

AUDIT COMMITTEE

29 MARCH 2011

OUTCOMES OF INTERNAL AUDIT ACTIVITY

Report from: Internal Audit

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Summary

To advise Members of the outcomes of Internal Audit activity completed since the last meeting of the Audit Committee.

1. Budget and Policy Framework

- 1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to take decisions regarding accounts and audit issues.

2. Background

- 2.1 This report contains the outcome of Internal Audit's work since the last report to this committee.
- 2.2 Generally, Internal Audit reports identify areas where improvement in the control process should be made. However, there is no standard within the internal audit profession of grading the overall control environment. Furthermore, even where recommendations are prioritised, the recipient of the report has no indication of how well the overall control process is operating.
- 2.3 To address this, Medway Council's Internal Audit has introduced a grading system so that managers have a clear understanding of the operation of the control environment in their area. The audit opinion is set at one of four levels and is formed on completion of the audit testing and evaluation stage but **before** management implement any of the recommendations.
- 2.4 All audit reports containing recommendations designed to improve the control process are presented with an action plan, which has been agreed with management and specifies the action to be taken, by whom and when. This agreed management action plan is incorporated in the issued final audit report.

- 2.5 During 2009/10, the audit opinion definitions were revised to improve managers' understanding of them. Also, the opportunity was taken to revise the audit report format to direct managers more clearly to the key risk areas and to assist them, we introduced a clearer priority ranking system for audit recommendations. The revised definitions are shown at Annex A.
- 2.6 Where control is assessed at the lowest level, ("Uncontrolled"), follow up work will be undertaken within six months.
- 2.7 This report details work completed since the last report to Members. The format of the annexes is as follows: -
- Annex A Definition of audit opinions and recommendation priorities
 - Annex B Schedule of completed audit work showing the audit opinion provided and Directorates covered
 - Annex C Summary information on completed audits.
- 2.8 In addition to the work set out on the following annexes, Internal Audit has also responded to requests to provide advice on control issues to managers.

3. Risk Management, Financial and Legal implications

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

4. Recommendations

- 4.1 Members are asked to note the outcome of Internal Audit's work.

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Background papers

None.

DEFINITIONS OF AUDIT OPINIONS

Opinion	Risk Based	Compliance	Value for Money
Good	Effective controls are in place to mitigate risks reviewed as part of the audit, maximising the likelihood of achieving service objectives and value for money and protecting the Authority against loss.	Key controls exist and compliance is consistent and effective.	Objectives are being achieved efficiently, effectively and economically.
Satisfactory	Key controls exist to mitigate the risks reviewed as part of the audit effectively. However, instances of failure to comply with the control process were identified and there are opportunities to strengthen the control system and/or improve value for money.	Key controls exist but there may be some inconsistency in compliance.	Objectives are largely being achieved efficiently, effectively and economically, but areas for further improvement.
Insufficient	Controls are in place to mitigate identified risks and they are complied with to varying degrees. However, there are one or more gaps in the control process that leave the system exposed to significant residual risk. Action is required to mitigate material risks.	Key controls exist but they are not applied, or significant evidence they are not applied consistently and effectively	Objectives are not being achieved through an appropriate balance of economy, efficiency and effectiveness. Value for Money is could be significantly improved.
Uncontrolled	Controls are considered to be insufficient to effectively control at least one of the risks reviewed as part of the audit. Remedial mitigating action is required. There is also a need to improve compliance with existing controls and errors and omissions have been detected. Failure to improve controls could have a significant impact on service delivery, or lead to material financial loss or embarrassment to the Authority.	Failure to comply with large numbers of key controls across a high proportion of the risks reviewed.	Objectives are not being achieved economically, effectively and efficiently.

DEFINITIONS OF RECOMMENDATION PRIORITIES

High

The finding highlights a fundamental weakness in the system that puts the Council at risk. Management should prioritise action to address this issue.

Medium

The finding identified a weakness that leaves the system open to risk. Management should ensure action is taken to address this issue within a reasonable timeframe.

Low

The finding highlights an opportunity to enhance the system in order to increase the efficiency or effectiveness of the control environment. Management should address the issue as resources allow.

