

AUDIT COMMITTEE

29 MARCH 2012

OUTCOMES OF INTERNAL AUDIT ACTIVITY

Report from: Internal Audit

Author: Alison Russell, Audit Services Manager

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 The definitions used by internal audit for the provision of an audit opinion and for determining the priority ranking for recommendations are shown at Annex A.
- 2.6 Internal Audit undertake follow up work, usually within six months, to determine the effectiveness of the control environment following implementation of the recommendations or other action taken by management to address the issues identified in the audit.
- 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 Internal Audit has also begun its School probity review programme, with a risk assessment process and audit template under development, and the first of the School audits nearing completion, with fieldwork completed.
- 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.

Lead officer contact

Name Alison Russell
Job Title Audit Services Manager
Telephone: 01634 332355
email: alison.russell@medway.uk

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 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

	Opinion	Authority Wide	Children and Adults	Regeneration Community and Culture	Business Support Department
Key Financial Systems					
Council Tax	G				✓
NNDR	G				✓
Housing Rents	I				✓
Housing Benefits	S				✓
Other Financial Systems					
Care Director Income	I		✓		
Markets Income	I			✓	
Halling Primary School – Financial Controls	No overall opinion		✓		
Risk Assessed and Additional Work					
Council Plan Monitoring	S	✓			
Rochester Christmas Market (fol up)	I			✓	

Key:

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

n/a = Work carried out but no opinion provided in that area

* = self assessment process concluded and outcomes reported to Management

Summary information on completed audits.

COUNCIL TAX (*final report issued 10 January 2012*)

1. The external auditors have a statutory duty to examine the Council's key financial systems annually and, to assist in this process, Internal Audit has been asked to carry out an audit of key controls within these systems. The audit of Council Tax forms part of the annual internal audit plan for 2011/12, approved by the Audit Committee in July 2011.
2. There were 110371 domestic properties in Medway as at 01/04/11 - anticipated to generate a gross annual income of approximately £132 million for the current financial year.
3. As part of the Better for Less programme arrangements for the management of Council Tax will be changed from January 2012 and as such this audit provides assurance on the arrangements in place in the first three quarters of 2011/12 financial year. This audit involved testing of the key expected controls in the Council Tax system, as identified by External Audit, and covered controls to ensure the completeness, promptness, accuracy and validity of Council Tax transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.
4. There are only two minor findings arising from our programme of testing and these have not been published as recommendations in this report but have been highlighted to management as issues to consider when the new management arrangements are put in place. The two issues are:
 - Access right to update the property database has been granted to a senior officer in the systems control team. The access appears anomalous, as her role does not involve updating the property database.
 - The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve council tax write offs “within the approved provision agreed by Council when setting the Council tax base”. However, the Revenues Manager (RM) authorises all write-offs, without any formal delegation from the CFO. The current corporate debt policy, outlining write off authorisation rights and limits is in draft and awaits endorsement by senior management.

We will be performing a review of the new Council Tax management arrangements in the first quarter of the next financial year in order to support management in the development of the new management procedures, and will in the course of that work review whether the two issues arising in this audit have been adequately addressed. Later in the year we will undertake a full systems audit of the new arrangements.

The key controls examined in this audit, and relevant findings, are outlined at part 2 of this report.

CONCLUSION AND AUDIT OPINION

The objective of this audit was to provide assurance that the key controls in the Council Tax system, as identified by external audit, are operating effectively. From the testing performed we are satisfied that the controls are in place and working effectively. We can therefore confirm that there were no issues identified in this audit, which lead us to recommend any changes to the audit opinion provided in 2010/11. The audit opinion remains **‘good’**.

Summary information on completed audits.

NATIONAL NON-DOMESTIC RATES (*final report issued 10 January 2012*)

1. The external auditors have a statutory duty to examine the Council's key financial systems annually and, to assist in this process, Internal Audit has been asked to carry out an audit of key controls within these systems. The audit of National Non-Domestic Rates (NNDR) forms part of the annual internal audit plan for 2011/12, approved by the Audit Committee in July 2011.
2. There were 6191 commercial properties in Medway as at 01/04/11 - anticipated to generate a gross annual income of approximately £93 million for the current financial year.
3. As part of the Better for Less programme arrangements for the management of NNDR will be changed from January 2012 and as such this audit provides assurance on the arrangements in place in the first three quarters of 2011/12 financial year. This audit involved testing of the key expected controls in the NNDR system, as identified by External Audit, and covered controls to ensure the completeness, promptness, accuracy and validity of NNDR transactions, including access restrictions, authorisations, accuracy checks on input, segregation of duties and error detection.
4. There are only two minor findings arising from our programme of testing and these have not been published as recommendations in this report but have been highlighted to management as issues to consider when the new management arrangements are put in place. The two issues are:
5. Access right to update the property database has been granted to a senior officer in the systems control team. The access appears anomalous, as her role does not involve updating the property database.
6. The Constitution (chapter 3, paragraph 5.5 – writing off irrecoverable debts) stipulates that the Chief Finance Officer (CFO) is able to approve council tax write offs “within the approved provision agreed by Council when setting the Council tax base”. However, the Revenues Manager (RM) authorises all write-offs, without any formal delegation from the CFO.
The current corporate debt policy outlining write off authorisation rights and limits is in draft and awaits endorsement by senior management.
7. We will be performing a review of the new NNDR management arrangements in the first quarter of the next financial year in order to support management in the development of the new management procedures, and will in the course of that work review whether the two issues arising in this audit have been adequately addressed. Later in the year we will undertake a full systems audit of the new arrangements.
8. The key controls examined in this audit, and relevant findings, are outlined at part 2 of this report.

CONCLUSION AND AUDIT OPINION

The objective of this audit was to provide assurance that the key controls in the NNDR system, as identified by external audit, are operating effectively. From the testing performed we are satisfied that the controls are in place and working effectively. We can therefore confirm that there were no issues identified in this audit, which lead us to recommend any changes to the audit opinion provided in 2010/11. The audit opinion remains **‘good’**.

Summary information on completed audits.

MARKETS INCOME (follow up - final report issued 2 March 2012)

1. Medway Council operates three markets, twice a week in Gillingham and Strood and a monthly farmers' market in Rochester. Budgeted income across the three sites for 2011/12 is £275,271.
2. An audit on markets income was carried out in June/July 2009 (final report issued 11.11.09), the audit opinion being that four of the five areas examined were 'uncontrolled' and one was 'good'. A total of 12 recommendations were made to address the weaknesses identified; these were all accepted by management with an undertaking to implement appropriate actions by April 2010 at the latest.
3. In line with our normal practice, as a result of the 'uncontrolled' opinion a follow-up audit was scheduled to re-assess the standard of financial controls at markets.
4. Four risks relating to markets income were reviewed to determine the effectiveness of controls and the opinions are shown below.

