
INTERNAL AUDIT ANNUAL REPORT

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

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

Subject: **INTERNAL AUDIT ANNUAL REPORT OF THE HEAD OF THE
AUDIT PARTNERSHIP FOR 2011-12.**

Classification: **Unrestricted**

Summary: **This report provides the summary of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2012.**

For Information

1.0 Introduction

- 1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:
- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
 - Present a summary of the internal audit work undertaken to formulate the opinion.
 - Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Governance Assurance Statement.
 - Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
 - Comment on compliance with the CiPFA Code of Practice for Internal Audit in Local Government, and report the results of the Internal Audit quality assurance programme.
- 1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2011-12 for Thanet District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice.
- 1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to port best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.

1.4 The audit plan for this year has been delivered with 7.21 days being carried forward as work in progress at the year-end. The performance figures for the East Kent Audit Partnership as a whole for the year show impressive performance against target, and indeed the EKAP has once again delivered financial savings against its agreed budget to all its partners in the delivery of the service.

4.0 Options

4.1 That Members consider and note the annual internal audit report for 2011-12.

4.2 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 considering the work or coverage of internal audit for the year 2011-12.

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 budget.

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.

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	Simon Webb, Audit Manager, ext 7189
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Annex List:

Annex 1	East Kent Audit Partnership Annual Report 2011/12
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Background Papers:

Title	Details of where to access copy
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<i>Internal Audit Annual Plan 2011-12</i>	Previously presented to and approved at the March 2011 Governance and Audit Committee meeting
<i>Internal Audit Follow Up 2011-12</i>	Previously presented to Governance and Audit Committee Meetings in quarterly updates
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

Annual Internal Audit Report for Thanet District Council 2011-12

1. Introduction

The CIPFA Code of Practice for Internal Audit in Local Government for the United Kingdom 2006 defines internal audit as:

"An assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic efficient and effective use of resources."

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter (approved by this Committee in March 2012 and reviewed annually). The East Kent Audit Partnership (EKAP) aims to comply with the CIPFA Code of Practice, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council's review of the system of internal control in operation throughout the year.

The key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils' anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through bi-annual meetings.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

The audit plan is agreed with members annually at the March Committee meeting following a risk assessment of all the key systems and issues facing the Council. This assessment also ensures suitable time and resources are devoted to reviewing areas on a cyclical basis. The work of Internal Audit includes agreeing with service managers that a control risk exists and setting out a course of action to rectify this. The value of the advice given by Internal Audit is evidenced through the acceptance of the majority of audit recommendations, and the feedback from the customer satisfaction survey.

During 2011-2012, 101 recommendations were made in the agreed final audit reports for Thanet District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	47	47%
Medium	46	45%
Low	8	8%
TOTAL	101	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2011-12 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 101 recommendations, and whilst 92% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix A for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 24 pieces of work commissioned for Thanet District Council over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	10	50%
Reasonable	7	35%
Limited	2*	10%
No	1	5%
Work in Progress at Year-End	0	-
Not Applicable	4	-

* See list in the table below

NB: 'Not Applicable' is shown against quarterly benefit checks, special investigations or work commissioned by management that did not result in an assurance level.

Taken together 85% of the reviews account for substantial or reasonable assurance, whilst 15% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas receiving either a 'limited' or 'no' assurance audit opinion during the year are detailed in the following table, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due/ Result
CCTV	Limited	Reasonable
Homelessness	Reasonable / No	Two Follow Ups Completed
Payroll	Reasonable / Limited	Quarter 2 2012

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- "closed" as they are successfully implemented, or
- "closed" as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) "closed" as management has decided to tolerate the risk.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

The results for the follow up activity for 2011-12 are set out below. The shift to the right in the columns in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2011-12.