Completed Audit Activity

Activity ↓	Directorate →	Opinion	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems						
Housing Rents		I				I
Other Financial Systems						
EU grant Claim		●	●			
Halling Primary School						
Financial management		U		U		
Payroll		I		I		
Purchasing		U		U		
Income received		I		I		
Banking arrangements		U		U		
Petty cash		I		I		
Taxation		G		G		
Assets and information security		U		U		
Homelessness rental income		I				I
VAT		S				S
Risk Assessed Work						
Allocation of resources - SEN		S		S		
Concessionary fares		S			S	
Council Plan Monitoring						
NI 60 - Core assessments for children's social care		U		U		
NI 146 - Adults with learning disabilities in employment		U		U		
NI 181 - Processing Housing Benefit/Council Tax Benefit claims		G				G
H8 - Average time taken to re-let council dwellings		G				G
LRCC1 - Number of visitors to tourist attractions in Medway		I			I	
Tenancy Fraud		S				S

Key:

G = Good, S = Satisfactory, I = Insufficient, U = Uncontrolled

- Work carried out but no opinion provided in that area

Completed Audit Activity

Audit: Housing Rents (report issued March 2011)

Opinion: Insufficient

This is an annual audit, undertaken on behalf of the council's external auditors, to provide an opinion on arrangements controlling the administration, levying and collection of housing rents. The last audit of Housing Rents was carried out in 2009/10, our overall opinion being that control was "Insufficient".

The objective of this audit was to provide an opinion on controls to manage the risks that:

- Weekly charges and system parameters on Academy may not be correct
- Debt may not be updated correctly and notified to the tenants
- Income may not be promptly and accurately accounted for
- Arrears may not be identified and pursued.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>There are generally sound controls over the set up of recurring charges and systems parameters on the Academy system used for Housing Rents and verification processes are operating. Although rents uploaded in March 2010 were independently verified, revised rents uploaded in August were not checked against original calculations.</p> <p>User permissions have not been fully reviewed since 2002/03. An exercise is currently underway to identify and deactivate obsolete users and review active user permissions, based on their roles.</p> <p>Tenant rent accounts are automatically updated with regular charges every two weeks. Other adjustments are authorised appropriately and subject to</p>	<p>Loaded rents and service charges may be inaccurate</p> <p>Users may have inappropriate access to the Academy system.</p>	<p>1 high priority recommendation was made to ensure refunds for credit card payments are made to the original cards.</p> <p>7 medium priority recommendations were made, these relating to;</p> <ul style="list-style-type: none"> • Checking accuracy of rental charges and tenancy details recorded on Academy. • Review of Academy access rights. • Transferring Housing Benefit overpayment debt to MRBS; • More frequent review of debts for write-off. 	<p>All recommendations, were accepted with the majority due for completion by July 2011. The review of Academy access right is scheduled for completion by March 2012.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>independent verification. Tenants are notified appropriately of charges due.</p> <p>Automatic processes for posting tenants' payments, benefit entitlement and supporting people payments ensure information on tenant accounts is current and correct. Each of these processes is subject to an appropriate reconciliation.</p> <p>Over £50,000 in Housing Benefit overpayments are on the rent sub account; this should be referred back to MRBS if outside specified criteria.</p> <p>There is opportunity for fraud as all refunds are made via cheque, regardless of the method of payment. Audit testing also showed that cheque refunds may be inappropriate as proformas are not consistently authorised.</p> <p>There are appropriate arrangements for the pursuit of and monitoring of debt.</p> <p>Processes and arrangements for the write-off of unrecoverable debt was put in place in the latter part of 2010, however only 1 write off schedule has been produced.</p>	<p>Overpayments are not recoverable from DWP whilst on the rent account and loss may be incurred.</p> <p>Procedures are not compliant with International Card Industry Standards. Losses may occur due to fraudulent refunds.</p> <p>The accounts may not reflect recoverable income accurately.</p>		

Completed Audit Activity

Audit: EU grant claim – Interreg IVA 2 (report issued January 2011)

Opinion: n/a

Interreg IVA 2 project is funded by the European Regional Development Fund (ERDF) and Medway Council. The aim of the project is to improve the delivery of public sector services through improved customer profiling techniques.

Internal Audit were asked to audit the grant claim submission to the European Regional Development Fund to:-

- validate the expenditure declared and,
- ensure that it is in line with the original application, programme requirements and EU and national regulations.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Detailed testing was conducted in line with guidance provided by ERDF. The testing was conducted within the narrow timetable required by ERDF.</p> <p>No significant issues arose and the claim has been submitted to ERDF.</p>	None	None	N/a.

Completed Audit Activity

Audit:	Halling Primary School – financial controls (report issued December 2010)	Opinion:	see below
	Financial management		Uncontrolled
	Payroll		Insufficient
	Purchasing		Uncontrolled
	Income received		Insufficient
	Banking arrangements		Uncontrolled
	Petty cash		Insufficient
	Taxation		Good
	Assets and information security		Uncontrolled

Under the School Standards and Framework Act 1998, management of Individual Schools Budgets is delegated to schools' governing bodies, but Medway Council's Chief Finance Officer (CFO) retains a statutory duty to ensure the adequacy of financial control over this delegated funding. Medway's Finance Manual for Schools, which is available on the school forums section of the Council's website, sets out the control framework with which schools are expected to comply in order to achieve and demonstrate effective financial control.