Risk 1: Charges may not be formalised and/or approved by Members

Insufficient: Responsibility for setting fees for the market stalls lies with the Assistant Director and Cabinet Portfolio Holder, with application of the charges delegated to the Town Centre Management and Markets Officer. Charges for Gillingham and Strood are based on length of stall frontage and charges for Rochester are loosely tied to the area of the stall. A reduced rate is traditionally payable in January / February (the low season) in order to encourage traders to remain loyal to the markets. This rate is agreed formally by senior management.

Charges for Gillingham market stalls were reviewed in September 2011 and approved by the Assistant Director and Cabinet Portfolio Holder. Prior to this review there were anomalies in the pricing structure. This review was sold to the traders on the basis that it would remove anomalies in the pricing structure and create transparency. Audit testing confirmed these are being applied consistently and pricing anomalies have now been removed. This initial pricing review can be used for future pricing reviews as a benchmark to ensure costs are covered and income from pitch fees is maximised. Management have not undertaken a review at Strood or the Rochester Farmers' Market where inconsistencies in the pricing structure still apply.

Risk 2: All income due may not be identified or collected

Uncontrolled: Each regular stallholder at each market has a pre-booked pitch of the required size. Payment is due for the pitch even if they do not turn up. Arrears are collected from the next market at which they attend. (Significant arrears may be spread over several weeks). In addition, casual traders may be given a pitch if there is space (e.g. if a regular trader does not attend).

An income spreadsheet is used to record expected income from regular stallholders. These records are updated with details of actual income from all traders (e.g. regular income from traders plus payments for arrears and payments by casual traders). The collecting officer issues receipts to traders but receipts are written in advance and the Authority's copy is not amended if the amount paid varies from the weekly charge (although the amount paid is reflected on the income spreadsheet). This makes it impossible to reconcile income banked to receipts issued and lost income may not be identified.

Although there are arrangements to limit arrears and collect back rent this policy has not been formalized. The Town Centre Management and Markets Officer has effectively written off debt for absconded traders by removal of their names from the income spreadsheets as this is the only record of the debt. The historic level of write-offs is not known but there have been none in the 2011/12 financial year.

Summary information on completed audits.

Risk 3: Income collected may not be adequately protected against loss

Insufficient: In all three markets, income collected from stallholders is placed in moneybags secured around officers' waists during collection rounds. Income from Gillingham and Strood is transferred to night safes on the day of collection. There is not a night safe in Rochester and as a result, income for the Rochester Farmers' Market, is taken home by the collecting officer until it is banked at a later date. Management have now agreed arrangements to use the Guildhall safe for the Farmers' Market income. Once these new arrangements are in place we should be able to provide an audit opinion of satisfactory.

Risk 4: All income collected may not be banked intact, or not in a timely manner

Insufficient: The use of night safes facilitates timely banking for Strood and Gillingham markets. Audit testing showed that (apart from one instance), income for Rochester Farmers' Market was banked promptly. In all instances, the income banked agreed with that on the income spreadsheet records. It was not, however, possible to reconcile income to receipts as the Authority's copy did not record actual income received.

Procedures have not been established to monitor income received and ensure income recorded on the financial records reconciles to local spreadsheet and banking records. In addition, the budget for Rochester Farmers' Market has been set at an unrealistic level which restricts the effectiveness of budget monitoring in ensuring all income has been received.

5. The summary of progress on recommendations is as follows:
 - three were implemented in full;
 - four were partially implemented;
 - three were not implemented;
 - one is no longer relevant .
6. Due to the change in the markets staffing structure (the removal of the markets superintendent post and a new Town Centre Management and Markets Officer) it has taken longer to establish some of the recommendations from the last audit. We were also informed that the proposed purchase of a markets management system was not implemented due to issues with software integration.
7. There are six new and three repeat recommendations in this audit report
8. This table summarises the progress made by management in mitigating the risks reviewed:

Area	2009/10 Audit Opinion	2011/12 Audit Opinion	Progress
Charges may not be formalised and/or approved by Members	Uncontrolled	Insufficient	▲
All income due may not be identified or collected	Uncontrolled	Uncontrolled	►
Income collected may not be adequately protected against loss	Uncontrolled	Insufficient	▲
All income collected may not be banked intact, or not in a timely manner	Uncontrolled	Insufficient	▲

Summary information on completed audits.

CONCLUSION AND AUDIT OPINION

The overall opinion on the effectiveness of management controls over the system for administering Markets Income has been raised from uncontrolled to **insufficient**. Progress has been made since the last audit, but the arrangements at present do not provide for a reconciliation of income due, received and banked, and pitch fee arrears have been incurred and then written off without due process.

Whilst the risks to the Authority from the Markets Incoe system are low, this is one of several audits of financial processes at sites performed over the last three years. These have consistently been given an opinion of “insufficient” or “uncontrolled”.

Three High Priority Recommendations:

Finding 1:	Pitch size for casual traders is not always recorded on income spreadsheets. Due to the size of receipt books, only the top white copies are taken on collection rounds.
Risk:	All income collected may not be recorded or accounted for accurately.
Recommendation:	<p>Pitch size and correct charge should be recorded and applied for all traders.</p> <p>Smaller receipt books that can be taken on collection rounds should be ordered and used to record:</p> <ul style="list-style-type: none"> • received from • date • stall size • rent • arrears outstanding • back rent paid • deposit • total collected • signed • receipt number • market name tick box
Response:	Town Centre Management and Markets Officer to follow-up with Communications regarding printing new receipt books. Target date – 31 May 2012

Finding 2:	<p>There is no policy on limiting rent arrears.</p> <p>Irrecoverable debt has been written off by informal means.</p>
Risk:	The council may lose income, Senior Management may be unaware of these losses and debt has been written off without following the Authority's Constitution.
Recommendation:	a) There should be a policy on limiting and recovering rent arrears. Details of how the policy affects traders could also be specified in the market terms and conditions.

Summary information on completed audits.

	b) Irrecoverable debts should be written off in accordance with the council's constitution: The director responsible for the service should be involved in writing off irrecoverable debts up to £5K.
Response:	Regular traders are required to pay two weeks deposit when starting at the market. In future, traders will only be allowed to incur two weeks back rent (covered by the deposit). If traders do not make contact regarding their absence, they will have to re-register as a trader and pay another two-week deposit. This will be included in the new market terms and conditions when finalised and issued to all traders for signature. Town Centre Management and Markets Officer Target date – June 2012

Finding 3:	Income trends are not independently monitored against generated income.
Risk:	Lost income may not be identified.
Recommendation:	The record of monthly income generated by each market should include a column giving information on incidents (e.g. bad weather). Budget forecast for Rochester Farmers Market should be reviewed.
Response:	Agreed and implemented. Town Centre Management and Markets Officer and Economic Development and Business Support Officer

Summary information on completed audits.