Total Follow Ups undertaken 25	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	3	15	7
Revised Opinion	0	2	14	9

There are no fundamental issues of note arising from the audits undertaken in 2011-12. There are however a number of matters reported in section 3 below, and the reviews showing a limited assurance after follow are detailed in the table in section 4 below.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is

alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some reactive work was carried out during the year at the request of management, during the year 2011-12 there has been no fraud investigations conducted by the EKAP on behalf of Thanet District Council.

2.4 Completion of Strategic Audit Plan

Appendix B shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 334.79 audit days were completed for Thanet District Council during 2011-2012 (including the 25.47 days carried forward); this compares to the budgeted 342 days and equates to 97.89% plan completion. The remaining 7.21 days will be carried forward as work in progress at the year-end 2011-12. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2008-09 concludes that EKAP is currently behind at Thanet District Council, as shown in the table below:

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2008-09	400	0	400.00	397.61	99.40%	-2.39
2009-10	408	2.39	410.39	399.82	97.42%	-8.18
2010-11	430	10.57	440.57	466.04	105.78%	+36.04
2011-12	342	-25.47	316.53	309.32	97.72%	-32.68
Total	1580			1572.79	99.54%	-7.21

3. Overall assessment of the System of Internal Controls 2011-12

Based on the work of the EKAP on behalf of Thanet District Council during 2011-12, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. Many of the main financial systems, which feed into the production of the Council's Financial Statements, have achieved a Substantial assurance level following audit reviews. The Council can therefore be very assured in these areas. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There were three areas where only a limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers'

attention. These reviews are shown in the table above (paragraph 2.1) along with the details of our planned follow up activity in (paragraph 2.2).

4. Significant issues arising in 2011-12

From the work undertaken during 2011-12, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The review (shown in the table at 2.1) that was originally a partial No Assurance, which remained a partial No Assurance after follow up was escalated to the Governance & Audit Committee's attention at the March 2012 meeting. Management has responded to the Governance & Audit Committee with progress achieved since the follow up review and any outstanding concerns are reflected in section 3, The reviews with a limited assurance are listed below, one has since been re-assessed as Reasonable Assurance;

Area Under Review	Original Assurance (Date to G&A Cttee)	Assurance after Follow up (Date to G&A Cttee)	Management Action
Employee Benefit In Kind Payments	Limited 13.01.11	Reasonable 29.09.11	Implemented Recommendations
Leasehold Services	Reasonable 15.03.11	Limited 16.06.12	Tolerating the risk
Public Health Burials	Limited 13.01.11	Limited 22.06.11	Embedding the recommendations

5. Internal Audit Performance

5.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8.6. Additional audit days have been provided via audit consultants or contractors in order to meet the planned workloads. How much Internal Audit resource is provided to each of the partner authorities depends on a variety of factors, including the council's historical internal control environment and the new demands of meeting the requirements of corporate governance. Any changes in the agreed plans or the level of resources are reported quarterly to each audit committee and through regular meetings with each Section 151 Officer. The s151 Officers collectively meet half-yearly to strategically consider the resources of the partnership, this year they favoured creating maximum savings and being slightly under delivered on the plan against buying in the additional resources required to reach 100% plan completion across the partnership.

5.2 Skills and Development

The East Kent Audit Partnership is staffed by a mix of qualified and part-qualified officers, who all continue to develop their skills through a range of on-the-job training, external and in-house training courses and seminars and use of the corporate e-learning resource. Skills development during 2011-12 included:

- (a) Attendance by all Kent local authority internal audit staff at the Kent Audit Conference. This provides an opportunity to exchange knowledge and skills

and to receive guidance on current developments in the internal audit profession.

- (b) One member of staff continuing studies for ACCA.
- (c) Use of modules on the corporate e-learning package.
- (d) Continuing to engage external audit providers, for specific audit assignments to maximise the skills that can be bought-in to enhance internal audit resources.

By using a mix of in-house expertise through the East Kent Audit Partnership and other outside resources the team is able to call upon a number of auditors with a wide range of skills and experience and also bring fresh insight into areas being audited as a means of securing the most effective and economic delivery of the service.

