



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.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	Main Accounting System	Substantial
2.2	Budgetary Control	Substantial
2.3	EK Services – Housing Benefit Fraud	Substantial
2.4	EK Services – Housing Benefit Overpayments	Substantial
2.5	EK Services – Business Rates	Reasonable
2.6	EK Services – ICT Change Controls	Limited
2.7	EK Services – Housing Benefit Quarterly Testing (Qtr 4 of 2013-14)	Not Applicable

2.1 Main Accounting System – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the main accounting system provides complete and accurate data for the production of the annual accounts and financial returns.

2.1.2 Summary of Findings

Maintaining proper accounting records is one of the ways in which the Council discharges its responsibility for stewardship of public resources. The Council has a statutory responsibility to prepare its annual accounts to present fairly its operations during the year. These are subject to external audit. This review provides assurance that the accounts are prepared properly, that proper accounting practices have been followed and that quality arrangements have been made for securing economy, efficiency and effectiveness in the use of the Council's resources.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- The Council received an unqualified audit opinion from the External Auditors for the 2012/13 accounts.

- Journals can only be uploaded by the Finance Team preventing unnecessary and incorrect journals.
- The feeder systems have adequate controls in place to ensure all necessary information is transferred to the financial systems.
- All income and expenditure has a cost centre.
- Hierarchical coding structures are utilised to allow analysis of income and expenditure.

2.2 Budgetary Control – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that Budgetary Control is exercised across the Council on a corporate wide basis.

2.2.2 Summary of Findings

The Section 151 Officer is responsible for ensuring that a revenue budget is prepared on an annual basis and a general revenue plan on a three-yearly basis for consideration by the Cabinet, before submission to Full Council; who may amend the budget or ask the Cabinet to reconsider it before approving it.

The Section 151 Officer is responsible for providing appropriate financial information to enable budgets to be monitored effectively. They must arrange for expenditure and income to be controlled and monitored against budget allocations and report to the Cabinet on such regular basis as it may determine.

It is the responsibility of directors of service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Section 151 Officer. They must report on variances within their own areas. They must also take any action necessary to avoid exceeding their budget allocation and alert the Section 151 Officer of any problems, or potential problems, at the earliest opportunity.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Regular, informative reports are made to SMT and to Cabinet which include amounts and details of significant over and under spends.
- Budget monitoring is performed regularly, with the Finance team offering appropriate support to budget holders.
- Budget setting is conducted according to a timetable that takes into account all statutory deadlines and allows for the Cabinet and the Council to make enquiries and amendments should they wish.
- The annual budget is uploaded into the financial system in a timely fashion, and any budget updates during the year are uploaded monthly.

2.3 EK Services – Housing Benefit Fraud - Substantial Assurance

2.3.1 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 these incorporate relevant internal controls regarding the administration of Housing Benefit Fraud, especially at preventing, detecting, investigating and taking action against applicants for fraudulent claims for benefit.

2.3.2 Summary of Findings

Criminal investigations are undertaken by EK Services Benefit Investigation Section, in accordance with the Police and Criminal Evidence Act 1984 (PACE), its Codes of Practice, and all other relevant legislation and common-law rules, and with advice from the relevant council's Legal section.

Management can currently place Substantial Assurance on the system of internal controls which have been put in place by EK Services for the detection and investigation of Housing Benefit and Council Tax fraud. The primary findings giving rise to the Substantial Assurance opinion are as follows:

- A standard Anti-Fraud and Anti-Corruption Policy has been adopted across all three partner councils.
- Suitable facilities are being provided to members of the public to allow them to report benefit fraud.
- Benefit Assessment Officers are reminded of the ongoing requirement to be mindful of Benefit Fraud.
- All Investigation Officers are suitably qualified and experienced.
- All investigations are undertaken in accordance with the requirements laid down by the DWP with regard to fraud investigation and ensure that the service meets these targets and complies with all relevant legislation.
- The risks associated with lone working have been considered and mitigated wherever practical as part of the investigation process.
- All cases receive suitable approval from management and the relevant legal department prior to proceeding to prosecution.

