

**Agenda Item No:** 4  
**Report To:** **AUDIT COMMITTEE**



**Date:** **27 JUNE 2011**

**Report Title:** Internal Audit Annual Report 2010/11

**Report Author:** Brian Parsons

**Summary:** To consider the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Audit Partnership in relation to the Council's control environment, in the context of the Annual Governance Statement.

To decide whether the outcomes of the Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Authority, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.

**Key Decision:** No

**Affected Wards:** Not applicable

**Recommendations:** **The Audit Committee is asked to:**

- Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
- Note that the only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation.
- Note the results of the work of the Internal Audit Team over the period April 2010 to March 2011 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
- Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.
- Note the improvements in control that occur as a result of the audit process.

- Consider the effectiveness of the Council's internal audit service as part of the consideration of this report, and express an opinion accordingly.

<b>Policy Overview:</b>	Internal Audit is a statutory service under the Accounts and Audit Regulations 2011 which state that 'the body must undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'.
<b>Financial Implications:</b>	None
<b>Risk Assessment</b>	Internal audit is a review process which evaluates the adequacy of the controls that management has put in place to manage the risks to the achievement of objectives. An inadequate control environment would mean that significant risks exist but they are not being managed.
<b>Equalities Impact Assessment</b>	No
<b>Other Material Implications:</b>	None
<b>Background Papers:</b>	Internal Audit Reports
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**Report Title: Internal Audit Annual Report 2010/11**

**Purpose of the Report**

1. The principal objective of the Internal Audit Service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council. The results of the work allow an opinion to be formed on the overall adequacy and effectiveness of the Council's control environment.
2. The report allows Members to consider the outcomes of the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Internal Audit in relation to the Council's control environment, particularly in the context of the Annual Governance Statement.

**Issue to be Decided**

3. Members are asked to:
  - Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
  - Note that the only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation.
  - Note the results of the work of the Internal Audit Team over the period April 2010 to March 2011 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
  - Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.
  - Note the improvements in control that occur as a result of the audit process.
  - Consider the effectiveness of the Council's internal audit service as part of the consideration of this report, and express an opinion accordingly.

**The Annual Internal Audit Report**

4. The statutory Code of Practice for Internal Audit in Local Government in the United Kingdom requires that the Head of Internal Audit must provide a written report to those charged with governance, timed to support the Annual Governance Statement.

5. The Annual Governance Statement has been compiled and appears elsewhere on the agenda for this meeting.
6. The Head of Internal Audit's annual report to the organisation must:
  - Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
  - Disclose any qualifications to that opinion, together with the reasons for the qualification
  - Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
  - Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
  - Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
  - Comment on compliance with the standards (the Code of Practice) and communicate the results of the internal audit quality assurance programme.
7. The Accounts and Audit Regulations 2011 also require that the Council 'must, at least once a year, conduct a review of the effectiveness of its internal audit'. It is considered that this report provides evidence of the effectiveness of internal audit and the Committee is therefore asked to treat consideration of this report as 'the review'.

### **The opinion on the overall adequacy and effectiveness of the Council's control environment**

8. It is the opinion of the Head of Internal Audit that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council. The evidence to support the opinion is contained within this report.

### **Any qualifications to that opinion, together with the reasons for the qualification**

9. The only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation as, at the present time, risk management is underdeveloped.

## **A summary of the audit work from which the opinion is derived**

10. The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year. However, the following factors have also been considered:
  - The results of external audit work during the year and any concerns expressed by the External Auditor
  - The effectiveness of the Council's risk management arrangements
  - Significant control breakdowns during the financial year, whether they were found by Internal Audit or not
  - The results of any form of external inspection or assessment, and:
  - The effectiveness of senior management in resolving control weaknesses.

### **Internal Audit work**

11. Twenty two audit projects were completed between April 2010 and March 2011 and are listed at Appendix A. This is 81.5% of the original audit plan. The appendix shows the control assurance for each audit.
12. Four projects completed during the year did not include a control assurance assessment as it was not appropriate to the projects. These were work on the Audit Commission's National Fraud Initiative, the Tenterden Improved Project and the work that is carried out twice a year to validate the accuracy of the Interreg claim – this represents two separate audits.
13. The work of the Internal Audit Team has established that for the majority (66%) of the areas examined, satisfactory controls were in place at the time of the original audit. Where weaknesses have been identified the appropriate Head of Service has agreed the action to be taken to rectify those weaknesses.
14. The external auditors have been able to place reliance on the work of Internal Audit.

### **The results of external audit work during 2010/11**

15. The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2010/11 shortly. Internal Audit has met with the Audit Commission's Audit Manager and Principal Auditor several times during 2010/11 and no issues have been raised which would give concern in relation to the Council's internal controls.
16. The external auditor's Annual Audit and Inspection Letter for 2009/10 (which was reported to the meeting of the Audit Committee on 14 December 2010), acknowledges continued improvement. There was an unqualified conclusion about the Council's arrangements to secure value for money and an unqualified opinion on the Financial Statements. The letter confirms that there were adequate arrangements in place for risk management and internal control.

