

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



Date: **27 JUNE 2013**

Report Title: Internal Audit Annual Report 2012/13

Report Author: Brian Parsons

Summary: The report is provided in order to allow the Audit Committee to consider the work of the Internal Audit Team over the financial year 2012/13 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.

The Audit Committee must 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 2012/13.

The Audit Committee must decide whether the matters referred to in the report provide evidence of an effective internal audit.

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 overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- Note the results of the work of the Internal Audit Team over the period April 2012 to March 2013 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
- Agree that the summary of the work and the other matters referred to in this report supports 'the opinion' and that the report can be used to inform the Annual Governance Statement for 2012/13.
- Note the improvements in control that occur as a result of the audit process.

- Agree that the contents of the report provide evidence of an effective internal audit.

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’ and ‘must at least once in each year, conduct a review of the effectiveness of its internal audit’.
Financial Implications:	None directly
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 2012/13

Purpose of the Report

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
2. 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 organisation's framework of governance, risk management and control.
3. The report allows Members to consider the outcomes of the work of the Internal Audit Team over the financial year 2012/13 and the opinion of the Head of Internal Audit in relation to the Council's framework of governance, risk management and control and whether the report can be used to inform the Annual Governance Statement for 2012/13.
4. The report provides an opportunity for the Audit Committee to assess the effectiveness of the Council's internal audit arrangements.

Issue to be decided

5. The report contains the Head of Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Members are asked to:
 - Note the opinion, and the audit work that form the basis for the opinion
 - Agree that the opinion and that the report can be used to inform the Annual Governance Statement for 2012/13
 - Note the improvements in control that occur as a result of the audit process and agree that the contents of the report provide evidence of an effective internal audit service.

The Public Sector Internal Audit Standards

6. A report on the new Public Sector Internal Audit Standards was provided to the Audit Committee meeting on 5th March 2013. The Standards became effective from 1 April 2013. This report has therefore been written to reflect the requirements which necessitate that:
 - The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.
 - The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
 - The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
 - The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
 - Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.

Proposal

The Annual Internal Audit Report

Independence

7. Internal Audit is provided through Mid Kent Audit, which is a shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells.
8. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
9. At Ashford Borough Council, the Head of Audit Partnership (HAP) has direct and unrestricted access to senior management and the Audit Committee. Reports to Heads of Service are issued in the name of the HAP who is responsible for the final content of the report.
10. The Head of Audit Partnership reports directly to the Audit Committee, the final content of the report being solely his prerogative. The HAP has free and unfettered access to the Chief Executive and the Chair of the Audit Committee.
11. Any potential threats to independence are managed at the individual auditors, engagement, functional and organisational levels.

12. Organisationally the Head of Audit Partnership reports to the Deputy Chief Executive who is a member of the Management Team. On no occasion has the Deputy Chief Executive or Management Team sought to restrict the scope of audit work or to change any report prepared by the HAP.
13. It is considered that Internal Audit is organisationally independent and fully meets the necessary standard for independence and objectivity.

The annual internal audit opinion

14. It is the opinion of the Head of Audit Partnership that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion covers the period from 1 April 2012 to date.
15. The opinion takes account of all related projects including the reliance on other assurance providers; principally Grant Thornton (and previously the assurance provided by the Audit Commission).
16. The opinion takes account of the risk, control and governance framework.
17. The evidence to support the opinion is contained within this report. The opinion and this report can be used by the Council to inform its governance statement.
18. The Annual Governance Statement has been compiled and appears elsewhere on the agenda for this meeting.
19. 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'.

Summary of the work that supports the opinion

20. The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year.
21. Eighteen audit projects were completed between April 2011 and March 2012 and are listed at Appendix A. Thirty-five auditor days were lost due to the secondment of an auditor to the Finance Section early in February. This is the equivalent of losing three audit projects during the year. It was not possible to fill the position (on a temporary basis) until April 2013.
22. This is 86% of the revised audit plan. The team also carry out a number of other audit functions and these are shown at the end of the appendix.
23. The appendix shows the control assurance for each audit. A table showing the definition of the respective control assurance opinions is shown in Appendix C.