5.3. Plan Performance

The analysis in Appendix B shows the individual reviews that were completed during the year. As at 31st March 2012 the EKAP was slightly behind and had delivered 334.79 days against 342 owed (97.79%). The 7.21 days carried forward will be delivered in 2012-13 as part of the rolling three-year plan process. Not achieving 100% plan completion at all sites this year was a decision made collectively by the s151 Officers who directed the EKAP to deliver a financial saving over achieving 100% of the agreed plans.

5.4 Internal Audit Performance against its Targets

Internal Audit is committed to continuous improvement and has various measures to ensure the service can strive to achieve its goals and ambitions. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix C.

5.4.1 Satisfaction with Internal Audit Service

EKAP uses an electronic client satisfaction questionnaire, which is issued at the conclusion of each audit to receive feedback on the quality and perception of the service. The results and comments made by auditees and service managers are reported quarterly to committee. Additional requests for advice and specific audit requests by management are also indicative of the value placed upon the service received from EKAP. Customer feedback is used to drive continuous improvement within the service, where appropriate constructive feedback is received it is discussed at a team meeting and any improvement actions taken as a result are reflected in a change to the Audit Manual, which records in detail all the work instructions to the auditors.

5.4.2 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Audit Manager or Head of the Audit Partnership; all of who are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at all stages of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Audit Manager, regular meetings are held with the s.151 Officer. The minutes to these meetings are additional evidence to the strategic management of the EKAP performance.

5.4.3 External Quality Assurance

The Audit Commission has previously carried out a light touch annual assessment and a more detailed quality assessment of internal audit every three years. The Audit Commission has not reviewed the EKAP arrangements in detail during 2011-12, and has not raised any improvement actions.

The EKAP self-assessment of the level of CIPFA Code compliance shows that EKAP is currently 97% compliant against a target of 97%. There are no identified actions to improve this score.

The Accounts & Audit Regulations require that each authority undertake an annual review of the effectiveness of internal audit arrangements and to report this alongside the Governance Assurance Statement within the Council's Statement of Accounts. Consequently, this report, summarising the achievements of Internal Audit for the year to 31st March 2012, is also designed to feed into that overall assessment process.

5.4.4 Liaison between Internal Audit and External Audit.

Joint liaison meetings with the Audit Commission's audit managers for the partner authorities and the EKAP audit managers are held half-yearly to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort and it is anticipated that these arrangements will continue when Grant Thornton take over as the Council's External Auditors in Quarter 3 of 2012-13. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

5.4.5 Financial Performance

Expenditure and recharges for year 2011-12 are all in line with the budget. The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a 14% savings against budget.

The EKAP has been able to exceed its targets for financial performance for 2011-12 through careful financial management. The EKAP now has a track record for bringing down daily rates (see table below). This daily rate excludes any internal recharges that are added to the service by the Council, which are not under the control or management of the EKAP. This equates to a saving of £42.68 per day against the original target for 2011-12 of £300.15/day; a total financial saving to Thanet District Council of £14,597.14 for 2011-12 (or 14% against the original budget of £300.15/day).

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268
2011-12	£257

The EKAP was formed to provide a resilient, professional service and therefore to achieve financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. Additionally, external fee earning work that has been carried out, this year some £20,080.39 was procured

from EKAP by other public sector bodies and for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day of some £42.68 per day below the original budget estimate and the lowest cost per audit day since the inception of the EKAP in 2006-07. In the current climate this is excellent performance and the partner authorities have all enjoyed the overall savings of £58,031.57 generated by the EKAP.

6. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2011-12, however, this is as expected and there are no matters of concern to be raised at this time.

The work of Internal Audit and this report contribute to the overall internal control environment in operation within the Council, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts. The EKAP assesses the overall system of internal control in operation throughout 2011-12 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

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.

