in principle all data held and managed by local authorities should be made available to local people unless there are specific sensitivities to doing so. The Code also recommends that local authorities go further than its requirements and publish additional datasets and provide more detail on these. This audit considered the mandatory open data only.

1.2   Compliance with the Code is mandated under section 2 of the Local Government, Planning and Land Act 1980. The Code came into effect on 31 October 2014. While local authorities must publish the data in accordance with the Code, guidance from the Local Government Association (LGA) states that the government is not planning to monitor compliance with the Code. However, it will react to complaints from the public under existing frameworks; the Freedom of Information Act (FOIA) and the Environmental Information Regulations (EIR) 7. That said, the DCLG published on their website a letter sent to Rother District Council in March 2015[1] regarding transparency failings with the potential penalty of withholding their new burdens funding for 2014-15 in respect of publishing data in 2014-15 under the Code.

1.3   The timing of data publication differs between different elements of the Code's requirements and recommendations. The Code mandates for some data to be published quarterly such as expenditure data while other information is to be published

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[1] Letter to Rother District Council
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414730/KH_to_Maynard_-_Transparency_Code.pdf)

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annually. The first mandatory requirement for data to be published quarterly was no later than 31 December 2014 and for annual data not later than 2 February 2015; thereafter not less than annually and not later than one month after the year to which the data and information is applicable.

1.4 The various dataset requirements have been grouped into the following themes: Publishing spending and procurement information:
- expenditure exceeding £500,
- Government Procurement Card transactions,
- procurement information (tenders and contracts),
- grants to voluntary, community and social enterprise organisations,
- waste contracts.

Publishing organisation information:
- organisation chart,
- senior salaries,
- the pay multiple,
- trade union facility time,
- fraud,
- constitution.

Publishing land asset and parking information:
- local authority land and social housing assets,
- social housing asset value,
- parking accounts and parking spaces,

1.5 One risk relating to compliance with the Local Government Transparency Code was reviewed to determine the effectiveness of controls and the opinions are shown below.

2. Risk 1: The required data may not be published and updated in accordance with the Code. Opinion: Needs Strengthening

2.1 From the total of 15 data sets required to be published by the Code, six meet the Code's criteria in the main with one exceeding the 'must be published' criteria and fulfilling the 'recommended for publication' guidelines. The council do not currently use government procurement cards and so the requirement to publish that data set is not applicable.

2.2 Information for eight of the required datasets was not found to be published at the time of the review, although it is understood that information was provided by the service area responsible for four of the data sets when originally requested via a senior management route, but this has not been published and a request has not been made to the service to supply data for this year.

2.3 Data relating to senior salaries can be found in the Annual Statement of Accounts, but not in a standalone document that is easily accessible. Other information such as organisational charts can be located in various committee reports, but this again is not in a standalone, easily accessible format. Information supplied for three of the data sets is in Portable Document Format (PDF) only, which does not meet the requirements of the Code for information to be re-usable.

2.4 The LGA recommends that the data is published at least as frequently as required in the Code for the particular item, on a single web page that links to the individual files.

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This page does not currently exist on the council website, although we understand some work by the Communications Team is underway to address some of these issues.

2.5   The Chief Legal Officer is working to introduce arrangements to ensure that the council fully meets the requirements of the Code. During the course of the review, it was agreed that the Head of Legal Services would be given overall responsibility for the management of the council's publication of data in line with the Code. A new team of 3FTE staff will be established and tasked with co-ordinating with teams across the council to extract the required data. The team will manage the uploading of data in the appropriate formats to a new page on the council's website dedicated to the Transparency data requirements.

3.   Conclusion and overall audit opinion

3.1   Based on the arrangements that have been agreed to resource and manage the publication of Transparency data in line with the Code, though not yet in place, our overall opinion on the effectiveness of complying with the Local Government Transparency Code is **Needs Strengthening**. Although some of the data stipulated in the Code has been published on the council website either in standalone documents or as part of the Annual Statement of Accounts, until the new arrangements are implemented there is no oversight or monitoring to ensure this is being done and to the required standard. Three significant and one material level recommendations have been made to address the issues identified; these were agreed and action taken to implement them during the course of the review.