### **The effectiveness of the Council's risk management arrangements**

17. It is my view that the Council's risk management arrangements are in need of improvement. Although there has been a process in place to identify strategic risks in the past, the process has not really trickled down into operational risk registers.
18. It is considered that the strategic risk register needs a complete refresh and a new approach is required to ensure that operational (service) risk registers are in place and that project risk assessment is carried out effectively.
19. Following the creation of the Internal Audit Partnership in 2010, the arrangements for coordinating risk management and putting in place consistent practices was passed to the Partnership.
20. A paper will be provided to the Audit Committee later in the year proposing the way forward for risk management over the coming years. It is intended that risk management will become embedded and will become a basic management skill for Heads of Service and service managers.
21. Unfortunately, at the present time, the risk management arrangements that are in place do not provide any specific assurance in relation to internal control.

### **Significant control breakdowns during the financial year, whether they were found by Internal Audit or not**

22. There were no significant control breakdowns during 2010/11.

### **The results of any other form of external inspection or assessment**

23. There have been no governance or control based external inspections or assessments during 2010/11, other than the normal external audit work and the review of the Audit Committee by Local Government Improvement and Development (LGID). The report arising from the LGID peer review has been considered by the Committee and a number of agreed actions will be implemented during 2011/12. One of the agreed actions was to introduce an Annual Report by the Audit Committee; this is the subject of a separate report elsewhere on the agenda.

### **The effectiveness of senior management in resolving control weaknesses**

24. Heads of Service are required to respond to every audit report where recommendations are made, by completing an action plan which sets out the action that will be taken to address the audit recommendations. The response is assessed for adequacy; to ensure that the proposed actions are sufficient and that any weakness will be addressed within a reasonable period.
25. Six reports were issued during 2010/11 relating to areas where a limited or control assurance was assessed as being in place. The responsible Head of Service subsequently completed an action plan setting out comprehensive and timely actions to address the audit recommendations.

26. Internal Audit carries out a follow-up to each audit to ensure that the actions have been taken in practice.
27. Based on the generally prompt and positive responses received from senior management and the results of follow-up work, it is considered that senior management is effective in resolving control weaknesses.

### **Issues that the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement (AGS)**

28. The opinion of the Head of Internal Audit on the internal control environment is particularly relevant to the preparation of the Annual Governance Statement. In that context, the AGS should note the opinion of the Head of Internal Audit that:  
  
“Substantial reliance can be placed on the Council’s control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council.”
29. However, as previously stated, the current arrangements for risk management are in need of improvement and this is an issue relevant to the AGS.

### **Performance of the internal audit function against its performance measures and targets**

30. The internal audit function has three internal performance targets. The targets are:
  - Completion of the annual internal audit plan (90% target)
  - Percentage of chargeable time (i.e. time spent on planned audit work – the target for the operational auditors is 85%)
  - Achievement of customer care targets (85% positive response target)
31. The target for completion of audit projects within the internal audit plan for 2010/11 was 27 projects. This has to be achieved through the completion of twelve projects by each operational auditor. The auditor resource is 2.25 fte resulting in the target of 27 for 2010/11.
32. In practice the number of projects completed during 2010/11 was 22, which is 81.48% of the target. Although this is a little disappointing, it must be seen in the context that 2010/11 was the first year of the new audit partnership and a certain amount of time had to be invested in integrating systems and procedures,
33. Customer surveys are issued to clients following each internal audit to assess satisfaction with the audit process. In addition, an annual survey of Heads of Service is carried out in order to obtain responses on the quality of internal audit, perceptions of auditor skills and the value of audit reports. The annual survey will be carried out during late June with the results being reported to a future meeting of the Committee.

## Compliance with the CIPFA Code of Practice and the internal audit quality assurance programme

34. The Code sets out the standards that the Internal Audit team has to comply with in order to meet the statutory requirement. A copy of the code has been provided to each auditor. The Code contains a checklist which allows a self assessment of compliance with the code to be carried out.
35. On the basis of a self assessment of compliance with the code and on comments made by the external auditor, it is considered that the work of Internal Audit at Ashford is in accordance with the Code of Practice.
36. A detailed Internal Audit Manual is in place.
37. A comprehensive internal audit quality assurance programme is in place to:
- Ensure that work is allocated to auditors who have the appropriate skills, experience and competence
  - Ensure that all staff are supervised appropriately throughout all audits

The supervisory process covers:

- Monitoring progress
  - Assessing quality of audit work
  - Coaching staff
38. The quality assurance programme is maintained through the ongoing review of reports and working papers by the Audit Manager and the Head of Audit Partnership and through adherence by all members of the audit team to the Audit Manual and the Code of Practice.