2.4 EK Services – Housing Benefit Overpayments - Substantial Assurance

2.4.1 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.

2.4.2 Summary of Findings

EK Services manage the housing benefit overpayment process for Canterbury City Council, Dover District Council and Thanet District Council. EK Services are responsible for the billing and collection of overpaid housing benefits by raising

invoices, agreeing and monitoring repayment arrangements. A Customer Delivery Service Level Agreement is in place detailing the service that will be supplied by EK Services and how the performance will be monitored and reported.

The specifics of how the housing benefit overpayments are administered, is detailed in the Income Management Policy which was drafted by EK Services and approved by the partner authorities.

The primary findings giving rise to this Substantial Assurance opinion are as follows:

- Effective processes are in place to ensure that there is a consistent approach used at all partner authorities when dealing with housing benefit overpayments.
- Management information is produced regularly for the partner authorities for them to monitor EK Services' delivery of the service.
- EK Services have introduced various preventative measures to ensure that overpayments are kept to a minimum.

2.5 EK Services – Business Rates – Reasonable Assurance

2.5.1 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 income collection, monitoring of accounts, debt recovery and write off. The audit will also review the change in legislation, which now allows the Councils to keep all newly generated business rates receipts relating to growth.

2.5.2 Summary of Findings

EK Services are responsible for the collection of Business Rates for the three East Kent authorities. The collection rates for the last five years and the target for current financial year are as follows:

	CCC	DDC	TDC
2008/9	99.10%	94.72%	97.70%
2009/10	99.70%	90.03%	98.57%
2010/11	99.05%	98.10%	98.05%
2011/12	99.73%	98.75%	97.88%
2012/13 Target	99.05%	98.10%	98.05%
2012/13 Actual	98.78%	95.53%	97.39%
2013/14 Target	99.50%	98.10%	98.05%
2013/14 Actual as 30.09.13	61.68%	58.62%	61.75%

Overall the Business Rates processes are working well in EK Services. There is a need to ensure that the discretionary relief reviews are programmed in to be carried out on a regular basis for all three authorities. This will ensure that only those entitled to discretionary relief will continue to receive it providing they met the criteria and those no longer eligible will cease to have the benefit of a relief that they are no longer entitled to.

The EK Services Income Manager should ensure that the Income Management Policy should be complied with for write offs so that debts under £10,000 are written off on the Business Rates System prior to approval being received from the Section 151 Officer and that the debts are being accounted for correctly.

2.6 EK Services – ICT Change Control - Limited Assurance

2.6.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services used in relation to ICT change controls are sufficiently robust to safeguard the partner councils where new systems and upgrades are introduced.

2.6.2 Summary of Findings

EK Services operates a flexible and proactive ICT service to ensure the business needs of their partners are met. The operational processes of ICT change control are generally working well and support the effective implementation of the expected controls however due to the lack of change control structure or framework only a few areas have a change control system in place which they use to document the action taken.

Some officers are qualified in various levels of Information Technology Infrastructure Library (ITIL) V3 and there is a general knowledge of the ITIL framework within ICT. Action has not been taken to implement this framework or an alternative best practice to assist in change control management. This has been recognised and the ICT Business Plan is to include the implementation of incident management and change management during 2014/15.

Although EK Services are responsible for ICT, the partner authorities have software systems which are not part of the SLA and are therefore not supported. In addition to this there are numerous system administrators who are employed by the partner authorities e.g. e-financials at Thanet or Dover; that manage the systems and are able to make changes to the software and these are not recorded by EK Services as the partner authorities are making the changes and therefore should have their own method of recording change control within their service area and this should be subject to continuous review under best practice change control guidance.

Management can place Limited Assurance on the system of internal controls in operation at present regarding change control. However once a change management system has been implemented and successfully embedded throughout ICT the assurance level should increase to reflect all of the work undertaken. The primary findings giving rise to this Limited Assurance opinion are as follows:

- There are no documented standards or procedures detailing management's expectations of change control.
- Change control best practice such as ITIL or ISO 27001 are not followed.
- There is an inconsistent approach to change control throughout ICT
- In some areas the teams are small and this can lead to a lack of resilience. As a result of this it can cause duplication of work when the designated officer is absent from work and the details of the action taken have not been recorded.

