

AUDIT COMMITTEE

5 JULY 2011

OUTCOMES OF INTERNAL AUDIT ACTIVITY

Report from: Mick Hayward, Chief Finance Officer

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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 Decisions regarding accounts and audit issues fall within the remit of this Committee.
- 1.2 This report needs to be considered as a matter of urgency to ensure Members are advised of the latest audit activity, ahead of the next meeting of the Committee in September 2011.

2. Background

- 2.1 This report contains the outcome of Internal Audit's work since the last report to this committee in March 2011.
- 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 uses a grading system to provide managers with a clear understanding of the effectiveness 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 To assist in directing managers more clearly to the key risk areas, a priority ranking system is used for audit recommendations. Definitions of audit opinions and recommendation priorities are shown at Annex A.

- 2.5 All final 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.
- 2.6 Where control is assessed at the lowest level ("Uncontrolled"), follow up work will be undertaken within six months (dependent on the latest implementation date for agreed management actions).
- 2.7 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

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

- 3.1 There are no risk management implications arising from this report.

4. Financial and legal implications

- 4.1 There are no financial or legal implications arising directly from this report.

5. Recommendations

- 5.1 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						
Care Director payments (residential payments)		I		I		
Council tax		G				G
Creditor payments		I				I
Housing benefits		S				S
NNDR		G				G
Governance Audits						
Corporate governance		S	S			
Prevention of fraud & corruption		I	I			
Risk management		S	S			
Risk Assessed Work						
Civic Centre fuel pumps		U			U	

Key:

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

- Work carried out but no opinion provided in that area

Completed Audit Activity

Audit: Care Director Payments**Final report issued:** 5 May 2011**Opinion:** Insufficient

In 2009, the Raise adult social care system was upgraded to Care Director. Following this there were problems in the system's ability to pay providers and an emergency system had to be put in place until the payments module could be fixed. These technical issues have now been resolved and Care Director is used to generate payment files for residential and nursing care. Total residential and nursing care payments in 2010/11 were £39.4 million.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>The Authority has an appropriate process in place to ensure residential and nursing care placements only occur after proper authorisation and to ensure contracts are in place with suppliers. Services on Care Director reflect services delivered accurately but delays in entering, authorising and terminating them leads to inaccuracies in payment runs. Weaknesses in security were identified during the 2009/10 audit of Security of Social Care Records. Care Director profiles are still under revision. The recommendation made in report 09035 was agreed with an initial implementation date of September 2010 but that exercise has not yet been completed.</p> <p>Payment runs create charges for each client that reflect service information on Care Director. The Contract Administration team checks individual charges and ensure that the aggregate payments for each supplier are correct. Pro-forma invoices are created for</p>	<p>Some suppliers may be overpaid and others paid late.</p> <p>There may be inappropriate access to the Care Director Finance module.</p>	<p>Two high priority recommendations were made relating to recovery of overpayments and security profiles.</p> <p>Two medium priority recommendations were made to improve the quality of data held on Care Director.</p>	<p>All recommendations were agreed and will be implemented by September 2011.</p> <p>The review of Care Director profiles will take place once Care Director has been upgraded to Version 2. At this stage security profiles should be more stable.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>services (such as Mental Health) that are not on Care Director.</p> <p>Procedures for interfacing Care Director payment files with Integra are operating well. However, overpayments for residential homes the Authority no longer uses have not been recovered. At the time of the audit, residential care suppliers had credit balances of approximately £550,000 with £385,000 of the remainder is over 2 years old.</p> <p>Action taken by the Contract Administration team since the discovery of this issue has resulted in:</p> <ul style="list-style-type: none"> • Assigning £25,000 that was received some time ago but not offset against the outstanding supplier credit balances; • Over £160,000 has now been recovered; • Establishing that £83,000 relates to overpayments in respect of live care packages that are part of the ongoing reconciliation of the four weekly payment cycle. <p>This means that approximately £290,000 (less than 1% of the annual payment value) is outstanding and being actively pursued.</p>	<p>There is a material risk that overpayments will not be recovered.</p>		

Completed Audit Activity

Audit: Council tax 2010/11**Final report issued:** 20 May 2011**Opinion:** Good

There are approximately 110,000 domestic properties in Medway, which generated £141.9 million in council tax revenue in the 2010/11 financial year.

