

Subject:	QUARTERLY INTERNAL AUDIT UPDATE REPORT
Meeting and Date:	Governance Committee – 18th June 2015
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. Attached as Appendix 1 to the EKAP report is a summary of the Action Plans agreed in respect of the reviews covered during the period.
- 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 Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

- 2.7 There have been seven Internal Audit reports that have been completed during the period, of which one review concluded Substantial Assurance, and four concluded Reasonable Assurance. The remaining three pieces of work were of a nature for which an assurance level is not applicable e.g. quarterly housing benefit claim testing. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.
- 2.8 In addition nine 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 2014-15 revenue budgets.
- 3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

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

Background Papers

- Internal Audit Annual Plan 2014-15 - Previously presented to and approved at the 20th March 2014 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.

2. SUMMARY OF REPORTS:

	Service / Topic	Assurance level
2.1	Income	Substantial
2.2	Creditors	Reasonable
2.3	Car Parking and PCNs	Reasonable
2.4	Payroll	Reasonable
2.5	Tackling Tenancy Fraud	Not Applicable
2.6	EK Services – Housing Benefit Quarterly Testing (Qtr 2 of 2014-15)	Not Applicable
2.7	EK Services – Housing Benefit Quarterly Testing (Qtr 3 of 2014-15)	Not Applicable

2.1 Income – Substantial Assurance.

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income due to the Council is completely and accurately accounted for in a timely manner.

2.1.2 Summary of Findings

Since the last audit review was carried out in October 2012 there have been some revisions to the processes in place for income; these include ICT no longer being involved in the daily processes and the Income Receipting Officer no longer being located in the Print and Post Room but now located within the Financial Services Team. Neither of these revisions have impacted on the income processes that are being carried out.

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

- Established processes are in place to ensure that income is processed accurately and in a timely manner.
- The interface between E-Financials and AIM is effective and accurate payments are allocated to the correct income codes and accounts and reconciliations of the feeder systems are undertaken.

2.2 Creditors and CIS – Reasonable Assurance.

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that only bona-fide invoices are paid, and that the correct procedures have been applied in the way in which the expenditure was incurred.

2.2.2 Summary of Findings

The payments process has been established for a number of years using the Cedar e-financials system with a small team of officers delivering the service to the Council.

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

- There are well established processes and supporting procedural documentation in place.
- Invoices and Credit notes are processed promptly.
- Creditor account is reconciled on a regular basis.
- BACS payments are authorised and paid correctly.
- Appropriate systems are in place to ensure that only valid bank account details are entered for organisations used by the Council. A secure system is also in place to ensure changes to bank payee details are correct before amendments are made.

Scope for improvement was however identified in the following areas:

- There is a staff resilience issue due to it being such a small team comprising of only one full-time dedicated Creditors officer and if they are absent then the service provision has to be carried out by other members of the team of which three are part time and who also they have their own roles and responsibilities to be carried out. This is highlighted by the fact that they are currently three to four weeks behind in the scanning of invoices into e-Financials following the completion of the weekly payment runs.
- There are still ongoing issues with retrospective orders being produced by staff across the Council and also with staff not completing purchase order documentation correctly. It is hoped that the implementation of e-procurement in the future will address these issues which have also been highlighted in previous audit reports together with the need for the implementation of e-procurement to be put in place.
- The performance indicator (ACC004) target of 90% for 2014/15 has been set to quite low, even for one FTE officer being in post for Credit Control. There needs to a more challenging realistic target set which drives continuous improvement.

2.3 Car Parking & PCNs - Reasonable Assurance

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that car park machine income (on-street and off-street), is adequately monitored and reconciled to expected income and that income trends are monitored for individual car parks for management information.

To provide assurance that parking restrictions are being consistently and effectively enforced and that income due to the Council from penalty charge notices is adequately monitored and reconciled to expected income and that income trends are monitored for management information.

2.3.2 Summary of Findings

Income from car parks and on and off street parking forms a significant income stream to the authority. There is therefore a need to ensure that internal controls are in place so that all income received is monitored and correctly accounted for.

In 2013/14 Dover District Council issued a total of 10,767 penalty charge notices, an average of 828 notices per Civil Enforcement Officer. This compares to 25,744 by neighbouring Authority A and 14,953 by Authority B.

Of the 10,767 notices that have been issued in 2013/14:-

- 6,772 were for on street breaches;
- 3,995 were for off street breaches;
- 6 of these were spoilt for various reasons; and
- Of the 10767 issued, 2,382 were issued for parking on double yellow lines.

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

- There are processes and procedures in place for the administration of the car parking income and penalty charge notices.
- Annual benchmarking is undertaken with other Kent Local Authorities.