Grant Management – Follow up
(final report issued 17 June 2016)

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1.   Introduction

1.1   In July 2014 the final report was issued following the review of Grant Management. The overall opinion given was '**needs strengthening**'. This report provides an update on action taken against the recommendations made in that review.

1.2   *Recommendation 1 – All grants awarded should be identified, a register created and consideration be given to use of a designated subjective code to account for these.* The Finance Strategy Team have prepared and issued guidance to budget holders to advise that a designated subjective code (44000) will be used to record all grant payments and this will facilitate the publication of this information in line with the Local Government Transparency Code 2015.

1.3   *Recommendation 2 – A list of discretionary grants should be presented annually to Cabinet as part of the budget preparation.* During the follow up review it was found that the value of grants to voluntary organisations is considerably lower than estimated at the time of the original review, due to a number of contractual payments being coded to the subjective code for grants in error. Arrangements are in place for discretionary grants to be subjected to rigorous scrutiny through the star chamber process.

1.4   *Recommendation 3 – Finance should ensure staff making bids for grant funding have appropriate guidance.* The Finance Strategy Team have prepared and issued guidance to budget holders on bidding for grant funding; this covers the requirements

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to seek endorsement in advance for bids to external bodies, consideration of legacy costs, to seek approval for match-funding and to maintain full records of funding received.

2.   Conclusion and audit opinion

2.1   Action taken to implement the management actions agreed in the 2014 audit of Grant Management is considered "**sufficient"**.

Grant Management – Follow up
(final report issued 17 June 2016)

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1   Management summary

1.1   The Corn Exchange offers facilities for various uses including conferences, civil marriages and social events. In 2015-16 the Corn Exchange expenditure exceeded its income.

	Expenditure	Income	Total
Corn Exchange	£335,768	£197,120	-£138,648
External Bar	£38,921	£54,172	£15,251
Total	£374,689	£251,292	-£123,397

1.2   Of the £335,768 expenditure, 33% (£111,320) is committed to Service Level Agreements (SLA's) £81,884 and Asset Rental depreciation £29,436. Of the SLA commitments 61% is to Medway NORSE at a value of £49,820.

1.3   The Corn Exchange has been the subject of financial control audits in 2009-10, 2011-12 and 2012-13. In 2009-10 internal audit considered the four risk areas reviewed to be uncontrolled. There were 21 recommendations made to improve the financial controls, with 12 of them high priority. By 2011-12 internal audit still considered the four risk areas reviewed to be uncontrolled. There were nine recommendations made with two identified as high priority. In 2012-13 audit considered the financial controls in place at the Corn Exchange had improved to a satisfactory level. There were three recommendations made for further improvements, two of which were medium priority.

1.4   This audit is a follow up to the 2012-13 audit to provide assurance that appropriate financial controls remain in place and effective. Five areas of risk were reviewed to determine the effectiveness of controls and the opinions are shown below.

2   Risk 1: Controls are in place and effective for the handling and banking of Income. Opinion: Strong

2.1   <u>Strengths</u>

2.2   Audit testing found that as a result of management implementing audit recommendations prior to commencement of the testing, two processes were improved from their initial rating in 2012-13. Of the seventeen processes reviewed in this audit, ten were considered strong and only one in need of strengthening.

2.3   The involvement of finance operations to review the controls prior to the audit led to significant improvements with the introduction of the Icon payment system and the

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Catersoft booking system. The introduction of two systems affecting a major part of their daily processes could have been daunting for staff. Despite these significant changes staff responded positively and welcomed the opportunity for refresher training to improve their use of Catersoft.

2.4   Icon allows customers to pay for bookings electronically while automating the attribution of income to correct budget codes. In time there may be scope to develop this further with E-forms to allow customers the flexibility to make booking payments 24/7 at their convenience. This would be in keeping with the council's objective to digitally transform processes where possible.

2.5   During the audit it became apparent it would not be appropriate to test effective use of Catersoft as staff were not using it correctly or to its full capacity. Management acknowledged the recommendation to provide Catersoft refresher training to all staff. Since the training the ICT staff administering Catersoft report that most operating issues have been resolved by the system developer, and the system appears to now be used by users as intended. When used appropriately Catersoft will provide greater assurance of accuracy on data held for event bookings; number of events booked, expected income, deposits paid, balance outstanding etc.