The audit examined the controls operating over five risks:

- Property data may be incomplete, inaccurate or not updated promptly;
- Rates chargeable may not be billed accurately or in a timely manner;
- All income received may not be accounted for accurately and promptly;
- Arrears may not be calculated accurately or recovered effectively;
- Income due and received may not appear in the main financial records accurately or promptly.

Main Findings	Main Risks	Main Recommendations	Management Response
All expected controls were found to be in place and operating effectively, with only isolated, relatively minor, exceptions identified.	No significant risks identified.	No high or medium recommendations made, only two low priority.	Both recommendations accepted by management, with an undertaking to implement actions by the end of June 2011 at the latest.

Completed Audit Activity

Audit: Creditor Payments 2010/2011**Final report issued:** 21 June 2011**Opinion:** Insufficient

From 1 April 2010 to 31 March 2011 approximately 127,000 invoice transactions for approximately £480 million were processed via the Purchase Ledger system. These payments are for goods procured through the Webreq purchase order system, non-purchase order invoices and transactions originating in feeder systems (e.g. the Care Director system for residential care payments).

Four risks relating to benefits payments were examined:

- Payments may be made to non bona-fide suppliers;
- Payments may be made for goods or services that have not been received by the Council;
- Payments may be inaccurate, or not made at the most advantageous time;
- Payments may not be reflected accurately or promptly in the Council's financial records.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Exchequer Services staff set up new suppliers and amend supplier details after receipt of appropriate supporting documentation. Supervisory checks ensure these are appropriate but typically occur after payments have been made. A review of access rights identified seven members of staff who had access to both create suppliers and enter invoices to trigger payments to those suppliers. Work is required to clear inactive suppliers more frequently. Reports of inactive suppliers have not been cleared for more than a year and the Care Director Payments audit identified approximately £800,000 in supplier credit balances (of which approximately £550,000 was for residential care).</p> <p>Access controls ensure the person who raised the requisition has not authorised the payments for the majority of goods</p>	<p>Fraudulent payments may be made.</p> <p>Overpayments may not be recovered.</p>	<p>Two high priority recommendations were made to:</p> <ul style="list-style-type: none"> • Recover overpayments to suppliers and improve the clearance of unused suppliers; • Ensure the Integra system enforces separation of duties between creating suppliers and non-purchase invoices. <p>Six medium priority recommendations were made to:</p> <ul style="list-style-type: none"> • Improve checks on supplier set-ups; • Ensure the Webreq system enforces separation of duties between raising requisitions and authorising orders; • Increasing use of Webreq; • Ensuring departments complete documentation to confirm goods 	<p>All actions were agreed and will be implemented by September 2011.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>ordered through Webreq. Permissions need to be tightened for some users to ensure that staff cannot authorise their own requisitions.</p> <p>Non-purchase order invoices (approximately 50% of transactions) are paid providing the invoice has been authorised by an appropriate person. The invoice is processed even if the goods received and arithmetic check boxes have not been filled in. Separation of duties between ordering, checking goods and authorising payments can be bypassed. Processes for ensuring payments are accurate and timely are generally sound. However, the audit identified approximately £90,000 of duplicated payments. A system bug allowed exact duplicates of supplier and invoice number to be processed. Action is being taken to rectify this issue.</p> <p>There are sound procedures in place to ensure expenditure is coded correctly and consolidated into the General Ledger.</p>	<p>Goods may be procured that are not for the benefit of the Authority.</p> <p>Goods may be procured that are not for the benefit of the Authority.</p> <p>Duplicate payments have been made.</p>	<p>and services have been procured and that goods have been received;</p> <ul style="list-style-type: none"> • Reconciliation totals for cut and paste spreadsheets; • Reducing the number of duplicate payments. 	

Completed Audit Activity

Audit: Housing Benefits 2010-2011**Final report issued:** 23 May 2011**Opinion:** Satisfactory

Housing Benefits payments totalling £92.9 million and a further £18.8 million of Council Tax Benefit were processed in 2010/2011.