24. Four of the audits 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, an internal review of the Anti-Fraud and Corruption Policy and the work, which was carried out twice during the year, to validate the accuracy of the two Greenov claims.
25. The work of the Internal Audit Team has established that for the majority (79%) of the areas examined, satisfactory controls were in place at the time of the original audit.
26. Where weaknesses have been identified the appropriate Head of Service has, in most cases, since agreed the action to be taken to rectify those weaknesses.
27. The external auditors have been able to place reliance on the work of Internal Audit.

The results of external audit work during 2012/13

28. The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2012/13 shortly. The External Auditor has not raised any issues with Internal Audit that would give concern in relation to the Council's internal controls.
29. The external auditor's Annual Audit Letter for 2011/12 (which was reported to the meeting of the Audit Committee on 4 December 2012), commented that 'The Council has good financial governance and sound arrangements for financial control'.

The Council's risk management arrangements

30. The Council has a Strategic Risk Register in place which was agreed/adopted by the Cabinet on 8th November 2012. The creation of the Register was instigated by the Audit Committee.
31. The risks were identified through risk workshops involving senior management and senior Members.
32. The current register shows eleven risks, being:
 - Economic growth
 - Right mix of quality housing
 - Income streams
 - Community demands
 - Consequences of Universal Credit
 - Opportunities for Localism
 - Workforce planning
 - Members skills, capacity and experience
 - Business plan
 - Housing
 - Infrastructure

33. The risk management process requires that the allocated 'risk owners' must complete management action plans, which are subject to review and amendment every six months.
34. The risk register is a living document and is kept under review throughout the year and is amended when necessary to reflect changes in the risk environment.
35. The six monthly review report was brought to the Audit Committee meeting on 5 March 2013. The risk owners had proposed a number of changes to the risk scores whereby the scores would be reduced to reflect the action that they had taken. The Audit Committee did not accept that the risks had reduced and in one case, 'community demands', felt that the score should be increased. The Committee also considered that the Chilmington Green development and surrounding issues should be drawn out as a standalone risk within the register.
36. Management Team subsequently accepted and agreed the conclusions of the Audit Committee. A risk assessment for Chilmington Green is currently being developed.
37. Following the discussion at the informal meeting of the Audit Committee on the 19th April 2013, it is proposed that the highest risks on the register will be scheduled for discussion at future meetings of the Audit Committee, with the risk owner for the respective risk attending the meeting to explain the action that is being taken to manage the risk and to answer questions from Members.
38. Internal Audit takes the role of facilitators of the risk management process but do not have responsibility for the individual risks or for the corporate risk register.
39. Training was organised for service managers in May 2013 in order to provide risk awareness and allow them to incorporate risk management as an integral part of their service planning process.

The effectiveness of the internal audit process

40. 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.
41. Three reports were issued during 2012/13 relating to areas where a 'limited' 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.
42. Internal Audit carries out a follow-up to each audit to ensure that the actions have been taken in practice.

43. Eleven follow-ups took place during 2012/13 as shown at Appendix B. The table also shows the improvements in control assurance (the direction of travel) that occur as a result of the audit process.
44. 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.
45. It is concluded that the internal audit process is effective.

Informing the Annual Governance Statement (AGS)

46. 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 is only one report which has sufficient implications to be referred to in the AGS. This relates to procurement/contracts.

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

47. During 2012/13 the internal audit function had two internal performance targets. The targets were:
 - Completion of the annual internal audit plan (90% target)
 - Achievement of customer care targets (85% positive response target)
48. The initial target for completion of audit projects within the internal audit plan for 2012/13 was 24 projects; however the target was reduced to 21 following the secondment of an auditor to the Finance Section.
49. In practice the number of projects completed during 2012/13 was 18, which is 86% of the revised target.
50. Customer surveys are issued to clients (service managers) following each internal audit, to assess satisfaction with the audit process. The responses have been very positive. Positive levels of satisfaction help to confirm that customer/clients value the service that they receive and the positive response therefore provides evidence of 'value for money'.
51. An annual survey of Chief Executives/Directors and Heads of Service is carried out across the four-way Internal Audit Partnership in order to obtain responses on the quality of the internal audit service. The most recent survey was carried out in June 2013.
52. The survey of the Chief Executives/Directors focuses on satisfaction with the overall service. Of the eleven responses received (which represents all of those in this category), the answers to the question 'Are you satisfied with the service that you receive from Internal Audit', five were 'satisfied' and six were 'very satisfied'.