The CFO obtains assurance on the effectiveness of financial controls through schools undertaking financial control self-assessment (FCSA), with subsequent internal audit review. Our review of the school's FCSA (received in March 2010) identified that clarification or further information was required on a number of issues, this audit of Financial Controls at the school being scheduled as a result. The previous long-serving headteacher resigned from the school in February 2010, the deputy head acting up until she was appointed as substantive Head in May 2010.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Main concerns related to financial management, purchasing, income received, banking and asset management, the principal control weaknesses identified being:</p> <ul style="list-style-type: none"> ▪ The school has only a short-term development plan, for the current year, showing a broad outline of costs; ▪ Costs of supply teaching and staff training courses are not 	<p>The lack of a medium-term plan (ie 3-5 years) could lead to budgets becoming overspent.</p> <p>The budget may become overspent.</p>	<p>17 high priority recommendations, relating to:</p> <ul style="list-style-type: none"> ▪ devising a medium-term development plan, linked to budgets and approved by the Governing Body; ▪ committing all expenditure (inc supply teaching and staff training costs) on the financial system; ▪ including committed expenditure in budget monitoring reports 	<p>All recommendations were accepted by school management, with an undertaking to implement the majority of recommended actions, or an appropriate alternative, by April 2011 at the latest. The exception is the annual asset check, which will be completed by September 2011.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>recorded at the point of commitment;</p> <ul style="list-style-type: none"> ▪ Budget monitoring reports to Finance Committee do not include committed expenditure; ▪ No independent verification of monthly payroll reports to confirm that only appropriate persons are paid and that overtime/expenses paid agree with claims; ▪ The school's finance policy is unclear on purchasing procedures, making no mention of quotations and requiring the Governing Body to approve tenders exceeding £3,000 - yet delegates the Headteacher authority to approve expenditure up to £10,000; ▪ 67% of purchase orders analysed were raised retrospectively, ie after invoices were received; ▪ Invoices for payment are matched with the order (if raised) and relevant delivery note/s (where retained), but limited evidence that delivered goods and services are checked to delivery notes, orders and invoices; 	<p>Inaccurate forecasts - predicted outturn at December £33,000 lower than actual outturn at year-end.</p> <p>Inappropriate and/or inaccurate payments may be made.</p> <p>An insufficient number of quotations/ tenders may be obtained to obtain value for money and/or treat potential suppliers equitably. Insufficient authorisation may be obtained when purchasing goods or services.</p> <p>Potential overspend against budget.</p> <p>Inaccurate payments may be made.</p>	<p>provided to governors;</p> <ul style="list-style-type: none"> ▪ independent checks of monthly payroll reports to confirm that all salary payments are appropriate; ▪ revising the school finance policy to clarify the use of formal tendering procedures and quotations and considering revising the current threshold in view of the higher authorisation level delegated to the Headteacher; ▪ raising orders for all expenditure at the point of commitment; ▪ ensuring that evidence of receipt of goods/services is obtained before passing invoices for payment; ▪ receiving school dinner income on a weekly rather than daily basis, improving income records and entering the amount collected on the financial system promptly; ▪ reconciling monies held to income records weekly, with the Headteacher confirming entries on LBA returns to source records; ▪ performing bank reconciliations promptly, with verification by the Headteacher; ▪ producing formal cash flow 	

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<ul style="list-style-type: none"> ▪ The register for dinner income does not show the total amount collected each day and the school's financial system is not updated promptly with daily collection; ▪ Duties of collecting, recording and banking income are not separated, total daily receipts are not counted, reconciled to income records or entered on the financial system promptly, no reconciliation of collated cash to total recorded at end of each week, bank deposits not checked to income records; ▪ Bank statements not reconciled promptly and limited evidence of independent check by Headteacher; ▪ No evidence of cash flow projections being performed or the school's financial situation being monitored formally; ▪ Lack of control/monitoring of use of the school's debit cards; ▪ Two incomplete, outdated asset registers are held, recording mainly electrical/IT equipment but providing insufficient details (eg serial number, value) and no copies 	<p>All income received may not be accounted for.</p> <p>All income received may not be accounted for.</p> <p>The bank account may become overdrawn and errors/queries may not be identified in a timely manner.</p> <p>The bank account may become overdrawn.</p> <p>All purchases may not be for business use.</p> <p>Ownership of assets cannot be proven in the event of an insurance claim arising from theft or fire/flood and items stolen may not be identified.</p>	<p>projections on a monthly basis;</p> <ul style="list-style-type: none"> ▪ improving retention of debit card sales documents and reconciling these to bank statements; ▪ producing an electronic asset register, to record all furniture, desirable portable items and other equipment above a certain value; ▪ completing an annual check of assets, by person/s not responsible for maintaining the asset register; ▪ issuing guidance on acceptable use of IT equipment, prohibiting loading personal software, to all users; ▪ conducting an annual check of licences against software installed on the school's ICT system; ▪ ascertaining the school's current registration status with the Information Commissioner and registering promptly if appropriate. <p>An additional 12 medium priority recommendations, relating mainly to:</p> <ul style="list-style-type: none"> ▪ formal ratification of annual budget and timely submission to the LA; ▪ segregating income received whilst held in the safe; 	