Five risks relating to benefits payments were examined:

- Claims for benefits may not be valid and/or assessed promptly;
- Benefits payments may not be calculated or paid accurately, to the correct recipient;
- Change of circumstances notifications may not be actioned accurately and/or promptly;
- Overpayments may not be identified, or may not be recovered in an appropriate manner;
- Benefits payments may not appear in the main financial records accurately or promptly.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Appropriate controls to minimise risks were found to be in place and, generally, operating effectively. However, the following issues were identified:</p> <ul style="list-style-type: none"> • Reconciliation of payment runs to MHS Homes and landlords not always checked regularly and promptly by the Revenues Manager; • Aged debts considered to be irrecoverable not always authorised for write-off and/or processed in a timely manner; • The majority of write-offs exceeding £2,000 were authorised by the Benefits Manager rather than the Revenues & Benefits Contract Manager. 	<p>Any inaccurate benefit payments may not be identified in a timely manner.</p> <p>Write-off levels are being understated.</p> <p>Irrecoverable overpayments written-off without the level of authorisation required per the overpayment policy.</p>	<p>Three medium priority recommendations, relating to:</p> <ul style="list-style-type: none"> • The Revenues Manager checking reconciliation of payment runs on a monthly basis; • Taking prompt write-off action on overpayments where recovery action has proved ineffective; • Ensuring that overpayment write-offs are authorised in accordance with the overpayment policy. 	<p>All actions recommended, or an appropriate alternative, accepted by management for immediate implementation.</p>

Completed Audit Activity

Audit: National non-domestic rates 2010/11**Final report issued:** 20 May 2011**Opinion:** Good

There are approximately 6,100 commercial properties in Medway, generating an annual income of approximately £98 million.

The audit examined the controls operating over five risks:

- Property data may be incomplete, inaccurate or not updated promptly;
- Rates chargeable may not be billed accurately or in a timely manner;
- All income received may not be accounted for accurately and promptly;
- Arrears may not be calculated accurately or recovered effectively;
- Income due and received may not appear in the main financial records accurately or promptly.

Main Findings	Main Risks	Main Recommendations	Management Response
All expected controls were found to be in place and, in the main, operating effectively. However, there was no evidence of any independent check to confirm the accuracy of parameters for 2010/11 input to the IWorld system (this possibly an oversight as checks for 2011/12 were documented).	Parameters entered may have been inaccurate, leading to inaccurate charges being applied.	One medium priority recommendation, relating to retaining evidence to support checks of amendments to systems parameters. Three low priority recommendations also made.	Management accepted all recommendations, stating that these (or an appropriate alternative) have already been taken.

Completed Audit Activity

Audit: Corporate Governance 2010/11**Final report issued:** *to be confirmed***Opinion:** Satisfactory

Internal Audit carries out an annual review of the extent to which the Council's Constitution, political and management structure and decision-making processes comply with the requirements of the CIPFA/SOLACE framework¹, in order to contribute to the Authority's annual governance statement.

The audit examined the controls operating over the six core principles:

- Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust local public accountability.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>The Council's vision for the future, guiding principles for service delivery and strategic priorities are set out in the council plan, which is agreed by Full Council alongside the budget.</p> <p>The long-term vision and key ambitions for Medway and the priorities to deliver that vision are set out in the Sustainable Community Strategy. Effective service delivery is established through the Council Plan, which is monitored on a quarterly basis at division and service level. Progress will be measured towards achieving objectives to make sure that promises are delivered and findings will be reported at the end of each financial year</p>		<p>Three medium priority recommendations have been raised to address issues identified relating to:</p> <ul style="list-style-type: none"> • Ensuring succession planning is captured in the PDR process. • Document potential officers' conflicts of interest in respect of procurement. • Training substitute members for the audit committee. 	<p>All actions were agreed and will be implemented by the end of the financial year.</p>

¹ 'Delivering Good Governance in Local Government' (published in 2007)

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>in the Annual Reports.</p> <p>The Council has a risk management strategy, which is reviewed annually (and updated if necessary), and a corporate register of its strategic risks, which is reviewed every 6 months.</p> <p>The Constitution details the responsibilities delegated to Members and senior officers. Functions and roles for senior officers are set out in the individual job description(s). Codes of conduct for both Members and employees form part of the Constitution, which also includes financial and contract rules as well as the decision making process.</p> <p>The Council has a Standards Committee, which assesses, reviews and determines written complaints about Member behaviour where it is alleged that a breach of the Local Code of Conduct has occurred.</p> <p>Managers have two tools in the Leadership framework and Managers' toolkit to help embed Medway Council's values within their teams.</p> <p>The Authority could improve the transparency of its procurement processes by holding a register of interests, as there is currently opportunity for officers to conceal interest in contractors who may be bidding for work that they are responsible for tendering.</p> <p>Members have appropriate skills and</p>	<p>Directorate risks however have not been captured into directorate risk registers.</p> <p>Undisclosed interests may prejudice the integrity of procurement processes.</p>		

