

Audit Committee Meeting	Agenda Item: 6
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Meeting Date	11 December 2013
Report Title	Internal Audit – Six-Month Interim Report
Portfolio Holder	Cllr Dewar-Whalley – Finance Portfolio
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendations	1. That the Audit Committee agrees that the audit process is working effectively and that management is taking the necessary action to implement agreed 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 2013. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective internal audit.

2 Background

- 2.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council’s operations. It helps the Council accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 Internal Audit is a statutory service under the Accounts and Audit Regulations 2011, which state that the Council ‘must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.
- 2.3 The adequacy of the 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 consider summaries of specific audit reports. The Audit Committee also needs to be satisfied that the

audit process is working efficiently and that management is taking the necessary action to implement agreed audit recommendations.

- 2.5 Nine audit projects were completed between April and September 2013. The projects are listed at Appendix I.
- 2.6 A summary of each audit project is shown at Appendix II. The outcomes were positive, with control assurance for six projects being 'substantial', with only one area providing 'limited' control assurance. The definitions for the assurance assessment are shown at Appendix III.
- 2.7 The output during the first six months of the year is always substantially lower than for the second half year. This is because April is used to finalise and issue reports for work that was carried out in the previous financial year and because audit staff tend to take much of their annual leave during the first half year, thereby reducing the number of productive days for that period.
- 2.8 The emphasis during the second part of the year will be strongly based around delivering the remainder of the planned audit work. Considerable management attention will be directed to ensuring that the revised plan is achieved. The remaining audit plan, covering the period October 2013 to March 2014, is attached at Appendix IV. It is considered that the plan will be fundamentally delivered by the end of March 2014.
- 2.9 A follow-up to each report is completed, usually three to six months after the date of issue of each original report. The follow-up allows progress on implementing the agreed recommendations to be assessed. Eight follow-ups were completed during the period April to September and in all cases, good progress had been made in implementing the recommendations.
- 2.10 The Audit Committee considered and approved the Internal Audit Plan of work for 2013/14 at its meeting on 18 March 2013. The Committee expressly noted that the plan was likely to need to change to reflect any significant risks being identified during the year.
- 2.11 A number of changes to the plan have since been made to reflect changes to priorities or the need to reschedule the audit for a more suitable time.
- 2.12 Internal Audit now undertakes a number of reviews of MKIP shared services. These reviews provide assurances to all of the Councils that are party to the shared service. The projects allow a particularly effective use of internal audit resources as there are efficiencies in carrying out one audit which covers, say, two Councils rather than two separate audits. The shared service audits that will be carried out by the overall (Mid Kent) audit partnership during 2013/14 (where Swale is a partner within the shared service being audited) are shown at Appendix V.
- 2.13 The six-month Interim Report is principally intended to inform the Audit Committee of the work of the Internal Audit team during the first half of the

financial year. The Annual Report covering the whole of 2013/14 will be provided to the meeting of the Committee on 25 June 2014. It will provide a more detailed review of Internal Audit work and will include an assessment of the Council's overall control environment, in support of the Annual Governance Statement.

- 2.14 There are no significant control weaknesses that have been identified by audit work that need to be brought to the attention of the Audit Committee.

3 Proposal

- 3.1. The report provides details of the work of the Internal Audit team between April and September 2013. The Audit Committee is asked to agree that the work provides evidence of an adequate and effective internal audit.

4 Alternative Options

- 4.1 The Audit Committee needs to have an awareness of the work of Internal Audit in the context of its Terms of Reference. The only alternative would be to provide a less detailed report; however this would be at odds with the Council's commitment to transparency.

5 Consultation Undertaken or Proposed

- 5.1 The initial audit plan for 2013/14 was subject to consultation with Heads of Service and Directors before being agreed by the Audit Committee in March 2013. The outcomes of Internal Audit reports are discussed with the respective Head of Service who is asked to complete an action plan relating to the audit recommendations. The Head of Service is made aware of the wording that will be used to report the audit to the Audit Committee.

