

Agenda Item No: 6
Report To: Audit Committee
Date: 3 December 2013
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 2013. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective internal audit.
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Key Decision: No

Affected Wards: N/a

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

Agree that it is satisfied that the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.

Policy Overview: N/A

Financial Implications: None directly

Risk Assessment Yes

Equalities Impact Assessment No

Other Material Implications: Financial and Legal

Background Papers: Various Internal Audit reports

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Report Title: Internal Audit Interim Report

Purpose of the Report

1. The report provides details of the work of the Internal Audit team between April and September 2013. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective internal audit.

Issue to be Decided

2. The Audit Committee is asked to decide whether it is satisfied that the report provides evidence of an adequate and effective Internal Audit service.

Background

3. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
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 of its system of internal control in accordance with the proper practices in relation to internal control'.
5. The adequacy of the 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 summaries of specific audit reports. 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. Eight planned audit projects were completed at Ashford between April and September 2013. The Ashford auditors also completed three projects for Tunbridge Wells. The Tunbridge Wells audit team will in return undertake three projects at Ashford before 31 March 2014. The audit projects completed at Ashford are listed at Appendix 1.
8. One of the two Ashford operational auditors has been seconded to the Finance team since February 2013. His post has been filled on a temporary basis by an auditor under contract.
9. A summary of each audit project is shown at Appendix 2. The outcomes were generally positive, with control assurance for five projects being 'substantial', with only two areas providing 'limited' control assurance. The definitions for the assurance assessment are shown at Appendix 3.

10. The output during the first six months of the year is always lower than for the second half year. This is because April is used to finalise and issue reports for work that 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.
11. 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 the revised plan is achieved. The remaining audit plan, covering the period October 2013 to March 2014, is attached at Appendix 4. It is considered that the plan will be fundamentally delivered by the end of March 2014.
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 progress on implementing the agreed recommendations to be assessed. Two follow-ups were completed during the period April to September and in both cases, good progress had been made in implementing the recommendations.
13. The Audit Committee considered and approved the Internal Audit Plan of work for 2013/14 at its meeting on 5 March 2013.
14. Some minor changes to the Plan have been made, to reschedule a number of audit projects to a more suitable time.
15. The six-month Interim Report is principally intended to inform the Audit Committee of the work of the Internal Audit team during the first half of the financial year. The Annual Report covering the whole of 2013/14 will be provided to the meeting of the Committee in June/July 2014. It will provide a more detailed review of Internal Audit work and will include an assessment of the Council's overall control environment, in support of the Annual Governance Statement.
16. There are no significant control weaknesses that have been identified by audit work that need to be brought to the attention of the Audit Committee.

Risk Assessment

17. Internal Audit reviews the adequacy of the controls that are in place to manage risk. An ineffective or inadequate Internal Audit service would mean that weaknesses in internal control are not identified or rectified.

Equalities Impact Assessment

18. Not applicable

Other Options Considered

19. The Audit Committee needs to have an awareness of the work of Internal Audit in the context of its Terms of Reference. The only alternative would be

to provide a less detailed report; however this would be at odds with the Council's commitment to transparency.

Consultation

20. The initial audit plan for 2013/14 was subject to consultation with Heads of Service and the Deputy Chief Executive before being agreed by the Audit Committee in March 2013. The outcomes of Internal Audit reports are discussed with the respective Head of Service who is asked to complete an action plan relating to the audit recommendations. The Head of Service is made aware of the wording that will be used to report the audit project to the Audit Committee.

Implications Assessment

21. The work of Internal Audit covers a range of services and systems that exist to support corporate plan priorities
22. Financial - Internal Audit examines a broad range of functions, systems and risk areas; however financial systems are a key element of the Audit Plan. The majority of work on financial systems is carried out in the second half of the financial year.
23. Legal - Internal Audit is a statutory requirement in accordance with the Accounts and Audit Regulations 2011.

