

Agenda Item No: 7
Report To: **AUDIT COMMITTEE**
Date: **25 JUNE 2012**
Report Title: Internal Audit Annual Report 2011/12
Report Author: Brian Parsons



Summary: To consider the work of the Internal Audit Team over the financial year 2011/12 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 2011/12.

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 there are no qualifications to that opinion.
- Note the results of the work of the Internal Audit Team over the period April 2011 to March 2012 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 2011/12.
- 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.

Policy Overview:	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'.
Financial Implications:	None
Risk Assessment	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.
Equalities Impact Assessment	No
Other Material Implications:	None
Background Papers:	Internal Audit Reports
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Report Title: Internal Audit Annual Report 2011/12

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 2011/12 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 there are no qualifications to that opinion.
 - Note the results of the work of the Internal Audit Team over the period April 2011 to March 2012 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 2011/12.
 - 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. There are no qualifications to that opinion.

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-one audit projects were completed between April 2011 and March 2012 and are listed at Appendix A. This is 87.5% of the original audit plan. The appendix shows the control assurance for each audit.
12. Six of those projects 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 and the work, which was carried out twice during the year, to validate the accuracy of the Interreg claims – this represents two separate audits.
13. The work of the Internal Audit Team has established that for the majority (87%) of the areas examined, satisfactory controls were in place at the time of the original audit. These are summarised at Appendix B.
14. Appendix C shows those areas where, at the time of the original audit, unsatisfactory controls were in place. Where weaknesses have been identified the appropriate Head of Service has since agreed the action to be taken to rectify those weaknesses.
15. The external auditors have been able to place reliance on the work of Internal Audit.

The results of external audit work during 2011/12

16. The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2011/12 shortly. The Audit Commission's Audit Manager has not raised any issues with Internal Audit that would give concern in relation to the Council's internal controls.
17. The external auditor's Annual Audit and Inspection Letter for 2010/11 (which was reported to the meeting of the Audit Committee on 8 December 2011), does not identify any control weaknesses.

The effectiveness of the Council's risk management arrangements

18. It was recognised in last years annual report that the strategic risk register was in need of a complete refresh and that no assurance was provided by the arrangements that were in place at the time.
19. The Head of Audit Partnership subsequently reported to the meeting of the Audit Committee on 28 September 2011, proposing an approach for taking

risk management forward at Ashford. The proposal included the creation of a strategic risk register.

20. The report made it clear that there was very limited resource within the Audit Partnership for risk management activity and that the arrangements would need to be delivered in the spirit of the strategic objective to provide 'the best services resources allow'. Maximum use would need to be made of the risk allowance from the Council's insurers, Zurich.
21. The committee resolved that a small task group of Members be set up to examine the Council's current strategic risks and go through the items one by one to add a layer of monitoring. A report on the findings could then go up to Council via the next meeting of the full Audit Committee.
22. The task group, led by the Chairman of the Audit Committee agreed that there was a need to move quickly to create an up-to-date, comprehensive strategic risk register. This would involve a series of one-to-one meetings with senior management and members and a risk workshop which would include Management Team and representatives from Cabinet and from the Audit Committee.
23. The interviews and the risk workshop would be facilitated by Zurich Management Services, and would be funded by the allowance that the Council receives from Zurich under the terms of its insurance contract.
24. The task group's proposals were subsequently endorsed by the full Audit Committee and by a meeting of the Cabinet on 8 December 2011.
25. Meetings between the risk consultant and senior officers and members took place in February 2012 and the risk workshop was held on 9 March 2012.
26. A report on the Strategic Risk Register is shown elsewhere on the agenda for tonight's meeting.
27. It is considered that sufficient progress has been made on risk management for the arrangements to provide some assurance. However, further work needs to be done during 2012/13 to complete the 'management action' process and to develop a regular reporting regime. In the longer term, further work can be carried out to develop a greater awareness of operational and project risk management.

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

28. There were no significant control breakdowns during 2011/12.

The results of any other form of external inspection or assessment

29. There have been no governance or control based external inspections or assessments during 2011/12, other than the normal external audit work. The external auditor's annual letter for 2010/12 was reported to the meeting of the

Audit Committee on 6 December 2011. The external auditor did not identify any significant weaknesses in the Council's internal control arrangements.