53. The survey of Heads of Service produced twenty-one responses over the four way partnership of which eight were 'satisfied' with the service and eleven were 'very satisfied' (two responders did not answer this question).
54. The survey of Heads of Service is quite detailed and includes questions on the quality of the various elements of the audit process. The main purpose of the survey is to identify aspects of the service that can be improved. The detailed responses will therefore be very carefully reviewed over the coming months and action will be taken to introduce improvements where appropriate.

Statement on conformance with the Public Sector Internal Audit Standards (PSIAS) and the results of the quality assurance and improvement programme

55. As stated earlier, the PSIAS has only been in place since 1 April 2013.
56. The PSIAS sets out the standards that the Internal Audit team has to comply with in order to meet the statutory requirement. A copy of the PSIAS has been provided to each auditor and each auditor has confirmed that they have 'read, understood and will work to the Public Sector Internal Audit Standards'.
57. The PSIAS requires that a Quality Assurance and Improvement Programme is in place. This requires both internal and external assessments. The internal assessments include ongoing monitoring of the performance of the internal audit activity, which is already in place, and 'periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. CIPFA has recently published a 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards', which includes a checklist. It is intended to use the checklist to aid periodic self-assessments of conformance with the Standards.
58. The PSIAS also require that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. It is intended to seek an external assessment later in the year. The proposals for doing so will be reported to a future meeting of the Audit Committee.
59. The implementation of the PSIAS on 1 April 2013 has meant that aspects of the current service arrangements need to be changed in order to ensure full compliance. It is intended that the necessary actions will be taken during the current financial year so that the service will fully comply by 31 March 2014 at the latest. In particular, Internal Audit is required to operate to an approved Charter. It is intended that a draft Charter will be prepared and brought to the meeting of the Committee in September for approval.

Assurance levels

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

61. In the financial year 2012/13, a total of fourteen audit reports included an assurance assessment for the area that had been audited (four did not). The initial assurance assessments were categorised as follows:

	2012/13	Previous year
High	3	1
Substantial	8	12
Limited	3	2
Minimal	0	0
Not given	4	6
Total	18	21

62. The collective assurance level, which can be extracted from the audit work performed during 2012/13, provides considerable evidence to support the statutory Annual Governance Statement, with 79% 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

63. Internal Audit work is reported at six-monthly intervals. An interim report, showing the first six months work of the financial year 2012/13, was provided to the Audit Committee meeting on 4 December 2012. A number of audit projects shown in the appendices have therefore already been brought to the attention of the Committee.

Other issues - Staffing

64. The team of operational auditors comprises two staff. Each auditor is expected to complete twelve audit projects during the year.
65. 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.
66. The total staffing establishment for Internal Audit at Ashford is therefore 2.5 FTE. It is considered that this level of resources for Ashford is a 'de minimis' level and any reduction in resource would place the Council's statutory duty in doubt.

Risk Assessment

67. 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

68. Not applicable.

Other Options Considered

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

Consultation

70. 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.

71. The Audit Manager undertakes an ongoing process of meeting with Heads of Service in order to establish their views and their perceptions of controls and risks. The results of this ongoing exercise helps to inform future audit plans,

Implications Assessment

72. 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

73. 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

74. The Head of Internal Audit has concluded that substantial reliance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion covers the period from 1 April 2012 to date.

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APPENDIX A

Audit Title: Car Parking - Enforcement

Service: Environmental Services

Report Issued: August 2012

Audit Objectives:

The key objectives 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.

The arrangements in place for the receipt and allocation of income provided a substantial level of control assurance.

There is a need to update agreements with bailiff companies, and correct the allocation of parking fine income (collected by bailiffs) between on-street and off-street parking codes.

Level of Assurance: Substantial

Management Response Summary: Management accepted all recommendations

Proposed Date for Follow-up: January 2013

Audit Title: Private Sector Bonds/Homeless Prevention Payments

Service: Customer Homes & Property

Report Issued: September 2012

Audit Objectives:

The key objectives 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 need to ensure these records are regularly reconciled to the main eFinancials system, to ensure that the record incorporates all transactions.

