

Subject:	QUARTERLY INTERNAL AUDIT UPDATE REPORT
Meeting and Date:	Governance Committee – 26th June 2014
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 Appendix 2 to the EKAP report.
- 2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

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

SUMMARY OF WORK

- 2.7 There have been seven Internal Audit reports that have been completed during the period, of which four reviews was classified as providing Substantial Assurance, one as Reasonable Assurance, and one as Limited. The remaining piece of work was of a nature for which an assurance level is not applicable i.e. 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 two follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the year to 31st March 2014, 278.9 chargeable days were delivered against the planned target of 270, which equates to 103.3% plan completion.

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 2013-14 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 2013-14 - Previously presented to and approved at the 14th March 2012 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	Performance Management	Substantial
2.2	Main Accounting System	Substantial
2.3	EK Services – Housing Benefit Fraud	Substantial
2.4	EK Services – Housing Benefit Overpayments	Substantial
2.5	EK Services – Business Rates	Reasonable/ Limited
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 Performance Management – Substantial Assurance.

2.1.1 Audit Scope

To ensure that the Council is taking action in response to actual performances to make outcomes for users and the public better than they would otherwise be.

2.1.2 Summary of Findings

Dover District Council recognises that to achieve its corporate objectives and to deliver efficient services for the community, there is a need for effective performance management, supporting Council priorities and informing decision making, with links to the service planning and budget setting processes. This audit provides assurance on the adequacy and effectiveness of the Council's '*Performance Management Framework*' and use of its performance management systems towards the achievement of the above objective.

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

- The Performance Management Framework is reviewed annually and updated as required – the latest revision was approved by the Governance Committee on 26th September 2013 and Council on 27th November 2013.
- Service plans are produced with reference to the corporate plan and the regular monitoring reports provide sufficient evidence of the ongoing monitoring of indicators and objectives.
- Data quality is managed by the individual service manager; checks are conducted on the information provided to the performance officers prior to publication in the quarterly performance report and entry into Covalent.
- The quarterly performance report is submitted to CMT, Cabinet and Scrutiny.

2.2 Main Accounting System – Substantial Assurance.

2.2.1 Audit Scope

To ensure that the main accounting system provides complete and accurate data for the production of the annual accounts and financial returns.

2.2.2 Summary of Findings

Sound systems and procedures are essential to an effective framework of accountability and control. The Section 151 Officer is responsible for the operation of the authority's accounting systems, the form of accounts and the supporting financial records. Chief Officers may not make changes to the existing financial systems or establish new systems without the approval of the Section 151 Officer.

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

- Journals are completed appropriately.
- The feeder systems observed have adequate controls in place to ensure that all transactions are brought over and coded correctly.
- All areas have a cost centre and the process for requesting new codes is appropriate.
- The year end processes are appropriate and the account received an unqualified opinion from the external auditor.

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 being 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.

Management can place Substantial Assurance on the system of internal controls in operation.

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/Limited 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. Management can place Reasonable Assurance on the controls in place for the service provision by EK Services and Limited Assurance for Dover District Council for non-compliance with the constitution and FPR's regarding Write Offs.

At Dover District Council the constitution delegates authority to write off irrecoverable national non-domestic rates to the s.151 officer. The Financial Procedure Rules (Reg D: Systems and Procedures – Income and Expenditure D.5) also state that the "s.151 Officer will periodically report debt write offs to the Executive". During the review reports summarising authorised write offs were not found (across all financial services and systems, including Business Rates Write Offs).

The EK Services Income Management Policy states that for efficiency purposes all write off's should be 'written off' the business rates system before approval is provided; as they can be written back on to the system if approval is not subsequently granted. However, this practice has not been carried out and the irrecoverable debts currently remain live on the Business Rates system.

The collection of Business Rates and the management and award of Business Rates relief have been delegated to EKS. DDC remains ultimately responsible for this service and therefore it is reviewed from time to time, including by EKAP. Overall the Business Rates processes are working well in EK Services.

With the introduction of the Enterprise Zone at Discovery Park, the scope and importance of the award of discretionary relief has increased, and this is a significant factor in the success, to date, of the Enterprise Zone. Granting of discretionary relief has been carried out by EKS in accordance with legislation, the Council's discretionary relief policies and the government's guidelines on Enterprise Zones.

However, given the importance, both financially and reputationally, that reliefs have been awarded on a lawful and reasonable basis, and to ensure any residual risk is fully mitigated; it is important to ensure that discretionary relief reviews are programmed to be carried out regularly. This will ensure that only those entitled to discretionary relief will continue to receive it, providing they meet the criteria, and those no longer eligible will cease to have the benefit of a relief to which they are no longer entitled.

It is therefore recommended that the current policies are updated and approved by Cabinet, and that, at suitable periods, reports of the discretionary reliefs awarded are provided to the portfolio holder as a means of ensuring that the policies continue to deliver the Council's priorities, and do not create any undue financial, legal, reputational or other risks.

2.5.3 Management Response

The reporting position for write offs does need to be regularised. Write-offs will reduce the debt outstanding and the bad debt provision, so the net impact on the balance sheet is minimal. A template has been produced and sent to EKS suggesting how the aged debt etc could be presented in the future.

It is also agreed that the Discretionary Relief Policy should be updated to ensure that the policy reflects provides an appropriate basis upon which to award reliefs in the district in general and within the Enterprise Zone, and that it continues to comply with legislation and Enterprise Zone guidance from Government.

Director of Finance, Housing and Communities.

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 have been completing a sample check of council tax, rent allowance, 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 various claims for verification.

In total 40 benefit claims were checked and of these 38 (95%) were found to have passed the criteria set by the former Audit Commission's verification guidelines. Two claims were however found to have errors. The first one was on the weekly income figures and the second was an incorrect end date for Working Tax Credits.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, two 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)	Insurance and Inventories of Portable Assets	Substantial/ Reasonable	Substantial/ Reasonable	H M L	1 3 2	H M L	0 1 0
b)	Treasury Management	Substantial	Substantial	H M L	0 0 1	H M L	0 0 1

- 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.

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: Leasehold Services, Planning, Payroll, CSO Compliance, Tackling Tenancy Fraud, and HMO Licensing.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2013-14 Audit plan was agreed by Members at the meeting of this Committee on 14th March 2013.
- 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 2014, 278.90 chargeable days were delivered against the planned target of 270, which equates to 103.3% 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
CSO Compliance	June 2012	Limited	On-going management action in progress to remedy the weaknesses identified.	As part of planned audit in 2014-15
EK Services – Software Licenses	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 planned audit in 2014-15
Cemeteries	March 2014	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Mid-2014

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.