

Agenda Item No: 6
Report To: Audit Committee
Date: 6 December 2011
Report Title: Internal Audit: Six-month interim report
Report Author: Brian Parsons, Head of Audit Partnership



Summary: The report provides details of the work of the Internal Audit Team between April and September 2011. The Audit Committee is asked to agree that the work provides continuing evidence of an adequate and effective audit service.

Key Decision: NO

Affected Wards: All Wards

Recommendations: **The Audit Committee is asked to agree: that the report continues to provide evidence of an effective internal audit arrangement, and that management is taking the necessary action to implement audit recommendations**

Policy Overview: The audit process helps to ensure that the risks to the delivery of strategic and operational objectives are managed by having adequate controls in place.

Financial Implications: There are no direct financial implications.

Risk Assessment YES

Equalities Impact Assessment NO

Other Material Implications: Legal: Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2011.

Background Papers: The various audit reports referred to in the appendices.

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Report Title: Internal Audit: Six-month interim report

Purpose of the Report

1. The report is intended to inform the Committee of the work of the Internal Audit team during the first half of the financial year and provide further evidence of an adequate and effective internal audit service.

Issue to be Decided

2. The Committee is asked to agree that the work of the Internal Audit team (shown at Appendix A) provides continuing evidence of an adequate and effective internal audit service, and that the committee is satisfied with the management actions in respect of audit recommendations.

Background

3. The principal objective of the Internal Audit team is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council.
4. Internal Audit is a statutory service under the Accounts and Audit Regulations 2011, which state that the Council *'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'*.
5. The adequacy of the internal control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied with the audit arrangements and to be aware of the issues arising from audit work.
6. Within its Terms of Reference the Audit Committee needs to consider 'the summary of internal audit reports issued in the previous period'. The Audit Committee needs to be satisfied that the audit process is working efficiently and that management is taking the necessary action to implement agreed audit recommendations.
7. Five, full, planned audit projects were completed between April and September 2011. In addition a number of other pieces of 'consultancy work' were carried out. The audits and the other work are shown at Appendix A.
8. In addition, four audits were in progress' at 30 September, being audits of: responsive repairs; data protection; renovation grants, and food safety. These audits and other audit work programmed for the second half of 2011/12 will be reported to the Audit Committee in June 2012.
9. The emphasis during the second part of the year will be strongly based around delivering the remainder of the planned audit work. Considerable management attention will be directed to ensuring that targets are met and that the audit plan is achieved.

10. Each audit report includes an assurance statement in terms of the adequacy of controls. The definitions for the assurance assessments are shown at Appendix C.
11. A follow-up to each report is completed, usually three to six months after the date of issues of each original report. The follow-ups allow the adequacy of controls to be re-assessed. For example, the follow-up to the audit on 'Grants to Outside Bodies' that was originally carried out in 2010, has confirmed that the recommendations have been implemented and that the control assurance has increased to 'substantial'.
12. This six-month Interim Report is principally intended to inform Members of the work of the Internal Audit team during the first half of the financial year. An Annual Report, which will be provided to the Audit Committee in June 2012, will provide a more detailed review of Internal Audit work over the year and will include an assessment of the adequacy of the Council's overall control environment, in support of the Annual Governance Statement.

Risk Assessment

13. Internal Audit considers the adequacy of the controls over risk within all of the services and systems that are reviewed.
14. The Audit Committee needs assurance that risks are being identified and managed.

Equalities Impact Assessment

15. Not applicable.

Other Options Considered

16. The Audit Committee needs to have an awareness of the work of Internal Audit in the context of its Terms of Reference. Therefore, no other option is appropriate.

Consultation

17. The respective Head of Service is consulted on the content of all Internal Audit reviews and is provided with a report setting out the detailed audit findings and recommendations. In addition, a copy of every Internal Audit report is provided to the Chief Executive and the Deputy Chief Executive.

Implications Assessment

18. There are no direct financial implications.
19. Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2011.

Conclusion

20. The report provides details of the work of the Internal Audit team between April and September 2011 and contains evidence of an adequate and effective audit service.
21. The work of the team will be directed more specifically to achieving the audit plan in the second half of the financial year.
22. Although Internal Audit has identified some areas where improvements in controls are required, the relevant Head of Service has taken, or will be taking, the necessary action to improve controls.