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>are retained off site – a cost threshold of items to be included the register has not been established or specified;</p> <ul style="list-style-type: none"> ▪ The last documented asset check was performed on in 1999; ▪ Staff with access to ICT equipment have not been provided with guidance on its accepted uses and protection against viruses, by not using their own software; ▪ No evidence of checks to ensure that current software licence held for all software packages on the school's ICT system; ▪ No evidence of the school's data protection registration could be located. 	<p>Loss or theft of assets may not be identified.</p> <p>The computer system may become corrupted; potential reputational damage in the event of misuse.</p> <p>Legal requirements may not be met.</p> <p>Statutory requirements are not met</p>	<ul style="list-style-type: none"> ▪ confirming current bank accounts and authorised signatories; ▪ formalising responsibility for safe custody and permitted use of debit cards; ▪ improving control over the petty cash float and expenditure; ▪ formalising responsibility for maintaining the asset register; ▪ specifying conditions for use and storage of equipment taken off the school premises, eg teachers' laptops, and maintaining records of such issues. 	

Completed Audit Activity

Audit: Homelessness rental income (report issued March 2011)

Opinion: Insufficient

Medway Council has a statutory responsibility, under the Housing Act 1996, to provide temporary accommodation to certain people presenting themselves as homeless. However, this responsibility does not negate clients' liability to pay for the accommodation provided, though in the majority of cases much of the rent due will be met from housing benefit. During the 2009/10 financial year, income received totalled £1,120,326, budgeted income for the current year being £956,035.

The audit evaluated the effectiveness of controls to minimise the risks that:

- accommodation costs may not be calculated accurately or allocated to client accounts;
- housing benefit for clients in temporary accommodation may not be received and/or offset against costs;
- costs exceeding housing benefit may not be identified, calculated correctly, charged to clients or collected.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Action has been taken in the last 12-18 months to improve the collection of costs exceeding housing benefit, notably by setting up rent accounts for homeless clients on the Academy system and issuing them with payment cards. In addition, Medway's costs will significantly reduce as a result of the ongoing transfer of temporary accommodation to the Housing Association Leasing Scheme (HALS), as tenants will be responsible for paying the landlord/ agent direct. However, the more significant issues considered to require attention were:</p> <ul style="list-style-type: none"> • Four of the 20 tenants selected were not receiving any benefit payments, although shown as eligible, and there was no 	<p>All benefit payments due may not be received, and consequently rent may not be paid.</p>	<p>3 high priority recommendations:</p> <ul style="list-style-type: none"> • reviewing each case of outstanding debt to determine whether any recovery action possible and, if considered to be irrecoverable, taking write-off action in a timely manner, following authorisation by an appropriate officer; • Adopting a consistent approach to progressing recovery of rent arrears, as specified in the 'Housing Residential Arrears Policy'; • Paying HB cheques for clients in B&B accommodation into Cashiers promptly after production by Creditors, ideally within one week, and retaining them securely in the interim. <p>A further 7 medium priority recommendations were made to</p>	<p>All recommendations accepted by management, actions either already implemented or to be taken by the end of August 2011 at the latest.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>evidence of officers monitoring client accounts to confirm that benefit payments due are received or discussing the situation with the tenants.</p> <ul style="list-style-type: none"> • No checks are carried out to ensure that benefit payments due to clients in B&B accommodation are received. Furthermore, benefit cheques for these clients (which are collected from Exchequer) had not been paid into Cashiers promptly (10 of 16 not within 30 days of issue, including 2 exceeding 70 days) - cheques awaiting processing were stored in a desk drawer. • Arrears levels had risen steadily each month since July 2010, by an average of £6.5K. 72% (£238,451) of the total debt outstanding at November 2010 related to 175 former tenants and 79% (£72,882) of the current tenant debt was more than 27 weeks old, including £65,514 more than 52 weeks old. • Examination of files for 11 tenants in arrears revealed that only 3 contained any evidence of progress action, and this was only copies of 'standard' 	<p>All benefit payments due may not be received, cheques may be lost, mislaid or misappropriated, with a consequent risk of fraudulent alteration.</p> <p>Although the total overdue remains within the provision for bad debt set up in the last two annual budgets, a significant proportion of these arrears may be irrecoverable and irrecoverable debts may not be written off in a timely manner</p> <p>Arrears balances may not be recovered, resulting in increased costs to the Council.</p>	<p>address issues considered to be less significant, relating to:</p> <ul style="list-style-type: none"> • Retaining copies of letters notifying tenants of rent changes client files; • Making a note of the reason tenants' rent is not being met fully by HB, where applicable; • Issuing homelessness clients with an explanatory note, stating that full rent is payable, whether covered by benefit payments or not, on allocation of temporary accommodation; • Considering the practicality of tendering to establish a framework agreement for the provision of B&B accommodation; • Maintaining simple accounts for clients in B&B accommodation (for example using a spreadsheet), to enable costs incurred for each client to be identified clearly; • Requesting clients remaining in B&B accommodation longer than a certain period of time (eg 1-2 weeks) to pay the net cost incurred. 	

