

Agenda Item No: 6
Report To: Audit Committee
Date: 4 December 2012
Report Title: Internal Audit – 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 2012. The Audit Committee is asked to agree that the work shows evidence of an adequate and effective audit service.
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Key Decision: No

Affected Wards: N/A

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

Agree that the audit process is working effectively and that management is taking the necessary action to implement agreed 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 – Interim Report

Purpose of the Report

1. The Interim Report is principally intended to inform Members of the work of the Internal Audit team during the first half of the financial year. The Annual Report, in June 2013, will provide a more detailed review of Internal Audit work and will include an assessment of the adequacy of the Council's overall control environment, in support of the Annual Governance Statement.

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. Six, full, planned audit projects were completed between April and September 2012. 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: Telecare; Section 106 Agreements and CIL; ICT Development, and Contract Procedure Rules. These audits and other audit work programmed for the second half of 2012/13 will be reported to the Audit Committee in July 2013.
9. The output during the first six months of the financial year is always substantially lower than for the second half year. This is because April is used to finalise and issue reports for work which was carried out in the previous

financial year and because audit staff tend to take much of their annual leave during the first half year, thereby reducing the number of productive days for that period. It is anticipated that annual targets for output will be met by the end of the financial year.

10. 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.
11. Each audit report includes an assurance statement in terms of the adequacy of controls. The definitions for the assurance assessments are shown at Appendix B.
12. A follow-up to each report is completed, usually three to six months after the date of issue of each original report. The follow-up allows the adequacy of controls to be re-assessed after the recommendations have been implemented. A summary of the follow-up assessments completed during the period is included at the end of Appendix A. All of the follow-ups have confirmed that controls assurance has either been maintained or increased since the original audit.

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. Financial: There are no direct financial implications.

19. Legal: 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 2012 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

1. Audit Title: Car Parking - Enforcement

Service: Environmental

Report Issued: August 2012

Audit Objectives:

The key objectives of the audit were to ensure that:

- the Council's Parking Enforcement activities are carried out in accordance with Part 6 of the Traffic Management Act 2004
- income from the payment of Penalty Charge Notices is correctly accounted for
- appropriate agreements are in place with the Councils bailiffs which include performance monitoring arrangements

Key Findings:

- The enforcement, policy and administrative functions for Parking Enforcement are performed in accordance with the Traffic Management Act 2004. Furthermore, the arrangements in place for the receipt and allocation of income provide a substantial level of control assurance.
- There is a need to update agreements with bailiff companies, and to amend the accounting arrangements for parking fine income (collected by bailiffs) to correctly differentiate between on-street and off-street parking codes.

Level of control assurance in place: Substantial

Management Response Summary: Management accepted all of the recommendations.

Proposed Date for Follow-up: January 2013

2. Audit Title: Private Sector Bonds/Homeless Prevention Payments

Service: Customer Homes & Property

Report Issued: September 2012

Audit Objectives:

The key objectives of the audit were to ensure that:

- Private Sector Bonds and Homeless Prevention Payments schemes are appropriately set out and defined;
- To ensure, through audit testing, that transactions made under the schemes for Private Sector Bonds and Homeless Prevention Payments are correct and appropriately supported;
- The schemes for Private Sector Bonds and Homeless Prevention Payments are suitably monitored

Key Findings:

- A number of standalone records are maintained to control the 'prevention fund' budget, therefore management should ensure these records are regularly reconciled to the main eFinancials system to ensure that the record is complete and incorporates all transactions.
- The provision for the potential liability created in the Councils accounts should be reviewed to ensure that it is set at a realistic level to reflect the nature of the payment profile for bonds
- There is no interface between the Landlord database records and the debtor's module therefore management should seek to undertake a reconciliation between the systems to ensure all active bonds with an ongoing tenancy are accounted for.

Level of control assurance in place: Substantial

Management Response Summary: Awaiting management response

Proposed Date for Follow-up: TBA

3. Audit Title: Trusts & Partnerships

Service: Cultural Services

Report Issued: September

Audit Objectives:

The key objectives of the audit were to:

- Identify the trusts that the Council has a relationship with
- Establish the Council's main responsibilities and liabilities in relation to the trusts and how these are managed
- Establish and evaluate arrangements for measuring performance of the trusts and how these meet the Council's objectives
- Evaluate Governance arrangements

Key Findings:

The Key Findings were:

- A register of trusts is maintained by Cultural Services which sets out the main responsibilities and liabilities of the Council.
- Agreements are in place between the Authority and trusts.
- There is a need to periodically review each arrangement to ensure that it continues to support the service objectives/Council priorities.
- Basic governance training should be provided to those Members that take on the role of a Trustee on behalf of the Council.