2.6   During the income handling test period ten weeks were selected randomly between 19 March and 29 July 2015. During these ten weeks a total of 34 individual till sheets were checked. This testing found opportunities to improve the accuracy of checking till balances however it was pleasing to note:
- Where a shortfall of £5.50 had been missed by event staff at the end of day reconciliation, this was later identified and reported during the banking process. This gave assurance the role of the finance officer independent from operational duties was working.
- The only two other errors in end of day reconciliation amounted to £0.10p.
- These three errors in income reconciliation indicate a need for the checking officer to thoroughly check the income rather than point to a risk that income was missing.
- All records were available for 100% of the samples tested.
- 100% of the sample evidenced correct use of the Z function on a daily basis.
- Of the 34 reconciliation sheets, two were not checked by two officers.
- Of the 34 reconciliation sheets, six recorded an over ring on the till.
- All of the six over rings were of varied irregular amounts less than £10.
- Income was banked promptly in six of the seven instances; the only time it was not, there was no cash taken.

2.7   Weaknesses
2.8   During one week in December 2015 Integra recorded an income shortfall of £1,178.52. Investigations confirmed these were over rings/under rings and should not have been recorded as an income shortfall. While Integra has been corrected, earlier investigations by management should have identified and corrected this error prior to audit's involvement. Management could be more proactive in their investigation of over rings/under rings and keep records of their findings.

3   Risk 2: Effective stock control arrangements are in place. Opinion: Sufficient.

3.1   The overall opinion does not raise concerns that stock is uncontrolled but does take into consideration a need for improvement. Management do not know what level of stock they sell or carry out any checks on the accuracy of the stock take reports they

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commission.

3.2 <u>Strengths</u>

3.3 The physical control of stock in appropriately locked areas is strong. There is also evidence confirming the budgetary separation of stock used for the Corn Exchange and external bar which is an improvement on the previous audit.

3.4 <u>Weaknesses</u>

3.5 The Corn Exchange do not capture data of stock sold to enable an accurate report of the stock they sell or how this reconciles with the income received. The inherent risk is controlled through the physical control of the stock, the accuracy of income records and the records of through breakage, wastage or theft.

3.6 The make and model of tills used at the Corn Exchange does appear to have the facility to capture data of stock sales. Staff have been advised to investigate whether this data can be captured to enable reports to be run. This would provide reasonable assurance in the accuracy of stock take reports and that appropriate controls are in place to monitor the stock. If the tills are unable to capture or report on this data management are required to put in place alternative controls or accept the residual risk that low levels of stock may be lost through breakage, wastage or theft.

3.7 While an external stock taker provides a monthly report, there is a lack of knowledge within the Corn Exchange on what information these reports provide or how accurate they are. There is a need for staff to perform checks to satisfy themselves that the reports they commission are accurate. A number of checks are recommended in the management action plan in this report.

3.8 Stock control at the Corn Exchange is entirely controlled by one person's opinion based on their years of experience at the venue. Management should put steps in place to quantify the minimum level of stock required. This baseline data will enable improved objective and quantifiable decisions on the level of stock ordered. It would also provide greater resilience as other staff could take responsibility for controlling stock rather than the current risk of relying entirely on one person.

4   Risk 3: Event bookings are appropriately controlled. Opinion: Strong, in principle.

4.1 The introduction of Icon and Catersoft provides greater assurance on the level of controls in place regarding event bookings than in any previous audit. As staff required refresher training six months after its introduction it was too soon to test the use or effectiveness of these controls in practice.

4.2 The Catersoft procedure manuals and test system have appropriate processes for recording booking details with Icon controlling payments for functions. While there is no interface between Icon and Catersoft staff have been instructed to cross reference Catersoft booking references on Icon and vice versa to correlate the records for an event on both systems.

5   Risk 4: Effective asset management arrangements are in place. Opinion: Sufficient.

5.1 <u>Strengths</u>

5.2 The asset register is a very comprehensive record of items held at the venue. As a result of an audit recommendation controls were put in place to restrict those with edit

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access to the asset register.

