
Subject: QUARTERLY INTERNAL AUDIT UPDATE REPORT

Meeting and Date: Governance Committee – 30th June 2016

Report of: Christine Parker – Head of Audit Partnership

Decision Type: Non-key

Classification: Unrestricted

Purpose of the report: This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

Recommendation: That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. Introduction and Background

- 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 Annex 2 to the EKAP report.
- 2.5 The purpose of the Council's Governance 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.

SUMMARY OF WORK

- 2.7 There have been seven Internal Audit reports that have been completed during the period, of which two reviews were classified as providing Substantial Assurance, four as Reasonable Assurance, and one as Limited.
- 2.8 In addition six follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

3 Resource Implications

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2015-16 revenue budgets.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2015-16 - Previously presented to and approved at the 26th March 2015 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



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

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31st December 2015.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	Members' Code of Conduct & Standards Arrangements	Substantial	H M L	0 0 0
2.2	EKS - Debtors	Substantial	H M L	0 1 1
2.3	Procurement	Reasonable	H M L	1 3 2
2.4	Dog Warden and Street Scene Enforcement	Reasonable	H M L	3 4 2
2.5	Commercial Properties and Concessions	Reasonable	H M L	1 1 0
2.6	EKS – ICT Administration, Security, Third Party Access and Storage	Reasonable	H M L	0 1 7
2.7	Grounds Maintenance	Limited	H M L	4 4 0

2.1 Members' Code of Conduct & Standards Arrangements – 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 highest standards of Member conduct and probity are maintained.

2.1.2 Summary of Findings

Councillors (District, Town or Parish) are elected by the general public to represent the constituents of a ward. Each Council has its own Code of Conduct to which councillors must adhere. Councillors should conduct themselves in a way that is beyond reproach, however if members of the public believe that a councillor has breached the Code of Conduct then arrangements exist to enable them to make a complaint and detail how the complaint will be dealt with

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

- Established processes (including Standards arrangements) are in place to ensure that Councillors comply with the code of conduct and are aware of their responsibility to declare any interests that may impact on the decision making process of the Council. This is in accordance with the Localism Act 2011.
- Processes for making and dealing with complaints are well documented and are readily available to the public.
- The appointment of separate independent people to carry out investigation's, and to review the complaints alongside the Monitoring Officer ensure that a consistent approach to dealing with them is in place.
- Councillors have attended training for the various committees that they sit on and unless they have completed the training they are not permitted to sit on them. (This also includes substitute Councillors).

2.2 EKS Debtors – Substantial 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 debtors.

2.2.2 Summary of Findings

The recovery of Sundry Debts is covered by the Local Government Act 1972, the Accounts and Audit Regulations 2011, The Harbours Act 1964 and the Late Payment of Commercial Debts Regulations 2002. A sundry debt for the purpose of this policy relates to all other monies owed to Local Authorities other than Council Tax, Business Rates and Housing Benefit overpayments. The rationale is that if the charge can be invoiced, then it should be recovered through Sundry Debtors. The effective management and collection of sundry debt is an essential contributor to local authority financial resources and maximises income available to provide services.

This audit review has focused on the role carried out by EK Services and not the elements of the debtors process carried out by Officers at Dover District Council.

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

- Established processes are in place for the sundry debtor process carried out by the Corporate Income Team including performance monitoring and reporting.
- In addition, since the last audit was carried out, a new debt monitoring process on CIVICA has been implemented. The Corporate Income Team has carried out a considerable amount of work to put this new process in place.

Scope for improvement was however identified in the following areas:

- To ensure that sufficient information is being shown when there are multiple invoices to be written off, the write off form could show each invoice amount being put forward for write off alongside the invoice number (Currently just the invoice numbers are being shown with the overall total). This should then total back to the overall amount being put forward for signing off.
- Officers responsible for raising sundry debtor invoices should be reminded to contact their Finance Team if they are not sure of the rate of VAT that should be applied when raising an invoice and they should also be reminded that any credit notes that are raised should clearly state the reason why it has been raised.

2.3 Procurement – Reasonable Assurance.

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to develop Procurement strategies and policies to improve benefits to the Council and its partners and stakeholders, including the development of e-procurement options.

2.3.2 Summary of Findings

Procurement is the process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers. Contract Standing Orders and the Financial Procedure Rules outline a number of key controls and processes which should be followed during the procurement process dependent on contract value. There are also 28 members of staff who utilise Procurement Cards for low-level spend (up to £5,000 per month). This audit focused on all procurement activity.

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

- The Council is making good progress towards implementing a Procurement Strategy which should be in place by summer of 2016;
- The procurement and purchasing guidance provided were easily accessible;
- Procurement processes were working effectively;
- Purchase Order processes were working effectively;
- The E-Tendering process was satisfactory; and
- The Council is compliant with the transparency rules.

Some scope for improvement was identified in the following areas:

- The Financial Procedure Rules need to be updated to ensure they capture up to date processes;
- There is a need to review system access to key functions within e-financials; and
- The procurement card controls could be improved.