Portfolio Holder's Views

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APPENDIX 1

Internal Audit Projects completed 1st April – 30th September 2013

	Title	Head of Service	Status	Assurance
1	Debtors	Head of Revenues & Benefits	Issued May 2013	Substantial
2	Pest Control	Head of Culture & the Environment	Issued May 2013	Substantial
3	Social Lettings Agency	Head of Customer Homes & Property	Issued June 2013	Substantial
4	Car Mileage & Expenses	Head of Personnel & Development	Issued July 2013	Substantial
5	Rechargeable Works & Communal Recharges	Head of Customer Homes & Property	Issued August 2013	Limited
6	Car Parking income	Head of Customer Homes & Property	Issued August 2013	Substantial
7	VAT management	Deputy Chief Executive/Finance Manager	Issued September 2013	Limited
8	Greenov claim verification	Head of Planning & Development	Issued September 2013	N/A

Plus - 3 reviews undertaken for Tunbridge Wells – to be reciprocated before 31 March 2014.

Summary of Internal Audit Reports – April to September 2013

Report title: Debtors

Service: Revenues and Benefits

Report Issued: May 2013

Audit Objectives:

- Provide assurance over the adequacy of the controls for the raising of debtors accounts;
- Provide assurance that suitable steps are being taken to recover debts in accordance with the debtors recovery policy;
- Determine the accuracy and completeness of payments and the reconciliation of the debtors system;
- Determine compliance with write-off procedures

Key Findings:

The auditor concludes that officers are complying with both the Corporate Debt Recovery Policy and internal procedures to ensure that recovery action is consistent and timely. Testing also identified that procedures are being complied with when writing-off the debts that are uneconomic to collect.

The audit report recommends that service managers should be reminded of the court fees that will be charged to their budgets when requesting that a judgement be obtained on an outstanding debt and that obtaining a County Court judgement does not guarantee the recovery of the debt.

Level of Assurance Issued: Substantial

Management Response Summary: Management response is considered to be satisfactory.

Proposed Date for Follow-up: October 2013

Follow-up Assessment: N/A

Report title: Pest Control

Service: Street Scene and Open Spaces

Date of Report: May/June 2013

Audit Objectives

- Provide assurance over the adequacy of the controls for the procurement and subsequent monitoring of the pest control contract;
- Ensure that customer feedback is obtained and actioned as appropriate;
- Confirm the accuracy and completeness of payments to and by the contractor.

Key Findings

The Council let the pest control contract through an OJEU tender process. A signed contract is in place. The fees charged to residents for the Pest Control service, were agreed with the contractor prior to the contract being signed, however the fees for the service have not been formally approved by Cabinet. Suitable processes are in place to ensure that invoices to the Council for concessionary services are supported by a detailed schedule listing all work carried out during the month. However, the Council has under recovered approx. £2,000 in respect of the concession reimbursement fee, based on the gross takings in each quarter.

Level of Assurance Issued: Substantial

Management Response Summary: Report issued 24 June 2013 - awaiting response from management

Proposed Date for Follow-up: TBA

Follow-up Assessment: N/A

Report title: Social Lettings Agency
Service: Customer Homes & Property
Report Issued: June 2013

Audit Objectives:

- To provide assurance over the adequacy of the controls for the provision of the service;
- To ensure that appropriate arrangements are in place to enable the Letting Agency to deliver the services required to the Landlords;
- To confirm the accuracy and completeness of payments from landlords;
- To ensure that reputation and financial risks to the council are sufficiently controlled;

Key Findings:

The auditor concluded that suitable controls are in place regarding the governance arrangements and the related controls for ABC Lettings. Checks are carried out on landlords and the properties that are used by ABC Lettings. Procedures are in place to match tenants to suitable properties, which in turn ensures that rent arrears are kept to a minimum. Correct payments are being made to landlords.

The conditions of the contract between ABC Lettings and the landlord are complied with. A number of administrative aspects were identified where improvements can be made, all of which are low risk.

Level of Assurance Issued: Substantial

Management Response Summary:

8 out of the 8 recommendations made in the report have been accepted. The management response is considered to be adequate.

Proposed Date for Follow-up: January 2014

Report title: Car Mileage - claims and expenses
Service: Personnel and Development
Report Issued: July 2013

Audit Objectives:

- To establish whether car mileage and expenses claims are appropriate and have been made in accordance with the Council's Conditions of Service Handbook;
- To establish whether claims are adequately evidenced and authorised;
- To establish whether payments are accurately made and correctly recorded in the payroll system and the general ledger;
- To consider the general controls and structure of iTrent Self Service as it relates to expenses submission, authorisation and processing.