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>reminder letters produced from Academy.</p> <ul style="list-style-type: none"> • No calculation of costs incurred against benefit payments received is performed for clients in B&B accommodation and they are not requested to reimburse the Council for any shortfall. 	<p>The Council is not minimising its costs, though we acknowledge the statutory requirement on local authorities to accommodate homeless people.</p>		

Completed Audit Activity

Audit: VAT (report issued March 2011)

Opinion: Satisfactory

VAT is a tax on goods and services supplied in the course of any business and borne by the final consumer. It affects most of a local authority's purchases and income from those services deemed a "business activity" (i.e. those for which the local authority has no statutory monopoly) and the majority of entries in the Council's accounting records. VAT is applied at various rates dependent on the type of services provided or purchases made and the correct amount of VAT must be identified in all qualifying transactions and treated appropriately.

As the council's services are primarily non-business, regulations allow the recovery of the VAT incurred on goods and services purchased. In the 2010/11 financial year to November 2010, the council recovered approximately £20 million from Her Majesty's Revenue & Customs (HMRC).

This audit examined the four risks:

- Officers responsible for processing qualifying expenditure and income are provided with appropriate information and guidance on the identification and treatment of VAT.
- VAT is reclaimed for all qualifying expenditure and promptly and accurately recorded in the accounting records.
- VAT is identified correctly on relevant income received, calculated accurately and promptly recorded in the accounting records.
- VAT returns are accurately completed and submitted within the prescribed timescales.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>The Principal Accountant and other key members of the Finance Support Team have regular VAT training and access to VAT advice via printed and online guides, and telephone support from a retained company of VAT advisors. Some guidelines have been produced, namely Imprest and Petty Cash. Rather than producing general guidelines, Finance Support welcomes queries on specific issues.</p> <p>Most VAT expenditure is identified properly; errors are not normally material and have no impact on</p>		<p>One medium priority recommendation was raised to correct for the VAT error and to assess the requirement to make a backdated declaration to HMRC.</p>	<p>Management agreed to implement the recommendation. Entries will be corrected by the end of March 2011. Systems issues will be reviewed following the upgrade to the Integra system scheduled for May 2011.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>the VAT return. There are, however, two areas of concern around leased cars:</p> <ul style="list-style-type: none"> ▪ KCC invoices have been incorrectly coded to the standard VAT code. If these vehicles all have an element of private mileage, the originating department needs to be informed, and Finance Support will need to make a declaration to HMRC of the over-recovered VAT. ▪ Leased cars with an element of private mileage are coded to LE and the VAT can only be reclaimed at 50%, the unclaimed VAT being an expense to the cost centre. However, Integra has difficulty with the calculation and the unbalanced invoices have to be identified from an exception report. <p>Sales invoices meet the VAT requirements and VAT is identified properly for non-sales ledger income.</p> <p>The Control Team Leader is the designated officer and alternates preparing the returns with the accounting assistant who can then</p>	<p>The Authority has claimed too much VAT.</p>		

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
provide cover for holidays and sickness. VAT returns are completed on-line within the HMRC timescales and all the amounts recovered this financial year have been in line with the returns.			

