

Audit Committee Meeting	Agenda Item:
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Meeting Date	14 December 2011
Report Title	Internal Audit – Six-Month Interim Report
Portfolio Holder	Cllr Dewar-Whalley – Finance and Performance
SMT Lead	Mark Radford – Corporate Services Director
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendation	That the Audit Committee agrees that the report provides evidence of an effective internal audit and assurance that management is taking the necessary action to implement audit recommendations.
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Purpose of Report and Executive Summary

- 1.1 The report provides details of the work of the Internal Audit Team between April and September 2011. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective audit service.

2 Background

- 2.1 The principal objective of the Internal Audit service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council.
- 2.2 Internal Audit is a statutory function under the Accounts and Audit Regulations 2011 which state that the Council *must undertake an adequate and effective internal audit of its system of internal control in accordance with the proper practices in relation to internal control.*
- 2.3 The adequacy of the internal control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied with the audit arrangements and to be aware of the issues arising from audit work.
- 2.4 Within its Terms of Reference the Audit Committee needs to *review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.* The Committee therefore needs to be satisfied that the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.

- 2.5 A total of eleven audit projects were completed between April and September 2011 (Appendix I).

Reporting

- 2.6 The six-monthly Interim Report is principally intended to inform the Committee of the work of the Internal Audit Team during the first half of the financial year. An annual report, which will be provided to the Committee in May 2012, will provide a more detailed review of internal audit work and will include an assessment of the Council's overall internal control environment, in support of the Annual Governance Statement.

Assurance Assessments

- 2.7 Each audit review includes an assurance assessment in terms of the adequacy of controls. This represents the 'audit opinion'. Appendix II shows that, of the eleven projects completed during the six month period, three were assessed as providing 'limited' control assurance.
- 2.8 Appendix III shows that five projects were assessed as providing 'substantial' control assurance.
- 2.9 Three audit projects were not appropriate for a controls assessment being, National Fraud Initiative, HCA Grants and Interreg Mosaic Project. These are also shown at Appendix III.
- 2.10 A table showing the definitions of the assurance categories is attached at Appendix VI.

Follow-ups

- 2.8 A follow-up is completed, usually three to six months after the date of issue of each original report. The follow-up allows the adequacy of controls to be reassessed. Management is expected to have taken the necessary action to address the control weaknesses before the follow-up is undertaken. The results of follow-ups carried out between April and September are summarised at Appendix IV.
- 2.9 The follow-ups confirmed that management had implemented the agreed audit recommendations. A particularly positive result was the revised control assurance for Sports Development, where the initial audit identified only minimal control assurance but by the time of the follow-up the control assurance had increased to substantial.

Remainder of Audit Plan (October 2011 to March 2012)

- 2.10 Appendix V shows the audit projects that will be completed during the second half of the financial year. The increased number of projects for that six month period

reflects the use of the contracted auditor who currently fulfils the role of the 0.5 FTE auditor resource. This resource will cease from 2012/13 following a reduction in the audit budget.

3 Proposal

3.1 On the basis of the work carried out by the Internal Audit team during the first half of the financial year and on the outcomes of the follow-up process, there is clear evidence of an effective audit service and that managers are taking the necessary action to implement audit recommendations. The Committee is therefore asked to agree the recommendation shown at the beginning of this report.

4 Alternative Options

4.1 The Internal Audit team completed a total of eleven audit projects during the six-month period April to September 2011. The audit work has led to control improvements in the areas that were reviewed.

4.2 Although the audit work identified some areas where controls were in need of improvement, it is anticipated that the responsible managers have since taken the necessary action to address those weaknesses. This will be tested as part of the follow-up process.

4.3 Members of the Audit Committee need to have an awareness of the work of Internal Audit. There is no alternative action.

5 Consultation Undertaken or Proposed

5.1 The outcomes from audit projects are discussed with the appropriate Head of Service who subsequently receives a copy of the audit report and an action plan for completion. A copy of each report is also provided to the appropriate Director, the Chief Executive and the Head of Finance.