The effectiveness of senior management in resolving control weaknesses

30. 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.
31. Two reports were issued during 2011/12 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. These two areas are awaiting a follow-up.
32. Internal Audit carries out a follow-up to each audit to ensure that the actions have been taken in practice.
33. 7 follow-ups took place during 2011/12. These are shown at Appendix D.
34. 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)

35. 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, it should be noted that there are two audit reports where only limited control assurance was found to be in place, which had not been the subject of a follow-up at the end of the financial year:
 - Data Protection
 - Gypsy Site
36. The issues raised in the audit of the Gypsy Site are service based and do not have a corporate or material impact, whereas the matters relating to Data Protection are corporate and cover procedures that are prescribed by statute. Therefore only the Data Protection audit needs to be added to the Annual Governance Statement as an 'outstanding control weakness'.

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

37. 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)
38. The target for completion of audit projects within the internal audit plan for 2011/12 was 24 projects. This has to be achieved through the completion of twelve projects by each operational auditor.
39. In practice the number of projects completed during 2011/12 was 21, which is 88% of the target.
40. Customer surveys are issued to clients following each internal audit to assess satisfaction with the audit process. The responses have been very positive. 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. Again, responses have been positive.

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

41. 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.
42. 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.
43. A detailed Internal Audit Manual is in place.
44. 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
45. 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

46. 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 E. The consistent use of assurance levels allows a balanced view to be taken of the overall adequacy of control within the Council.

47. In the financial year 2011/12, a total of fifteen audit reports included an assurance assessment for the area that had been audited (six did not). The initial assurance assessments were categorised as follows:

	2011/12	Previous year
High	1	1
Substantial	12	11
Limited	2	6
Minimal	0	0
Not given	6	4
Total	21	22

48. 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 87% 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

49. Internal Audit work is reported at six-monthly intervals. An interim report, showing the first six months work of the financial year 2011/12, was provided to the Audit Committee meeting on 6 December 2011.

Mid Kent Internal Audit Partnership

50. 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.
51. The financial year 2011/12 was a period of consolidation for the Partnership, with audit systems and processes being made consistent across the four partner sites.
52. Feedback on the first year of the Partnership has been positive at all four Councils.
53. During 2011/12, the Audit Partnership took on the responsibility for facilitating the risk management process at Ashford, with no increase in resources or costs.

Other issues - Staffing

54. The team of operational auditors comprises two staff. Each auditor is expected to complete twelve audit projects during the year.
55. Under the partnership arrangement, the extent of audit management for the Ashford audit service is the equivalent of 0.5 full time employees. The management resource is used for audit planning, review of audit reports, supervision, strategic management, risk management and reporting to the Audit Committee and to the Management Team.
56. The total staffing establishment for Internal Audit at Ashford is therefore 2.5 FTE. It is considered that internal audit resources for Ashford are at a 'de minimis' level.

Risk Assessment

57. 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

58. Not applicable.

Other Options Considered

59. 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

60. Individual audit reports are provided to the respective Head of Service for consideration and implementation, with copies to the Deputy Chief Executive and the Chief Executive. 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 internal audit service and specifically in relation to individual audit reviews.
61. The Audit Manager has recently conducted a series of interviews with Heads of Service in order to establish their views and their perceptions of controls and risks. The results of this exercise will help to inform future audit plans,

Implications Assessment

62. Internal Audit is a statutory requirement for 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

63. 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

64. 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

65.

66.

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APPENDIX A

ASHFORD BOROUGH COUNCIL Summary of Report of Audit Assignments: April 2011 – March 2012: Assurance Assessments