### Assurance levels

39. Internal Audit use 'assurance levels' or assurance statements to provide the overall audit opinion for the service or area that has been reviewed. The use of an assurance level is consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. There are four assurance levels, as set out at Appendix B. The consistent use of assurance levels allows a balanced view to be taken of the overall adequacy of control within the Council.
40. In the financial year 2010/11, a total of eighteen audit reports included an assurance assessment for the area that had been audited (four did not). The initial assurance assessments were categorised as follows:

High	1
Substantial	11
Limited	6
Minimal	0
Not given	4
Total	22



41. The collective assurance level, which can be extracted from the audit work performed during 2010/11, provides considerable evidence to support the statutory Annual Governance Statement, with 66% of the reports having a positive assurance assessment identifying control assurance as 'substantial' or 'high' at the time of the audit.

### **Reporting of Internal Audit work to the Audit Committee**

42. Internal Audit work has been reported on an annual basis to the Committee in the past. However, it is intended that, in future, an interim report, showing the first six months work of the financial year will be provided to the Audit Committee meeting in December.

### **Mid Kent Internal Audit Partnership**

43. The four-way Internal Audit shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells came into being on 1 April 2010. Since that time a considerable amount of work has been done in order to embed the arrangements.
44. The Ashford Audit Team has worked with the Maidstone team to help to introduce the ICT audit management system, Team Mate, at Swale and at Tunbridge Wells and have also been involved in providing training.
45. The partnership has introduced a 'share-point' site, which allows auditors across the four sites to share electronic audit libraries, work programmes and the audit manual.
46. The four-way team provides resilience in terms of the two on-site Ashford auditors being part of a bigger overall team. In addition, the auditors from the four teams can carry out an audit on any of the four sites where it is efficient and effective to do so. There was some movement between sites in the first year of the partnership (2010/11), however this will be increased significantly during the current financial year.
47. Feedback on the first year of the Partnership has been positive at all four Councils.

### **Other issues - Staffing**

48. The team of operational auditors during 2010/11 comprised of 2.25 full time equivalents (FTE). Each auditor was expected to complete twelve audit projects during the year. This meant that the Audit Plan totalled 27 projects. The 0.25 post has previously been filled by employing an audit contractor to work for three months each year.
49. As a result of the need to reduce costs for 2011/12, the budget for the 0.25 auditor post has been deleted. This has the effect of reducing the audit plan by three audit projects, to twenty four, per annum. While the team is still able to provide a good service, audit resources are clearly limited.

50. Under the partnership arrangement, the extent of audit management for the Ashford audit service is now the equivalent of 0.5 FTE. The management resource is used for audit planning, review of audit reports, supervision, risk management, strategic management and reporting to the Audit Committee and to the Management Team.
51. The total staffing establishment for Internal Audit at Ashford is therefore 2.5 FTE. It is considered that any further reduction in the establishment would bring the statutory duty to 'undertake an adequate and effective internal audit', into question.

## **Risk Assessment**

52. Internal audit is a review process which evaluates the adequacy of the controls that management has put in place to manage the risks to the achievement of objectives. An inadequate control environment would mean that significant risks exist but are not being managed.

## **Equalities Impact Assessment**

53. Not applicable.

## **Other Options Considered**

54. Internal Audit is a key component of the Council's internal control arrangements and is a contributor to the Annual Governance Statement. Members need to be aware of the control issues that have been identified by Internal Audit and of the view of the Head of Internal Audit on the adequacy of the Council's control environment. No other options could be recommended.

## **Consultation**

55. The Annual Internal Audit Report has been circulated to Management Team for comment. Individual audit reports are provided to the respective Head of Service for consideration and implementation. The Head of Service is also made aware of the narrative that will be used to report the audit to the Audit Committee. Client views are sought generally in terms of the detailed elements of the internal audit service and specifically in relation to individual audit reviews.

## **Implications Assessment**

56. Internal Audit is a statutory requirement for significant local authorities. Internal Audit work can impact on staff in terms of issues arising from audit reviews. A substantial element of internal audit work is based around the review of financial systems and controls.

## **Handling**

57. The Audit Committee is asked to agree the recommendations contained in this report so that the Head of Internal Audit's opinion can be considered as part of the review of the Annual Governance Statement.

## **Conclusion**

58. The Head of Internal Audit has concluded that a substantial level of internal control exists within the Council's systems and procedures.

## **Portfolio Holder's Views**

59. A welcome report showing the high quality of the work of our Internal Audit Team, coupled with that of the Audit Committee. Clearly there are still issues over our work on risk assessments, especially those for partnerships. However, this is more for the Audit Committee itself to follow up in the coming year.