6 Implications

Issue	Implications
Corporate Plan	The work of Internal Audit covers a range of services and systems that exist to support corporate plan priorities
Financial, Resource and Property	Internal Audit examines a broad range of functions, systems and risk areas; however financial systems are a key element of the Audit Plan. The majority of work on financial systems is carried out in the second half of the financial year.
Legal and Statutory	Internal Audit is a statutory requirement in accordance with the Accounts and Audit Regulations 2011.

Crime and Disorder	None identified at this stage
Risk Management and Health and Safety	Internal Audit reviews the adequacy of the controls that are in place to manage risk. An ineffective or inadequate Internal Audit service would mean that weaknesses in internal control are not identified or rectified. It is considered that Internal Audit is adequate and effective
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: Internal Audit projects completed - April to September 2013
- Appendix II: Summary of Internal Audit Reports – April to September 2013
- Appendix III: Definitions of Assurance Levels
- Appendix IV: Remaining audit plan – to be delivered October 2013 to March 2014
- Appendix V: Shared service audits to be carried out by the overall (Mid Kent) audit shared service during 2013/14 (where Swale is a partner within the shared service being audited)

8 Background Papers

8.1 Various Internal Audit reports

APPENDIX I

Internal Audit projects completed 1st April 2013 – 30th September 2013 (for more detail please see appendix II).

No	Title	Head of Service	Status	Assurance
1	Leisure Centre Management	Head of Commissioning & Customer Contact	ISSUED June 2013	Limited
2	Accounts Payable	Head of Finance	ISSUED May 2013	Substantial
3	Council Tax - Collections & Refunds	Head of Service Delivery	ISSUED June 2013	Substantial
4	Licensing	Head of Service Delivery	ISSUED July 2013	Substantial
5	HR Shared Service: Payroll	Head of HR Shared Services	ISSUED August 2013	Substantial
6	Public Sector Equalities Duty	Head of Corporate Governance & Communications	ISSUED September 2013	Substantial
7	Procurement: Contract Standing Orders	Head of Commissioning & Customer Contact	ISSUED September 2013	Substantial
8	NFI: Progress Report	Head of Finance	ISSUED September 2013	Progress Report
9	Sports Development Investigation (On-going support and evidence gathering)	Head of Economy & Communities	August / September 2013	Investigation

APPENDIX II

Summary of Internal Audit Reports - April to September 2013:

Report title: Leisure Centre
Service: Commissioning & Customer Contact
Month issued: June 2013

Audit Objectives:

- To identify and evaluate the governance arrangements between the Council, SCLL and the agent
- To consider the adequacy of the operational arrangements between the Council, the SCLL and the managing agent (Serco) and to verify performance against the terms of the agreements
- To verify that all contract payments are authorised, accurate and in accordance with the contract terms
- To establish whether there are adequate controls over other (non-contract) expenditure

Key Findings:

- There was no contract summary document setting out the key elements of the contract, including revisions made in 2009 and 2011.
- There was no formalised monitoring programme and formal monitoring records over the Leisure Centre contract including key contract elements such as health and safety and equipment maintenance.
- The Leisure Centre equipment inventory had not been updated since the start of the contract and equipment, which is owned by Serco, sports clubs and SCLL, has not been clearly differentiated from the Council's equipment.
- The Council had not made a decision about the payment of utility bills to Serco, despite this being in dispute since January 2012.
- The basis of how Serco calculates the utility subsidy payment was unclear and payment errors were identified in the payments made since April 2011.
- The car park refund subsidy invoices received from Serco were not being verified back to the original refund documentation held at the respective Leisure Centres.

Level of Assurance Issued: Limited

Management Response Summary:

The following actions have been proposed by the Head of Commissioning & Customer Contact:

- To formalise all of the contract savings previously agreed with Swale Community Leisure Limited and Serco in a formal variation order

- To develop a formalised contracts monitoring programme to incorporate key terms of the contract including the contractor's business continuity plan, relevant insurance documentation, health and safety, customer complaints and the maintenance of equipment.
- To carry out, in conjunction with Serco, a full inventory check of all leisure centre equipment and to update the inventory register accordingly.
- To report the current position in relation to the payment of utility bills to Serco to Senior Management Team and to ensure there is greater transparency over utility bill payments paid in the future and all subsequent utility bill invoices received are checked and verified for accuracy prior to payment.
- To review the procedures for the payment of car park refunds to Swale Community Leisure Limited

The majority of the actions are proposed to be implemented by the end of December 2013, with some more long-term actions being implemented by April 2014.