Performance against the Agreed 2011-12 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	8	0	0.32	Postponed until Quarter 2 of 2012-13
Treasury Management	8	0	0.31	Postponed until Quarter 2 of 2012-13
Main Accounting System	8	8	8.66	Finalised - Substantial
Budgetary Control	10	10	11.01	Finalised - Substantial
Insurance	8	10	10.16	Finalised - Reasonable
RESIDUAL HOUSING SERVICES:				
Homelessness	6	6	6.66	Finalised – Reasonable/No
Right to Buy	7	7	8.17	Finalised - Substantial
GOVERNANCE RELATED:				
Anti-Money Laundering	5	5	3.39	Finalised - Substantial
Complaints Monitoring	8	8	9.46	Finalised - Substantial
RIPA	8	8	7.5	Finalised – Substantial
Partnerships	10	10	4.48	Finalised for 2011-12 – Further work in 2012-13 planned
Climate Change	8	8	7.39	Finalised - Reasonable
Business Continuity	6	0	0.17	Postponed until Quarter 3 of 2012-13
Risk Management	10	0	0.17	Postponed until Quarter 3 of 2012-13
Corporate Advice/SMT	2	2	2.26	Finalised for 2011-12
s.151 Officer Meetings and Support	9	9	9.31	Finalised for 2011-12
Governance & Audit Committee Meetings and Report Preparation	12	12	11.39	Finalised for 2011-12
Audit Plan and Preparation Meetings	9	9	8.98	Finalised for 2011-12
CONTRACT RELATED:				
Receipt & Opening of Tenders	6	6	6.51	Finalised - Substantial
SERVICE LEVEL:				
Private Sector Housing – HMO and Selective Licensing	10	10	11.31	Finalised - Reasonable
Community Safety	10	10	12.14	Finalised - Substantial
CCTV	8	8	11.48	Finalised – Limited Reasonable after follow-up
Dog Wardens and Litter Enforcement	8	0	0	Postponed until Quarter 1 of 2012-13 (current WIP)

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
Electoral Registration & Election Management	10	13	13.86	Finalised
Pest Control	8	8	7.7	Finalised - Reasonable
Ramsgate Townscape Heritage Grants	8	8	7.38	Finalised - Reasonable
Inventories of Portable Assets	8	8	11.13	Finalised - Reasonable
Land Charges	8	8	7.78	Finalised - Substantial
Licensing	10	10	9.88	Finalised - Reasonable
Maritime – Port Operations and Pricing Structure	20	20	18.19	Finalised - Reasonable
Regeneration	10	0	0	Postponed until a future audit plan
Visitor Information Arrangements	8	0	0	Postponed until Quarter 1 of 2012-13
OTHER :				
Liaison With External Auditors	3	3	1.73	Finalised for 2011-12
Follow-up Reviews	27	27	25.76	Finalised for 2011-12
Carry forward from last year	25.47	25.47	25.47	Completed
UNPLANNED WORK:				
Maritime - Electricity VAT Query	0	1	0.91	Finalised
Equality Impact Assessment – Removal of Incremental Progression	0	2.5	2.7	Finalised
Council Offices - Cleaning Stock Controls	0	1.5	1.52	Finalised
Election Duty	0	1	1	Polling Duty – May 2011 District Elections and Referendum
FINALISATION OF 2010-11 AUDITS:				
Procurement	-15.47	31.53	11.12	Finalised - Substantial
Car Parks			8.98	Finalised - Reasonable
Coastal Protection			0.2	Finalised - Reasonable
Waste (Vehicle Fleet) Management			2.46	Finalised - Reasonable
Cemeteries and Crematoria			3.69	Finalised - Reasonable
Housing Benefits Quarterly Testing – Quarter 3 of 2010-11			4.66	Finalised – Not Applicable
Contract Monitoring and Management			0.34	Finalised - Reasonable
EAST KENT HR PARTNERSHIP:				
Absence Management, Flexi and Annual Leave	5	5	0.14	Work-in-Progress
Payroll, SMP and SSP	5	5	8.66	Finalised – Reasonable/Limited
Employee Expenses	5	5	0	Combined with the payroll audit