COUNCIL PLAN MONITORING (*final report issued 9.2.12*)

1. The Council Plan 2011-12 is the Authority's high level, strategic business plan that sets out the Council's priorities, outcomes and key actions. 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.
2. 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.
3. The audit assessed the effectiveness of controls operating over the collection and calculation of performance against four targets, and accuracy of input to the Covalent performance management system. This audit covered the following indicators:
 - EY1a Percentage of children aged 0-4 attending a local Sure Start Children's Centre;
 - EY1b Attendances at Children's Centres by families with children aged 0-4 years;
 - G4 Citizen participation hours (greenspaces);
 - G4a Number of people volunteering through membership of Friends groups;
 - NI146 Adults with learning disabilities in employment¹;
 - NI155 Number of affordable homes delivered (gross).

As at quarter 2, all these indicators apart from NI146 were rated 'green', ie target being achieved or exceeded; NI146 was rated 'red', ie significantly below target.
4. The opinion for each of the risks relating to the accuracy of these Council Plan performance measures is shown below:

- **Risk 1: Performance measures may not be properly defined**

Satisfactory: All officers interviewed demonstrated a good understanding of their respective indicators, including relevant inclusions and exclusions.

- **Risk 2: There may not be a sound methodology for calculating the indicators**

Insufficient: No process map is available on Covalent for one of the four indicators reviewed, and the process maps on Covalent for the remaining three are not sufficiently detailed to enable another person to perform the task consistently, should anyone other than the officers normally involved need to calculate performance. The latter includes NI 146, for which a similar observation and recommendation to provide additional detail was made last year. Audit review of the calculation of NI 146 identified a lack of assurance that sufficient checks are carried out to confirm clients reported to be employed meet the qualifying criteria specified for the indicator (ie earning at least the National Minimum Wage and paying NI contributions). For indicator G4a, there were inconsistencies in the way volunteer numbers are being calculated, for example some groups report the number of individuals volunteering throughout the month rather than the total number of attendances. The responsible manager advised that in the first two months of the year there was a lack of clarity about the requirement to report people as well as hours. There is therefore a risk that reported outcomes for these two indicators may be inaccurate.

- **Risk 3: Data quality may be poor**

Insufficient: There are systems in place to capture data for each indicator, though for NI 146 the shortcomings of the Care Director IT system (including its lack of capability to produce reliable reports of all clients referred to Learning Disability) result in reliance being placed on a

¹ This indicator was included in the corresponding audit last year, when an opinion of 'uncontrolled' was allocated to it – reviewed again this year in order to follow-up on implementation of the five recommendations made, all of which were accepted by management with an undertaking to implement appropriate actions by March 2011 at the latest.

Summary information on completed audits.

spreadsheet based on notifications of reviews from Care Managers. We acknowledge that no further development is practical due to the forthcoming replacement of Care Director, but we were advised that the specification for the replacement system includes functionality to extract such data, which should reduce the risk of errors being made.

Data for G4/G4a is reliant on Voluntary Groups providing this in a consistent and timely manner. We acknowledge that the Council has no statutory power to require this information to be submitted, or to audit the returns which are provided. We were advised that the service regularly reminds voluntary groups regarding the accuracy of returns, has recently provided additional guidance and amended the returns form to increase returns and improve data quality.

Performance for EY1a/b is generally understated, as it is reliant on registration data and parents who attend the Children's Centres are not required to provide information, potentially affecting numbers reported; however, we understand that the numbers involved are small and current performance is exceeding target anyway.

There is a consequent risk that performance reported for these three indicators may be inaccurate.

The issues raised for NI 146 last year regarding data accuracy and supporting evidence have not been addressed effectively. Furthermore, enquiries with care managers responsible for the seven clients stated to be in employment at the end of Q2 established that at least two of them were no longer working and another probably fails to meet the minimum payment criteria specified for the national indicator. For G4/G4a, queries relating to calculation of total hours and/or number of volunteers were identified on 8 of the sample of 13 returns checked, so the accuracy of data for this indicator is considered questionable.

For indicators EY1a/b and NI155, we have placed reliance on the ad-hoc checks carried out by management to confirm the accuracy of data submitted by children's centres and housing associations respectively; we did not carry out any independent verification.

• Risk 4: Performance may be reported inaccurately

Satisfactory: The Q2 performance figures shown on Covalent for three of the indicators reviewed were lower than those recorded on the supporting documentation provided to us. This was seemingly due to additional data received retrospectively being recorded, no copy of supporting records as at the time of Covalent input having been retained. However, for G4a the figure recorded on Covalent was higher than that recorded on the supporting spreadsheet, seemingly due to an input error.

Figures recorded on Covalent for all four indicators were reported accurately in Cabinet reports for Q1 and Q2.

CONCLUSION AND AUDIT OPINION

5. The audit opinions for each of the performance indicators are shown below:
 - EY1a/b Percentage of children aged 0-4 attending a local Children's Centre/Attendances at Children's Centres by families with children aged 0-4 Satisfactory
 - G4/G4a Citizen participation hours/Number of people volunteering Insufficient
 - NI146 Adults with learning disabilities in employment Insufficient
 - NI155 Number of affordable homes delivered (gross) Good

The opinions for indicators EY1 and NI155 reflect our understanding that management carry out ad-hoc checks to confirm the accuracy of data submitted by children's centres and housing associations.
6. In our overall opinion, controls over the monitoring of the performance indicators reviewed are '**satisfactory**'. The majority of the controls necessary for ensuring performance is reported accurately are in place, but particular inconsistencies were identified on three indicators. Seven medium priority recommendations were made to address the issues identified, all being accepted by management for implementation by the end of March 2012 at the latest.

Summary information on completed audits.

HALLING PRIMARY SCHOOL – FINANCIAL CONTROLS (*final report issued 29.2.12*)

1. An audit of financial controls at Halling Primary School was carried out in October 2010 (final report issued 17.12.10), the audit opinion being that four of the eight areas examined were 'uncontrolled' and that controls over another three areas were 'insufficient'. A total of 29 high or medium priority recommendations were made to address the weaknesses identified; these were all accepted by school management with an undertaking to implement appropriate actions by September 2011 at the latest.
2. This report summarises the results of the re-performed audit and we are pleased to report that significant progress has been made in addressing the issues identified and strengthening the financial controls in place. Rather than provide a detailed summary of progress against the original recommendations we have provided an action plan for addressing the remaining weaknesses in the financial controls. From this review there are eight high or medium priority recommendations identified.
3. The main issues identified from this audit are:
 - a) Financial Management - The School does not have a medium-term development plan or financial budget and therefore there is a risk of budgets being unsustainable beyond the current year
 - b) Financial Management and Purchasing - Committed expenditure is not identified and purchase orders are often not raised leading to potentially poor decision making, poor budgetary management, and formal controls over expenditure being applied at the payment rather than ordering stage
 - c) Assets - Procedures for updating the register and carrying out annual checks still need to be established and identification of what would happen to the proceeds from the sale of redundant assets needs to be stated in the school finance policy. Portable IT equipment issued to staff is not recorded and conditions relating to storage and responsibility for loss and/or damage are not established.
4. As part of undertaking this audit we have reviewed the previous audit opinions for each of the 8 areas, and revised where appropriate.