Audit Ref.	Report/Project	Date of Report	Report Assurance Level	Follow Up Assurance Assessment
1	DEBTORS	JUNE 11	SUBSTANTIAL	Scheduled July 12
2	INTEREGG CLAIM 5 & SPOT CHECKS	JULY 11	N/A	N/A
3	INSURANCE	SEPT 11	SUBSTANTIAL	Scheduled June 12
4	NATIONAL FRAUD INITIATIVE	MAY 11 & MAR 12	N/A	N/A
5	RENOVATION GRANTS	OCT 11	SUBSTANTIAL	Scheduled June 12
6	DATA PROTECTION	NOV 11	LIMITED	Scheduled June 12
7	FOOD & SAFETY	DEC 11	SUBSTANTIAL	SUBSTANTIAL June 12
8	DWP INVESTIGATION	SEPT 11	N/A	N/A
9	SINGLE SOURCE SUPPLIERS	OCT 11	N/A	N/A
10	PAYROLL	DEC 11	SUBSTANTIAL	Scheduled July 12
11	GIFTS & HOSPITALITY	DEC 11	SUBSTANTIAL	Scheduled June 12
12	RESPONSIVE REPAIRS	DEC 11	SUBSTANTIAL	Scheduled July 12

Appendix & Audit No.	Report/Project	Date of Report	Report Assurance Level	Follow Up Assurance Assessment
13	CHILMINGTON GYPSY SITE	JAN 12	LIMITED	Scheduled September 12
14	GREENOV	JAN 12	N/A	FEE EARNING
15	INTEREGG CLAIM 6 & FIRST LEVEL CONTROL AUDIT	JAN 12	N/A	N/A
16	TREASURY MANAGEMENT	FEB 12	SUBSTANTIAL	Scheduled Aug 12
17	RECYCLING CREDITS	FEB 11	SUBSTANTIAL	Scheduled Sept 12
18	BANK RECONCILIATION	MAR 12	SUBSTANTIAL	TBA
19	LAND CHARGES	MAR 12	SUBSTANTIAL	Scheduled Sept 12
20	COUNCIL TAX	MAR 12	SUBSTANTIAL	Scheduled Nov 12
21	GATEWAY	MAR 12	SUBSTANTIAL	Scheduled Sept 12

Summary of Internal Audit evaluation of control environment – projects assessed as substantial or high

Service: Revenues and Benefits
Audit Title Debtors
Report Issued: June 2011

Audit Scope:

- To evaluate the effectiveness of the key controls of the Sundry Debtors system which ensure that: -
 - Debtor accounts are promptly and correctly raised in respect of
 - miscellaneous and service charges due to the Council
 - Debtor accounts are promptly followed up when no payment has been received
 - Debtor accounts are accurately recorded in the Council's accounts
 - Payments are promptly and accurately posted to debtor accounts
 - All write offs of amounts due are appropriately authorised

- 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 audit testing confirmed that service areas are raising debtors' accounts appropriately for the correct amount and on a timely basis. The payments received are via an automated process which operates separately from Debtors staff, thus containing a segregation of duties. Audit testing found that all payment transactions are posted to the correct debtor account on a timely basis. The changes introduced to the recovery stages follow sound principles and ensure that the recharging arrangements for service areas that use the debtors system are equitable. Satisfactory records and mechanisms are in place to monitor debts. Audit testing on a sample of write-offs found that each case is well documented and the decision to write off the debt was justified.

The Corporate Debt Recovery policy needs to be updated to reflect changes to the recovery process and the relatively recent change of management responsibility for the Debtors system. There, is also a need to review the accounts that are in credit. Write offs should be processed on a more timely basis.

Assurance level: Substantial

Management Response Summary:

All recommendations will be implemented.

Proposed Date for Follow-up: July 2012

Follow-up Assessment: N/A

Service: Financial Services
Audit Title: Insurance
Report Issued: September 2011

Audit Objectives:

- To consider the arrangements which are in place for providing advice and support to other local authorities in connection with the insurance shared service partnership;
- 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 arrangements for the annual review and negotiation of insurance premiums.

Key Findings:

The auditor's detailed testing of a sample of claim files resulted in positive results. It is evident that the Insurance Officers extensive career and experience in this field is to the benefit of the Council. The audit found sound arrangements to be in place at the renewal stage and for the payment of insurance premiums.

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

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

Assurance level: Substantial

Management Response Summary:

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

Proposed Date for Follow-up: June 2012

Follow-up Assessment: Not applicable at this time

Service: Customer Homes and Property
Audit title: Renovation Grants
Report Issued: October 2011

Audit Objectives:

To establish whether:-

- Grants are awarded in accordance with the conditions of the scheme.
- Entitlement and grant payments are accurately calculated and recorded within the Council's Accounts.
- Appropriate charges are applied on the Land Registry where necessary.