The management response is considered to be satisfactory

Proposed Date for Follow-up: January 2014

Report title: Accounts Payable
Service: Finance
Report issued May 2013

Audit Objectives:

- To establish and review the process and procedures of control for issuing payments to Creditors
- To establish if payments made to creditors during 2012/13 are accurate, correctly authorised and secure

Key Findings:

The audit established that that there was adequate resource within the Exchequer team to provide good controls and resilience over the day to day processing of invoices and that invoices are processed accurately and in a timely manner.

Issues were identified in relation to the separation of duties for invoice processing and payment of invoices and the final authorisation / supervisory check of the final payment file prior to bank submission / printing

Level of Assurance Issued: Satisfactory

Management Response Summary:

The management response is considered to be satisfactory. All of the actions were agreed and are due to be implemented by the end of October 2013.

The actions proposed by the Chief Accountant include reviewing the roles and responsibilities of the Exchequer staff to ensure there is adequate separation of duties over the processing of invoices; introducing procedures to ensure changes to suppliers are more rigorously checked; improving the reporting functionality to monitor authorised signatories as part of the Agresso upgrade project; improving procedures to ensure payments over £50k are counter signed by a second authorised officer on the payment remittance report; agreeing the phrasing of the Council's standard terms of conditions for purchase orders with Legal Services and educating staff to use purchase orders more routinely and, consequently, reducing the number of payment pro-formas processed; changing authorisation groups to ensure the same officer cannot code and authorise the same invoice; introducing a supervisory check on payment files prior to payment; arranging for the accounts payable BACS payments to be processed by the Finance team and reviewing and updating the direct debit file to ensure all direct debit mandates are valid and authorised.

Proposed Date for Follow-up: December 2013

Report title: Council Tax – Collections & Refunds
Service: Service Delivery
Report issued: June 2013

Audit Objectives:

- To establish whether the collection of Council Tax income and the refund of payments are carried out in accordance with Statutory Regulations and the Council's Financial Procedure Rules.
- To identify, evaluate and test the procedures and controls relating to the collection, recording and monitoring of Council Tax income.
- To verify that refund payments are legitimate, accurately calculated, authorised and paid.
- To determine whether Council Tax system is subject to regular and adequate reconciliation against the Council's main accounting system.

Key Findings: The audit established that comprehensive procedures notes, training and guidance are available to staff and any changes to regulations are identified and communicated in a timely manner. The arrangements for receiving Council Tax payments and processing refunds are satisfactory, income and refunds are accurately reflected in taxpayers' accounts in a timely manner and there is a commitment to effective management controls through quality assessment and authorisation procedures and reconciliation processes.

In addition, there are adequate processes in place to monitor performance which is reported to the Department of Communities and Local Government and internally to Senior Management and Members.

Level of Assurance Issued: Substantial

Management Response Summary: The Head of Service Delivery has confirmed that the officer training spread sheet will be reviewed and updated and the income 'suspense' holding account will be reviewed by Finance in order to correctly allocate historical unallocated payments.

Management response is considered to be satisfactory

Proposed Date for Follow-up: January 2014

Audit Title: Licensing
Service: Service Delivery
Report Issued: July 2013

Audit Objectives:

- To establish the adequacy of licensing administration procedures in line with statutory responsibilities and current legislation;
- To establish whether licenses issued, and appeals received, during the past year have been correctly processed;
- To establish whether licenses are effectively monitored, breaches investigated and enforcement action taken where necessary;
- To establish whether appropriate supporting documentation is retained in support of license applications, appeals, breaches and prosecutions and that data held on the computer system is securely maintained;
- To evaluate and test procedures for the receipt, banking and reconciliation of income received.

Key Findings:

Audit testing confirmed that licences are being processed accurately and in line with regulatory and local procedural guidance, all monies due to the Council are being collected and recorded correctly and all supporting evidential documentation is being correctly retained

Four recommendations were made within the report relating to the review and update of the Licensing web pages, the disposal of CRB documentation, the updating the M3 computer system with current fees and charges and clearer recording of 'Legal' Licence income through the cash receipting system.