Key Findings:

Generally positive results were achieved from the testing of a sample of mileage and expenses claims, which confirmed that payments had been made in the required format and were properly substantiated and reimbursed at the prevailing rates. The audit did not identify any contentious or excessive claims from those selected for testing.

The iTrent Self Service system provides suitable audit trails and, at the time of the audit, retrospective checks were being undertaken by the Payroll team to provide assurance that the processes are working effectively.

The generally positive outcome to the audit is reflected in that only two recommendations are made. These relate to updating the Conditions of Service Handbook to reflect the introduction of iTrent self service module and reviewing the payment of phone rentals and the reimbursement of internet allowances.

Level of Assurance Issued: Substantial

Management Response Summary:

The audit recommendations are accepted and will be implemented.

Proposed Date for Follow-up: January 2014
Follow-up Assessment: N/A

Report title: Rechargeable Works & Communal Recharges
Service: Customer Homes & Property
Report Issued: August 2013

Audit Objectives:

- To provide assurance over the adequacy of the controls for the identification of rechargeable works;

- To ensure that tenants are accurately and promptly recharged for works completed;
- To confirm the accuracy and completeness of charges raised in respect of communal recharges including heating & lighting in sheltered units.

Key Findings:

Suitable controls are in place to make tenants aware of their responsibilities in respect of rechargeable works - that they will be recharged for the cost of work where the cause is due to misuse, abuse or accidental damage by the tenant.

There is a weakness in procedures for raising invoices for rechargeable works – at the time of the audit (August 2013), no invoices had been raised for rechargeable works since early January 2013 despite works being evident over the same period, where recharges could have been made.

Appropriate and effective processes are in place to record, calculate and collect communal charges, which are applied to individual rent accounts in the sheltered units.

Level of Assurance Issued: Limited

Management Response Summary:

3 out of the 3 recommendations made in the report have been accepted.
Management response is considered to be satisfactory.

Proposed Date for Follow-up: February 2014

Report title:	Car Parking Income
Service:	Parking
Date Report	August 2013

Audit Objectives:

- To determine the adequacy of controls over the administration and receipt of payments for season tickets;
- To establish and evaluate the financial controls over the secure collection and reconciliation of car parking pay-and-display income;
- To establish and evaluate the arrangements in place for the security and maintenance of pay-and-display machines.

Key Findings:

Suitable controls are in place for car parking pay and display income and the issue of season tickets and residential permits.

For season tickets and residential permits, procedures ensure the correct processing of applications and receipt of the charges. Sample testing of income collected from pay and display machines matched to the daily and cumulative information recorded on individual audit tickets - and to the information held in the car parking database used to record income received. The amounts recorded in the database agree with the income shown in the general ledger.

Level of Assurance Issued: Substantial

Management Response Summary:

3 out of the 3 recommendations made in the report have been accepted. The management response is considered to be adequate.

Proposed Date for Follow-up: May 2014:

Report title: Intereg Project Greenov
Service: Planning & Development (Economic Development)
Report issued September 13

The GREENOV project aims to develop the economic sector of sustainable renovation in North West Europe by stimulating the innovation capacity of Small/Medium Enterprises working in the field, by developing a cluster; one of the most effective tools for promoting competitiveness and economic development.

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

Renovation of existing buildings, including insulation, double glazing, ventilation, etc. to improve their energy efficiency will have immediate effects on climate change, indoor air quality, re-use/recycling and other sustainability issues like safety and accessibility.

The project provides job opportunities in the building sector at the local level

Ashford Borough Council took over direct 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 Intereg partnership initiative will continue to be funded until 2014, therefore Internal Audit will continue to carry out the 'First Line Controller role, which attracts a fee income.

Assurance assessment

The audit work consists of acting as the First Level Controller (FLC) - compiling and reviewing (auditing) the documents and the calculations relating to the claims to be submitted to the Lead Partner. Failure to submit a claim within specified timeframes or the submission of a claim that has not been subject to proper audit process would result in funds being withheld by the European Lead partner.

All claims have been submitted on time and have been properly checked and reviewed by Internal Audit. Payment from the Lead Partner is expected in the near future in relation to the most recent claim.