2.4 Dog Warden & Street Scene Enforcement – Reasonable Assurance.

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has an effective dog warden service encompassing both the recovery and kennelling of stray dogs and also enforcement action of dog fouling, graffiti, fly-tipping and littering.

2.4.2 Summary of Findings

The Dog Warden and Environmental Crime functions sit with the Environmental Crime Team, with the exception of barking dog complaints and Graffiti which are dealt with via the Environmental Protection Team and Waste Services, respectively.

The legislative requirements placed on the Council to deal with Dogs and Litter have been fully detailed within the policies and procedures. There are two pieces of legislation to note that have been implemented since the last audit review that will impact on the services provided and are as follows:

- a) Public Spaces Protection Orders (PSPOs) which are designed to deal with a particular nuisance or problem in an area. The Council has successfully applied for and implements a PSPO within its district, for Dog Control purposes. This came into force in July 2015 and lasts for a period of three years.
- b) The Microchipping of Dogs (England) Regulations 2015 will come into effect from the 6th April 2016 and every keeper of a dog must ensure that it is micro chipped.

The kennelling of stray dogs has been contracted via a successful tender process for a period of four years and is due to expire in March 2017.

There is a dedicated system Northgate (M3) set up for the recording and monitoring of complaints and service requests. Information extracted from the system for 2015 including Fixed Penalty Notices (FPN's) issued was as follows:

- 121 FPN's were issued for littering offences;
- 544 Littering complaints were recorded and investigated; and
- 956 service requests were made relating to Dog Control issues.

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

- Comprehensive and up to date procedures are in place and circulated to relevant members of the team;

- Prosecutions, educational presentations and microchipping events have been covered well by the communications team and well received by the general public;
- Fixed penalty notices have been consistently applied over the last three years;
- Training has been identified and applied where relevant; Risk assessments have been carried out and are up to date.

Scope for improvement was however identified in the following areas:

- The M3 system needs to be up to date, consistently used by staff for the recording of actions taken and used more as a management tool for target setting and statistic reporting.
- Contract monitoring for the kennelling service needs to be established and clarity needs to be sought from legal services over some of the clauses within this contract. Also a contractual agreement for the out of hours service needs to be evidenced.
- A reconciliation process needs to be established to ensure that fees have been applied, collected and correctly accounted for.

2.5 Commercial Properties & Concessions – Reasonable Assurance.

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council derives the maximum value from its let properties and concessions and that where applicable these lettings further support the Council's regeneration aims and aspirations.

2.5.2 Summary of Findings

The Council has a fairly substantial corporate property portfolio comprising of 402 properties (excluding housing and garages) as at March 2014. The net book value of property (excluding housing and garages) at March 2016 was £84.4 million. These assets include investment properties, infrastructure and operational properties. There were no surplus or assets held for sale at March 2016.

Management can largely place Reasonable Assurance on the system of internal controls in operation as the lapsed Asset Management Plan (2013) is now being revised.

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

- A detailed corporate property portfolio is maintained and published on the Council's website;
- Valuations are up to date and record of ownership can be found within the Council's systems;
- Rebuild calculations for insurance purposes are maintained and up to date; and
- Debtor accounts are monitored and any arrears are pursued.

Scope for improvement was however identified in the following areas:

- The revised Asset Management Plan and its associated policies should be completed, approved and published on the intranet in 2016 and formed in conjunction with other Council business strategies, objectives and priorities.
- Performance monitoring should be regularly reported demonstrating that the use of assets is balanced between satisfying the community and maximising income and to highlight areas for improvement.
- It would be useful to raise the profile of property amongst Members of the Council and continue to look for ways to maximise regular revenue from the Council's assets e.g. by development/change of use.

2.6 EKS ICT Administration, Security, Third Party Access and Storage – Reasonable Assurance.

2.6.1 Audit Scope

To ensure that the controls over the administration of the ICT service provided by EK Services ICT function on behalf over Dover, Thanet and Canterbury councils are robust and sufficient to enable the partner councils to place reliance upon them for security, third party access and data storage.

2.6.2 Summary of Findings

The EK Services ICT annual budget is £2.4M and the total spend on IT across the partnership is around £4.5M.

- The EK Services ICT service supports around 1500 users in the following organisations:
 - Thanet District Council
 - Canterbury City Council
 - Dover District Council
 - East Kent Housing
 - East Kent Audit Partnership
 - East Kent HR
 - EK Services (about 350 users).

This review covers EK Services operations for Dover, Thanet and Canterbury councils.

- Key Performance indicators reported quarterly include:
 - % incidents resolved within agreed target response time – target 95%
 - % incidents resolved severity1 – target 95%
 - % incidents resolved within one day – target 60%
 - % availability of agreed Business applications – target 95%
 - % Availability of email service – target 95%
 - % Availability of the Corporate Web Site – target 99.5%

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

- The EK Services ICT Service Level Agreement 2015-2016 contains detailed information on its provision of security services, policies, and responsibilities;
- While not all supporting policy documents are complete and published, good progress is being made towards this end;
- Sufficient and appropriate information is provided to local authority users on real and potential security threats;

- Network and perimeter security is generally effective (note: this audit did not include penetration testing); and
- The Corporate Information Governance Group (CIGG), set up approximately 14 months ago, is a key organisation to assist local authority Senior Information Risk Officers (SIROs) and to keep Senior EKS Managers informed of information security policies and procedures in the event of an intrusion.