Portfolio Holder's Views

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APPENDIX A

Service: Corporate/Section 151 officer responsibilities

Audit title: National Fraud Initiative (NFI)

Report issued: May 2011

Background:

The NFI is a biennial data matching exercise carried out by the Audit Commission. The Council is required to submit a broad range of data which are matched against other data sets from a number of sources. Data sets provided by the Council include: Benefits; Payroll; Creditors; Residents' Parking Permits; Licensing; Insurance claims, and Register of Electors.

The audit sought to confirm that data matches were being appropriately investigated by the respective 'data owners' within the Council.

Findings:

Internal Audit is the 'Key Contact' for the NFI exercise and has the responsibility for overseeing /co-ordinating the initiative at the local level. This includes monitoring the progress of investigations and ensuring that the Council complies with the Code of Data Matching.

The report identified that good progress was being made to investigate the data matches.

The report provides some assurance that arrangements are in place for the prevention and detection of fraud within the organisation and provides evidence for the Annual Governance statement

Level of assurance at the time of audit: Not applicable

Management response summary: The report is provided for information and no response is required.

Service: Revenues and Benefits

Audit title: Debtors

Report Issued: June 2011

Audit Objectives:

To undertake audit testing to evaluate the effectiveness of the key controls over the Sundry Debtors system, which exist to ensure that:

- Debtor accounts are promptly and correctly raised in respect of all Miscellaneous and service charges due to the Council
- Debtor accounts are promptly followed up when no payment has been

Received

- Debtor accounts are correctly recorded in the Council's accounts
- Payments are promptly and correctly posted to debtor accounts
- All write offs of amounts due are properly authorised

Secondly, to establish the action taken to implement the agreed audit recommendations from the previous audit review on Sundry Debtors dated January 2010.

Key Findings:

The responsibility for the Sundry Debtors function was transferred to the Revenues and Benefits Manager (from the Exchequer team) in September 2010. The recovery arrangements have been changed so that, where a debt remains outstanding after the Final Notice, a greater emphasis is placed on the originating service area to advise what further action they wish to be taken to recover the debt.

The audit confirmed that service areas are raising debtors accounts appropriately, for the correct amount (where tested) and generally on a timely basis.

The receipting methods for the payment of debtor's invoices are largely automated processes, which operate separately from Debtors staff thus containing an important segregation of duties. Testing undertaken during the audit found that the procedures operated accurately with all payment transactions being posted to the correct debtor account on a timely basis. The changes introduced to the recovery stages are considered to follow sound principles. The audit found that satisfactory records and mechanisms are in place to monitor debts which remain outstanding from the Final Account stage. Testing undertaken on a sample of write offs found each case to be well documented and to substantiate the decision to write off the debt.

The audit has highlighted the need to update the Corporate Debt Recovery Policy in light of procedural changes to the recovery process and to show the change of responsibility for the sundry debtors function. The audit also identified the need to review the level of accounts in credit. In addition, a recommendation is made that write offs should be processed on a more timely basis.

Level of Assurance at the time of audit: Substantial

Management Response Summary: All three recommendations will be implemented.

Service: Business Change and Technology

Audit title: Interegg – Mosaic Project

Claim checked: July 2011

Background:

The Council is a participant in the ‘Mosaic Project’ which is led by Kent County Council and will provide a detailed socio-economic map of the County to assist resource planning and to allow Councils to focus on service delivery. The project is part of an initiative by the 2 Seas Cross-Border Co-operation programme involving the French Nord – Pas de Calais region, the south coast of England and the Dutch coast. All Kent local authorities have participated in this initiative.

The project deals with economic, environmental and social issues. The Council receives up to 50% funding from the European Union. The contribution from Ashford Borough Council is primarily through the time of officers spent developing the project.

Internal Audit acts as the ‘First Level Controller’ (FLC) and is responsible for auditing all claims, ensuring that the claims comply with strict evidence requirements. The FLC is required to agree and sign-off claims prior to the claim being submitted.

In addition to the normal role as FLC, Internal Audit at Ashford helped to develop a qualitative assessment process which has subsequently been rolled out to the other Kent local authority partners to complete.

Findings:

Failure by the Council to submit detailed evidence to support the claim or to provide a FLC certification would result in the claim being rejected. The value of the Council’s in-kind contribution will be in excess of £50,000 by the completion of the project.