Completed Audit Activity

Audit: Allocation of resources - SEN (report issued March 2011)

Opinion: Satisfactory

A statement of Special Educational Needs (SEN) outlines what barriers to learning a child faces and what needs to be in place to try and overcome these. Requests are normally made by schools or parents on behalf of pupils but can be made by health or social care professionals. In October 2009, school data showed that 25% of all pupils in Medway have an identified SEN and over 1,100 of these have statements of SEN. The SEN budget is about 2.5% above the national average, but in line with our statistical neighbours.

This audit examined three risks:

- There may be inconsistency in the needs of pupils' put forward for assessment
- Statements of special education needs may not be appropriate
- Pupils may continue to receive support that is no longer needed

Main Findings	Main Risk	Main Recommendations	Management Response
<p>The SEN decision making group considers whether there is a need to obtain advice from relevant professional agencies and, following their reports, whether there is sufficient basis for issuing a statement. Records maintained showed that 98% of the 132 cases decided between April and December 2010 were processed within the required statutory timescale.</p> <p>Statement objectives have traditionally been long-term and therefore general and not specific or measurable (e.g. "to improve communication skills" rather than "to achieve standard communication skills for the age group"). The statutory SEN assessment criteria have been</p>		<p>Three medium priority recommendations were raised to:</p> <ul style="list-style-type: none"> • Improve monitoring of assessment targets and reviews • Ask professionals contributing to the assessment of pupils to be as specific as possible, with a view to ensuring statement objectives are as measurable as possible. 	<p>Management have implemented the recommendations.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>revised in conjunction with professionals based in schools. Pupil progress and performance then needs to be considered against the assessment criteria to see if the statement is still necessary. Statements will be discontinued when they no longer meet the specific statementing criteria. Further amendments will be made to the criteria if necessitated by the Government's green paper.</p> <p>Statement objectives, along with individual pupil targets held in the school help to provide a benchmark against which progress can be measured. Audit testing showed that 50% of the 43 objectives reviewed (from 5 statements issued between October and December 2010) were not specific enough. Whilst statements cannot be too prescriptive, this suggests work will be required to embed the revised criteria in schools.</p> <p>The SEN unit maintains manual and spreadsheet records of pupils due for annual reviews and monitors whether schools have undertaken the reviews. Where</p>	<p>Whilst it is accepted some objectives cannot be too specific, particularly for the very young, there is a risk that some schools may not show that objectives have been achieved.</p>		

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>necessary, letters are sent to the school to remind them to undertake the review. Ideally this would be facilitated through the Impulse system but we have been informed that the system has not been able to cope with SEN needs. Management have identified the need to improve reporting systems and we have been informed that they have dedicated resources to tackle the difficulties.</p> <p>However, revised arrangements were not at a sufficiently advanced stage to be tested in this audit. The review for one of fifteen pupils tested was overdue by more than a year and, although four other pupils' reviews had been completed, the monitoring records had not been updated.</p>	<p>Annual reviews may not be undertaken in accordance with statutory requirements.</p>		

Completed Audit Activity

Audit: Concessionary fares (report issued March 2011)

Opinion: Satisfactory

The Concessionary Bus Travel Act 2007 extended the statutory responsibility on local authorities to provide travel concessions to people aged 60 and above and those with certain disabilities, to enable free travel anywhere in England between 09:30 and 23:00 (any time at weekends and public holidays). Authorities are responsible for reimbursing operators for the cost of journeys made by pass holders (regardless of the issuing authority) beginning in their area. Authorities are permitted to make discretionary additions to the statutory requirements, to which end Medway permits travel from 09:00 and also issues 'companion' passes. Medway also offers, entirely at its discretion, half-price bus fares to students in full time education up to the end of year 13, on payment of a nominal fee.

For the 'over 60s' scheme - the English National Concessionary Travel Scheme (ENCTS) – Medway forms part of the Kent & Medway Concessionary Travel Scheme, along with all the district/borough councils in the County. Kent County Council act as administering authority for this scheme, which is managed by a specialist consultant. The same consultant also manages the Medway half-price scheme. Administration of the concessionary fares schemes and reimbursements to operators totalled just over £3.9 million in 2009/10. Some of the costs of the national 'older persons' scheme are offset by various funding streams from central government, but Medway bears the entire cost of the student scheme.

This second phase of the audit of Concessionary Fares examined two risks that reimbursements to operators may not reflect accurately the cost of journeys:

- commenced in Medway using older/disabled persons' passes issued under the national scheme; or
- using Medway students' half-price passes.