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
HR Systems Development – i-Trent Project	5	5	0.28	Finalised for 2011-12
Employee Health and Safety	8	8	8.02	Finalised - Reasonable
TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS	342	342	334.79	97.89% Complete as at 31-03-2012
EK SERVICES:				
Housing Benefits - Overpayments	5	5	5.39	Finalised - Substantial
Housing Benefits – Fraud Investigations	5	5	3.63	Finalised - Reasonable
Housing Benefit Testing	20	20	21.14	Quarter 4 2010-11 – Finalised Quarters 1–3 of 2011-12 - Finalised
Business Rates	8	8	8.48	Finalised – Reasonable
Customer Services/Gateway	5	5	3.44	Finalised
Debtors and Rechargeable Works	5	5	5.34	Finalised - Reasonable
ICT – Management & Finance Controls	5	2.5	0.92	Work-in-Progress
ICT – Physical & Environment Controls	5	5	2.28	Work-in-Progress
ICT – Internet & e-mail Controls	5	5	4.72	Finalised - Reasonable
Equality Impact Assessment – Removal of Incremental Progression	0	2.5	2.52	Finalised
Total EK Services	63	63	57.86	
EAST KENT HOUSING:				
Governance Arrangements	3	3	3.83	Finalised - Reasonable
Internal Controls and Finance	3	5	4.48	Finalised - Reasonable
Interfaces with Finance and ICT Systems	2			
Audit Committee/Follow-up work	1	1	1.21	Finalised for 2011-12
Rent Setting, Collection & Debt Management	8	8	6.37	Draft Report - Reasonable
Fire and Gas Safety Inspections	0	8	4.66	Finalised - Reasonable
Tenancy & Estate Management	8	0	0.1	Postponed until 2012-13 to accommodate the Fire and Gas safety audit instead in 2011-12.
Total East Kent Housing	25	25	20.65	
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Customer Services (Mosaic)	4	4	3.04	First Level Controller sign off charged to project - Finalised
Interreg Grant – Tudor House	4	4	3.21	First Level Controller sign off charged to project – Finalised for 2011-12

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
Interreg Grant – Maritime (PATCH)	4	4	4.01	First Level Controller sign off charged to project – Finalised for 2011-12
Interreg Grant – Maritime (Yacht Valley)	4	10	10.11	First Level Controller sign off charged to project – Finalised for 2011-12
EK Services - Housing Benefits 2011-12 Quarterly testing (Additional Quarter 1 Testing)	0	5	5	Finalised
English Heritage Grant - 'Proposed Conservation Area Designation - Cliftonville, Margate.	0	0.5	0.64	Finalised

EAST KENT
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AUDIT PARTNERSHIP
Balanced Scorecard

INTERNAL PROCESSES PERSPECTIVE:	2011-12 Actual	Target	FINANCIAL PERSPECTIVE:	2011-12 Actual	Target
	Quarter 4				
Chargeable as % of available days	86%	80%	Cost per Audit Day (Reported Annually)	£257.47	£300.15
Chargeable days as % of planned days					
CCC	98.48%	100%			
DDC	98.32%	100%			
SDC	102.12%	100%			
TDC	97.72%	100%			
EKS	85.15%	100%			
EKH	82.65%	100%			
Overall	96.34%	100%			
Follow up/ Progress Reviews; (all sites)					
• Issued	77	-			
• Not yet due	26	-			
• Now overdue for Follow Up	18	-			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	97		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	44 (=45%)		Percentage of staff holding a relevant higher level qualification	33%	33%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	3.47	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	86%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	95%	100%			