Area	2010/11 Audit Opinion	2011/12 Audit Opinion	Progress
Financial Management	Uncontrolled	Insufficient	▲
Payroll	Insufficient	Satisfactory	▲
Purchasing	Uncontrolled	Insufficient	▲
Income Received	Insufficient	Satisfactory	▲
Banking	Uncontrolled	Satisfactory	▲
Petty Cash	Insufficient	Good	▲
Taxation	Good	Good	▶
Assets	Uncontrolled	Insufficient	▲

CONCLUSION AND AUDIT OPINION

As will be apparent from the audit opinions allocated to each module, the **overall standard of control has improved since the last audit** but we still have concerns relating to controls over financial management, purchasing, and asset management. Five high priority recommendations were made

Summary information on completed audits.

Finding 1:	<u>Financial budgets</u> The school does not have a formal medium term plan ie 3-5 years, linked to budgetary requirements. Although there is evidence that the annual budget for 2011-12 was agreed in minutes of Finance Committee and Governing Body meetings, they do not specify the net budget total. Furthermore the LA received the budget input form three weeks after the deadline.
Risk:	Budgets may become overspent, or prove unsustainable past the current year. The school's / council's records may not agree. The Council's financial records may be inaccurate.
Recommendation:	a) The school should produce a formal medium term development plan and linked financial budget. b) Minutes of relevant meeting/s should reflect the net total budget ratified by the Governing Body, or the budget spreadsheet should be attached as an appendix. c) Budget input forms should be submitted to the LA by due date, i.e. by the last day of Term 5.
Response:	a) The Senior Accountant from Education Finance has been contacted to provide assistance in producing a medium term development plan and linked financial budget with the correct details/information required. b) A copy of the agreed Budget Input form will be attached in future to the Finance Meeting notes and the total budget will be noted in the minutes. c) The school will endeavour to return the budget input forms by the due date. Target date: By end of Term 5 2012

Finding 2:	<u>Financial Commitments</u> Purchase orders are frequently not raised until invoices received. No financial commitment is made where the price is unknown, eg quotes, supply teaching and training courses. Budget monitoring reports to Finance Committee do not include committed expenditure. The school's financial position is reviewed twice monthly to bank statements and is reported to the Headteacher, however there is no evidence that projected income and expenditure is considered.
Risk:	The budget may become overspent as the system will allow orders although the budget may be exceeded. Actual budget position is not identifiable, impacts on accuracy of outturn forecast. The school's bank account may become overdrawn.
Recommendation:	a) All expenditure with the exception of that of a recurring nature e.g. utilities (but including supply teaching and staff training costs) should be committed on the system and if actual costs are not known, an estimate should be entered. b) Committed expenditure should be identified and included/considered when preparing budget monitoring returns for the LA and reports for the Finance Committee. c) A cash flow template should be used to ensure that the bank account does not become overdrawn, covering projected income and estimated

Summary information on completed audits.

	payments. There is an example template in the Schools Finance Manual.
Response:	<p>a) Organise and implement a detailed spreadsheet to itemise all committed expenditure not yet invoiced. This will enable the school to monitor monthly expenditure more accurately.</p> <p>b) The above report will be used for Finance Meetings and a copy for discussion at the meetings.</p> <p>c) A cash flow spreadsheet to be implemented from start of new financial year.</p> <p>Target date: By end of April 2012</p>
Finding 3:	<p><u>Purchases</u></p> <p>The wording of the School Finance Policy is unclear regarding the level of competition required for purchases and on the value of purchase delegated to the Headteacher.</p> <p>50% of the sample of delivery notes and 11% of the sample of invoices selected had not been checked to purchase orders.</p>
Risk:	<p>Best value may not be achieved when purchasing, goods/ services may be purchased without appropriate authorisation.</p> <p>Payment may be made for goods/services that have not been ordered for the benefit of the school.</p>
Recommendation:	<p>a) The School's Finance Policy should be revised to:</p> <ul style="list-style-type: none"> • remove the wording 'appropriate and possible'. • Clarify the difference between purchases above 10K and the tendering process for purchases/contracts above £60K. • Mention that verbal quotations should be obtained for purchases below £10K. <p>b) Before authorising payment, the Headteacher should seek assurance that goods/services supplied and prices invoiced agree with approved orders.</p>
Response:	<p>a) Revisions to finance policy have been drafted and will be put to the Governing Body for approval at the next meeting.</p> <p>b) This system is already in place. However, we will ensure that <u>all</u> delivery notes & invoices are checked to purchase orders. A second check to be made by HT before authorising payment.</p> <p>Target date: By 15.5.12</p>
Finding 4:	<p><u>Income</u></p> <p>Although there is a statement under the 'Principles of Financial Management', that "the school's charging policy will be adhered to", the school does not have such a policy.</p> <p>The School Finance Policy states that the Finance Manager is responsible to the Headteacher for the day-to-day operation of the school's financial procedures.</p> <p>Duties between counting, recording and preparing income for banking are not separated and there is no independent verification of collected cash.</p> <p>Staff are not issued with procedures for passing income received between individuals, to the person responsible for banking.</p> <p>Collected daily takings for dinner money:</p> <ul style="list-style-type: none"> • No one is checking cash book total for week to takings that are in the safe and to paying-in slip. • From a test sample of five weeks, one week's takings were not entered onto the financial system for nine days.

Summary information on completed audits.