Scope for improvement was however identified in the following areas:

- The overpaid penalty charge notices should be reviewed periodically and appropriate action taken to clear the credit balance from the parking system.
- General housekeeping needs to be carried out on the parking system to ensure that all tickets are current and appropriate action has been taken on them.
- A procedure needs to be implemented for reporting written off notices to the s.151 Officer in order to comply with the Council's Financial Procedure Rules.
- The reconciliation of the car park income is not currently being undertaken in a timely manner to identify any possible misappropriations.
- The maintenance contract for the pay and display machines is out of date and payments are not being made via the contract register.
- The processes and procedures followed by the Parking Admin Team need to be fully reviewed as some of them are cumbersome and historic and could be undertaken more efficiently.
- All officers within the Parking Admin Team should be generic and be able to cover all aspects of the service instead of their specific areas.

2.4 Payroll – Reasonable Assurance

2.4.1 Audit Scope

To ensure that the key internal controls in place in relation to the KCC administered payroll function are effective to provide the required shared service to the three Councils regarding payments to Officers and Councillors.

2.4.2 Summary of Findings

The Payroll function is currently provided by Kent County Council to each of the three local authorities with the assistance of staff in each of the councils including East Kent HR. The contract with Kent County Council (KCC) has run its full term (October 2014) and work is being undertaken to procure a replacement solution.

The internal control system and processes had not changed since the previous audit therefore this review was focussed on transaction testing to ensure the payroll function was correctly processing payments in line with Council Policy and legislative requirements.

The primary findings giving rise to this Reasonable Assurance opinion are:

- Large samples of transactions from each partner council were tested as part of the audit review. It is very positive to report that no significant issues were found.
- Few minor errors were identified through the testing carried out confirming the effectiveness of the controls in place.

Scope for minor improvement was however identified in the following areas:

- The reconciliation routines in place should be robust enough to capture any differences between what has been claimed (by the employee) and what has been input to the Payroll system.
- The data transfer from Payroll to the main financial systems for each council is labour intensive, and the new payroll solution should seek for opportunities to automate this.

2.5 Tackling Tenancy Fraud – Not Applicable

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that effective arrangements are in place between the four councils and East Kent Housing Ltd (EKH) to ensure that housing tenancy fraud is being tackled.

2.5.2 Summary of Findings

There are various types of tenancy fraud, sub-letting the whole property, key selling, unauthorised assignment, wrongly claimed succession, right to buy, and obtaining tenancy through false statement. Individuals who commit tenancy fraud prevent those who are legally entitled to social housing from being housed.

In the Annual Fraud Indicator 2013 the National Fraud Authority (NFA) estimated that Housing Tenancy Fraud cost social housing providers £845 million. The Audit

Commission reports that social housing fraud is the single largest category of fraud loss in local government in terms of value.

The Prevention of Social Housing Fraud Act 2013 is new legislation that is primarily concerned with strengthening the powers of social landlords to tackle tenants who sublet the whole of their dwellings for a profit. The Act was brought fully into force on 15 October 2013. The Act: -

- creates new criminal offences of unlawful subletting by assured and secure tenants in social housing;
- gives local authorities powers to prosecute in cases of unlawful subletting but subject to expiration restrictions on evidence;
- enables courts to order the recovery of any profit made from unlawful subletting from tenants; and
- provides that assured tenants who unlawfully sublet the whole of their dwelling cannot subsequently regain their security of tenure.

Right to Buy Fraud (RTB) and application/acceptance of a social housing tenancy knowingly using fraudulent information/ by deception are offences under the Fraud Act 2006.

East Kent Housing (EKH) Ltd and its staff have a reasonable level of awareness of tenancy fraud and proactive action is being taken, and further action planned, to address the issue of tenancy fraud awareness and detection. However, due to resource implications and the pressures of the 'day job' the effectiveness of some management controls could be improved and some opportunities to address tenancy fraud may be currently being missed.

A significant amount of data is held about individual tenants and households and often this data is enough to highlight common 'warning signs' of potential fraud. However, the fact that this data is held on different systems, and recorded slightly differently by these systems has resulted in a number of potential matches coming to light from the tests undertaken as part of this audit. Although it has not been possible to review all these potential matches in detail, from the samples reviewed one potential fraud has been highlighted and is currently being investigated. With the procurement of the new single solution housing system currently underway some of these issues should be addressed and the opportunity taken to carry out a full data cleanse of housing.

Despite a significant volume of data being held further work is required in order for the extent and level of risk of tenancy fraud within the four districts to be fully understood. A number of recommendations and opportunities have been highlighted within the action plan to aid with this. Once a tenancy fraud profile has been determined the four member authorities and EKH will be able to better determine the level of priority and resource that should be put into detecting and tackling tenancy fraud.