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>experience to enable them to fulfil their responsibilities effectively. CIPFA have recommended that members of the Audit Committee should be “independent of both the executive and scrutiny functions”, Medway’s constitution states that only the chairman needs to be independent; Audit Committee is a decision-making committee and is therefore independent of executive and scrutiny functions.</p> <p>The council has a development strategy for Members, which refers to a training needs analysis, and a learning and development policy for staff which is maintained at both organisational and service levels.</p> <p>At service level, learning and development plans should be captured from the annual service planning process and then feed this into the team’s objectives/ targets and then tasks should be delegated to individuals through the PDR process.</p> <p>Furthermore, line managers are responsible for ensuring that they identify the skills required for the job and that appropriate development opportunities exist, where possible. However, there is lack of evidence that the PDR process is fully effective.</p> <p>Career paths for officers however can be identified as part of the PDR process but there is lack of monitoring/enforcement to ensure that PDRs are carried out</p>	<p>The composition of the Committee does not meet the CIPFA recommendation for Members to be free of these responsibilities</p> <p>There is a risk that there are no qualified members to act as substitutes.</p> <p>Individual members of staff may not be engaged fully in improving the effectiveness of their service.</p> <p>The Authority may not have skills it needs to deliver services effectively in the future.</p>		

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>consistently across the Council. The Local Strategic Partnership (LSP) involves major public sector organisations and a range of community representatives, although its current structure is under review because of the new government's policies. The Citizens Panel, Corporate Focus Groups and the Ethnic Minority Forum are designed to represent all sections of the community.</p>	<p>Skills bought from outside the Authority may be more expensive than those grown in-house.</p>		

Completed Audit Activity

Audit: Prevention of Fraud and Corruption 2010/11 **Final report issued:** *to be confirmed* **Opinion:** Insufficient

The Audit Commission produces an annual report “Protecting the Public Purse” which provides a national perspective on fraud risks facing local government. Current economic pressures make it even more important that councils minimise fraud losses. Internal Audit carry out an annual review of the Council’s counter fraud and corruption arrangements. This audit compared Medway Council’s approach to the Audit Commission’s suggested checklist.

The audit examined the controls operating over the risk that fraud and corruption losses may occur.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>There is top level commitment to prevent fraud and corruption and the Audit Committee receives reports on irregularities and housing benefit fraud at each of their meetings.</p> <p>There is a counter-fraud policy, which describes the prevention framework and sets a zero tolerance towards fraud. This forms part of the Constitution. However, there is no plan of action to take a structured approach to improving the Council’s response to the Fraud and Corruption risk.</p> <p>The Authority recognises the key role management plays in preventing fraud but this is not captured in service plans, or identified through the Assistant Director Quarterly Reports. Furthermore, all employees have a responsibility to report suspected fraudulent activity and are made aware of the whistleblowing policy during their induction; existing employees are, however, not reminded of the policy.</p>	<p>The Authority may not take appropriate action to reduce its exposure to the risk of fraud.</p> <p>There is no evidence that service managers consider fraud risks during the service planning process and feed fraud risks into the Assistant Director reporting processes.</p>	<p>Eight medium priority recommendations were made to:</p> <ul style="list-style-type: none"> • Develop a plan of action to reduce Medway Council’s exposure to fraud risk; • Include fraud risks in service plans; • Publicise fraud risk in induction packs; • Issue reminders of the whistle blowing policy; • Encourage the raising of money-laundering concerns; • Develop a policy in response to the bribery act; • Restrict vulnerability to regional cartels; • Record potential conflicts of interest. 	<p>All actions were agreed and will be implemented by the end of the financial year.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Employees and members are not made aware of the risk of fraud through the induction process nor are contractors made aware of their responsibility through the procurement gateway process. Actions taken to mitigate fraud and corruption risks in the following high-risk areas are:</p> <ul style="list-style-type: none"> • Recruitment – recruitment checks are carried out to mitigate the risk of fraud and corruption. Managers use external recruitment agencies directly and are responsible for ensuring that the agency carries out the necessary checks. Guidelines are available on the Intranet. • Housing benefit – there are a range of controls in place which include holding evidence of entitlement, employees are given fraud training, Department for Work and Pensions produce a list of claimants that are high risk due to change in circumstances and housing benefit fraud is investigated. • Council tax – annual letters are sent to identify change in circumstances and the discount is removed if a response is not received, voids are inspected and there is separation of duties in place. NFI matches help identify fraud. • Procurement – the gateway procurement process has been revised and training has been provided on the process. Each directorate/department has a forward 	<p>Employees, contractors and Members may not know what their responsibility is.</p>		