Key Findings:

The review focused on key management controls that are in place to ensure Renovation and Disabled Facility Grants are awarded and processed in accordance with policy guidelines.

Overall the report concluded that the controls over the arrangements are strong and provide a substantial level of control assurance. However, several areas were identified where improvements should be made; these include the need to ensure charges are registered with Land Charges in a timely manner, and that processes are developed for reclaiming charges when properties are subsequently sold.

Assurance level: Substantial

Management Response Summary:

Two of the four recommendations are accepted and will be implemented in a timely manner. Of the two recommendations not agreed, one is now not necessary as the particular grant scheme has finished, and the second is not feasible with the current level of resources.

The Management Response is considered to be adequate.

Proposed Date for Follow-up: June 2012

Service: Environmental Services
Audit title: Food Safety
Report Issued: December 2011

Audit Objectives:

- To establish if the Environmental Health – Commercial Team operates in accordance with applicable legislation and ABC's published policies
- To identify and evaluate procedures for registration, inspection, and monitoring of food premises
- To identify and evaluate procedures for complaints and enforcement
- To review other elements supporting the delivery of the food safety function such as hygiene aspects, resource, training and records

Key Findings:

The majority of findings relate to adherence to 'the Standard' (a formalised concept derived from Food Safety legislation). The Food Safety function is generally discharged in accordance with The Standard and the audit recommendations address minor weaknesses.

The remainder of findings related to records and record keeping, in part derived from The Standards but also subject to additional considerations (The Data Protection Act 1998 and the Chartered Institute of Environmental Health, CIEH). Recommendations addressed evidential records custody and retention, the data protection principles (record retention and purpose), and proof of identity aspects affecting examination and award of certificates.

Assurance level: Substantial

Management Response Summary: All recommendations are accepted and action has started to address all of them by December 2012. Management will review the elements derived from the Standard and ensure that operational processes (service planning, maintenance of policies & procedures, internal verification of conformance) are considered and revised in keeping with the Standard's provisions, the Data Protection Act 1998, and the CIEH.

The management response is considered to be adequate

Proposed Date for Follow-up: June 2012

Follow-up Assessment: Substantial

Service: Personnel and Development
Audit title : Payroll
Report Issued: December 2011

Audit Objectives:

- To verify the accuracy of calculations for starters, amendments and leavers.
- To establish whether redundancy payments have been accurately calculated and, appropriately authorised.
- To establish whether the payments made via BACS are secure and correct.
- To review the accuracy of the interface and reconciliation between the payroll system and general ledger (e-Financials system).

Key Findings:

Overall the arrangements in place for making amendments to the payroll are sound and audit testing confirmed a substantial level of assurance over the accuracy of the figures calculated by Payroll staff. However, improvements are required to the administrative arrangements for the council's lease car scheme.

Assurance level: Substantial

Management Response Summary: The recommendations are accepted and will be implemented in a timely manner.

The management response is considered to be adequate.

Proposed Date for Follow-up: July 2012

Service: Personnel and Development
Audit Title Gifts & Hospitality/Declarations of interest
Report Issued: December 2011

Audit Objectives:

- To ensure that offers of gifts and hospitality are being recorded and reviewed in accordance with the Council's Code of Conduct for staff;

- To ensure that officer declarations of interest are being recorded and reviewed in accordance with the Council's Code of Conduct for Staff;
- To ensure that the Council is accurately publishing offers of gifts and hospitality and officer declarations of interest under the transparency agenda.

Key Findings:

The audit report acknowledges the recent introduction of electronic systems, which have replaced the manual registers and forms that have previously fulfilled the purpose of recording officer hospitality and declarations of interest. The electronic systems, which were developed in-house, are efficient and fit for purpose. The audit makes one recommendation to tighten the procedure and approval process for staff engaged in additional employment, where their salary grade is above spinal point 30.

Assurance level: Substantial

Management Response Summary:

The recommendation is agreed and all future 2nd job declarations from officers above SCP30 will be written to in accordance with the Code of Conduct.

Management response is considered to be fully adequate.