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**Audit Projects completed between 1<sup>st</sup> April 2010 and 31 March 2011**

**Service:** Personnel & Development

**Audit Title** Payroll

**Issued Date** April 2010

**Audit Scope:** The audit set out to evaluate and test the adequacy and effectiveness of the key controls to the payroll system. The audit considered a number of areas including, the management of the payroll function, starters, leavers, variations to pay, deductions and BACS payment procedures. The audit also considered the robustness of the payroll computer system, Midland Delphi, which is now 10-years old.

**Findings:** Good controls are in place over the submission, authorisation and input of payroll data into the system. However, the audit identified that:

- Checking and evidencing input is not undertaken in a consistent basis.
- Individual BACS payments over £20,000 need to be countersigned (for example, redundancy payments, payments to Kent County Council re pensions, and payment to Revenues and Customs)

The audit established that reconciliations are undertaken between the payroll computer system and the general ledger (eFinancials) on a timely basis. Testing in this area confirmed the accuracy of the transfer of data between the two systems and that the reconciliations are appropriately reviewed by the Finance Manager.

The payroll computer system, Midland Delphi, was implemented in April 2000. The age of the system means that it is vulnerable to not being supported in the longer term and it is recommended that management explore the options for the future delivery of the payroll service.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

All recommendations have been accepted by management, the majority of which were implemented immediately.

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**Service:** Deputy Chief Executive

**Audit Title** Ashford's Future Partnership – Growth Area Funding

**Issued Date** April 2010

**Audit Scope:** The audit set out to establish the adequacy of the governance and programme management arrangements which were put in place to support delivery of the Authority's Growth Area objectives, the Council's role as a founding partner of the Ashford's Future Partnership Board and its responsibilities as 'accountable body' for GAF funds.

**Findings:** The audit confirmed that partnership agreements and service level agreements controlling the strategic management of the partnership board and governing body were generally sound.

Concerns relating to financial and programme performance monitoring and management reporting and the authorisation of funding agreements were outstanding at the time of reporting and were receiving appropriate management attention.

Ten recommendations were made for management attention.

At the time of the audit, the Council's growth and infrastructure objectives were being progressed and objectives were being reviewed within the period of economic uncertainty prior to the 2010 General Election.

**Assurance Assessment at the time of the audit:**

Limited

**Management Response:**

All of the recommendations were accepted and the actions were planned to be implemented by September 2010. However, the proposed action was overtaken by events and the Ashford's Future Company has since been wound down.

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**Service:** Environmental Services

**Audit Title** Ashford Monitoring Centre (AMC)

**Issued Date** June 2010

**Audit Scope:** The audit considered the systems and procedures in place which support CCTV monitoring, the AMC budget and how some of the activities are treated and recorded within the cost centre for the service.

**Findings:** The audit found that strong controls are in place for the operation of CCTV, which is underpinned through a quality management system, independent audit inspections and vetting checks for monitoring centre staff.

The budget for the AMC should be restructured to better align it to ongoing business activities. A budget for recharges to Housing was within the wrong cost centre and required correction.

There were opportunities to increase recharges or pass on costs which would reduce the bottom line operating cost of the Monitoring Centre. A proportion of any increased recharge would relate to the housing revenue account (HRA).

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

All of the audit recommendations are agreed; to be implemented by November 2010

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**Service:** Financial Services

**Audit Title** General Ledger – Budgetary Control

**Issued Date** July 2010

**Audit Scope:** The audit set out to establish whether the Council's budget setting process is robust, whether support service costs are appropriately calculated, and whether savings identified as part of the 2010/2011 budget setting process had been appropriately reported and assigned.

**Findings:** A substantial level of control assurance is provided by the controls in place for setting and approving budgets, including the reporting and ownership of proposed savings. However, there is a need for better communication and guidance between Accountancy and Budget Holders to ensure that they feel fully engaged in the budget setting process and take ownership of their budgets.

**Assurance Assessment at the time of the audit:**  
Substantial

**Management Response:**

The audit recommendations are accepted and will be implemented as part of the 2011/2012 Budget Setting Process.

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**Service:** Revenues and Benefits

**Audit Title** Council Tax – Valuation, Liability and Billing

**Issued Date** July 2010

**Audit Scope:** The audit considered controls in place for valuation, liability and billing of Council Tax. Specifically the audit considered and tested if property valuations are correctly updated on the Council Tax system, whether discounts and exemptions had been correctly applied and if the billing arrangements for 2010/11 were sound.

**Findings:** It was found that:

- New properties are appropriately added to the Council Tax system.
- The Council Tax system is appropriately and regularly updated from schedules received from the Valuation Office. Sound procedures are in place to reconcile property totals on the Council Tax system with those of the Valuation Office.
- The testing undertaken on accounts in receipt of discounts and exemptions confirmed, in all cases, that there was evidence on file to support the award of the discount/exemption.
- The main billing exercise was soundly performed and included appropriate checks and supporting evidence to control the input of the Council Tax resolution for 2010/11 and the debit adjustment to the system. In addition, controls were in place to reconcile the number of demand notices issued from the main billing exercise which were mailed in time to ensure the statutory requirements were met, so that collection could start on the 1<sup>st</sup> April.