Level of Assurance Issued: Substantial

Management Response Summary: The Head of Service Delivery confirmed that the Licensing Team, in conjunction with the Communications team, will review the Licensing web pages and update by December 2013. All CRB documentation has now been removed and destroyed in line with Data Protection Regulations. Licence software has

been updated to reflect the current fees and charges and financial administration has been reviewed to enable more comprehensive records to be retained.

The management response is considered to be satisfactory

Proposed Date for Follow-up: January 2014

Audit title: Payroll (Swale & Maidstone)
Service: Human Resources
Report issued: August 2013

Audit Objectives:

To examine, evaluate and test the adequacy and effectiveness of the payroll system's internal controls to ensure that:-

- The payroll procedures adhere to the Council's Constitution - Financial Procedure Rules.
- All appointments, amendments and leavers are valid, accurate and authorised.
- Changes to standing data within the payroll system are accurate and authorised
- Pay documentation is suitably authorised, appropriate, accurate and secure
- Pay has been calculated correctly, completely and promptly
- Expense claims are valid, accurate and authorised
- All deductions are authorised, accurate and processed in a timely manner
- Processing of the BACS payment file is secure and authorised

Key Findings:

The audit confirmed that the controls over Payroll at Swale and Maidstone provide a substantial level of assurance. However, the following issues were identified during the audit:

- The procedures for starters and leavers at Swale are different to that currently in place at Maidstone.
- The Payroll Manager does not routinely retain the emails from the Chief Accountant at Swale that authorise payment of the monthly payroll and the emails do not always include the amount of the payroll file being authorised.
- The process for the submission of BACS payments at Swale needs to be reviewed.

Level of Assurance Issued: Substantial

Management Response Summary:

All of the recommendations have been fully considered by the Head of HR Shared Service and the following actions are proposed:

- To introduce an electronic system for the processing of starters and leavers
- To undertake a review of the BACS procedures for the Swale payroll

- To remind all staff at Swale and Maidstone to upload evidence of expenditure into iTrent
- To write to all staff to confirm details of all minor deductions

The Head of HR Shared Service has also reviewed the documentation held on a number of leavers files and is satisfied that there is adequate evidence to support the final salary payments.

The management response is considered to be satisfactory.

Proposed Date for Follow-up: April 2014

Audit title: Public Sector Equality Duty (SBC)
Service: Policy & Performance
Report issued: September 2013

Audit Objectives:

- To consider whether the Council satisfies its statutory and regulatory obligations in relation to the Equalities Act 2010 and the “equality duty” ;
- To verify that roles, responsibilities and accountabilities for the management, monitoring and reporting of Equalities are clearly defined;
- To establish whether the Council has fully incorporated the Public Sector Equality Duty into all relevant business activities e.g. decision making, policy setting, service planning, contract formulation, service delivery and employment;

Key Findings:

The Council is satisfying its statutory obligations in respect of the Public Sector Equality Duty and the roles and responsibilities for the management and monitoring of equalities have been clearly defined.

Decisions however, are needed in respect of which equalities model / framework should be followed in the future. Refresher training is needed for both Members and officers and decisions need to be made about whether equalities training should be made mandatory for officers. Equalities training should also be incorporated into the Member induction programme.

Level of Assurance Issued: Substantial

Management Response Summary:

The following actions have been agreed in the management response:

- To submit a report to Senior Management Team to provide an update on Equalities and to consider and agree the equalities model to follow in the future;
- To arrange meetings with appropriate managers to consider whether equalities training should be made mandatory for officers and to consider how equalities complaints are classified;
- To prepare an equalities handbook to be issued to all Council Members;

- To review and update equalities documentation on the intranet;
- To provide procedural guidance to managers in relation to the submission of community impact assessments to the Policy & Performance team for review prior to publication;
- To review the wording of the equalities clause in all relevant contracts / agreements;

All of the recommendations have been accepted, and the management response is considered to be satisfactory.