Main Findings	Main Risk	Main Recommendations	Management Response
The ENCTS works on the principle that bus operators should be reimbursed so they are "no better and no worse off" than if no concessionary fares scheme existed. Even if drivers record the duration (and therefore cost) of each journey, it is discounted as unreliable on the basis that it may be estimated or record the longest distance possible. Instead, a fairly complex calculation is used to determine the net revenue foregone (income lost due to		One high priority, relating to management: <ul style="list-style-type: none"> • considering whether the balance of overpayments to two operators remaining at the end of 2008/09 (£712) can still reasonably be recovered; • carrying out checks of each quarterly reconciliation to confirm that the 'paid to date' figures shown for each operator, and debit balances brought forward where applicable, are accurate; 	All recommendations accepted by management, actions either already implemented or to be taken by the end of September 2011 at the latest (allowing for forthcoming changes in public transport management).

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>passengers not paying fares) and additional costs incurred in carrying more passengers and/or for longer distances. Basing reimbursement on the average fare paid by paying passengers ensures there is consistency between these two groups of users.</p> <p>The consultant's arrangements to verify the quality and accuracy of operators' data submissions are considered to minimise, as far as practical, the risk of Medway incurring costs for journeys not commenced within its area. However, inconsistencies were identified in the service category (eg urban, rural) allocated to a few routes and the fares discount factor and 'generated travel adjustment factor' negotiated with one operator differ from those specified in the Kent & Medway scheme, these having been agreed as part of the appeal process.</p> <p>In addition, comparison of Medway's payments to, and rebates received from, the administering authority for 2009/10 against quarterly schedules prepared by the consultant identified an apparent</p>	<p>Although service categories attract different reimbursement factors, the financial impact appears negligible.</p> <p>This apparent error was in Medway's favour, but management's failure to identify it suggests that any other errors, to the detriment of the Council, could remain un-noticed.</p>	<ul style="list-style-type: none"> ensuring that correct amounts are paid to operators. <p>One medium priority, being that management should carry out an annual reconciliation of payments made to, and rebates received from, the administering authority against quarterly schedules for the ENCTS to confirm that no errors have occurred.</p>	

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>underpayment.</p> <p>The cost of journeys using half-price passes, and the consequent net revenue foregone is, by definition, easier to calculate. The consultant has similar arrangements in place to minimise as far as practical the risk of Medway incurring costs for journeys not using a half-price pass, and the formula used to calculate net revenue foregone is considered to be appropriate. However, we were unable to validate the accuracy of payments for the half-price scheme in 2009/10, a number of apparent anomalies being identified on quarterly reimbursement calculations. The situation is confused by one quarterly payment having been duplicated (due to an error by Medway management), but four operators appear to have been over-reimbursed by a total of £1,742 for the year. In addition, it was unclear whether debit balances brought forward for two operators, following the identification of inaccurate and/or invalid claims submitted in 2008/09, took account of amounts recovered</p>	<p>Four operators appear to have been over-reimbursed, Medway management having evidently not identified apparent errors on quarterly reconciliations.</p> <p>Although the inaccurate and/or invalid claims occurred relatively</p>		

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
from them in January 2009. The consultant believes that a second recovery should have been made to clear the debit balances remaining at the end of 2008/09 (these totalling £712), but there is no evidence that this was actioned.	early in the scheme, before Medway management had become familiar with usage patterns, two smaller operators were over-reimbursed. These overpayments have not yet been fully recovered.		

Completed Audit Activity

Audit:	Council Plan Monitoring (report issued February 2011)	Opinion:	See below
	NI 60 Core assessments for children's social care		Uncontrolled
	NI 146 Adults with learning disabilities in employment		Uncontrolled
	NI 181 Processing Housing Benefit/Council Tax Benefit claims		Good
	H8 Average time taken to re-let council dwellings		Good
	LRCC1 Number of visitors to tourist attractions in Medway		Insufficient

The Council Plan 2010-13 is the Authority's high level, strategic business plan that sets out the Council's priorities, outcomes and key actions over a three-year period. It forms an essential part of the Council's performance management framework, setting out the outcomes against which progress will be regularly measured over the coming years.

