
INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 27th June 2012**

By: **Chief Executive (s.151 Officer): Sue McGonigal**

Subject: **INTERNAL AUDIT PROGRESS REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP.**

Classification: **Unrestricted**

Summary: **This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31st March 2012.**

For Information

1.0 Introduction

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31st March 2012.

2.0 Audit Reporting

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3.0 Summary of Work

3.1 There have been five internal Audit assignments completed during the period. Of these: one concluded Substantial assurance, two concluded Reasonable assurance, and one resulted in a split assurance which was partly reasonable assurance and partly Limited Assurance. Additionally, one piece of work comprised of quarterly housing benefit testing for which an assurance level is not applicable. Summaries of the report findings are detailed within Annex 1 to this report.

3.2 In addition, three follow-up reviews have been completed during the period.

4.0 Options

4.1 That Members consider and note the internal audit update report.

4.2 That Members consider (where appropriate) requesting an update from the relevant Director/s to the next meeting of the Committee in respect of any areas identified as still having either limited or no assurance following follow-up.

4.3 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after the completion of internal audit follow-up reviews and update presentations from the relevant Director.

5.0 Corporate Implications

5.1 Financial Implications

5.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2011-12 and 2012-13 budgets.

5.2 Legal Implications

5.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

5.3 Corporate Implications

5.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 8th December 2009, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

6.0 Recommendations

6.1 That the report be received by Members.

Contact Officers:	Christine Parker, Head of the Audit Partnership, Ext. 7190
	Simon Webb, Audit Manager, Ext 7190
	Sue McGonigal, Chief Executive (s.151 Officer) Ext. 7002

Annex List:

Annex 1	East Kent Audit Partnership Update Report – 27-06-2012
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Background Papers:

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2011-12</i>	Previously presented to and approved at the 15 th March 2011 Governance and Audit Committee meeting
<i>Internal Audit Annual Plan 2012-13</i>	Previously presented to and approved at the 20 th March 2012 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership



INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31st March 2012

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	EK Services – Housing Benefit Overpayments	Substantial
2.2	EK Services – Business Rates	Reasonable
2.3	EK Services – Debtors	Reasonable
2.4	EKHRP/KCC - Payroll, SMP and SSP	Reasonable/ Reasonable/Limited
2.5	EK Services – Quarterly Housing Benefit Testing (Quarters 2 and 3 of 2011-12)	Not Applicable

2.1 EK Services Housing Benefit Overpayments – Substantial Assurance:

2.1.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding the administration of overpayments of Housing Benefit especially at keeping the number of overpayments to a minimum by making the necessary changes to benefits paid as soon as known and that all avenues of recovery are pursued to obtain any benefit overpaid.

2.1.2 Summary of Findings

EK Services manage the Housing Benefit Overpayment process for Dover DC, Thanet DC and Canterbury CC through staff based at each site. They are responsible for the billing and collection of overpaid benefits through the raising of invoices, agreeing and monitoring instalment arrangements and the processing of accounts through court action recovery. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported.

This review confirmed that overall a sound system of control is currently being managed and achieved over Housing Benefit Overpayments at each of the three collaborative authorities. This control assessment has been based on the processes that reflect each authorities existing arrangement prior to EK Services taking over this

operation. The audit examination and review of procedures in operation found that the working practices engaged in are relevant and appropriate to facilitate the effective collection of Housing Benefit overpayments.

The EK Services Income Management Policy has been drafted and is currently being consulted on with the three collaborative authorities. The procedures proposed by EK Services were not found to be significantly different to those procedures on best practice historically followed by individual authorities. They will however introduce consistency of application and working practice that will support debt collection, monitoring and system reporting of information.

The proposed Policy was found to have regard to the Financial Procedure Rules and reporting requirements of each individual authority.

Management information was available to enable the monitoring and reporting of housing benefit overpayments with proposals underway to enhance the level of management information historically reported by each authority. Once in place these will provide a comprehensive range of internal performance indicators.

A range of preventative measures were confirmed during the review providing confidence that control application within working practices ensures that overpayments are kept to a minimum at each authority.

Overpayments were found to be identified and actioned promptly with existing system (Civica) supporting the processing and event monitoring of overpayments. The IT systems were found to be fit for purpose with no significant operational problems being experienced on the collection of Housing Benefit overpayments.

2.2 EK Services Business Rates – Reasonable Assurance:

2.2.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding the administration of Business Rates, especially the recording of accounts, billing, income collection, monitoring of accounts and debt recovery.

2.2.2 Summary of Findings

EK Services manage the NNDR collections process for DDC, TDC and CCC through staff based at each site. They are responsible for the maintenance of the database of properties and accounts and for the billing and collection of income due. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported.

The amendments to the property file are conducted after receipt of the weekly VOA amendment lists, this work took significantly longer, on average, to complete at CCC than elsewhere, which should be corrected, as it could delay the collection of additional income. The process for accounting for any discrepancies remaining between the VOA and Council data file once amendments had been made, was superior at CCC and should be adopted universally. There were problems with the end of year VOA list reconciliations for both Dover and Thanet with minor discrepancies unresolved. For Thanet this has now been corrected but remains a

work in progress at Dover, this should be given some priority as we are approaching year-end.

The approved new Policy, for granting of discretionary relief and hardship cases across the three councils, is to be commended. It includes reference to an annual review for each discretionary award but this will place a tight deadline on the review procedure if revised discretionary awards are to become effective from 2013. There does not appear to be a strategy and work programme in place to address this issue.

The NNDR income reconciliation processes used at each authority differed markedly as did the number of staff involved. Each achieved its aim but in the interests of business continuity there could be advantages in standardising the routines and spreadsheets used to record the information.