**Assurance Assessment at the time of the audit:**  
High

**Management Response:**

The one recommendation from the audit is accepted and a review will be undertaken on the arrangements for verifying the entitlement of Single Person Discount. This review will follow the data matching exercise with Capita.

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**Service:** Corporate Review

**Audit Title** Interreg Project - Mosaic

**Issued Date** July 2010 and January 2011 (Note; this represents 2 separate audits)

**Audit Scope:** The Council is a participant in the 'Mosaic Project', which is led by the Kent County Council and will provide a detailed socio-economic map of the County to assist resource planning and to focus service delivery. The project is part of an initiative involving the 2 Seas Cross-boarder Co-operation Programme involving the French Nord-Pas de Calais region, the south coast of England and the Dutch and Flemish coasts. The project deals with economic, environmental and social issues. The activity will receive up to 50% funding from the European Union. Ashford Borough Council's contribution to the funding will be through the time that officers spend developing the project. This means that detailed time sheets have to be completed for all aspects of the work and the time sheets and other records have to be meticulously checked by Internal Audit. Submissions (claims) are made to Kent County Council every six months.

**Assurance Assessment at the time of the audit:**

The audit work consisted of checking the documents and the calculations relating to the two claims that were submitted to Kent County Council during 2010/11. It was not an audit of the controls relating to the project and it was not therefore appropriate to make a controls assurance assessment.

**Management Response:**

No report was issued – no response is required

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**Service:** Corporate Review

**Audit Title** National Fraud Initiative (NFI) 2010/11 Interim Audit

**Issued Date** October 2010

**Audit Scope:** The National Fraud Initiative is a biennial data matching exercise carried out by the Audit Commission. The Council is required to submit a broad range of data which is then matched against other data sets that the Audit Commission has obtained from a number of sources. The data sets provided to the Commission are Benefits, Payroll, Housing Rents, Right to Buy, Creditors (standing data and history), Residents Parking Permits, Concessionary Fares, Licensing and Insurance claims. The audit sought to confirm that data owners had commenced action on investigating the data matches that relate to their area of responsibility; and to provide a position statement to the Deputy Chief Executive as the responsible financial officer (Section 151 Officer).

**Findings** Internal Audit continues to be the 'Key Contact' for the NFI exercise which includes coordinating and monitoring progress of investigations, ensuring the

Council complies with the Code of Data Matching Practice, disseminating information from the Commission in relation to the NFI exercise and administering access to the secure web site. In total, for Ashford 1717 data matches were identified by the Audit Commission from the data submitted. The interim audit established that solid progress had been made in terms of investigating the matches.

**Assurance Assessment at the time of the audit:**

Not assessed. The Internal Audit work on the NFI is primarily to facilitate the process. Therefore, it was not considered to be appropriate to provide an 'audit opinion' on the process.

**Management Response:**

Not applicable – the report was primarily provided (to the Deputy Chief Executive) for information purposes.

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**Service:** Corporate Core – Strategy, Partnerships and Communications team

**Audit Title** Grants to Outside Bodies

**Issued Date** October 2010

**Audit Scope:**

- To evaluate the grant scheme procedures
- To test a sample of grants awarded during 2009/10 to consider compliance with the agreed procedures
- To establish and evaluate the follow up procedures to ensure that the grant money is spent in accordance with the grant scheme and as stated in the application.

**Findings**

- The budget reports to the Community Grants Panel three times a year are not always complete or accurate, for example, reports do not always incorporate amounts carried forward from a previous year's under-spend.
- Grant money was being paid out more than 12 months after the date of award. The scheme stated that applicants have up to 12 months to claim the grant monies awarded. However, in one case a grant of £5k was paid out more than 7 years after the grant was awarded
- Grants of less than £1000 could be approved by the Head of Cultural and Project Services or the Assistant Head but these grants were not always reported to the Community Grants Panel. This meant that the Grants Panel were not fully aware of all of the grants being awarded and the impact on the available budget.
- The Community Grant Fund database was not maintained in a timely manner. This, therefore, limited the database's usefulness as a budget monitoring tool.

**Assurance Assessment at the time of the audit:**

Limited

**Management Response:**

The management response is considered to be fully adequate.



All of the recommendations have been fully accepted and in some cases the actions were taken immediately. The majority of the recommendations were due to be fully implemented by the end of April 2011. A number of changes were made to the grants to outside bodies' arrangement through the implementation of the Single Grants Gateway.