Level of control assurance in place: Substantial

Management Response Summary: awaiting management response

Proposed Date for Follow-up: TBA

4. Audit Title: Anti Fraud & Corruption Strategy

Service: Corporate

Report issued September 2012

This is one of four work streams being carried out by the four audit teams within the Audit partnership. The other topics are 'whistle blowing', money laundering and risk management. Each work stream seeks to identify best practice and policies/strategies that can be implemented across the four Councils. The intention is to bring forward a suite of revised policies for consideration by the respective Councils.

Audit Objectives:

The key audit objectives were:

- To review the current legislation; current policies and procedures in place/operation at the four partner authorities to determine whether they meet current requirements and standards

- To identify best practice and guidance from other local authorities and organisations that could be implemented across the partner sites.
- To identify effective processes for communication and promotion of policies.

Key Findings:

- Aspects of the policies remain sound however they are in need of updating to reflect current legislation and most notably the Bribery Act 2011
- Awareness of the Anti- fraud and Corruption Policy could be improved both by way of training or promotion on the intranet/internet
- In future these policies should be subject to regular review to ensure they remain fit for purpose.

Level of Assurance Issued: Management Response Summary: N/A

5. Audit Title Greenov –European funding (Intereg)
Service: Planning & Development (Economic Development)
Report issued August 2012

Background

The GREENOV project aims to develop the economic opportunities for sustainable renovation in North West Europe by stimulating the innovation capacity of Small Medium Enterprises 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 in 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 and raise awareness among decision-makers and inhabitants.

Renovations of existing buildings include insulation works, double glazing, ventilation, etc. to improve energy efficiency which has immediate effects on climate change. Improvements to indoor air quality, re-use/recycling and other sustainability issues, including safety and accessibility, are also included. The project 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 for 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 and audit work will be undertaken by Internal Audit, and will continue to attract a fee income for the Council.

The total value of the two most recent claims from the Council was 583,147 euros.

Audit role

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 2012/13. Failure to sign off claims within specified timeframes could result in funds being withheld from the European Lead partner. It was found that all claims

were submitted on time. Payment from the Lead Partner is expected later in the year. 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.

Level of Assurance Issued: Management Response Summary: N/A

6. National Fraud Initiative (NFI)

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 is matched against other data-sets that the Commission has obtained 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 cost of the exercise is £2,200 although this does not include staff costs required to investigate the output data.

Audit Objectives

The audit review sought to confirm that data matches from the 2010/2011 were being appropriately investigated and that the new data sets had been submitted for the 2012/13 Initiative.

Audit role

Internal Audit continue to be the ' Key Contact' for the NFI exercise which has responsibility for overseeing /co-ordinating the initiative including monitoring progress of investigations and ensuring the Authority complies with the Code of Data Matching. We are able to provide assurance that the 2010/11 sets have been appropriately investigated and that the data sets for 2012/13 were uploaded via the secure portal within the scheduled timeframe. The output from these matches is expected in March 2013.

Risk Management

Internal Audit is responsible for coordinating the development of Strategic Risk management within the authority. A fundamental review of the Councils strategic risk was undertaken earlier this year to create a new Strategic Risk register. This was considered and approved at the September Audit Committee and referred to November Cabinet for formal adoption.

In future, regular reports will be provided to Audit Committee and Cabinet showing how the identified risks are being managed.

Examples of other work include:

- Review and opinion on the draft proposal for the creation of a Building Control Company
- Advice and guidance on the need to strengthen Parking Services cumulative income reconciliation
- Advise various departments on data retention requirements for documentation

Follow up Reviews undertaken between April – September

No.	Follow up reviews carried out	Date of follow up report	Audit Assurance Level	Follow up assurance	Direction of Travel
1	ICT Access Controls	July	Limited	Substantial	↑
2	Data Protection	July	Limited	Substantial	↑
3	Building Control	July	Substantial	Substantial	↔
4	Renovation Grants	August	Substantial	Substantial	↔
5	Food Safety	June	Substantial	Substantial	↔
6	Payroll	July	Substantial	Substantial	↔
7	Gifts & Hospitality	July	Substantial	High	↑
8	Insurance	June	Substantial	Substantial	↔
9	Land Charges	September	Substantial	Substantial	↔
10	Parking Income	August	Substantial	Substantial	↔

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:

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 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 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.</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>