5.2 The Portfolio Holder has been provided with a copy of this report.

6 Implications

Issue	Implications
Corporate Plan	Becoming A High Performing Organisation
Financial, Resource and Property	The work of Internal Audit includes the examination of all aspects of internal control but inevitably contains a strong emphasis on reviewing the adequacy of financial controls. The process helps to

	provide assurance in relation to the adequacy of the Council's financial management arrangements.
Legal and Statutory	Internal audit is a statutory requirement under the Accounts and Audit regulations 2011.
Crime and Disorder	None identified at this stage.
Risk Management and Health and Safety	Internal Audit contributes to the overall risk management environment by reviewing the adequacy of controls that management has put in place to manage risks.
Equality and Diversity	None identified at this stage.
Sustainability	None identified at this stage.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report

- Appendix I: List of audit projects – April to September 2011
- Appendix II: Summary of audits – assessed as Limited
- Appendix III: Summary of audits – assessed as Substantial or High
- Appendix IV: Summary of follow-up assessments
- Appendix V: Remainder of Audit Plan: October 2011 to March 2012
- Appendix VI: Definition of Assurance Levels

8 Background Papers

8.1 The various Internal Audit reports that were issued between April and September 2011 are the background papers for this report.

List of Audit Projects: April – September 2011

	Report/Project	Date of Report	Report Assurance Level	Follow Up Assurance Assessment	Notes
1.	Arts Development	May 2011	Substantial	N/A	No recommendations have been made, therefore a management response and follow-up are not required
2.	Section 106 Agreements	June 2011	Limited	Scheduled for December 2011	
3.	Compliance with Officer Code of Conduct	July 2011	Substantial	Scheduled for January 2012	
4.	Publication of Corporate Spend	July 2011	Limited	Scheduled for January 2012	
5	Interreg – Mosaic Project	July 2011	N/A	N/A	
6.	National Fraud Initiative (Part 2)	August 2011	N/A	N/A	
7.	Caravan Sites Licensing	August 2011	Substantial	N/A	No recommendations have been made, therefore a management response and follow-up are not required
8.	IT Physical & Environmental Controls	August 2011	Substantial	Scheduled for March 2012	
9.	Members Allowances & Expenses	September 2011	Substantial	N/A	No recommendations have been made, therefore a management response and follow-up are not required
10.	Appointments of Consultants	September 2011	Limited	Scheduled for March 2012	
11.	HCA Grants	September 2011	N/A	N/A	Audit Return

Summary of audits – Assessed as Limited

Service Section: Development Services

Audit Title: Section 106 Agreements

Issued Date: June 2011

Audit Scope: The audit set out to:

- Establish and evaluate the arrangements for recording the individual planning obligations which are negotiated through the Planning process.
- Review the process by which negotiated planning obligations are formalised into Section 106 agreements.
- Establish and evaluate the means by which the Council's interests are brought into account.
- Establish and review the process for monitoring Section 106 agreements.
- Establish and review the means by which planning obligations are collected, recovered or obtained from developers.

Findings: The main issues arising from the audit were:

- S106 Agreements currently in place have been negotiated to meet traditional corporate priorities rather than to meet current needs and priorities.
- The Council has insufficient user licences to allow access to the S106 database system to all departments involved in the S106 process to monitor progress. Furthermore, the S106 Officer needs additional training to be able to maximise the full monitoring and reporting benefits of the S106 database.
- Pro-active monitoring of developer progress towards reaching trigger points does not currently take place, resulting in the Council being potentially unaware when S106 monies become due.
- The central debtors system is not used to assist with the collection of S106 monies once they become due, or therefore to flag up when S106 monies are overdue. This has contributed to the Council previously understating its outstanding debtors in its Financial Statements by £406,763, due to officers being unaware that S106 monies are due/ outstanding at year-end.
- The S106 Monitoring Officer does not monitor the use (spending) of S106 monies and was unable to confirm during the audit whether all S106 monies are being utilised in accordance with the terms and conditions of the respective agreements.
- The Council currently hold £1,759,726 of S106 funding, some of which dates back to 2005/06.

Assurance Assessment at the time of the Audit: Limited

Management Response: All of the recommendations made have been accepted and the actions are planned to be implemented by March 2012

Key Actions Agreed: To:

- Instruct Development Management Officers to seek to negotiate innovative opportunities/approaches towards securing developer contributions.
- Arrange training for Planning Committee
- Arrange for additional user licences for Section 106 database
- Produce procedure notes for renegotiation and enforcement

The response is considered to be adequate

Follow Up Date: March 2012

Service: Finance

Audit title: Payments to Suppliers – Publication of Spend

Report Issued: July 2011

Audit Objectives: The Council has arrangements with public sector spending and contract analysts – Spikes Cavell – to analyse and publish its spending data via the company’s SpotlightOnSpend website.