	Very few invoices issued, but the invoice seen was not numbered, or on official headed paper showing Medway Council's VAT registration number.
Risk:	<p>Income from hire of facilities may fail to cover the additional costs incurred.</p> <p>All income received may not be accounted for.</p> <p>All income due to the school may not be received, and not possible to charge VAT where this applicable.</p>
Recommendation:	<p>a) The Finance Policy should:</p> <ul style="list-style-type: none"> include the process for reviewing all potential income sources; include a requirement for chargeable rates to be formally approved by the Governing Body; outline duties allocated to the office assistants. <p>b) Duties need to be separated, i.e. collected cash should be verified by a 2nd person daily and the income record/register should evidence the check.</p> <p>c) A formal procedure should be produced, specifying that:</p> <ul style="list-style-type: none"> all income should be recorded at point of receipt (using class record books if appropriate); transfers between classrooms and the office should be recorded, with signatures for receipt obtained. <p>d) At the end of each week monies held should be reconciled to income records and the relevant systems entries/receipts.</p> <p>e) An invoice template should be created identifying:</p> <ul style="list-style-type: none"> invoice number; school logo, name & address; Medway Council VAT registration number. <p>An invoice register should be created.</p>
Response:	<p>a) Currently the school does not hire out the buildings or surroundings. This will be discussed as part of the policy review at the Finance Meeting in May. If required a Lettings Policy including all points mentioned will be formally approved by the Gov. Body.</p> <p>Duties allocated to office assistants to be included in the Finance Policy.</p> <p>b) Collected cash is now verified by a 2nd person daily who signs to evidence the check.</p> <p>c) A procedure has been produced outlining how income is recorded and transferred between classrooms. It is not possible for teachers to check/record any money as it is an infringement of teachers agreed working conditions.</p> <p>d) At the end of the week the banking is made ready by one finance assistant, paying in slip numbers also noted on daily collection sheet (of day money banked), this is checked by the other finance assistant in p.m. Money actually banked by Fin. Man. Banking totals checked to internet banking before income journals raised. Banking slips are attached to the journal along with a copy of the day collection book banking details.</p> <p>e) Invoice template now in place as per instructions. Invoice folder created in finance system.</p> <p>Target date: By 15.5.12</p>
Finding 5:	<p><u>Asset Management</u></p> <p>School Finance Policy states 'listing items in excess of £5,000' in the asset register. However the register contains high and low value items.</p> <p>Arrangements for adding items purchased (which are deemed to be school assets) to the asset register are not in place.</p>

Summary information on completed audits.

	<p>Only location, description and quantity have been recorded in the asset register to date, columns relating to serial numbers. and value have not yet been completed.</p> <p>The School Finance Policy states that the Finance Committee has responsibility for making decisions regarding the disposal of or resale of redundant assets.</p> <p>There is no mention of what should happen to the income from sale of assets.</p> <p>As the asset register has been compiled only recently and is not yet complete, no annual checks have yet been undertaken.</p>
Risk:	<p>The threshold set is far too high to capture the majority of items that should be recorded on an asset register.</p> <p>Ownership of assets cannot be proven in the event of an insurance claim arising from theft or fire / flood.</p> <p>In the event of fire, flood or theft any insurance claim may be invalidated due to insufficient information.</p> <p>Income from the sale of assets may not be credited to the budget.</p>
Recommendation:	<p>a) Threshold for recording assets in the school finance policy should be reduced to ensure lower valued items are covered should there be an insurance claim.</p> <p>b) The Governing Body should devise a policy for what needs to be recorded as an asset, and serial numbers (where applicable) and value (estimated if necessary) need to be recorded.</p> <p>c) Arrangements need to be put in place to ensure that new purchases meeting the criteria are recorded.</p> <p>d) Policy should include information relating to the income from sale of assets i.e. income from sale should be credited to the school's delegated budget.</p> <p>e) A full physical asset check should be conducted annually, by person/s not responsible for maintaining the asset register, and evidence of the check should be retained.</p>
Response:	<p>a) – d) Governing Body to look at a model asset register policy. To be discussed and approved at the next meeting and put in place.</p> <p>Target date: By 15.5.12</p> <p>e) Check to be carried out by Chair of Governors / Chair of Premises Committee.</p> <p>Target date: Summer Break 2012</p>

Three medium priority recommendations also made, these accepted by management for implementation by the end of Term 4 2012.

Summary information on completed audits.

HOUSING BENEFITS *(final report issued 7.3.12)*

1. The external auditors have a statutory duty to examine the Council's key financial systems annually and, to assist in this process, Internal Audit has been asked to carry out an audit of key controls within these systems. The audit of Housing Benefits forms part of the annual internal audit plan for 2011/12, approved by the Audit Committee in July 2011.
2. For the current financial year, Housing Benefit payments are forecast to total £98 million, with a further £19.2 million credited to council tax accounts in respect of council tax benefit.
3. As part of the Better for Less programme the arrangements for the management of Housing Benefits were changed from January 2012. As such this audit provides assurance on the arrangements in place up until December 2011. This audit involved testing of the key expected controls in the Housing Benefits system, as identified by External Audit, to ensure the completeness, promptness, accuracy and validity of Housing Benefit transactions, including authorisations, accuracy checks on input and segregation of duties.
4. The objective of this audit was to provide assurance that the key controls in the Housing Benefit System, as identified by external audit, are operating effectively.
5. The key controls examined in this audit, and relevant findings, are outlined at part 2 of this report.

CONCLUSION AND AUDIT OPINION

6. From the testing performed we are satisfied that, overall, the controls expected by External Audit were in place and operating effectively. The only significant issue identified is that cumulative overpayment write-offs exceeding £2,000, relating to the same claim and processed on the same date, are frequently authorised by the Benefits Manager, though the Council's policy requires a higher level of authorisation. This is due to interpretation of the policy, as the totals consisted of individual amounts below the threshold that had arisen over different periods. As this procedure is unaffected by the changes to structure and processes, a medium priority recommendation to clarify this issue is shown in the proposed management action plan.
7. This issue does not lead us to recommend any change to the audit opinion provided in 2010/11, which remains '**Satisfactory**'. One medium priority recommendation was made, this accepted by management for implementation by the end of March 2012.
8. However, we also identified an instance of failure to comply with the agreement to restrict transfers of benefit overpayments (to LA tenants) to Housing for recovery, in that overpayments arising from a fraudulent claim had been transferred.

Summary information on completed audits.

ROCHESTER CHRISTMAS MARKET (follow-up - final report issued 9.3.12)

1. An audit of the inaugural Rochester Christmas Market, held in December 2010, was carried out at the request of Members (report 10029, final version issued 7.11.11 refers). The audit identified that a number of risks were not being managed effectively, with two high priority and four medium priority recommendations made to improve control. Management's ability to address some of the issues raised was compromised by the Council having entered into a seven-year licence agreement with the operator. However, management accepted the remaining three recommendations, with an undertaking to implement the agreed actions for the 2011 event.
2. During the Audit Committee meeting in November 2011, members expressed particular concern that the audit had concluded that it was not possible to confirm that the 2010 event had been run at nil cost to the Council. This report summarises the results of further audit work carried out to confirm that the agreed actions were implemented for the 2011 event.
3. Based on this further work, the current opinions for the three risks reviewed in the last audit are shown below.

• **Risk 1: The agreement with the operator may fail to protect the Council's interests adequately – previous audit opinion Insufficient**

As the Council entered into a seven-year licence agreement with the event operator there is little opportunity for improvements to be made in this respect, though the Head of Festivals, Arts, Theatres & Events intimated, when discussing the previous audit, that he would attempt to negotiate and agree certain amendments to the agreement with the operator. However, we understand that no amendments to the agreement have been made to date.