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>plan to keep track of procurement. One of the aims of the revised process is to prevent cartels from occurring but there is no liaison with other local authorities, which means that the revised procurement process does not restrict regional cartels from occurring. However, a register of interest is not held.</p> <ul style="list-style-type: none"> • Social housing – the tenancy fraud audit during the 2010/11 financial year did not identify any cases of tenancy fraud. • Personal budgets for adult social care – there are a range of controls in place including; expenditure can be viewed on the use of the pre-loaded Medway Card, audits are carried out of expenditure and a care review is carried out periodically to ensure that support is still required. 	<p>Procurement process does not restrict regional cartels (e.g. a Kent-wide cartel).</p> <p>Undisclosed interests may prejudice the integrity of procurement processes.</p>		

Completed Audit Activity

Audit: Risk Management

Final report issued: 3 June 2011

Opinion: Satisfactory

Medway Council uses a risk management methodology and model that was developed by an external consultant. Each year Internal Audit carries out an annual review of the Council's progress in adopting and embedding this method for the identification, evaluation and recording of risk.

The Council's risk management activities continue to be co-ordinated by the Strategic Risk Management Group (SRMG), which is chaired by the Director of Regeneration, Community & Culture and includes the Chief Finance Officer and representatives from the service directorates and various support functions.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Cabinet have overall responsibility of ensuring that risk management is operating effectively. The Director of Regeneration, Community and Culture sponsors risk management at Corporate Management Team (CMT). CMT, Business Support Overview and Scrutiny Committee and Cabinet review risk management twice yearly. It is also included in the service planning process. The standard template used for reporting on projects presented to CMT, Cabinet and O&S committees has a separate section dedicated to risk management. Officers involved in the risk management process have been trained but this training has not been kept up to date (it was last provided in 2008). Although risk management is included in the induction packs, these are not monitored to ensure they are completed. It is therefore possible that some officers involved in the risk management process are not trained.</p>	<p>Some officers involved in risk management may not be trained.</p>	<p>Three medium priority recommendations were made to embed risk management in service planning and to create directorate risk registers.</p>	<p>Management agreed a phased approach to the implementing the recommendations, with the final phase due to be completed in March 2012.</p> <p><u>Phase 1</u>: Service-level risks identified as part of the business planning process will be uploaded into Covalent (together with mitigating controls where possible).</p> <p><u>Phase 2</u>: Data to be extracted by division via Covalent reports to determine quality and training needs.</p> <p><u>Phase 3</u>: Draft risk registers to be put to DMTs for comment together with the escalation process.</p> <p><u>Phase 4</u>: Train officers in relation to updating risk assessments and providing progress commentary on</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>Strategic risks are captured in the Authority's risk register and are subject to review and evaluation by the Corporate Management team.</p> <p>Directorate risks, however, have not been captured into a directorate risk register. Service managers identify and record risks in their service plans. The risks are assessed for likelihood and impact and are then risk rated. These are reported through the Assistant Director quarterly reports but these do not hold sufficient information for a robust risk management process.</p> <p>The existing controls to mitigate the risks are identified and documented in the corporate risk register together with the officer responsible for the existing control. The required management action to mitigate the risk is documented for each risk as well as the officer responsible for the action. The corporate risk register is reviewed every 6 months in order to ensure that corporate risks are mitigated effectively.</p> <p>Service plans are used to capture service risks. These have generally been used appropriately but there is scope for improving the template and the consistency with which it captures mitigating actions and target dates.</p>	<p>Service and directorate risks may not be mitigated correctly.</p>		<p>mitigating actions.</p> <p><u>Phase 5</u>: Undertake first updating cycle.</p> <p><u>Phase 6</u>: Incorporate any remaining mitigating actions from service plan risk registers that can be uploaded into Covalent.</p> <p><u>Phase 7</u>: Produce directorate risk registers that meet the criteria as set out in the escalation procedure.</p> <p><u>Phase 8</u>: Undertake a further programme of training for managers and members.</p>

Completed Audit Activity

Audit: Civic Centre fuel pumps**Final report issued:**

1 April 2011

Opinion: Uncontrolled

Medway Council has three fuel pumps at the Civic Centre site, which are available for use by services and external contractors. Financial records indicate that the total cost of fuel purchased for issue through the pumps in the last financial year was £156,500. The Pest Control Manager took over operational management of the fuel pumps in April 2009 without handover, induction or operational procedures for guidance.