Scope for improvement was however identified in the following areas:

- Mobile Device Management
- Firewall settings
- Third Party Access
- Backup and Restore.

2.7 Grounds Maintenance – Limited Assurance.

2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the business objectives are met.

2.7.2 Summary of Findings

The Grounds Maintenance function is currently delivered under a single 10 year contract that commenced in 2006 and was due to expire on 31st March 2016 but which has been extended to 31st March 2017 whilst options are considered for the future service provision either through a new contract with an outside provider or by bringing the service back in-house.

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

- There remains a lack of resources to be able to monitor the contract. The previous audit report in August 2011 and the subsequent DES review both reported issues on contract monitoring due to lack of staff resources (1.8 FTE members of staff). These issues still exist, to the point that there is now no inspection regime to monitor the works undertaken by the contractor either for both routine and non routine works. In addition due to time constraints, additional work documents are not always being completed and submitted to the contractor for all non-routine works. Instead, just verbal instructions and supporting photographs of the works required are given.
- There is a need to ensure that the refund off the contract price (routine and non-routine works) given by the contractor for 2016/17 is accounted for correctly in Confirm and also with Accountancy. (e.g. How is this to be allocated across the applicable cost centres (including leaseholders)). Clarification is also needed if Confirm is still to be used in its current format. Especially as for the period of the contract extension; the contractor is to be paid in 12 equal instalments instead of using the Confirm system to calculate the monthly cost from actual job data.

Effective control was however evidenced in the following areas:

- Monthly processes are in place for calculating the payments due to the contractor, however (as stated above) there is no monitoring of the works carried out.

- The current contract has been extended for an additional 12 months through the proper channels, however the financial effect of this needs to be accounted for correctly.

From 1st April 2017 the new grounds maintenance contract will be in place either through an in-house solution or a new external contract. There is therefore a need to ensure that there are processes in place to monitor the service both through resources and applicable performance measures. (e.g. performance indicators, complaints monitoring).

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, six follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously 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)	Creditors	Reasonable	Reasonable	H	0	H	0
				M	5	M	0
				L	1	L	0
b)	Sickness, Annual and Flexi Leave	Reasonable /Limited	Reasonable	H	7	H	0
				M	7	M	1
				L	0	L	0
c)	Public Health Burials	Reasonable	Reasonable	H	0	H	0
				M	2	M	0
				L	4	L	0
d)	EK Services – ICT Data Files & Back Ups	Reasonable	Reasonable	H	6	H	1
				M	5	M	4
				L	0	L	0
e)	EK Services – ICT Internet & Email	Reasonable	Reasonable	H	2	H	0
				M	0	M	0
				L	2	L	0
f)	EKHR – Sickness Absence, Leave & Flexi	Reasonable / Limited	Reasonable	H	7	H	0
				M	6	M	1
				L	0	L	0

- 3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Annex 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 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: Equality and Diversity, Business Continuity and Emergency Planning, FOI, Data Protection and Information Management, Disabled Facilities Grants, Insurance and Inventories of Portable Assets, East Kent Housing Procurement, East Kent Housing Single System, & Shared Service Monitoring.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2015-16 Audit plan was agreed by Members at the meeting of this Committee on 26th March 2014.
- 5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer 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 Annex 3.

6.0 FRAUD AND CORRUPTION:

- 6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

Attachments

- Annex 1 Summary of High priority recommendations outstanding after follow-up.
Annex 2 Summary of services with Limited / No Assurances
Annex 3 Definition of Audit Assurance Statements & Recommendation Priorities.

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>EK Services – ICT Data Files & Back Ups May 2016</i>		
<p>Policies governing file controls should be discussed, written and taken through the CIGG with a view to having one set operational across all partner councils. During this process, ownership should be documented.</p>	<p>Agreed Management Action. To be taken via the CIGG with a view to obtain member validation and action</p> <p>Responsibility/Completion date. Technical Systems Manager Reported quarterly</p>	<p>Majority of new, joint policies now exist but yet to go through LA validation processes.</p> <p>CIGG is also progressing identification of IAOs [Information Asset Owners] for each of their systems.</p> <p>Conclusion In progress and waiting on client officers' instructions to complete.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
East Kent Housing - Sheltered and Supported Housing	December 2015	Limited	Work-in-Progress
East Kent Housing – Repairs, Maintenance and Void Management	March 2016	Limited	Work-in-Progress
VAT	March 2016	Limited	Work-in-Progress
Grounds Maintenance	June 2016	Limited	Summer 2017

Definition of Audit Assurance Statements & Recommendation Priorities

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.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.