Although not linked directly with management of the event, in undertaking this follow-up we identified errors in the invoicing of charges for use of the Civic Centre site for stallholder parking, invoices being raised by Building and Design Services due to their responsibility for corporate properties. These were addressed before this final report was issued.

Based on these findings, the audit opinion for this risk remains **insufficient**.

• **Risk 2: Costs associated with the event may not be identified or accounted for accurately – previous audit opinion Insufficient**

A dedicated cost centre for recording costs and income for this annual event already exists within Integra, but this was not used for the 2010 event and has not been used for the 2011 event as no direct expenditure was incurred and no income has yet been received. Costs incurred by various Medway services specifically in respect of the Market were again not identified in 2011, management responsible for the event considering that these constitute part of normal service delivery and thus should not be attributed to the Christmas Market. We acknowledge that the licence agreement does not facilitate the recharging of such costs to the operator, but maintain our view that costs incurred specifically as a result of the event should be calculated and compared against the income received to confirm the event does not operate at a loss.

Furthermore, Greenspaces consider that grounds re-instatement works arising solely from the event should be charged to the event operators or deducted from the security bond retained by the Council. However, as a formal report of damage incurred was not produced within four weeks of the site being handed back the Head of Festivals, Arts, Theatres & Events considered it inappropriate to recover these costs.

Based on these findings, the audit opinion for this risk remains **Insufficient**.

Summary information on completed audits.

- **Risk 3: Income due may not be received or accounted for accurately and promptly – previous audit opinion Insufficient**

Due to long-term staff sickness, management are unable to confirm that an invoice for the 2010 stall/chalet fees has now been raised and/or issued to the operator

We understand that the number of stalls/chalets erected was verified against the site plan on the third day of the 2011 event, but no invoice for the stall/chalet fees, which should have been paid by the end of December 2011, had been raised.

Based on these findings, the audit opinion for this risk remains **Insufficient**.

CONCLUSION AND AUDIT OPINION

4. We are disappointed that a number of the lessons that should have been learned from our audit of the initial Christmas Market were evidently not put into effect for the 2011 event and, as a result, our overall opinion on the effectiveness of controls to ensure the event is delivered at no cost to the Council remains **Insufficient**. We acknowledge that the market has a positive impact on the volume of visitors to Rochester and hopefully local businesses benefit from increased trade as a result, however, there is still a lack of process to ensure that the event is run at nil overall cost to the Council, especially in view of the deferred payment of the fees due for the initial event (£2,800) until the end of 2013 and the delay in invoicing fees due for the 2011 event (£3,750).
5. Two further two high priority recommendations have been made to address issues identified by the follow-up work:

Finding 1:	<p>Management are unable to confirm that the invoice for the 2010 stall/chalet fees was raised and/or sent to the operator.</p> <p>We were advised that, in view of the deferred due date, the invoice has been raised outside Integra to prevent 'overdue for payment' reminders being generated unnecessarily.</p> <p><i>In response to a recommendation in the original audit, management agreed to request Finance to raise an invoice - by the end of November 2011.</i></p>
Risk:	<p>Potential loss of income.</p> <p>Debt may not be reflected accurately in the Council's annual accounts, appropriate recovery action may not be instigated if not paid by due date.</p>
Recommendation:	<p>a) A replacement invoice for the 2010 event should be raised and sent to the operator.</p> <p>b) Finance should be advised of this invoice and requested to ensure that it is treated properly as a year-end accrual.</p> <p>c) A suitable note/ reminder should be raised to ensure that payment is progressed from the end of 2013.</p>
Response:	<p>a) A replacement invoice will be raised and issued to the operator.</p> <p>b) Finance have been made aware of this debt to enable it to be treated correctly in the annual accounts.</p> <p>c) A note has been made to ensure payment for the 2010 event is progressed if it is not received by the due date.</p> <p>Responsible officer: Head of Festivals, Arts, Theatres & Events</p> <p>Target date: By 30.3.12</p>

Finding 2:	<p>Stall/chalet fees for the 2011 event had not been invoiced as at 22.2.12, though under the terms of the licence agreement these were due for payment by 31.12.11.</p>
-------------------	--

Summary information on completed audits.

	Note: Paragraphs 7.3 and 7.4 of the licence agreement indicate clearly that, apart from the initial event, payment is due by 31 st December of the calendar year in which the event occurs.
Risk:	Income due to Medway not received promptly, delay in raising invoice may impact on ability to recover income due.
Recommendation:	The operator should be invoiced for the 2011 stall/ chalet fees (£3,750 exc VAT) as a matter of urgency.
Response:	An invoice request form will be raised and sent to Exchequer, to generate an invoice through Integra sales ledger. Responsible officer: Head of Festivals, Arts, Theatres & Events Target date: By 30.3.12

Three medium priority recommendation were also made, these accepted by management, two for implementation by 30.3.12 and the third for the 2012 event (the earliest date practical).

Some of the recommendations repeat those made in the last audit as the action agreed by management has not yet been fully implemented.

Summary information on completed audits.

HOUSING RENTS *(final report issued 13 March 2012)*

1. The external auditors have a statutory duty to examine the Council's key financial systems annually and, to assist in this process, Internal Audit has been asked to carry out an audit of key controls within this system.
2. Medway Council has approximately 3000 Council homes in the Gillingham, Rainham and Twydall areas of Medway. Housing is funded through the Housing Revenue Account (HRA). The money in the HRA comes from the rent collected from tenants and some government funding. Housing Rents are managed by the Housing Rents Team and details of properties and rents are recorded on the Academy IT database.

The last audit of Housing Rents was carried out in 2010/11, our overall opinion being that control was "Insufficient". In this year's audit we have found that there has been significant improvement in most areas. For instance performance figures for relet time on 'normal voids' has improved significantly from 33 days in July to 9 days in November and is attributed to revised viewing arrangements, incentives for vacating tenants and repair monitoring.

3. Four risks relating to Housing Rents were examined during the audit and a summary of our findings and our opinions on the management of each risk are shown below.

Risk 1: Weekly charges and system parameters on Academy may not be correct.**Satisfactory:**

We found that the weekly charging system, including the application of the annual increase was operating well. Tenancy starts and termination dates are entered onto Academy. Previous audits had found supporting documentation to be incomplete and this year we are able to provide assurance that there has been significant improvement to the processes in place. Housing now performs 100% verification check to supporting documents, although we did find that the checks and resolution of issues were not fully documented.

A target level for rents is set each year. Rents for properties relet after a void period are set at the ruling formula rents at a 50-week rent pattern. However 2011/12 rents were reduced rather than increased as they were adjusted to a 52 rather than 50-week pattern. The error was not identified by management until after the event, and resulted in a loss of £12369 for the Authority. Charges for current voids were adjusted promptly after the error was detected and overall arrangements were revised to prevent the error recurring.