The process of periodic internal audit data quality audits is important to the Council because this validates the accuracy of the data that is being used to measure the success, or otherwise, of achieving the outcomes and priorities set out in the Council Plan. This performance information is publicly available and may be used to review resources allocated to particular elements of the Council's work, which is of particular significance at a time of reduced funding. Four risks relating to the accuracy of five Council Plan performance measures (three national and two local), suggested by Research & Review, were examined:

- Performance measures may not be properly defined;
- There may not be a sound methodology for calculating the indicators;
- Data quality may be poor;
- Performance may be reported inaccurately.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Officers responsible for the indicators tested understood the definitions, including pertinent inclusions, exclusions and cut-off dates. However:</p> <ul style="list-style-type: none"> • Process maps should have been drawn up for all indicators, but there is no documented procedure for NI 60 and that for NI146 is considered to lack sufficient detail. • No documentation retained to support calculation of performance reported on 	<ul style="list-style-type: none"> • Reported outcomes for these indicators may be inconsistent should performance be calculated by a different person. • No evidence that performance reported is accurate. 	<p>Five high priority, relating to:</p> <ul style="list-style-type: none"> • retaining documentation to support performance reported (NI60); • ensuring clients aged 65 and above excluded from calculation (NI146); • introducing data quality checks and documenting procedures (NI146); • correcting the data input to Covalent for June 2010 (LRCC1); • posting explanatory notes on 	<p>All recommendations, or an appropriate alternative action, accepted by relevant managers, with an undertaking to implement actions by the end of March 2011 at the latest.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Covalent performance management system for NI 60 and LRCC1; no assurance that the source data used for calculation of NI146 (notifications from care managers rather than reports from Care Director system) is accurate.</p> <ul style="list-style-type: none"> • Clients aged over 64, and therefore falling outside the scope of NI 146, were being included in the total reported. • No data quality checks carried out for NI146 and, although some checks performed for NI 60 and LRCC1, procedures for carrying them out not documented. • Information recorded in the Covalent system for NI 60, 146 and LRCC1 for June 2010 was inaccurate. For LRCC1 this was due to extra data received after the reporting deadline, which the responsible officer had not changed on Covalent. For NI 60 and NI 146 subsequent adjustments occurred during August/September, and continued to be made in October, but reasons for the amendments not recorded on Covalent. 	<ul style="list-style-type: none"> • Performance for Q1 2010-11 overstated (to the detriment of the Authority on this indicator) by 9%. • Performance reported for these three indicators may be inaccurate. • Retrospective changes mean that performance data reported for these indicators cannot be regarded as reliable. 	<p>Covalent if any subsequent changes made (NI60, NI146).</p> <p>Seven medium priority, relating principally to:</p> <ul style="list-style-type: none"> • documenting a process map to explain how performance should be calculated (NI60); • enhancing existing process map to include more detail (NI146); • retaining evidence of how reported performance was calculated (LRCC1); • implementing use of reports from the Care Director system to provide source data (NI146); • documenting data quality checking procedures (NI60, LRCC1). 	

Completed Audit Activity

Audit: Tenancy Fraud (report issued January 2011)

Opinion: Satisfactory

The Audit Commission Report "Protecting The Public Purse" (September 2009) highlighted housing tenancy fraud as one area where the risk of fraud has not been adequately addressed at the local level. The report estimates that social housing across England has been reduced by nearly 50,000 properties and that the level of tenancy fraud in parts of London could be as high as 5%.

The reduced private / social rent differential in Medway (compared to London) reduces the incentive for tenancy fraud, but the Audit Commission believe that 1% of properties outside London could be unlawfully occupied.

This audit examined the risk that Council properties may be illegally sublet by matching Housing data with Housing Benefit and Council Tax data.

Main Findings	Main Risk	Main Recommendations	Management Response
<p>The risk of tenancy fraud involving Medway Council's 3051 properties is significantly lower than the 1% estimated by the Audit Commission. Tenancy fraud can only be occurring if the Council's tenant is retaining the Council tax liability whilst subletting the whole property to a third party.</p> <p>Housing Benefit data match No tenancy fraud was identified, although three Housing tenants were identified who had sublet rooms (including one involved in the Supported Lives Scheme). Housing records indicated awareness of only one of these arrangements although they have now sought to formalise the other two. The Housing system does not record this information in an easily accessible format.</p>	<p>The Authority does not retain systematic records of subletting rooms in its properties and Housing do not know how widespread room sublets is.</p>	<p>One medium priority recommendation was raised suggesting that Housing should investigate whether their system (Academy) could be developed to flag homes with permission to sublet.</p>	<p>Management agreed to implement the recommendation once the Customer Services Module is implemented on Academy. This will be in November 2011.</p>

Completed Audit Activity

Main Findings	Main Risk	Main Recommendations	Management Response
<p>Council Tax data match No tenancy fraud was identified, although three instances were identified where the Housing succession has not been properly recorded on the Housing system after at least three years (including one instance where the tenant died in 1979). These tenancies are in the process of being resolved. The testing also identified two cases of unauthorised occupation by a family member of the deceased tenant. Housing were already seeking possession of one property and will take similar action on the other now they are aware of the issue.</p>			