Level of Assurance Issued: N/A

Management Response Summary: No report was issued – no response is required

Audit title: VAT management
Service: Finance
Report issued September 2013

Audit Objectives:

- To provide assurance over the adequacy of the controls - that goods and services supplied to the Council or supplied by the Council are correctly categorised for VAT purposes;
- That suitable controls are in place to ensure that input and output VAT is accounted for accurately and in a timely manner;
- To confirm the accuracy and completeness of the monthly returns submitted to HMRC;
- Provide assurance over the completeness and accuracy of the annual VAT partial exemption calculation.

Key Findings

The Council is in a net recovery position for VAT (i.e. input tax on its expenditure is greater than output tax on its income). In 2012/13 the Council reclaimed £4,249,068 in VAT.

Guidance, which is available on the Intranet, should be improved to assist staff in the treatment of VAT, thereby helping to ensure compliance with VAT legislation when raising invoices, or receiving invoices from suppliers.

A number of areas were identified where the authority has not accounted for VAT correctly/ accurately resulting in some sums not being paid over to HMRC. Some transactions have been misclassified (i.e. exempt, zero rated etc.).

A number of instances were identified where the Council has not maximised the opportunity to recover VAT. Areas were identified where the authority could achieve year on year savings in respect of the treatment of VAT, subject to some adjustments to current practices.

The individual amounts involved are relatively small in the context of the overall amount of VAT reclaimed by the Council in a financial year. However, it is important that the accounting arrangements and the claims made to HMRC are correct.

The overall net effect of these adjustments if all options were taken up to maximise VAT recovery would be near cost neutral.

Recommendations have been made to address the above issues and management has already taken positive action to address them.

Level of Assurance Issued: Limited

Management Response Summary: Awaiting the final response from management however the majority of recommendations have already been actioned

Proposed Date for Follow-up: TBA

Follow-up Assessment: N/A

Audit Consultancy Title: Farrow Court Project

Internal Audit was requested by management to assist in contributing to the delivery of the project from a control, risk and governance perspective and to provide advice, guidance, assistance and challenge. An auditor has therefore been allocated to the role – as part of the overall project team.

Scope of work being supported by internal audit

- Compliance with the Project Management tool PPC 2000
- Procurement decisions - to evidence and verify key decisions made through either sub contracting or the supply chain decisions
- Management of identified risks (Projects Risk Register – update, control, monitoring)
- Transparency of key decision making and scheme of delegation (authority, minuting and appropriate reporting)
- Compliance with legislation
- Accuracy of Interim Payments
- Adequacy of Budgetary Control
- Arrangements for declaring conflicts of interest and gifts and hospitality offered or received

The project continues to progress, therefore internal audit support will continue to provide assurance on the governance arrangements in place. The effectiveness of the role and the value of continuing to be a part of the project team will be subject to review later in the financial year.

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>

APPENDIX 4

The table shows the remaining audit plan of 16 projects to be delivered 1st October 2013 – 31st March 2014.

	Title	Head of Service	Progress
1	Lease Cars /Cash Alternative	Head of Personnel & Development	Report about to be issued
2	Bank Arrangements	Finance Manager	Report about to be issued
3	General Ledger	Finance Manager	Report about to be issued
4	Business Continuity	Head of Communications & Technology	Brief Issued - November
5	National Fraud Initiative	Deputy Chief Executive	Fieldwork in Progress
6	Council Tax	Head of Revenues & Benefits	Brief issued – November Audit
7	Non Domestic Rates	Head of Revenues & Benefits	Brief Issued –November Audit
8	Farrow Court (ongoing audit consultancy role)	Head of Community & Housing	In Progress
9	Planning Enforcement	Head of Planning & Development	Brief Issued scheduled December
10	Creditors – Transparency Agenda	Deputy Chief Executive	Scheduled for December
11	Waste Management Contract	Head of Culture & the Environment	Scheduled for January 2014
12	Benefits	Head of Revenues & Benefits	Provisionally scheduled for February 2014
13	Housing Allocations	Head of Community & Housing	Provisionally scheduled For January 2014
14	ICT Disaster	Head of Communications & Technology	Provisionally scheduled March 2014
15	Cemetery	Head of Culture & the Environment	Brief issued – audit deferred to March 2014
16	Health & Safety	Head of Culture & the Environment	Provisionally scheduled for February 2014