The review focused on key management controls that are in place to ensure compliance with relevant transparency guidance and internal procedures; evaluated and tested the accuracy of published information and confirmed controls over the submission of future data.

Key Findings: The report concludes that the Council is publishing its payment data on a regular, monthly basis. Analysis of the published data during the audit identified recommendations for improvement to enable the Council to more closely meet local government transparency objectives; for example publication of data by expenditure date rather than invoice date; and for clearer classification of spending data. Recommendations were also made to improve internal controls over the published data, for example formal confirmation of Spikes Cavell responsibilities and commitments and introduction of procedures for reconciliation and approval of data prior to publication.

Level of Assurance Issued: Limited

Management Response Summary: All recommendations were accepted or alternative action agreed. A number of actions were implemented immediately and remaining actions are due for implementation by the end of December 2011. The Management response is, therefore, considered to be adequate

Proposed Date for Follow-up: January 2012

Follow-up Assessment: To be completed January 2012

Service: Commissioning & Customer Contact

Audit Title: Appointment of Consultants

Issued Date: September 2011

Audit Scope: The audit set out to review the process for appointing consultants to ensure that organisational guidelines and the Councils Contract Standing Orders are being complied with.

Findings: The expression 'consultant' is a rather generic term. The audit identified inconsistency in the way that 'consultants' are engaged/appointed, with very little guidance available to the managers who appoint them. The guidance should include the requirement to check references, qualifications and insurance prior to engagement. There is a need to introduce more standardized contract documents.

Some engagements were initially made with a fixed period in mind; whereas in practice the engagement has become longer term. A more formal assessment process is required in order to consider whether an establishment post, possibly with a fixed term, would provide better value for money. Extensions to engagement periods should be subject to formal review to ensure that the Council's contract procedure rules are properly observed.

Assurance Assessment at the time of the Audit: Limited

Management Response: All of the recommendations are accepted and will be implemented.

Adequacy of Response: Adequate.

Key Actions Agreed: Procurement guidance will be prepared. Checks will be carried out in order to ensure that guidance is followed. Extensions will be monitored. A register of consultants will be created.

Follow Up Date: April 2012

Summary of audits – Assessed as Substantial or High

Service Section:	Economy & Communities
Audit Title:	Arts Development
Issued Date:	May 2011
Audit Scope:	The audit reviewed the adequacy of the Art at the Centre grant application process, project management and financial controls. The audit specifically evaluated and tested the procedures in place for the art project 'Room'.
Findings:	<p>Audit testing identified that the controls surrounding the administration and documentation of grant funding are strong and provide adequate assurance that the projects are being delivered in line with agreed grant scheme conditions. Testing also confirmed that all expenditure is accurately recorded on the Council's General Ledger system.</p> <p>The audit assessed the tender process for the project along with the commissioning of the artist to work within the overall project. Audit testing established that all documentation relating to the tender and commissioning process was accurate, complete and appropriately authorised.</p>
Assurance Assessment at the time of the audit:	Substantial
Management Response:	A management response was not required as there were no recommendations made within the report.

Service Section:	Corporate Services
Audit Title:	Compliance with Officer Code of Conduct
Issued Date:	July 2011
Audit Scope:	<p>The audit set out to:</p> <ul style="list-style-type: none"> ▪ establish and evaluate the key controls relating to the collection, recording and reporting of officer declarations; ▪ Establish and evaluate the controls in place to ensure that gifts and hospitality are declared.
Findings:	<p>The main issues arising from the audit were the need to:</p> <ul style="list-style-type: none"> • Increase staff awareness of the content of the Code of Conduct • Require staff to complete declarations during the induction process • Improve information recorded in the Gifts and Hospitality Register • Evidence the authorisation and monitoring of the Register • Improve the security of declaration forms
Assurance Assessment at the time of the Audit:	Substantial

Management Response: All of the recommendations have been accepted and the actions are planned to be implemented by December 2011

Adequacy of Response: Adequate

Key Actions Agreed: To:

- Review storage arrangements of Declaration Forms for protection of sensitive data
- Increase awareness of the Code of Conduct
- Review reporting arrangements
- Align Officer Gifts and Hospitality limits with Member Code of Conduct

Follow Up Date: January 2012

Service Section: Housing Services

Audit Title: Caravan Site Licensing

Issued Date: September 2011

Audit Scope: The audit set out to establish that all caravan site documentation is accurate and that there is an adequate enforcement procedure in place to maintain the safety, security and infrastructure of the sites.