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**Service:** Housing Services

**Audit Title** Housing Service Charges – Major Works

**Issued Date** November 2010

**Audit Scope:** The audit set out to establish that effective controls were in place for the notification and invoicing of major works to the Council's leaseholders. The audit also considered the new Discretionary Loans Policy re major works service charges, which was approved by the Executive on the 8th April 2010. This aimed to provide assistance to leaseholders in paying major works invoices.

**Findings:** The arrangements in place for notifying leaseholders of major works are in accordance with legislation, which ensures that charges can (legally) be appropriately recovered. In terms of the Discretionary Loans Policy regarding Major Works Service Charges, there was a need to ensure that the implementation of the Policy is effectively communicated to all officers involved, with responsibilities clearly assigned to enable the effective development of processes and procedures.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

The recommendations were accepted; to be implemented in a timely manner.

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**Service:** Personnel and Development

**Audit Title** Expenses Claims

**Issued Date** November 2010

**Audit Scope:** The audit reviewed subsistence and mileage claims paid via payroll; the rates paid, and compliance with the Staff Code of Conduct Handbook. The audit also considered Petty Cash and Corporate Credit Card claims.

**Findings:** The payment of expenses, made through the payroll system, was found to be correct and in accordance with NJC guidelines and the limits prescribed in the Code of Practice. No significant errors were found from a sample of 50 expenses claims that were tested as part of the audit.

No areas of significant concern were identified when reviewing Petty Cash or Corporate Credit Card claims.

The audit made six recommendations which included circulating a reminder to staff that claims should be made on a monthly basis and on the official form, a

process should be put in place to allow VAT on mileage claims to be reclaimed, and a review of the entitlement to the various car schemes operated by the Council (Leased car or Cash Alternative schemes) should be carried out to confirm current eligibility and need.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

Five of the six recommendations are accepted; to be implemented by the end of March 2011. A review of all benefits including lease cars entitlement will be carried out as part of an overall review of pay and benefits in 2011/12.

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**Service:** Revenues and Benefits

**Audit Title** National Non Domestic Rates

**Issued Date** December 2010

**Audit Scope:** The audit reviewed the procedures in place to ensure that the Council is in compliance with statutory regulations for valuation, liability, billing, collection, accounting, recovery and reliefs. The audit also set out to identify, document, evaluate and test the key controls surrounding the NNDR system.

**Findings:** The day-to-day tasks surrounding the administration of NNDR is undertaken by Canterbury City Council (CCC) under a shared services agreement. The audit concentrated on the procedures and controls operated at the Ashford offices (in the context of how they inter-relate to the processes carried out by CCC).

Procedures for the maintenance and updating of system parameters were reviewed and tested during the audit, which confirmed that all of the expected controls were present and being consistently applied, with the exception that no record is being maintained to show which officer made a change to the system and which officer checked that the change was correct.

Meaningful and reliable reconciliation procedures are in place to ensure that all receipts are correctly recorded in the NNDR and Main Financial Systems.

Some delays were evident in the actioning of Valuation Office updates by CCC staff. The Service Level Agreement between the two Councils' was reviewed and it was found that no timescale for the updating of schedules is prescribed in the agreement.

It was established that approximately 700 accounts had a credit balance; testing of a small sample of these accounts established that some balances had been in place since the start of the financial year. A recommendation was made that all accounts with a credit balance are reviewed on a quarterly basis and wherever practical, refunds are made to the account holder.

Review of reliefs and exemptions identified that sound controls are in place to publicise the potential availability of reliefs and ensure that only those applicants meeting the relevant criteria are granted the relief.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

All of the recommendations are accepted and will be implemented.

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**Service:** Financial Services

**Audit Title** Creditors

**Issued Date** December 2010

**Audit Scope:** The creditor payments system is a fundamental financial system and as such is subject to regular review by Internal Audit. The audit was a full 'systems based' review, i.e. encompassing all of the key processes which make up the creditors system and assessing the adequacy of the controls for each process. The CIPFA System Based Auditing Control Matrices were used as a basis for testing the controls in place.

**Findings:** The audit found that sound controls are in place for the creation of new users, access controls to the system and raising purchase orders.

The audit makes four recommendations the most significant being to strengthen the procedures for making changes to supplier bank account details, to coincide with the completion of the weekly creditors' payments process.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

All of the recommendations are accepted and will be implemented.

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**Service:** Corporate Review

**Audit Title** Use of Consultants

**Issued Date** December 2010

**Audit Scope:** The audit set out to establish whether the 'guidance/rules' on engaging consultants, which had been endorsed by the Executive in November 2008 had been incorporated into Contract Procedure Rules, embedded within the organisation, and was being complied with.

**Findings:** It was concluded that the arrangements in place for engaging consultant had not become embedded within the organisation, and was not being fully complied with.

**Assurance Assessment at the time of the audit:**

Limited

**Management Response:**

The recommendations were accepted; to be addressed in a timely manner.