Proposed Date for Follow-up: June 2012

Service: Customers Homes and Property
Audit Title: Responsive Repairs
Report Issued: December 2011

Audit Objectives:

- To establish and evaluate the procedures in place for controlling the responsive repairs service, to include order raising, variation orders and the subsequent payments;
- To establish and evaluate the pre and post inspection regime which should be integral to the responsive repairs service;
- To establish and evaluate the controls in place, specifically for customer service and performance monitoring;
- To establish and evaluate the budgetary control arrangements for the responsive repairs budget.

Key Findings:

The key processes in place for order raising and payment of works were found to contain good controls. However, there is a weakness in the authorisation controls. It is recommended that the Housing Management computer system is reviewed to establish whether the control weakness can be addressed within the system. Appropriate checks are in place at key stages of the payments process, which are also well evidenced through supporting reports. Testing of the payments process confirmed that payments are correct.

The arrangements for pre and post inspections had recently changed at the time of the audit and the revised arrangements will be a specific focus of the subsequent follow-up review.

The responsive repairs service from the perspective of tenants and the performance of the contractor is subject to ongoing monitoring and review.

Assurance level: Substantial

Management Response Summary:

Four of the five recommendations will be implemented and the action will include the introduction of an authorisation framework for the Orchard (Housing Management) system.

The recommendation, to implement a contingency plan for the responsive repairs service, is not accepted as the service already has sufficient resilience through using various contractors. We also have had experience of an early termination of responsive repairs contracts.

Proposed Date for Follow-up: July 2012

Follow-up Assessment: N/A

Service: Financial Services (Accountancy)

Audit Title: Treasury Management

Report Issued: February 2012

Audit Objectives:

- To establish and evaluate the controls over the operational arrangements for Treasury Management;
- To test that transactions are in accordance with the Council's Treasury Management Policy;
- To confirm the implementation of agreed audit recommendations from the last audit on Treasury Management.

Key Findings:

The Council's Treasury Management Strategy (2011-12) was approved by the Cabinet at its meeting on the 10th February 2011. The Cabinet now receives regular information on Treasury Management performance as part the Revenue Budget Monitoring reports, which are subsequently reviewed by the Overview and Scrutiny Committee. It was evident from the reports reviewed during the audit, that Members are kept informed of Treasury Management activity and where appropriate, the decisions taken under the Strategy.

Testing of investment transactions confirmed that investments are made in accordance with the Treasury Management Strategy and are supported by the expected documentation. Transactions made on the Council's interest bearing accounts are appropriate and were verified during the audit.

The controls surrounding the Bank-line system, which is the facility used by the Council to make Treasury Management transactions are satisfactory.

Assurance level: Substantial

Management Response Summary: Two of the three recommendations are accepted and will be implemented.

Proposed Date for Follow-up: August 2012

Follow-up Assessment: N/A

Service: Environmental Services
Audit Title Recycling Credits
Report Issued: February 12

Audit Objectives

- To establish whether the income and expenditure incurred in relation to recycling initiatives is accurately accounted for, with appropriate evidence in place to support transactions
- To establish whether the monthly claim for recycling credits is accurately completed and submitted, with appropriate supporting evidence
- To establish whether performance indicators are accurately reported on the waste data flow system

Key Findings

The audit focused on the financial aspects of recycling initiatives and set out to establish whether income and expenditure was appropriately accounted for with supporting evidence in place in relation to income and expenditure for the following areas; recycling grant claims, bring sites, recycling credits, and the blue box scheme. This incorporated ensuring the accuracy of performance data entered on the governments Waste Data Flow (WDF) System. It was established that sound processes are in place for income and expenditure and data quality control.

Assurance level: 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: September 2012

Follow-up Assessment: N/A

Service: Finance
Report title: Bank Reconciliation
Report Issued: March 2012

Audit Objectives

- To establish whether appropriate procedure notes are in place for the completion of the bank reconciliation process.
- To establish whether the bank account is being reconciled on a monthly basis and in a timely manner.
- To establish the accuracy of feeder system reconciliations used to compile the bank reconciliation.

Key Findings

The audit established that responsibility for banking is clearly defined within Financial Procedure Rules and that procedure notes for completing the reconciliation are in place. However, the procedure notes are in need of updating. There should be a sharing of knowledge about the reconciliation process (between the Principal Accountant and Accountancy Assistant) to improve resilience.