Proposed Date for Follow-up: January 2014

Audit title: Compliance with Contract Standing Orders
Service: Procurement
Report issued: September 2013

Audit Objectives:

- To determine the level of compliance with the Council's Contract Standing Orders;

Key Findings:

Recommendations in the report relate to:

- Reviewing and updating procedures over the administration and issue of waivers, including robust levels of challenge, and appropriate authorisation;
- The need to ensure that all contracts include the standard clauses as set out within the Contract Standing orders; and
- The need to update procurement information available online, including the contracts register;

Level of Assurance Issued: Substantial

Management Response Summary: All recommendations have been agreed by the Head of Service and were implemented at the time of reporting.

Proposed Date for Follow-up: April 2014

Additional projects:

On-going Sports Development Investigation:

In September 2013, the Police requested further information / evidence from Internal Audit to support the on-going Police case in relation to the former Sports Development Manager. This has required additional audit resources to be assigned within the current audit plan to gather, analyse and to report the information requested.

The evidence along with a revised witness statement was provided to the Police on 30th September 2013. It is anticipated that further internal audit resource may be required in the lead-up to and the duration of the court case.

NFI 2012-13 Progress Report: Internal Audit continues to facilitate the Council's support of the National Fraud Initiative.

It was established that the investigations into data matches for Payroll and Creditors are complete and there have been no issues arising.

Housing Benefits investigations are on-going but the majority have been investigated and closed:

Date Type	Number of matches checked	Closed matches	Matches outstanding	Matches subject to fraud investigation
Housing Benefit claimants	1469	1441	29	13

Overpayments and weekly incorrect benefits identified:

Housing benefits & Council Tax Benefit recorded to date	£51,068
Income Support & Job Seekers Allowance recorded to date	£11,960
Weekly reduction in Housing Benefit and Council Tax Benefit	£1,051

Internal Audit will facilitate the process for the 2013-14 Single Person Discount (SPD) data matches – the results of which are due to be published in February 2014.

APPENDIX III

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.</p> <p>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>

APPENDIX IV

The table shows the remaining audit plan of 14 projects - to be delivered 1st October 2013 – 31st March 2014.

No.	Title	Head of Service	Progress
1	Economic Development – Grants	Head of Economy & Communities	Issued
2	Community Safety Grants	Head of Economy & Communities	Issued
3	Project Management - Sustainable Sheppey Project	Policy and Performance	In Progress November 2013
4	PSIAS Self-Assessment	Head of Audit Partnership	In Progress November 2013
5	Housing Benefits - Payments	Head of Service Delivery	In Progress November 2013
6	VAT management	Head of Finance	Brief Issued December Audit
7	Emergency Planning	Director of Corporate Services	Brief Issued December audit
8	NNDR: Valuation & Billing - Including new scheme	Head of Service Delivery	Scheduled for January 2014
9	Mid Kent Legal Services: Practice Review	Head of Legal Partnership	Scheduled for January 2014
10	Residents Parking permits	Head of Service Delivery	Scheduled for February 2014
11	Accounts Receivable	Head of Finance	Scheduled for February 2014

12	General Ledger - feeder systems	Head of Finance	Scheduled for March 2014
13	PC/Internet Controls	ICT Shared Service Manager	Scheduled for March 2014

APPENDIX V

The table highlights shared service assurance where Swale is a partner for the shared service. These are projects where a single internal audit is conducted on a partnership or shared service and therefore provides assurance across more than one site.

These projects represent the most effective use of internal audit resources, as each project is delivered within a shorter time budget (due to efficiencies within planning, testing and reporting) and provides assurance to each Authority:

No.	Audit Plan	Audit Title	Head of Service	Status	Assurance
1	Maidstone	Parking Services Partnership: Car Park Income	Head of Service Delivery	Issued	Maidstone & Swale
2	Swale	HR Shared Service: Payroll	Head of HR Shared Services	Issued	Maidstone & Swale
3	Maidstone	HR Shared Service: Recruitment	Head of HR Shared Service	Scheduled for December 2013	Maidstone & Swale
4	Swale	Mid Kent Legal Services: Practice Review	Head of Legal Partnership	Scheduled for January 2014	Maidstone, Swale & Tunbridge Wells