The provision for the potential budget 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 repayment profile.

While the Landlord Database records a basic level of financial information, there is no interface between this system and the debtor module, which would represent a monitoring process for the payments received. A report from the debtors system could be used to do this but this would in part be incomplete because the report would only include those 'live' accounts on the system, but not those accounts where no payment had been received but which nevertheless relate to 'active' bonds with an ongoing tenancy.

Level of Assurance Issued: Substantial

Management Response Summary: Awaiting management response

Proposed Date for Follow-up: TBA

Audit Title: Trusts & Partnerships

Service: Cultural Services

Report Issued: September 2012

Audit Objectives:

The key objectives of the audit were to:

- Identify the trusts that the Council has a relationship with;
- Establish the councils 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 Councils objectives;
- Evaluate Governance arrangements.

The Key Findings were:

- A register of trusts is maintained by Cultural and Project Services which set 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: The three audit recommendations are accepted and will be implemented.

Proposed Date for Follow-up: June 2013

Audit Title: Anti Fraud & Corruption Policy

Service: Corporate review

Report issued: September 12

This is one of four work streams being carried out by the 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 members.

Audit Objectives:

The key objectives were:

- To review the Current legislation; Current policies and procedures in place/operation at the four partner authorities to determine that they meet the 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:

- The purpose of this review was to assist in developing a model policy that could be considered and adopted across the four partner authorities.
- The intention is to bring forward a suite of revised policies for consideration by the respective members later in the year.

Level of Assurance Issued: N/A

Management Response Summary: N/A

Note: It is proposed to bring forward a suite of revised policies to the September Audit Committee for consideration.

Audit Title: Greenov –European funding
Service: Planning & Development (Economic Development)
Report issued August 12/March13

Audit Objectives:

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, involve 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. The 'First Level Controller' and audit work will be undertaken by Internal Audit, which will continue to attract a fee income for the Council.

Key Findings:

The audit work consists of acting as the First Level Controller (FLC), and 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 to Ashford from the Lead Partner is expected later in the year.

The audit 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.

Ashford Boroughs claim was subject to audit by the European auditors during the year, who confirmed their satisfaction with the standard of record keeping provided to support the Greenov claims. They reviewed the work undertaken of the First Level Controller (FLC) and confirmed that he is effectively discharging his responsibilities in relation to the claim scheme.

No report was issued – no response is required

Audit Title: Section 106 Agreements

Service: Planning

Report Issued: August 2012

Audit Objectives:

The key objectives were:

- To establish and review the process for monitoring Section 106 agreements;
- To establish and review the means by which planning obligations are collected, recovered or obtained from developers;
- To establish and review the controls in place for releasing S106 monies and the use of developer receipts under the terms of S106 agreements;
- To establish the Council's arrangements ahead of the Community Infrastructure Levy being introduced;
- To establish the impact from developer requests to renegotiate existing section 106 agreements and how this process is managed.

Key Findings:

The Key Findings were:

The procedures for recording S106 obligations onto the ACCOLAID system continue to operate satisfactorily. Testing confirmed that obligations are correctly recorded and suitable procedures are in place to monitor trigger points and collect obligations. The review of a number of Section 106 Agreements noted that a reoccurring obligation being placed on new developments is for a carbon off-setting contribution, to be determined following assessment of the carbon emissions arising from the development. The potential monies collected under this obligation could be significant and it is recommended that a specific policy is implemented and approved to manage the future use of monies collected under this obligation.

The Section 106 Group is effective as the principal mechanism for ensuring that monies collected through the Section 106 process are appropriately used in accordance with the terms of the Section 106 agreement. The reports and records of the Section 106 Support Officer, which inform and support the discussion and decisions of the Group, were found to be accurate and sound.

The Council's arrangements for the implementation of the Community Infrastructure Levy were found to be satisfactory.

Level of Assurance Issued: Substantial

Management Response Summary: The two recommendations made are agreed and will be implemented.

Proposed Date for Follow-up: June 2013

Audit Title: CCTV/Telescan
Service: Environmental Services
Report Issued: December 2012

Audit Objectives:

The key objectives were to ensure that:

- Appropriate procedure notes are in place and training is provided.
- Applications for Telecare services are appropriately completed and agreements are entered into.
- Income and expenditure is appropriately accounted for.