The single performance data statistics required to be reported is the actual income collected against the monthly target. This has been done for each month. However, it was noted that there is no aged debt reporting regime showing progress towards recovering old debts. There could be benefit in preparing this data for each Council to demonstrate the effectiveness of the processes employed.

2.3 EK Services Debtors – Reasonable Assurance:

2.3.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide an effective, efficient and economical debtor management and recovery service to the three partner authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls.

2.3.2 Summary of Findings

EK Services manage the Debtors function for CCC, DDC, and TDC through staff based at DDC and TDC. They are responsible for the collection of corporate debt on behalf of each council at the point the invoice is raised. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported and this has been agreed by all three authorities.

It is early days for the partnership and processes and procedures are still evolving. From undertaking testing and talking to EK Services staff and various council officers it is clear that there is little consistency across the three sites, and this is also evident through the various levels of work undertaken by EK Services at each site. It is understood that managing the debtor's function by EK Services has only been in place for the last 11 months and it will take a considerable amount of time to clean up the systems and processes that they have inherited.

The outstanding credits need to be reviewed more regularly as this is having a detrimental impact on the total amount outstanding at each authority.

Until the Income Management Policy is approved by the three authorities, EK Services must work to the individual authority's policies which are out of date or incomplete and therefore do not assist with ensuring there is a cohesive approach to debt collection. As a priority action should be taken to get the authorities to approve the Policy and this will result in an alignment of procedures and a consistent approach to debt management.

2.4 Payroll – Reasonable Assurance: Payroll Accuracy
– Limited Assurance: Governance Arrangements
– Limited Assurance: Performance Management Framework

2.4.1 Audit Scope

To provide assurance that the internal controls within the payroll service at each of the partner authorities and KCC are functioning satisfactorily whilst taking into account the required key controls.

2.4.2 Summary of Findings

The payroll process continues to evolve since it was introduced and many of the expected controls are effective, as demonstrated by staff at all four sites being paid on time each month. Action has been taken to control risks regarding some of the issues that were highlighted by partners during the settling in period, and further issues have been raised as a result of the audit. It is recognised that there are risks around the monthly process and risks around the key relationships; all partners are keen to see these resolved and the way forward agreed.

The assurance on the system of internal controls in operation within the payroll system has been split as during the audit;

- errors in pay to staff have been detected that had not been previously identified, consequently checking levels are considered to be set too high,
- key relationships need to be set out in formal agreements as 'goodwill' is currently heavily being relied upon,
- targets and performance information need to be reviewed for relevance and then measured and monitored, with transparency.

The findings show that there is scope for improvement to strengthen the existing controls and reduce risk. The errors regarding the overpayment of allowances paid to leavers and the additional mileage payments, made via the software error detected during this audit, significantly contributed towards paying for it.

2.4.3 Management Response

The action plan contains 21 recommendations, and the responsibility for implementing the recommendations has been pitched largely at the Strategic HR Board. Due to complexity of bringing multiple councils' payroll arrangements together on a common platform, as an interim measure the role of EK Strategic HR Board was vested in the EK Chief Executive Forum, whose primary role is to commission the required work from the relevant staff, and to ensure that sufficient capacity and resource exists within the annual HR and payroll plan to deliver the agreed audit actions.

2.5 EK Services Housing Benefit Quarterly Testing (Quarters 2 and 3 of 2011-12):

- 2.5.1 Over the course of the 2011/12 financial year the East Kent Audit Partnership has been completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

- 2.5.2 In total 45 benefit claims were checked across the two quarters and of these only one failed the criteria set by the Audit Commission's verification guidelines as the error identified impacted the subsidy claim – an error rate affecting subsidy, across the 45 claims tested, of only 2% which is the lowest error rate identified by EKAP testing at Thanet in recent years
- 2.5.3 Nine further claims failed due to procedural/data input errors, however these have no effect on the subsidy claim or the amount payable to the claimant; the issues have been raised with the Quality Team and corrective action has been taken to amend the claims

3.0. **FOLLOW UP OF AUDIT REPORT ACTION PLANS:**

- 3.1 As part of the period's work, three follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Land Charges	Substantial	Substantial	H	0	H	0
				M	2	M	0
				L	0	L	0
b)	Pest Control	Reasonable	Reasonable	H	2	H	0
				M	2	M	0
				L	1	L	0
c)	Equality and Diversity	Limited	Reasonable	H	5	H	0
				M	4	M	0
				L	0	L	0

- 3.2 Details of any individual High priority recommendations outstanding after follow-up are included at Appendix 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Member's of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 **WORK-IN-PROGRESS:**

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Dog Warden & Litter Enforcement, Data Protection, Visitor Information Arrangements, East Kent Housing (Tenancy & Estate Management, & Rent Setting and Arrears Management) and EK Services (ICT Management and Finance Controls, ICT Procurement & Disposal, & ICT Physical & Environmental Controls).

5.0 **FRAUD AND CORRUPTION:**

There are no known instances of fraud or corruption to bring to Members attention at the present time.

6.0 UNPLANNED WORK:

There was no unplanned work arising during the period quarter to bring to Members attention at the present time.

Attachments

Appendix 1 Summary of High priority recommendations outstanding after follow-up.

Appendix 2 Summary of services with Limited / No Assurances

Appendix 3 Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 1

Original Recommendation

**Agreed Management Action , Responsibility
and Target Date**

**Manager's Comment on Progress
Towards Implementation.**

There were no recommendations outstanding after follow-up

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2

Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Homelessness	March 2012	Reasonable/ No Assurance	On-going management action in progress to remedy the weaknesses identified.	Summer 2012



Appendix 3

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.