Effective control was however evidenced in the following areas:

- Track It is used to record all partner ICT requests received via the Service Desk.
- There appears to be effective communication between the individual teams throughout major projects and changes.
- When 3rd party suppliers access the network, procedures are in place to ensure that their access is recorded in Track It and controlled.

Management comment

At the end of April 2014 EK Services released a draft Change Management Policy for internal consultation. This policy included the change management process and workflow required to efficiently control change, and roles and responsibilities.

At the end of May 2014 the policy will be finalised and the process implemented for EK Services ICT staff, further discussion will also take place with Council system administrators to achieve full integration of the policy.

EK Services are seeking to use current technology to manage change management activities so there will be no need for further investment in software or hardware. (Head of ICT - EK Services)

2.7 EK Services Housing Benefit Quarterly Testing (Quarter 4 of 2013-14):

- 2.7.1 Over the course of the 2013/14 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 External Auditor's verification work.

For the fourth quarter of 2013/14 financial year (January to March 2014) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the claims for verification.

In total 40 benefit claims were checked and of these 37 (92.50%) were found to have passed the criteria set by the former Audit Commission's verification guidelines. Two claims were however found to have errors on the weekly income figures and there is a further case that has been reported as a fail as it requires further investigation into the state pension calculation. However this case can be revised in the future to a pass if the figures are indeed correct.

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.

ANNEX 1

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. Outstanding	
a)	Performance Management	Reasonable	Substantial	H M L	0 7 1	H M L	0 0 0
b)	Local Code of Corporate Governance	Substantial	Substantial	H M L	0 1 1	H M L	0 0 0
c)	Service Contract Monitoring	Reasonable	Substantial	H M L	0 2 0	H M L	0 0 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 Members' of the Governance and Audit 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.

- 3.4 After the follow-up review has been completed by the East Kent Audit Partnership any recommendations which remain outstanding are tracked through the Council's Policy & Business Planning team, via quarterly reminders, with an expectation that progress reports will be provided quarterly for all high priority matters. If the recommendations remain outstanding the tracking and reminders will continue for three years, which is the usual period between programmed internal audits. The current numbers involved and progress towards achieving currently outstanding recommendations is as follows:

Service/ Topic		Assurance level	No of Recs. Outstanding	
a)	HRA Business Plan – 2009/10	Substantial	H M L	1 0 0
b)	Your Leisure – 2012/13	Substantial Limited Limited	H M L	1 2 0
c)	Business Continuity and Emergency Planning – 2012/13	Reasonable	H M L	0 1 1
d)	Telephones, Mobiles and Utilities – 2013/14	Substantial	H M L	0 1 0
e)	Officer Code of Conduct and Prevention of Fraud & Corruption – 2013/14	Substantial	H M L	0 2 2

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: Equality and Diversity, Procurement, Payroll, Employee Benefits-in-Kind, Debtors, ICT Procurement & Disposal, Pest Control, Contaminated Land, FOI, DPA and Information Management, Waste Vehicle Fleet Management, and Planning.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2013-14 internal audit plan was agreed by Members at the meeting of this Committee on 21st March 2013.

5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION:

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

7.0 UNPLANNED WORK:

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

8.0 INTERNAL AUDIT PERFORMANCE

8.1 For the year to 31st March 2014, 288.70 chargeable days were delivered against the planned target of 309.01 days which equates to 93.43% plan completion. Please see the EKAP Annual Report for the full performance detail.

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.
<i>None to be reported this Quarter</i>		

APPENDIX 2

BALANCED SCORECARD – QUARTER 3

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
EK Services – Software Licences	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress – March 2014
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	As part of a planned audit in 2014-15
Public Health Burials	December 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Spring 2014
Homelessness	March 2014	Substantial/Limited	On-going management action in progress to remedy the weaknesses identified.	Summer 2014



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.