Note: The report relating to this audit was provided to the Overview and Scrutiny Committee meeting on 22 March 2011 as part of an inquiry by the committee into the use of consultants. The Head of Audit Partnership and the auditor attended the meeting to answer questions. The Committee has requested a further report from management.

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**Service:** Personnel and Development

**Audit Title** Training

**Issued Date** December 2010

**Audit Scope:** The audit focused on how the outcomes from staff appraisals are translated into training programmes, which include professional qualifications and the delivery of corporate training initiatives such as Health and Safety, and Investors in People (IIP).

**Findings:** The Council introduced a central training budget in 2010 to facilitate the co-ordination of spend and to ensure value for money from the training budget.

The audit found that the processes in place work satisfactorily; however recommendations were made to strengthen the processes further, including:

- Better promotion of the Corporate Training Plan and giving consideration to introducing a training calendar on the Intranet outlining corporate training opportunities
- A standardised evaluation process for the selection of training providers
- Using the 'zero usage report' to remind members of staff and managers to complete mandatory training
- Maintaining comprehensive records of all officers undertaking training leading to a formal qualification

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

Nine of the 11 recommendations are agreed; the majority to be implemented by June 2011.

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**Service:** Planning and Development (Economic Development)

**Audit Title** Tenterden Improved Project

**Issued Date** January 2011

**Audit Scope:** The 'Tenterden Improved' project sought to improve unattractive areas of the town, especially points of arrival and in the High Street to develop a number of initiatives to encourage visitors and boost the local economy. The scope of the project included the refurbishment of Station Road car park, a new paved forecourt to the Town Hall and new finger post signage and heritage railings. In addition a number of events were held to promote the town.

**Findings:** The project was funded through a number of sources, most notably SEEDA through the old Channel Corridor Partnership and the Kent Rural Towns Partnership. The audit comprised of checking the grant claims made under

the project to ensure that all sources of funding had been received and that expenditure had been properly incurred within the scope of the project. The audit confirmed the correctness of the claims made from quarter four 2006/07 to quarter three 2010/11 and found the project files to be generally sound and well supported with only minor errors being identified for correction.

**Assurance Assessment at the time of the audit:**

The audit work consisted of checking the documents and the calculations relating to the quarterly claims. It was not an audit of the controls relating to the project and it was not appropriate to make a control assurance assessment.

**Management Response:**

No report was issued – no response is required

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**Service:** Corporate Core

**Audit Title** Property Management - Income

**Issued Date** January 2011

**Audit Scope:**

- To identify, document, evaluate and test the key controls surrounding Property Management in respect of leases, from the commencement of the lease through to the cessation of the lease.
- To gain assurance on the controls in place surrounding the maximisation of income, including the processes for the recovery of income.
- To evaluate the partnership arrangements in place with Swale.

**Findings:** The Property Strategy covering the period 2009 – 2012 was reviewed as part of the audit. It was found that the strategy had not been approved by Members. It was apparent that numerous parts of the Strategy were out of date at the time of the audit. A recommendation was therefore made that the Head of the Swale and Ashford Property Partnership reviews and updates the Strategy prior to submitting it Management Team and to Cabinet for approval.

Initial testing of a sample of 15 leases identified that a number had expired and had not been renewed. Further testing of expired leases identified that, from a total of 66 leases currently on file, 21(31.81%) leases had expired and were being 'held over'. While some leases had recently expired, a number of leases were found to have expired more than 2 years previously.

A suitable balance was being maintained by the Property Manager and Senior Income Officer to ensure a balance between maintaining occupancy rates and keeping rent arrears at an acceptable level.

The report recommends that all new lease agreements should contain a condition that payments in respect of rent must be made by standing order or direct debit.

Subsequent to the audit, the partnership with Swale ceased and responsibilities for property management income management were consolidated within the Housing Section.

**Assurance Assessment at the time of the audit:**

Limited

**Management Response:**

Action is being taken to address all of the recommendations; which will be implemented by the time the follow-up audit is carried out.

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**Service:** Housing

**Audit Title** Rent Accounting – Arrears and Voids

**Issued Date** January 2011

**Audit Scope:** The audit reviewed the arrangement for the management and reporting of arrears and void times. In addition the process for calculating the 2010/11 debit, including verifying the balances brought forward from the previous year, was considered together with the controls in place for accounting and reconciling income received.

**Findings:** It was confirmed that prompt recovery action is taken in accordance with the approved organisational policy to recover outstanding rent arrears as soon as the account goes into an arrears position. This has resulted in collection rates continuing to remain high despite the economic downturn. Suitable processes ensure that arrears collection rates are reported at regular intervals to management and the Executive as part of the Housing Services Quarterly Performance Reporting regime.

However, a number of controls were absent regarding the authorisation of write off's and the monitoring and minimisation of accounts with a credit balances.