The audit confirmed that appropriate arrangements are in place for the treatment of returned and un-cleared cheques.

Although not specifically reviewed as part of this audit, previous audits have highlighted the need to re-engineer the overall Bank Reconciliation to make it more automated. This was discussed with the Finance Manager during the audit, who confirmed that this is still the objective. However, significant updates are due to be made to the Main Financial System and the Income Management System before this review can commence.

Assurance level: Substantial

Management response – Awaiting a response at 14 June 2012.

Proposed date for follow up: TBA

Follow up assessment – N/A

Service: Planning and Development
Report title: Land Charges
Report Issued: March 2012

Audit Objectives:

- To ensure that suitable controls are in place to record requests for searches and to accurately notify the results;
- To ensure all income from land charge searches is properly received and accounted for.

Key Findings:

The audit established that the procedures for processing land charge searches are generally sound. The Land Charges team is performing well with 97% of searches processed (up to January 2012) completed within the 2 day target. At the time of the review, the fee income from land charges for 2011/12 was £203k against an original budget of £185k.

The evaluation of the controls identified a specific weakness with the Acolaid system which allows search transactions to be processed and completed without recording a fee. Furthermore, there is a lack of 'division of duties' in the role of the Acting Land Charges Team Leader, whereby she has administration access to the (Acolaid) Land Charges module but also processes search applications in her own right.

Assurance level: Substantial

Management Response Summary:

All of the recommendations are accepted and management action will be taken to address the control issues identified from the audit. Specifically the fee report will be rewritten to pick up any blank entries and discussions are being held with the software supplier to see if the fee field can be made a mandatory field. The appointment of a senior Land Charges Officer will provide for a better separation of duties and the fee reconciliation has been brought up to date.

Proposed Date for Follow-up: September 2012

Follow-up Assessment: N/A

Service: Revenues and Benefits
Audit title; Council Tax
Report issued: March 2012

Audit Objectives

To establish whether:

- The recovery and enforcement procedures are carried out in accordance with statutory requirements.
- All recovery action taken is supported by documentary evidence.
- All relevant records and accounts are updated to record the action taken; which must be legitimate and appropriate and whether write-offs are correct and are properly authorised.
- To consider the use of Committal Proceedings, Charging Orders and Bankruptcy as advanced methods of Council Tax recovery.

Key Findings

Members of staff who have access to the Revenues and Benefits system are required to sign declarations on the acceptable usage of the system and the need to protect confidential information. Testing at the time of the audit found that the declarations are in need of updating.

Initial recovery stages are automated within the system, which ensures the timeliness of the recovery process. Pre-court summonses are appropriately issued and a bulk request for liability orders is presented to the Court. Once a liability order has been granted the total costs for the summons and liability order, £120 are applied to council tax account. Where possible attachments to benefit and earnings are initially sought before debts are referred to the Council's bailiffs. If debts are not recoverable they are forwarded for write-off. An appropriate reconciliation between the schedule presented to Cabinet and the write-offs processed on the system was completed during the audit and found to be correct.

At the time of the audit the total value of Council Tax debt was circa £2.9m of which 1.07m was directly actionable by the Recovery and Enforcement Team, i.e. not with the bailiff or pending attachment of benefit/earnings. The outstanding debts covered the period 97/98 to date.

To audit report recommends ensure that a decision chart should be developed to aid the Recovery and Enforcement Team to prioritise debt and ensure that appropriate action is taken in a timely manner for debts returned from the bailiff

The use of charging orders and bankruptcy proceedings should be further investigated and adopted, where financially viable, as alternative recovery routes to committal proceedings.

A formal framework and guidance on how decisions are made should be developed together with a protocol with Social Services to ensure that vulnerable adults can be identified and dealt with appropriately before advanced recovery action is taken.

Assurance level: Substantial

Managers Response summary: The audit recommendations are accepted and will be implemented.

Proposed Date for Follow-up: November 2012

Follow-up Assessment: N/A

Service: Customers, Homes & Property
Audit title: Gateway
Report issued March 2012

Audit Objective:

- To test and evaluate the financial procedures operated at the Ashford Gateway Plus.