2.6 EK Services Housing Benefit Quarterly Testing (Quarter 2 of 2014-15):

2.6.1 Background:

Over the course of 2014/15 financial year the East Kent Audit Partnership will be completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.6.2 Findings:

For the second quarter of 2014/15 financial year (July to September 2014) 10 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

A fail is categorised as an error that impacts on the benefit calculation. However, data quality errors are also shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.6.3 Audit Conclusion:

Twenty one benefit claims were checked and of these one (4.76%) had a financial error that did impact on the benefit calculation, two other claims passed as there was no impact on the benefit entitlement but correct financial information had not been recorded.

2.7 EK Services Housing Benefit Quarterly Testing (Quarter 3 of 2014-15):

2.7.1 Background:

Over the course of 2014/15 financial year the East Kent Audit Partnership will be completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.7.2 Findings:

For the third quarter of 2014/15 financial year (October to December 2014) 40 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

A fail is categorised as an error that impacts on the benefit calculation. However, data quality errors are also shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.7.3 Audit Conclusion:

Forty benefit claims were checked and of these three (7.5%) had financial errors that did impact on the benefit calculation, one other claim passed as there was no impact on the benefit entitlement but procedures were not followed in respect of capital entitlement for the calculation.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, eight 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)	Service Contract Monitoring	Substantial	Substantial	H M L	0 3 0	H M L	0 2 0
b)	Homelessness	Substantial	Substantial	H M L	1 2 1	H M L	0 0 0
c)	EKH – Tenant Health & Safety (Lifts)	No Assurance	Reasonable	H M L	2 0 0	H M L	0 0 0
d)	CCTV	Substantial	Substantial	H M L	0 1 1	H M L	0 1 0
e)	White Cliffs Countryside and Up on the Downs Partnerships	Reasonable	Reasonable /Substantial	H M L	1 7 1	H M L	0 2 0
f)	Waste Management & Street Cleansing	Reasonable	Substantial	H M L	2 1 4	H M L	0 1 1
h)	EK Services – Housing Benefit Payments	Substantial	Substantial	H M L	0 1 1	H M L	0 0 0
i)	EK Services – Software Procurement	Limited	Reasonable	H M L	4 2 0	H M L	0 0 0
j)	Planning & s105	Substantial Limited Limited	Substantial Reasonable Reasonable	H M L	0 6 3	H M L	0 1 3

- 3.2 Details of each of the 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 Committee.
- 3.3 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 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and, in respect of those remaining at below Reasonable assurance, Members are advised as follows:

a) ICT Software Licensing

At the September committee it was reported that no significant progress in implementing the ICT Asset Management Software had been made due to an issue

with the software supplier. This has resulted in a new procurement process being required with a different Software Asset Management (SAM) system needing to be sourced. Until the SAM system is implemented, which enables the tracking of software licences on all ICT assets, this will remain at Limited Assurance.

An additional review of the controls and procedures within the software procurement process was undertaken, and the assurance for this has been raised to Reasonable Assurance as reported in the table above under Software Procurement.

Management Response:

Tender invites are being issued week commencing 26/05/2015 to start the procurement process having received final approvals from Thanet procurement. The SAM system is being purchased alongside two other key products; a replacement for the Service Desk system and the Introduction of a new Software Contract Management system. We are seeking all products as a combined software suite under a single tender. The implementation of the suite will be complex but we are hopeful that full procurement and staged go live will be completed by the end of this financial year with the SAM system taking priority. In the interim we are using an inventory module within the existing software to keep track of software licences aided by manual procedures for ensuring licence purchases are managed.
Head of ICT, EK Services.

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: Dover Museum and VIC, Grounds Maintenance, Community Safety, Housing Allocations, Your Leisure, and Absence Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2014-15 Audit plan was agreed by Members at the meeting of this Committee on 20th March 2014.
- 5.2 The Head of the Audit Partnership meets on a regular 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.

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.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the year to 31st March 2015, 259.66 chargeable days were delivered against the planned target of 260.96, which equates to 99.5% plan completion.

Attachments

- | | |
|---------|---|
| Annex 1 | Summary of High priority recommendations outstanding after follow-up. |
| Annex 2 | Summary of services with Limited / No Assurances |
| Annex 3 | Assurance statements |

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>None to be reported this quarter</i>		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress as part of a planned audit
Employee Benefits-in-Kind	September 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
Safeguarding Children and Vulnerable Groups	September 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
EKS – ICT Change Control	June 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress



ANNEX 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.