Key Findings:

The Key Findings were:

Strong controls exist over the administrative arrangements governing the Telecare Service, which are underpinned by NSI (National Security Inspectorate) and TSA (Telecare Services Association) accreditation requirements. Officers employed within the Monitoring Centre are appropriately trained and licensed. Information packs are provided to potential customers with detailed information/agreements on the services offered and charges payable.

In relation to expenditure and income, it is difficult to fully report on the total cost of the Telecare Service as expenditure for the Ashford Monitoring Centre is not appropriately split between the CCTV and Telecare Budgets. Budgets should be logically apportioned between the two services so that they can be used to set fees.

Level of Assurance Issued: Substantial

Management Response Summary: Seven out of the nine recommendations have been agreed and will be implemented

Proposed Date for Follow-up: September 2013

Audit Title: ICT – Development
Service: ICT
Report Issued: December 2013

Audit Objectives:

The key objectives were to ensure that:

- IT Projects comply with Corporate IS/IT Strategies.
- The ownership and management of projects is clearly defined with an appropriate business case and project plan.
- Design, development, testing and implementation phases are clearly defined.

Key Findings:

The Key Findings were:

The IT Development Team have delivered projects in accordance with client requests and the clients/users were satisfied with the service provided. However, there is a need to strengthen documentation to support bespoke applications and interfaces to ensure the resilience of the service and the applications.

Level of Assurance Issued: Substantial

Management Response Summary: The recommendations are accepted and will be implemented accordingly.

Proposed Date for Follow-up: June 2013

Audit Title: Payroll – Data Migration

Service: Corporate Personnel & Development

Report Issued: February 2013

Audit Objectives:

The key objectives were to:

- Establish that data was appropriately transferred between the Delphi Millennium and iTrent software.
- Establish that results from parallel running were properly reconciled and that any variances were appropriately rectified.
- Review the quality of Standing Data in the iTrent System

Key Findings:

The Key Findings were:

The data migration was correctly and accurately carried out. Two parallel payroll runs were completed on the Delphi and iTrent System to ensure that outputs from each system could be agreed. Testing at the time of the audit independently verified the accuracy of the 2nd parallel run reconciliation between Delphi and iTrent. This in turn provides assurance that iTrent has been appropriately configured to generate accurate payroll runs

The quality of the standing data in iTrent was reviewed as part of the audit. Some minor issues were identified and rectified immediately. Overall the quality of the data tested from iTrent was good.

Level of Assurance Issued: High

Management Response Summary: No recommendations were made

Proposed Date for Follow-up: N/A

Audit Title: Dog Kennelling
Service: Environmental Services
Report Issued: February 2013

Audit Objectives:

The key objectives were

:

- To establish and evaluate the arrangements in place for the provision of kennelling services;
- To establish and evaluate the procedures in place for issuing, recording and enforcing fixed penalty notices

Key Findings:

The Key Findings were:

The kennelling arrangements operate without an agreement being in place to define the service provided. The arrangements have operated this way for a number of years and have not recently been market tested to ensure that they provide value for money.

Under the arrangements the Council pays for six kennels on a 'retainer' basis regardless of the number of kennels occupied. A review of the invoices from the kennelling provider shows an increase in the level of additional charges during the current financial year, arising from veterinary care and where alternative rates have been applied.

Very few fixed penalty notices (FPN) are issued in relation to dog fouling and littering offences. The current arrangements are adequate due to the small number of FPN's issued, however a more structured system would need to be implemented if the Council decided to direct resources in this area of environmental enforcement, which could result in a greater number of FPN being issued.

Level of Assurance Issued: Limited

Management Response Summary: Awaiting response from Management

Proposed Date for Follow-up: TBA

Audit Title: Contract Procedure Rules - Compliance
Service: Corporate review
Report Issued: February 2013

Audit Objectives:

The key objectives were:

- To establish that Contract Procedure Rules are appropriately followed when procuring works goods and services on behalf of the Council.

- To establish that the new arrangements in place for engaging single source suppliers is being adhered to.
- To ensure that appropriate contracts are in place.

Key Findings:

The Key Findings were:

The Council's Contract Procedure Rules highlighted a number of references to information which is either no longer available, or procedures that are now obsolete.