Key Findings:

Prior to the Ashford Gateway Plus opening, the Customer Services Manager / Joint Operations Manager Gateway drew up procedure notes covering the operational procedures for financial systems at the Ashford Gateway. The procedures were developed in consultation with the Exchequer Manager and Internal Audit. This audit has primarily considered compliance with the procedure notes.

The review primarily focused on the financial procedures as they relate to the scan coin machines, security of monies on site, end of day procedures for income from the tourist information centre and general key holding and access arrangements to money. The audit has also considered the control of accountable stationery and the arrangements for dealing with cheques.

The audit found that the arrangements are being operated in accordance with the stated procedures set out in the procedure note. One minor issue is highlighted in the audit report, which recommends that consideration is given to discontinuing the acceptance of cheques as a method of payment at the Gateway.

Assurance level: High

Managers Response summary: Recommendation accepted

Proposed Date for Follow-up: September 12

Follow-up Assessment: N/A

Other audit project work

Service: Corporate Review
Audit Title Interreg Project – Mosaic
Report Issued July 2011 and January 2012 (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. The project will provide a detailed socio-economic map of the County to assist resource planning and to focus service delivery to where it is needed. 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 receives up to 50% funding from the European Union.

Ashford Borough Council's contribution to the funding has been through the time that officers spend developing the project. This means that detailed records have been required for all aspects of the work. Internal audit take the role of First Level Controller and audit the time

records and the detailed claims prior to their submission. Failure to perform this role would result in funds being withheld.

Key findings:

The audit work consisted of compiling and reviewing the documents and the calculations relating to the two claims that were submitted to Kent County Council during 2011/12. In addition the Internal Audit work was subsequently independently reviewed by the European auditors appointed by the Interreg lead partner, to obtain further assurance on the quality of work undertaken. This eventually allowed the final claim to be agreed and the payment to be made by the EU.

No report was issued – no response is required

Service: Corporate
Audit Title National Fraud Initiative (NFI) 2010/11 Interim & Final Review

Report issued: May 2011/March 2012

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).

Key Findings

Internal Audit continues to be the 'Key Contact' for the NFI exercise which includes coordinating and monitoring progress of investigations, ensuring that 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 1795 data matches were identified by the Audit Commission from the data submitted.

The audit established that good progress had been made in terms of investigating the matches

Assurance assessment: 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

Service: Revenues and Benefits

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

Investigation completed: September 2011

Audit scope:

The Council was advised by the Department of Work and Pensions (DWP) that a member of staff within the Revenues and Benefits section had apparently 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 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.

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 expect the Council to deal with in an appropriate manner. The apparent 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. The investigation established that the breach had indeed occurred. The member of staff admitted that he had improperly accessed an account. It was concluded that 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.

Service: Corporate
Audit Title: Single source suppliers
Report issued: October

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 and was being observed in practice. This review has formed part of a series of reviews undertaken on behalf of the Overview & Scrutiny Committee to ascertain progress made to implement changes in commissioning/working practices.

Findings: Testing concluded that the arrangements had/were being put in place to address the issues associated with engaging consultants/single source suppliers but had not yet become fully embedded within the organisation. Processes were being introduced by management to strengthen the current arrangements and was anticipated that appointments will be made on a more consistent basis in the future. Compliance will be further reviewed in work to be undertaken in the 2012/13 audit plan

Management Response: A further report was provided to a meeting of the Overview & Scrutiny Committee on the 27 November 2011 by the Deputy Chief Executive, setting out the timescale to introduce the revised arrangements. A further follow up review was undertaken and reported to Overview & Scrutiny in March 2012

Service: Planning & Development (Economic Development)
Audit title: Intereg Project Greenov
Report issued Dec11 & Jan 12

Audit scope:

The GREENOV project aims to develop the economic opportunities for sustainable renovation in North West Europe by stimulating the innovation capacity of SMEs working in the field. This will be done by developing a cluster, one of the most effective tools for competitiveness and economic development, thereby multiplying and diversifying opportunities on the market.

The partners (12) identify technologies, know-how and best practices in the field of sustainable renovation, and carry out investments utilising Greenov funding to stimulate the market, stakeholders and raise awareness among decision-makers and inhabitants.