Annual Internal Audit Report for EK Services 2011-12

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been almost totally completed with some projects carried over as work in progress at 31st March 2012. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a 14% savings against budget. The saving directly passed to EK Services is £7,213.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2011-2012, 23 recommendations were made in the agreed final audit reports for EK Services. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	6	26%
Medium	11	48%
Low	6	26%
TOTAL	23	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2011-12 the EKAP has raised and reported to the partners' quarterly audit committee meetings 23 recommendations, and whilst 74% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, this provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 11 pieces of work commissioned for EK Services over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	1	20%
Reasonable	3	60%
Limited	1*	20%
No	0	0%
Work in Progress at Year-End	3	-
Not Applicable	3	-

* See list in the table below

NB: 'Not Applicable' is shown against quarterly benefit checks, special investigations or work commissioned by management that did not result in an assurance level.

Taken together 80% of the reviews account for substantial or reasonable assurance, whilst 20% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas receiving either a 'limited' or 'no' assurance audit opinion during the year are detailed in the following table, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due/ Result
Debtors and RWO	Reasonable / Limited	Quarter 4 2012-13

Note: The split assurance for the Debtors audit concluded a Limited assurance for the arrangements at one of the three partner Councils, the other two councils concluded Reasonable Assurance.

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and

bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

As this is the first year for EK Services there are no follow up reports concluded at this juncture. However, the results for the follow up activity for 2012-13 will be reported at the appropriate time and the annual report for 2012-13 will show the results in the following table where the original opinion and the revised opinion will measure the impact that the EKAP has made on the system of internal control.

Total Follow Ups undertaken 0	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	1	3	1
Revised Opinion	0	0	0	0

There are no fundamental issues of note arising from the audits undertaken in 2011-12. There is one review showing a partially limited assurance (for one of the sites that it covers) which is detailed in the table in section 2.1.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. During the year 2011-12 there has been no fraud investigations conducted by the EKAP on behalf of EK Services.

2.4 Completion of Strategic Audit Plan

The analysis in Attachment P shows the individual reviews that were completed during the year. As at 31st March 2012 delivery was slightly behind plan and EKAP had delivered 143.9 days against 169 owed (85.15%). The 25.1 days carried forward will be delivered in 2012-13 as part of the rolling three-year plan process. Not achieving 100% plan completion at all sites this year was a decision made collectively by the s151 Officers who directed the EKAP to deliver a financial saving over achieving 100% of the agreed plans

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2011-12	169	0	0	143.9	85.15%	-25.1
Total	169			143.9	85.15%	-25.1

3. Overall assessment of the System of Internal Controls 2011-12

Based on the work of the EKAP on behalf of EK Services during 2011-12, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance.

There was one area where a partial limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers' attention. This review is shown in the table above (paragraph 2.1) along with the details of our planned follow up activity in (paragraph 2.2).

4. Significant issues arising in 2011-12

From the work undertaken during 2011-12, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The review (shown in the table at 2.1) that was originally a partial Limited Assurance will be followed up later in 2012-13.

5. Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment in operation within EK Services, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts for each partner council. The EKAP assesses the overall system of internal control in operation throughout 2011-12 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

Performance against the Agreed 2011-12 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
EK SERVICES SYSTEMS:				
Benefits - Overpayments	15	15	16.16	Complete - Substantial
Benefits - Fraud Investigations	15	15	10.89	Complete - Reasonable
Business Rates	24	24	25.43	Complete - Reasonable
Customer Services/Gateway	15	15	10.33	WIP
Debtors and RWO	15	15	16.01	Complete - Reasonable / Limited
ICT - Management & Finance	15	3	2.76	Carry Over
ICT - Physical & Environment	15	15	6.84	WIP
ICT - Internet and e-mail	15	15	14.16	Complete - Reasonable
ICT Procurement & Disposals		12	1.53	WIP
DDC HB Testing	20	20	16.13	N/A
TDC HB Testing	20	20	21.14	N/A
EK Services Equal Pay Impact Assessment	0	2.5	2.52	N/A
Sub-Total - EK Services days	169	171.5	143.90	85.15%