An exercise to automate the rent restructuring process via Academy is currently underway. This should minimise the risk of future errors.

Management have not undertaken a review of access rights to Academy for several years and therefore there is a risk that there may be inappropriate access to the system. Work is currently being undertaken to review permissions on Academy, and by March 2012 permissions will be associated with roles rather than individuals, which will mitigate the risk of inappropriate access rights and provide a more effective structure for ensuring appropriate access to the system is maintained.

Risk 2: Debt may not be updated correctly and notified to the tenants.**Good:**

Tenant rent accounts are automatically updated with regular charges every week. Other adjustments are authorised appropriately and subject to independent verification. Tenants are notified appropriately of charges due.

Risk 3: Income may not be promptly and accurately accounted for.**Satisfactory:**

We found that the income is accurately recorded and promptly accounted for, with regular reconciliations completed, all supported by documentary evidence. We did find that access has

Summary information on completed audits.

been granted to the Housing Manager to Radius (Medway's Cash receipting system) to receipt card payments which, given his access to adjust tenant account on Academy does not provide appropriate segregation of duties. We are satisfied that in 2011/12 there were sufficient mitigating controls to minimise the risk, including regular verification checks performed on all adjustments made to tenant accounts.

Risk 4: Arrears may not be identified and pursued.

Insufficient:

There are appropriate arrangements for the identification and pursuit of rental debt, with automated reminders of overdue debt being sent to tenants periodically. Housing Officers have responsibility for debt on designated patch/es and are aided in targeting recovery action by regular reports on debt. Action taken is subject to management scrutiny, 1:1 meetings and arrears profiling exercises.

If Housing Benefit identify an overpayment for a Medway Council tenant they transfer the overpayment to a sub account on Academy, as long as it is not arising from fraud, more than three months old, and not exceeding four weeks benefit. The current level of overpayment in the account is £215,500. An exercise was undertaken by housing/benefits in 2009 to identify all debts to be passed back to Benefits. The remaining debt was to be recovered by HRA i.e. contacting tenants/writing off where necessary. We found that there are transactions dating back to 2003, and that there has been no monitoring of overpayments pre 2009.

The account has been monitored for overpayments from 2010/11 and 2011/12 and arrangements have been put in place for an experienced Housing Officer to identify and produce write off schedules for unrecoverable debt. Schedules were produced more frequently than in previous years, although one of the three schedules authorised by the Housing Manager exceeded his authorisation limit.

CONCLUSION AND AUDIT OPINION

Arrangements and processes within the Housing Rental System showed improvements in verification processes of recurring charges, arrears recovery and void relet times.

The overall opinion on management controls over the Housing rental system in 2011/12 is '**insufficient**'. Significant progress has been made to address issues previously identified in the Housing Rents system, and the report contains recommendations to further strengthen the control processes, particularly in relation to systems access and void rents update on Academy. Urgent action needs to be taken to address the historic problem relating to Housing Benefit overpayments.

1 High and 3 medium priority recommendations have been made to address the issues raised in this report.

High Priority Recommendation:

Finding:	Housing Benefit Overpayments between 2003 and 2009 held on the sub account within Academy have not been reviewed and addressed. The level of overpayments on the sub account currently stands at £215,500.
Risk:	Overpayments may become unrecoverable due to delay in chasing.
Recommendation:	Transfers pre-dating 2009 on the R1 account should be examined, pursued if possible and if unrecoverable, written off. Debt transferred to the R1 account post 2009 SLA should be checked to ensure within agreed criteria and if not should be recorded for recall by HB and the remaining debt should be chased and recovered from current tenants.

Summary information on completed audits.

	<p>Transactions remaining on the R1 account (should only be those within specified criteria) should be recorded and the record promptly updated to include additional transfers identified each month and where appropriate an updated recall list should be issued to MRBS. (Suggest use of the existing spreadsheet format held by the HFO).</p> <p>Management should review the account/record regularly and the record should evidence the review.</p>
Response:	Agreed by the Head of Performance and Service and will be in place by 1 st April 2012.

Summary information on completed audits.

CARE DIRECTOR INCOME *(final report issued 13 March 2012)*

1. In 2009, the Raise adult social care system was upgraded to Care Director and is used for assessing clients care needs and determining related costs for all chargeable services. The service generates approximately £9m income each year.
2. Two teams are involved in maintaining client records on Care Director:
 - Care Management (CMs) undertake assessment of client care needs, ensure clients are receiving appropriate care packages and update the care module of the Care Director system.
 - Financial Assessment Offices (FAOs) complete financial assessments following notification of service provision by care management, inform clients of their contribution and update the finance module of the Care Director system. Reliance is therefore placed on timely updates of information from care management.
3. This audit related to processes undertaken by the FAO and testing was not performed in Care Management. Audit report 10021 in 2010/11 reviewed the arrangements for Care Director Payments. This covered both areas.
4. Four risks were examined during this audit of Care Director Income and the opinions are shown below:

Risk 1: Income due from clients may not be identified accurately and promptly.

Insufficient – Arrangements are in place within the Financial Assessment Team (FAO) to ensure that, where they have been informed of new or amended client care packages by Care Management, financial assessments are conducted, and clients are informed of the cost of their contribution to residential care or homecare package.

The current process relies on email notification and case by case checking on a daily basis. A weekly report of referrals entered onto the Care Director care module is used to confirm that all referrals have been captured. This provides assurance that Care Director and FAO records agree. However, the Care Director Payments Audit identified problems with the timeliness of updates of client service provision. This is mitigated by the issue of a letter by Care Management to clients advising that charges, if applicable, are backdated.

In this audit we examined enablement services which are delivered free to the client for the first 42 days, but should be reviewed during this period. If services continue beyond this period a financial assessment may be required to determine client contribution.

We found 502 enablement cases that were closed in 2010/11 exceeded the 42 day period. We were informed there are reasons for the extension in some cases (e.g. extension of the enablement service or the use of respite services for carers). Management should ensure they have a mechanism to ensure enablement services only continue beyond 42 days when appropriate. More detailed figures can be found in Appendix B.

As a result of the Care Director Payment audit the Care Management agreed to make management information reports available to Service Managers so they can address data quality issues but arrangements were not in place at the time the fieldwork for this audit was conducted and we were unable to test the effectiveness of the new arrangements. Monitoring of the enablement services would require additional reporting.

Furthermore annual rates input on the Care Director system may be inaccurate as new rates are not loaded onto a test system and input not independently verified.

Risk 2: Clients may not be charged accurately and promptly for the services they are receiving.

Summary information on completed audits.

Satisfactory – Debtor accounts are automatically updated on the financial module every 4 weeks with service provision entered on the care module. Care and financial modules and assessments (where appropriate) are linked on Care Director.