An audit of the processes employed for the purchase, issue and recharging of fuel was added to the annual internal audit plan for 2010/11, as reported to the Audit Committee on 28 September 2010, following the identification of a number of apparent inconsistencies in the vehicle and/or mileage details recorded on a report of fuel issues.

The audit examined the controls operating over three risks:

- All fuel purchased may not be accounted for;
- Fuel issued may not be used for bona-fide Council purposes;
- Cost of fuel used may not be charged to the correct service/contractor, or may not be charged accurately.

Main Findings	Main Risks	Main Recommendations	Management Response
<p>The fuel management system is not updated promptly after deliveries are received, with several days' delay if latest cost price not available.</p> <p>Dip readings are taken monthly, recorded and compared with the system stock level, but variances not recorded, reported to management or investigated.</p> <p>Fuel management system reports indicated:</p> <ul style="list-style-type: none"> • four vehicles with keys issued have never appeared on the Council's insurance records; • odometer readings are not consistently entered or are evidently fictitious; • frequent instances of multiple drawings on each visit to the pump, with the same 	<p>The system's stock levels and recharge price may be inaccurate.</p> <p>Any significant loss, e.g. from leakage, may remain undetected.</p> <p>Fuel may be used for non-Council related purposes.</p> <p>Consumption cannot be monitored to identify any misuse.</p> <p>Fuel may be used for non-Council related purposes.</p>	<p>Eight high priority, relating to:</p> <ul style="list-style-type: none"> • updating fuel management system promptly after deliveries received; • reviewing the 'dip register' periodically and investigating variances above a set parameter, with stock adjustments on the system to be authorised formally by an appropriate officer; • establishing whether keys issued for vehicles that are no longer insured are still in use and, if not, retrieving them, and programming all new keys to require input of vehicle odometer reading; • establishing control over stocks of keys held, recording issues and 	<p>All recommendations accepted by management, actions stated to have been already implemented or to be taken by the end of July 2011 at the latest.</p>

Completed Audit Activity

Main Findings	Main Risks	Main Recommendations	Management Response
<p>mileage recorded.</p> <p>Requests for new keys are not always formal, there is no indication as to whether these are for new or replacement vehicles, and there are no records of key stocks held.</p> <p>Budget managers are not provided with reports of issues from the fuel management system.</p> <p>Although all keys are linked to a budget code to facilitate recharging, a number of drawings on 17.9.10 were recorded to vehicle ID 'bypass', charged to an 'unknown account'.</p> <p>In addition, issues of diesel between 1-3.11.10 were not charged then, once the system resumed charging following delayed input of a delivery, charges were based on previous cost per litre rather than delivered cost. Furthermore, recharges to one budget code were identified to be significantly lower than cost price.</p> <p>In addition to the above, the grounds maintenance contractor was undercharged in two instances, due to calculation errors totalling £3,723.</p>	<p>Keys may be issued for non-Council vehicles, keys for replaced vehicles may be misused and any loss of keys from stock may not be identified.</p> <p>Any potentially improper or excessive use of fuel will not be identified.</p> <p>As the recipients could not be identified, services and the grounds maintenance contractor have been undercharged.</p> <p>Services and the grounds maintenance contractor have been undercharged. The grounds maintenance contractor had been undercharged.</p>	<p>returns;</p> <ul style="list-style-type: none"> • producing reports of usage from the fuel management system for issue to relevant budget managers so these can be reviewed to identify any potentially inappropriate or excessive use; • recovering the value of diesel not recharged to Medway services between 1-3.11.10 (£1,082.56); • investigating the reason recharges to one budget code were calculated inaccurately and raising journal transfer for the difference for all fuel issued; • checking invoice requests for contractor recharges to ensure accuracy, and invoicing the value of fuel issued at nil charge and under 'bypass'. <p>Two medium priority, relating to:</p> <ul style="list-style-type: none"> • endorsing delivery documents with dip readings to confirm accuracy; • strengthening the process for issuing new keys and recharging services with the cost of replacing lost keys. 	