Variations to contract procedures rules where exemptions were applied have not been reported consistently to the relevant committees therefore improvements in this process are required.

Contract Procedure rules should be reviewed in conjunction with the main users to ensure they remain fit for purpose. Any review should be followed by an education programme to ensure officers are aware of their obligations under the rules.

Arrangements for Single Supplier Sourcing have been significantly strengthened.

Level of Assurance Issued: Limited

Management Response Summary: The recommendations are accepted and will be implemented. The procurement strategy will be updated in order to ensure that it is properly supporting business plan objectives.

Proposed Date for Follow-up: TBA

Audit Title: Rent Accounting/Arrears
Service: Customer Homes & Property
Report Issued: February 2013

Audit Objectives:

The key objectives were:

- To establish and evaluate the measures in place for the reduction and reporting of rent arrears.
- To establish that credit balances are appropriately refunded and write-offs are correctly processed.
- To establish whether the potential impact on the collection of rents arising from the government's welfare reforms has been identified and whether action is proposed to mitigate the effects.

Key Findings:

The Key Findings were:

The Council has a Rent Arrears Recovery Policy and an Arrears Management Policy in place to ensure that rent arrears are collected in a consistent and timely manner. Although the two policies are in place they were last formerly reviewed in 2009 and are therefore may be in need of updating

Credit Balances on rent accounts invariably result from timing differences between direct payments and the application of backdated benefits. However, at the time of review circa £250,000 credit balances (1800 cases) showed credit balances. A recommendation is made that those tenants with larger credit balances >£750 should be contacted to discuss whether the credit should be refunded or set against future rent payments.

There is a need to ensure prior authorisation before a debt is written off.

Level of Assurance Issued: Substantial

Management Response Summary: Seven out of the eight recommendations have been agreed and will be implemented

Proposed Date for Follow-up: January 14

Audit Title: Ward Member Grants

Service: Policy & Performance

Report Issued: March 2013

Audit Objectives:

The key objectives were:

- To ensure that the scheme has been clearly defined and communicated to Members;
- To ensure that payments have been correctly paid under the scheme and are properly accounted for.
- To ensure that all grant payments are properly supported by adequate records, documentation and evidence.

The audit set out to establish and evaluate the controls in place over the scheme and in particular, to consider compliance with the Scheme Guidance, grant applications, payments and budgetary control.

Key Findings:

The Key Findings were:

Audit testing of paid grant applications confirmed that grant funds had generally been allocated within the parameters of the scheme to the types of organisation set out in the Scheme Guidance. However, the audit identified several occasions where the Scheme Guidance should have been more closely followed and where opportunities exist to improve the controls in place.

Level of Assurance Issued: Limited

Management Response Summary: The seven recommendations made by the audit are accepted and will be implemented. Specifically, revised guidance will be issued and implemented after June Cabinet. Recommendations to more closely monitor the use of grant monies and the publication of paid grants on the Council's website are accepted and will be implemented.

Proposed Date for Follow-up: September 2013

Audit Title: Council Tax – Valuation, Liability & Billing

Service: Revenues & Benefits

Report Issued: April 2013

Audit Objectives:

The key objectives were:

- To establish whether all property valuations (new and amendments) are correctly updated on the Council Tax system;
- To establish if the correct Council Tax debit has been correctly calculated and applied to Council Tax accounts;
- To evaluate the arrangements for the timely and accurate billing of Council Tax.

Key Findings:

The Key Findings were:

- Arrangements for the exchange of information with the Valuation Office are secure and well documented.
- Regular reconciliations of the total banding information are carried out.
- Arrangements for main billing at the start of the year, following the determination of the Council Tax requirement, are well rehearsed and were found to be satisfactory.
- Checks are in place and routinely followed to independently validate decisions made by staff to suppress accounts

Level of Assurance Issued: High

Management Response Summary: N/A – No recommendations were made

Proposed Date for Follow-up: N/A

Audit Title: Creditor Payment System

Service: Finance

Report Issued: April 13

Audit Objectives:

The key objectives were:

- To assess the accuracy of creditors payments made during the financial year 2012/13 via data matching testing using IDEA and using data from the 2012/13 NFI exercise;
- To establish, evaluate and test the operation and effectiveness of the 'key controls' for the creditors system

The audit tested and evaluated the 'key controls' for the creditor's process, which included a review of:

- Separation of duties
- Setting up new suppliers and amendments to standing data
- Authorisation limits
- Payment Run (BACS and Cheque payments)

Key Findings:

The Key Findings were:

The IDEA testing and the investigation of matches from the NFI provided positive assurance that accurate payments are made through the creditors processes.