Findings: Audit testing established that there is a licence in place for all sites and all licence and inspection documentation is correctly and securely maintained. It is considered that, with the introduction of a computerised documentation and inspection system (M3), the security of the data and the timeliness of the inspection programme will be more robust.

Several site visits were carried out during the audit which confirmed that the inspection process is adequate and performed to a high standard.

Assurance Assessment at the time of the Audit: Substantial

Management Response: A management response was not required as there were no recommendations made within the report.

Service Section: ICT Services
Audit Title: IT Physical & Environmental Controls
Issued Date: August 2011

Audit Objectives:

- To establish whether responsibilities for controlling the physical security of computer facilities are clearly defined
- To establish whether adequate precautions exist to protect IT equipment
- To confirm that only authorised persons have access to the IT equipment within the machine room
- To ensure that adequate insurance cover exists for IT equipment
- To confirm that third party access to IT facilities is fully protected

Key Findings: The audit found that, generally, controls were operating satisfactorily.

Some areas were identified where minor improvements were needed to ensure that assets were more secure and better protected against environmental hazards. These included devices to warn of air conditioning or power supply failure, connection to a “clean” power supply and improved security for network equipment. There were also issues relating to the location and securing of lap tops, the lack of a home working policy and the need to limit weekend access to Swale House by parking control staff.

Level of Assurance at the time of the audit: Substantial

Management Response Summary:

The management response is considered to be adequate.

The ICT Services Manager has agreed with all eight audit recommendations. He has already actioned two of the recommendations, with plans to implement a further four within the next 4-5 months. The remaining two recommendations require action from HR (Home Working Policy), and Parking Services (access to Swale House). He has already contacted the relevant Service Managers to initiate action on these recommendations.

It is notes that the action relating to the agreement of a Home Working Policy will not be completed until February 2012. The follow up will therefore be completed in February 2012.

Proposed Date for Follow-up: February 2012

Service Section: Legal Services

Audit Title: Members Allowances & Expenses

Issued Date: September 2011

Audit Scope: The audit set out to confirm that Member allowances are paid in accordance with the Council Members Allowance Scheme and to establish that expenses claims made in 2010/11 were accurate, supported by receipts where appropriate, and appropriately checked and authorised. Member allowances and expenses are published annually on the Council website. The audit review also set out to establish the accuracy of the published information

Findings: Audit testing established that sound controls are in place surrounding the management and administration of the Members Allowance Scheme, with all payments of allowances being in accordance with the Scheme. The Members Allowance Scheme was found to be adequately published and continually available during the year for members of the public to review.

Members Allowances and Special Responsibility Allowances were found to have been paid in accordance with the Members Allowance Scheme over twelve monthly instalments. The payment of all Members Allowances through the iTrent Payroll system ensures that all payments are not only administered by an independent employee, but also that the correct deductions are made in respect of Income Tax and National Insurance.

Assurance Assessment at the time of the Audit: Substantial

Management Response: A management response was not required as there were no recommendations made within the report.

Service: Corporate/Section 151 officer responsibilities

Audit title: National Fraud Initiative (NFI)

Report Issued: August 2011

Background: The NFI is a biennial data matching exercise carried out by the Audit Commission. The Council is required to submit a broad range of data which is matched against other data sets from a number of sources. Data sets provided by the Council include Benefits, Payroll, Creditors, Licensing, Insurance Claims and Register of Electors.

Internal Audit is the 'key contact' for the NFI exercise and has responsibility for overseeing/coordinating the initiative at the local level. This includes monitoring the progress of investigations and ensuring that the Council complies with the Code of Data Matching.

Findings: The report identified that good progress was being made to investigate the data matches.

The report provides some assurance that arrangements are in place for the prevention and detection of fraud within the organization and provides evidence for the Annual Governance Statement.

Level of assurance at the time of the audit: Not applicable

Management Response: The report was provided for information and no response if required.

Service: Economy and Communities

Audit title: Homes and Communities Agency - Review of Grants Received

Report issued: No report issued

Background: Internal Audit was asked to check the accuracy and adequacy of the 'statement of grant usage' forms in accordance with the terms of the HCA grant agreements.

The audit work focused on verifying the eligibility of the grant related expenditure for each of the 5 grants reviewed.

Findings: The audit concluded that the grant funded expenditure was eligible. However, in the absence of other evidence, for a small number of items, it was necessary to accept the assurance of the Head of Economy and Communities that expenditure incurred was within the scope of the funded project.