**Assurance Assessment at the time of the audit:**

Substantial

**Management Response:**

All four recommendations are accepted and will be implemented by April 2011

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**Service:** Business Change and Technology

**Audit Title** ICT Access Controls

**Issued Date** February 2011

**Audit Scope:** The audit set out to gain assurance that the Council has appropriate policies and procedures in place to protect data, and that access to key systems is being appropriately controlled.

**Findings:** Corporate policies covering Information Security were in place. However, they had not been updated since 2001 and there was only minimal monitoring of compliance with the policies.

Key systems (applications) within the Council were found to have good controls over user access, with frequently changed passwords and hierarchical structures in place. Agreements/contracts covering information

security/confidentiality are generally in place for third party access to Council Systems.

**Assurance Assessment at the time of the audit:**

Limited

**Management Response:**

All but one of the recommendations is accepted and will be implemented in a timely manner.

The recommendation regarding the creation of an information asset register is desirable although resources are not available at present to complete this. Further consideration will be given to this pending the consultation on the 'Code of recommended practice for local authorities on data transparency'.

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**Service:** Environmental Services

**Audit Title** Car Parking Income

**Issued Date** March 2011

**Audit Scope:** The audit set out to evaluate the controls for the collection, reconciliation and banking of income from car parks and on-street parking. The audit also considered the arrangements to monitor the cash collection contract.

**Findings:** The audit established that regular meetings take place between the Operations Manager Parking Services and the Service Accountant to monitor income levels and revise estimates accordingly within the Council's budget monitoring system. Parking usage and income figures are provided to Cabinet on a quarterly basis. Pay and Display machines are regularly maintained and the charges displayed on the pay and display tariff boards are correct. Reconciliation between actual amounts collected, audit tickets and accumulative machine totals are effective and regular. However, a further reconciliation to money banked according to eFinancials should be introduced. The need for an up-to-date operational risk register was highlighted as part of the audit.

**Assurance Assessment at the time of audit:**

Substantial

**Management Response:**

The recommendations are accepted and will be implemented.

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**Service:** Environmental Health

**Audit Title** Grounds Maintenance Contract

**Issued Date** March 2011

**Audit Scope:** The audit set out to establish and evaluate the processes and working practices in place governing the following key areas of the Council's Ground Maintenance Contract: -

- The management and monitoring of the Contractor in delivering the expected service
- Performance of the service and contractor
- Control of expenditure; budgetary control and payments

**Findings:** The day to day procedures for managing and administering the contract have remained predominantly manual and unchanged since the previous audit in 2008. Several weaknesses highlighted in the previous audit and its follow-up had still not been progressed at the time of the current audit. In particular there has been a lack of development of the Down to Earth system as a key means of improving process and efficiency over the operational management of the contract. Therefore, it is recommended, once again, that management undertake an appraisal of the Down to Earth system to establish how the system can be utilised to manage the grounds maintenance contract more effectively, provide efficiencies, improve the level of information from monitoring and enhance the performance of the service. This appraisal should also consider the broader ICT contract management needs within the Street Scene and Open Spaces Team.

Other recommendations include

- An annual review of the Activity / Frequency programme to consolidate changes to the contract made during the course of the year; and to agree the scope of the works to be performed during the next contract year
- The need for better recording and monitoring of complaints
- The monitoring of Health and Safety working practices.

**Assurance Assessment at the time of audit:**

Limited

**Management Response:**

The recommendations are accepted and will be implemented.

**Service:** Finance (Revenues and Benefits)

**Audit Title** Housing Benefit Payments

**Issued Date** March 2011

**Audit Scope:** The audit set out to evaluate the controls over the payment of Benefits. This included the process for amendment of Housing Benefit bank details, and the need for appropriate reconciliations to be in place between the Benefit System, BACS Payments system, and ArcHouse, the Councils Rent Accounting system

**Findings:** Strong processes are in place over the arrangements for Benefit payments, which provide a substantial level of control assurance. One recommendation was made in relation to returned BACS payments and their recording within the Revenues and Benefits system.

**Assurance Assessment at the time of audit:**

Substantial

**Management Response:**

The recommendation is accepted; processes will be changed to address this recommendation.



## APPENDIX B

### Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an **assurance level** within four categories. The use of an **assurance level** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

<b>Controls Assurance Level</b>	<b>Summary description</b>	<b>Detailed definition</b>
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control <b>or</b> there is evidence that there is significant non-compliance with key controls.</p> <p>The control arrangements are of a poor standard.</p>
Limited	Improvements in controls or in the application of controls are required	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> <p>The control arrangements are below an acceptable standard.</p>
Substantial	Controls are in place but improvements would be beneficial	<p>There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.</p> <p>The control arrangements are of an acceptable standard.</p>
High	Strong controls are in place and are complied with	<p>The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.</p> <p>The control arrangements are of a high standard.</p>