Four recommendations were made relating to key controls:

- Operational procedure notes for the creditors process should be brought up to date
- An annual check should be carried out to ensure that 'authorised users' are correct.
- The arrangements for >£20k payments should be reviewed to ensure that multiple invoices to the same supplier which cumulatively exceed £20 k are subject to checking and authorisation.
- A cheque book should be maintained to replace the very low numbers of cheques which the Council continues to print.

Level of Assurance Issued: Substantial

Management Response Summary: Three of the four recommendations are accepted and will be implemented. The fourth recommendation relating to the arrangements for >£20k cheques is agreed in principal subject to some further research into the bank mandate limit and how this compares with other local authorities.

Proposed Date for Follow-up: October 2013

Audit Title: Members Allowances

Service: Member Services/ICT

Report Issued: April 2013

Audit Objectives:

The key objectives were:

- To ensure that Allowances and Expenses are claimed, processed and paid in accordance with the approved Members Allowance Scheme
- To ensure that payments made are authorised, correct and supported by appropriate documentation
- To determine whether current arrangements for reporting allowances and expenses are in accordance with prevailing regulatory requirements (such as open government & transparency frameworks)

Key Findings:

The Key Findings were:

Allowances, Travel and Expenses are generally claimed, processed and paid in accordance with the approved Members Allowance Scheme

Payments made are not always authorised, however they are checked for completion, accuracy and that the correct rates are applied

The ICT element of the allowances scheme does not always operate in accordance with specific Scheme provisions, for example in relation to the provision of equipment and the consistent use of email addresses. Improvements could be made to streamline the scheme and the associated documentation, to improve the consistency of the authorisation process and the clarity of individual responsibilities.

Allowances and expenses are reported on the Council's website. The Scheme and out turn are easily located on the site, however Independent Remuneration Panel reports are more difficult to find.

Level of Assurance Issued: Substantial

Management Response Summary: A draft response has been prepared by the Head of Legal and Democratic Services; the response is subject to further input from the ICT team.

Proposed Date for Follow-up: TBA

National Fraud Initiative (NFI)

The NFI is a biennial data matching exercise (still) 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 include Benefits, Payroll, Creditors, Residents Parking Permits, Licensing, Insurance claims and Register of Electors.

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

Internal Audit continues to be the 'Key Contact' for the NFI and has responsibility for overseeing /co-ordinating the initiative, including monitoring the progress of investigations and ensuring the Authority complies with the Code of Data Matching.

It has been confirmed 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, with appropriate steps put in place to investigate the data matches.

Risk Management

Internal audit is responsible for overseeing the development of Strategic Risk management within the authority. A fundamental review of the Councils Strategic Risk profile was undertaken in 2012 to create a new Strategic Risk Register. The Register was considered

and approved at the September 2012 Audit Committee and referred to November 2012 Cabinet for formal adoption.

The reports provided to the Audit Committee seek to provide assurance that Strategic Risks are being identified and appropriately managed within the organisation. The reports, outcomes and minutes can be used to inform the Annual Governance statement.

Examples of 'other work' include:

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

Follow up Reviews 2012/13

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 2012	Limited	Substantial	↑
2	Data Protection	July 2012	Limited	Substantial	↑
3	Building Control	July 2012	Substantial	Substantial	↔
4	Renovation Grants	August 2012	Substantial	Substantial	↔
5	Food Safety	June 2012	Substantial	Substantial	↔
6	Payroll	July 2012	Substantial	Substantial	↔
7	Gifts & Hospitality	July 2012	Substantial	High	↑
8	Insurance	June 2012	Substantial	Substantial	↔
9	Land Charges	September 2012	Substantial	Substantial	↔
10	Parking Income	August 2012	Substantial	Substantial	↔
11	Gypsy Sites	December 2012	Limited	Substantial	↑

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>