Following the audit checks the "Statement of Grant Usage" forms were signed and forwarded to the Homes and Communities Agency.

Service: Commissioning and Customer Contact

Audit title: Interreg – Mosaic Project

Claim checked: July 2011

Background: The Council is a participant in the 'Mosaic Project' which is led by Kent County Council and will provide a detailed socio-economic map of the County to assist resource planning and to allow Councils to focus on service delivery. The project is part of an initiative by the 2 Seas Cross-Border Co-operation Programme involving the French Nord-Pas de Calais region, the south coast of England and the Dutch coast. All Kent local authorities are participating in this initiative.

The project deals with economic, environmental and social issues. The Council receives up to 50% funding from the European Union. The contribution from Swale Borough Council is primarily through the time of the officers spent developing the project.

Internal Audit acts as 'First Line Controller' (FLC) and is responsible for auditing all claims, ensuring that the claims comply with strict evidence requirements. The FLC is required to agree and sign-off claims prior to the claim being submitted.

Failure by the Council to submit detailed evidence to support the claim or to provide a FLC certification would result in the claim being rejected.

Findings: The audit checks identified a number of errors/omissions that were amended prior to the claim being finally submitted.

Level of assurance at the time of the audit: Not applicable

Management Response: None required.

Other work:

In addition to the audit work listed above, the Internal Audit Team completed the Annual Fraud Survey on behalf of the Council for provision to the Audit Commission.

The team provided advice and guidance to a range of officers in relation to control and risk areas.

Summary of follow-up assessments

	Follow Up reviews carried out April-September 2010	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Notes	Direction of Travel
1	Sports Development	June 2011	Minimal	Substantial		
2	General Ledger feeder Systems	June 2011	High	High		
3	Accounts Payable	June 2011	Substantial	Substantial		
4	Housing Benefits	June 2011	Substantial	Substantial		
5	Accounts Receivable	June 2011	Substantial	Substantial		
6	NNDR	July 2011	Substantial	Substantial		
7	Asset Management	September 2011	Substantial	Substantial		
8	Development Control Administration	June 2011	Substantial	Substantial		

Remainder of Audit Plan: October 2011 – March 2012

Audit Subject	Service	Notes
Freedom of Information compliance	Legal Services	Scheduled for February 2012
Refuse Collection – Waste & Recycling (Contract & Performance review)	Commissioning & Customer Contact	Scheduled for November 2011
CCTV Contract Review	Economy & Communities	Scheduled for December 2011
Environmental Enforcement (Street Wardens)	Service Delivery	Scheduled for December 2011
Housing – Licensing of Landlords	Housing Services	Scheduled for January 2012
Income, Cash Collection & Banking	Finance Services	Scheduled for January 2012
Council Tax	Service Delivery	Scheduled for January 2012
Insurance	Finance Services	Scheduled for January 2012
Benefits	Service Delivery	Scheduled for February 2012
Accounts Payable (Inc credit cards)	Finance Services	Scheduled for February 2012
Leisure Centre Management	Commissioning & Customer Contact	Scheduled for February 2012
IT Disaster Recovery	ICT Services	Scheduled for February 2012
Property Management	Corporate Services	Scheduled for March 2012
NNDR	Service Delivery	Scheduled for March 2012
Seafront Services	Commissioning & Customer Contact	Complete at December 2011
Housing Assistance Policy (Disabled Grants)	Housing Services	Complete at December 2011
General Ledger (Budgetary Control)	Finance Services	Complete at December 2011
Treasury Management	Finance Services	Complete at December 2011
Project Management (Gateway)	Economy & Communities	Current
Health & Safety (Corporate Responsibility)	Corporate Services	Deferred to 2012/13

Appendix VI

Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an **assurance level** within four categories. The use of an **assurance level** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

Controls Assurance Level	Summary description	Detailed definition
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service are exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control or there is evidence that there is significant non-compliance with key controls.</p> <p>The control arrangements are of a poor standard.</p>
Limited	Improvements in controls or in the application of controls are required	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review. This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> <p>The control arrangements are below an acceptable standard.</p>
Substantial	Controls are in place but improvements would be beneficial	<p>There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.</p> <p>The control arrangements are of an acceptable standard.</p>
High	Strong controls are in place and are complied with	<p>The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.</p> <p>The control arrangements are of a high standard.</p>