Management arrangements ensure that clients are set up on Integra and to the correct GL code and that all services/charges on the two systems agree.

All statements/invoices are printed and control totals of invoice files on the two systems are reconciled, however evidence to support BACS file totals on the sales ledger are not consistently retained/saved on Integra.

Risk 3: Income received may not be accounted for accurately and promptly.

Good- Handling and receipt of payments is divorced and daily electronic interfacing between the Radius income recording system and Integra ensures that income is promptly and accurately allocated to the correct accounts. Reconciliations ensure that daily totals on the two systems agree and where appropriate unidentifiable payments are allocated to suspense.

The 4 weekly interface file between Care Director and Integra picks up any new charges, payments, write offs and credits since the previous interface and management arrangements ensure that failed BACS collections are identified and that appropriate recovery action is taken.

Risk 4: Appropriate action may not be taken to identify and recover outstanding debts.

Insufficient- Debt collection arrangements were shared informally across the Financial Assessment team until responsibility was delegated to a single officer in January 2011.

Reminder letters are issued at timely intervals where possible. Occasional system problems prevent accurate debt figures appearing in debt reports. In these instances letters may not be produced for 8 weeks.

Arrangements provide for identifying individual debt and difficult cases are reported monthly to the Client Financial Services Manager. Quarterly meetings held with Legal Services were not productive as Legal Services staff moved on and cases had to be re-started when a new person took on a case. We have been informed that monthly meetings with Legal Services have taken place during 2011/12..

Management is unable to assess or demonstrate the effectiveness of the recovery process as all monitoring is on an individual client basis and not summarised e.g. by use of graphs or pivot tables.

Analysis of the 'Aged Debt' report of 18/04/2011 revealed that 44.1% of the total ledger comprises of debt that is older than 365 days and that 37.9% i.e. £549,939.69 is unsecured. We recognise the nature of the debt requires a high level of sensitivity, instalment plans are in place for some of it and we have been informed of successful recovery five years after the death of one client. Debt is not written off until considered unrecoverable.

CONCLUSION AND AUDIT OPINION

The overall opinion on management controls over the system for Care Director Income is **"insufficient"**. The audit highlighted the need for improvements in debt monitoring processes and promptness of updates of the Care Director system by CMs, to ensure all raised charges are correct. Management have informed us that action has been taken to address all the issues raised.

Since the audit was performed we have been informed that a specification is being developed for a new IT solution to replace the current Care Director system. In our view this is an ideal opportunity

Summary information on completed audits.

to bring about the culture change necessary to ensure that there is timely, complete and accurate data input onto the system by the CMs. The change process involved in the introduction of the new system will need to be managed effectively to ensure that: user engagement is achieved; significant consideration is given to how user friendly the new system is; management reporting requirements are identified; and, sufficient training, support and monitoring arrangements are put in place. We have offered audit support and assurance in the procurement, development and roll out of any new IT solution.

2 high, 2 medium and 1 low priority recommendations have been made to address issues raised in this report.

Finding 1:	<p>The Care Director payments audit (report 10021) established that delays in entering, authorising and terminating services leads to inaccuracies in payment runs. Audit testing showed the same issues create problems for the income system.</p> <p>Analysis of data obtained revealed that had clients on enablement programs been transferred to long-term teams they would have been subject to a financial assessment however it is not clear whether enablement was extended beyond the free period i.e. 42 days, in which event a financial assessment would not be required i.e.:</p> <ul style="list-style-type: none"> • 502/2855 (17.5%) of clients have remained on for longer than 6 weeks without transfer • 72/2855 (2.5%) stayed on the enablement service for more than double the maximum period <p>The audit also identified 305 clients where start dates from data obtained did not match. 10 were examined. 4/10 differences were due to changes of service not being reflected accurately e.g. respite care, enablement programmes, return to primary service at the end of a temporary programme.</p>
Risk:	Loss may be incurred.
Recommendation:	<p>The reports written as a result of the Care Director Payments will improve the quality of the invoice run.</p> <p>The specification for a Care Director replacement system should prompt Care Management to ensure temporary services are reviewed regularly and system records are kept up to date.</p> <p>OR</p> <p>The Systems Administration team should investigate the possibility of producing 2 additional exception reports to address specific issues identified in this audit i.e.:</p> <p>One report to monitor temporary / short-term services to ensure they are:</p> <ul style="list-style-type: none"> • Extended where necessary • Terminated promptly • Normal service is shown to resume on Care Director (where it exists). <p>A second report to identify enablement services that have been</p>

Summary information on completed audits.

	<p>running for more than 6 weeks</p> <p>These reports should be passed to relevant Team Managers and copied to Service Managers for action.</p>
Response:	<p>Guidance has been re-issued to ASC staff on start dates to ensure consistency and this is monitored via data quality checks.</p> <p>The Systems Support Team currently produce fortnightly reports, which are sent to Team Managers, reminding them to authorise services.</p> <p>The Systems Support team currently monitor, on a fortnightly basis, where the planned end date has passed and report this information to Team Managers who are then responsible for and accountable for their teams actioning</p> <p>The Systems Support Team currently monitor when clients have died and services have not been ended and report this information to Team Managers who are then responsible for and accountable for their teams actioning.</p> <p>Reports can be created to monitor temp/short-term services. AMT have agreed to provide the systems support team with clear guidelines determining what is deemed temp/short-term to enable reports to be created to monitor this area.</p> <p>AMT have agreed that the Systems Support Team shall add new service detail to CareDirector to identify “enablement” or “non-costed rehab”. Care Managers would then be in a position to use these new service details, which will enable easier identification of services that have gone over the 42-day period.</p> <p>AMT have agreed that an advanced find report in CareDirector will be written by the Systems Support Team to enable Team Managers to run these reports to control this area.</p> <p>In addition, weekly reports will be run by the Systems Support team as part of the Data Quality process.</p>

Summary information on completed audits.

Finding 2:	<p>Debt monitoring and reporting arrangements focus on progress of individual debts. Summary reports are not produced and analysed to show the effectiveness of debt recovery action.</p> <p>Whilst debt monitoring reports show the age of all debts they do not show the change in the age profile over time.</p>
Risk:	Management is unable to assess or demonstrate the effectiveness of the recovery process.
Recommendation:	<p>Formal arrangements for monitoring and reporting overdue debt should be put in place:</p> <ul style="list-style-type: none"> • Summary reports should be produced e.g. pivot table for debt outstanding beyond 8 weeks. • These reports should be presented to management for review • Evidence of management review should be retained.
Response:	<p>Monthly report to AMT as part of Budget report and quarterly attendance of Client Financial Services Manager for item review at AMT.</p> <p>The Client Financial Services Manager will explore options for improving debt monitoring including showing the change in age profile over time and finding a means of categorising debt by client group.</p> <p>Now implemented.</p>