5.3 <u>Weaknesses</u>

5.4 To ensure the asset register is effective in protecting council assets management are recommended to consider introducing a formal asset register policy. This would formalise the value of assets to be recorded, the roles of officers responsible for maintaining and checking the register, recommend periodic reviews, procedures to follow when assets are missing or disposed of, use of security markings on highly valuable or easily portable assets.

6 Risk 5: Arrangements to pay staff based on timesheets are appropriately controlled. Opinion: Strong.

6.1 <u>Strengths</u>

6.2 Management have strong controls in place to ensure staff are only paid for the dates they work. The staff signing in and out record is used by staff on all events. The assistant bars and catering manager compiles a spreadsheet of payroll payments to ensure 100% accuracy. The Senior Events Officer then conducts a further spot check of these before authorising them for payment. In the test sample period 34% of payments could be seen to have been verified by the Senior Events Officer before payment. In recognition of a possible conflict of interests 100% of timesheets for the Senior Events Officers son were checked by the assistant bars & catering manager. There were no discrepancies in staff payments identified in the test sample.

6.3 <u>Weaknesses</u>

6.4 Testing identified event staff do not take a rest break as required to by the EU working time directive and Medway Council policy. While staff may be willing to forgo their entitlement to a break they should not be paid for doing so. To ensure the council are not complicit in failing to adhere to this policy management should review working arrangements to ensure events are fully staffed while allowing staff to take their entitlement to a rest period. It is recommended that all staff are made aware of their entitlement to a rest period and that they will not be paid if they choose not to exercise this right.

7 Conclusion and audit opinion

7.1 In conclusion; Risk areas one and five are considered to have adequate controls in place which are working well and are rated as strong. Risk areas two and four are considered to have sufficient controls in place with some room for improvement. Had Risk area three formed part of the test it would have been rated as in need of strengthening as staff were not using Catersoft as intended. As this was a newly introduced system the audit opinion is based on the effectiveness of the system for controlling Risk three. Assurance is taken from management's decision to provide further training to ensure staff operate the system as intended and to its full capability.

7.2 For these reasons our overall opinion on the effectiveness of the Corn Exchange financial controls is **Sufficient**. Four material level and four point of practice recommendations have been made to address the issues identified.

Delivery against agreed KPIs in 2015-16

	KPI	Target	Delivery
1. Audit Planning	Proposed Annual Audit plan shared with Chief Executive, Chief Finance Officer, Directors and External Audit prior to presentation to the Audit Committee in March. The Annual Audit plan is designed to ensure it provides appropriate and sufficient coverage to support the Annual Audit Opinion.	Confirmation in the annual audit opinion that there is sufficient coverage to provide such an opinion.	Target met: coverage considered sufficient.
2. Quality	Delivery of audits to agreed scope, and any change to the scope informed to the Director or Assistant Director in a timely manner. Measured through feedback from Director/Assistant Director at the Draft Final Report stage of each full audit.	Target Satisfaction Level – 90%	Data not available.
3. Professional training	All audit staff undertake some relevant professional training in year and meet CPD requirements set by professional bodies.	All staff undertake training.	Target met: all staff undertook audit training in year.
4. Completion of the audit plan	Delivery of the agreed annual audit plan. Measuring delivery of actual number of full audit reports presented to Audit Committee by July each year, against total outputs included in the annual audit plan provided to the Audit Committee in March of the prior year.	Target – 85%	Target not met: 95% of revised plan completed.
5. Delivery of follow-ups	Measured against the timescale agreed with management.	No follow up to slip by more than 3 months.	Target met: all follow ups completed on time.
6. Compliance with PSIAS	Measured against the CIPFA Public Sector Internal Audit Standards compliance check list.	Full compliance or agreed, documented and reported exceptions.	Target met: Self-assessment carried out; team considered compliant.
7. External audit	Annual liaison with External Audit regarding the Annual Internal Audit Plan.	External Audit satisfied with the quality of work undertaken by Internal Audit so that they are content to place reliance on the work performed.	Data not available.

Definitions of Audit Opinions and Recommendation Levels

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

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.