The audit checks identified a number of errors/omissions that were amended prior to the claim being submitted.

Level of assurance at the time of audit: Not applicable.

Management Response: None required

Service: Financial Services

Audit title: Insurance

Report Issued: September 2011

Audit Objectives:

- To consider the means by which risks are identified and prevented/mitigated and how the Councils insurance requirements are agreed;
- To establish the adequacy of the arrangements for the recording and administration of insurance claims and to verify, through audit testing, that claims are properly administered;
- To establish the adequacy of the arrangements for the annual review and the negotiation of insurance premiums.
- To consider the adequacy of the arrangements that are in place for the insurance shared service partnership;

Key Findings:

Detailed testing of a sample of claim files provided positive results. The Council benefits from the Insurance Officer's expertise and experience in insurance. Sound arrangements are in place for the annual renewal and for the payment of insurance premiums.

The audit report recommends that the shared service arrangements with Maidstone Borough Council (and Tunbridge Wells Borough Council) are formalised through a simple agreement which defines the service to be provided, the charges to be made and the roles and responsibilities for each party. It was identified that there are delays in recharging the Insurance Officers time to the participating authorities.

The audit found that suitable arrangements are in place for determining the Councils insurable risks; however there is a need for service managers to consult with and notify the Insurance Officer of new projects and risks.

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

The management response is considered to be satisfactory, with agreement to implement all six recommendations from the audit.

Proposed Date for Follow-up: April 2012

Follow-up Assessment: Not applicable at this time

Service: Revenues and Benefits

Audit title: Department of Works and Pensions instigated security access breach – internal investigation

Investigation completed: September 2011

Background:

The Council was advised by the Department of Work and Pensions (DWP) that a member of staff within the Revenues and Benefits section had allegedly misused the permitted access to the Government Connect Secure Extranet (GCSX) national database, which holds information relating to claimants for a range of welfare benefits.

Access to GCSX is very tightly controlled and very closely monitored by the DWP. All staff using GCSX, as they must in the course of processing benefit claims, are required to undertake specialised training which sets out their personal responsibilities. They are then required to sign a statement confirming that they accept those responsibilities. A breach of the 'rules' can represent a breach of the Data Protection Act 1998 and the Computer Misuse Act 1990.

In advising the Council, the DWP made it clear that the member of staff's access to GCSX would be immediately suspended and that DWP regard any breach to be a very serious matter, which they expected the Council to deal with in an apposite manner. In the course of the required liaison an officer from the DWP explained that, if the alleged breach was confirmed following investigation, the individual's access to the system would be suspended for at least 18 months. The DWP would also need to know the result of the investigation. The alleged security breach was potentially also a breach of the council's internal rules.

Findings:

The Deputy Chief Executive immediately referred the matter for investigation by Internal Audit, when it was established that the alleged breach had indeed occurred. The member of staff admitted that he had improperly accessed an account. It was apparent this was a one-off incident and there was no malicious intent.

The member of staff was interviewed under the council's disciplinary procedures and found to have committed gross misconduct by breaching the code and the trust placed in him. He was subsequently dismissed.






Consultancy/Financial Advice/Guidance –other work

- Corporate Credit Card procedures
- Gateway Financial Procedures
- Income reconciliation processes and development of spreadsheets to facilitate this
- Corporate Debt Policy
- Contract tender opening and evaluation and advice (various)
- Development of 'Team Mate' (Note: Team Mate is the audit management system used by the four partner audit teams)

In addition, members of the team have attended and supported a number of training/corporate initiatives.

APPENDIX B

Summary Report of Audit Follow Up Assurance Assessments: April-September 2011

	Follow Up reviews carried out April-September 2010	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Notes	Direction of Travel
1	Grants to Outside Bodies	July 2011	Limited	Substantial	At the time of follow up action had been taken to implement most of the recommendations therefore the assurance was reassessed as Substantial	
2	Housing Service Charges	August 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	
3	Expenses	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	
4	Budget Setting & Savings	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	
5	Use of Consultants	September 2011	Limited	Limited	Report was considered by Overview & Scrutiny September 2011 where a revised Management action plan was considered setting out an implementation programme	

APPENDIX C

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:

Controls Assurance Level	Summary description	Detailed definition
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service are 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. This is because key controls do not exist with the absence of at least one critical control or 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. 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>