Renovation operations of existing buildings, including insulation works, double glazing, ventilation, etc. to improve energy efficiency and have immediate effects on climate change. Improvements to indoor air quality, re-use/recycling and other sustainability issues like safety and accessibility are also included. The project also provides job opportunities in the building sector at the local level

Ashford Borough Council took over responsibility for the Greenov project from Ashford's Future in autumn 2011 and to date, Greenov funding has been utilised to install energy efficiency initiatives in St Mary's Church and the Gateway building.

This initiative will continue to be funded by the EU until 2014 therefore the First Level Controller work undertaken by Internal Audit, will continue to attract a fee income for the Council.

Audit findings:

The audit work consisted of acting as the First Level Controller (FLC) compiling and reviewing the documents and the calculations relating to the claims that were submitted to the Lead Partner during 2011/12. Failure to sign off claim within specified timeframes could result in funds being withheld from the European Lead partner. It was found that all claims were submitted on time and payment from the Lead Partner is expected in the near future. The work included the need to resolve a number of outstanding issues from the previous claims made by Ashford's Future in order to ensure that Ashford Borough Council could optimise funding within the Greenov initiative.

No report was issued – no response is required

Other work - Consultancy/Financial Advice/Guidance

A number of smaller pieces of work were carried out during the year including work on:

- 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), and
- Assisting in the 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 initiatives held by the Council.

Summary of Internal Audit evaluation of the control environment – projects assessed as Limited or Minimal

Service: Business Change and Technology
Audit title: Data Protection
Report Issued: 3rd November 2011

Audit Objectives:

- To establish whether there are sufficient controls and guidance in place to ensure that the Council does not breach the provisions of the Data Protection Act.
- To establish whether appropriate staff are trained and kept up to date with legislation.
- To establish whether data protection guidelines and principles are adhered to.

Key Findings:

The report concluded that the arrangements in place for ensuring compliance with the Data Protection Act were in need of strengthening. The policy and procedures were in need of review; improved handling of subject access requests was required; there was a need to promote the Data Protection Act throughout the Council and there was a need to strengthen physical security arrangements for the Civic Centre.

Assurance level: Limited

Management Response Summary:

The Audit recommendations are accepted and will be implemented in a timely manner.

The management response is considered to be adequate.

Proposed Date for Follow-up: June 2012
Follow-up Assessment: N/A

Service: Customers Homes and Property
Audit Title: Chilmington Gypsy site
Report Issued: January 2012

Audit Objectives:

To establish whether;

- The Chilmington Gypsy site is suitably managed in accordance with the policies and procedures;
- Income from rents and utilities is securely and accurately collected;
- Expenditure from utilities is suitably monitored and controlled.

Key Findings:

The audit report acknowledges that the Chilmington site has had and continues to experience, a variety of anti social issues which create unique difficulties and challenges in managing the site. At the time of the audit, the responsibility for managing the site had recently been transferred to the Housing Operations Manager. The audit report acknowledges that the officer had already identified a range of issues and had created an action plan to address them.

The audit identified a number of weaknesses and control issues. Key to these is the absence of a policy framework to set out the management objectives of the site and the policies for allocations and the approach to be taken to rent arrears monitoring and collection.

A number of recommendations were made to improve the operational management and procedures at the site, including introducing revised licence agreements to the residents of the site that reflect the current liable party. Improvements to the income accounting arrangements for electricity card sales are also recommended.

Assurance level: Limited

Management Response Summary:


The recommendations from the audit report are agreed and will be implemented. Early action had been taken to address and progress many of the audit recommendations which has included issuing new tenancy agreements to the liable party on site.

Proposed Date for Follow-up: September 2012

Follow-up Assessment: N/A

APPENDIX D

Follow Up reviews carried out	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Notes	Direction of Travel
Grants to Outside Bodies	July 2011	Limited	Substantial	At the time of follow up action had been taken to implement most of the recommendations. The assurance was reassessed as Substantial	↑
Housing Service Charges	August 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Expenses	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Building Control	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Budget Setting & Savings	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔

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. A further follow up was carried out in March 12 and reported to Overview & Scrutiny Committee	
	March 2012	Limited	Substantial		

APPENDIX E

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>