

AUDIT COMMITTEE
21 June 2010

Subject: **East Kent Audit Partnership Update report for the period March 2010 to May 2010.**

Director/Head of Service: Director of Finance & Deputy Chief Executive

Decision Issues: This matter is within the authority of the Audit Committee.

Decision: Non-key

Classification: THIS REPORT INCLUDES AN ANNEX CONTAINING CONFIDENTIAL INFORMATION AND MAY BE DISCUSSED WITHOUT THE PRESS AND PUBLIC PRESENT

REASON: DISCLOSURE WOULD BE LIKELY TO PREJUDICE THE COMMERCIAL AND CONTRACTUAL INTERESTS OF THE LOCAL AUTHORITY.

Ward: **All**

Summary: *This report informs members of progress against the audit plan approved by them in March 2009. A separate Appendix sets out the results of individual audits and is not for publication.*

To Resolve ***That this committee accept the results of audit work and make comments, if required to Full Council.***

SUPPORTING INFORMATION

1. Issues for consideration

The Committee is asked to agree the options set out below because: In order to comply with best practice, the Audit Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained. This report includes the summary of the work of the East Kent Audit Partnership for the period March 2010 to May 2010.

1.2 AUDIT REPORTING

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 the relevant Directors, as well as an appropriate manager for the service reviewed. Attached as Appendix 1 to the EKAP report are the high risk recommendations from the Action Plans agreed in respect of the reviews covered during the period.

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.

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.

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.

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.

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.

1.3 SUMMARY OF WORK

There have been six Internal Audit reports that have been completed for the period March 2010 to May 2010. These have been allocated assurance levels of substantial to limited. The issues raised from the audit reviews include computer system problems, use of consultants, lack of documentary evidence, data sharing, policies requiring updating and security access. Summaries of the report findings and the recommendations made are detailed within Appendix 1 to this report.

In addition, there have been four follow up reviews completed during the period, which concluded that many of the agreed recommendations have been implemented and the

remainder are currently pending implementation. The only exception to this is the follow up review of Mobile Phones. This was originally limited assurance and it has been found that no significant improvement has been made, therefore the assurance level cannot be raised and further improvements have been recommended.

The performance measures for the East Kent Audit Partnership for the period do not highlight any concerns against the annual target.

2 Any consultations planned or undertaken

Management Team has considered this report.

3. Options available (set out the various options available)

To consider the results of audit work and to make such observations and recommendations to the Council as the committee sees fit.

4. Any implications known as this stage

The lack of existence of sound financial and other controls could result in loss to the Authority (both financially and to its reputation). Internal Audit is one means of securing such controls.

The Council is responsible for designating an officer with responsibility for ensuring that satisfactory systems of accounting and internal control are maintained (Sec 151 Local Government Act 1972). The Director of Finance & Deputy Chief Executive discharges this function, in part, through the work of Internal Audit and the East Kent Audit Partnership.

5 Any conclusions which can be drawn at this stage

The Council is ultimately responsible for the adequacy of internal controls for the effective management of its affairs and this committee acting in an audit role is one mechanism through which it can monitor and review the effectiveness of these controls.

6 Next stage in process

To receive the results of internal audit work and to make comments as considered appropriate.

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21 June 2010 - Audit Progress Report

Version 1

Date 14th May 2010

**UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP,
COVERING WORK FOR THE PERIOD TO MAY 2010**

1. INTRODUCTION AND BACKGROUND

- 1.1 This report provides Members with an update of the work undertaken by the East Kent Audit Partnership undertaken during the period March 2010 to May 2010.

2 SUMMARY OF REPORTS

Service / Topic	Assurance level	No Of Recommendations Made		No Of Recommendations Accepted	
		H	M	L	M
Council Tax	Substantial	H	0	H	0
		M	4	M	4
		L	1	L	1
Housing Benefit Claim Checks	Substantial	H	0	H	0
		M	1	M	1
		L	1	L	1
Housing Rents / Repairs	Reasonable	H	0	H	0
		M	5	M	5
		L	5	L	5
Procurement	Limited	H	5	H	5
		M	0	M	0
		L	0	L	0
CCTV	Limited	H	7	H	7
		M	3	M	3
		L	0	L	0
Security	Limited	H	5	H	5
		M	2	M	2
		L	0	L	0

2.1 Council Tax

2.1.1 Business Objective

To ensure that Council Tax accounts are based upon correct valuations, are billed accurately, payments are received on a timely basis and all debts are pursued and legal means of recovery are enforced.

2.1.2 Audit Objective

To provide assurance on the adequacy and effectiveness of the procedures and controls established in the systems with regard to liability and billing for residents of the district and to ensure effective and efficient collection methods are in place.

2.1.3 Summary of Findings

The purpose of this review was to establish whether there are effective controls in place governing the council tax functions. The process of Council Tax liability and billing procedures was the main focus of this review. Sound procedures and controls have been established and experienced council tax staff have provided assurances that the expected liability and billing key controls were in place and were being applied on a consistent basis.

The new year parameters set up in the Northgate Business Rates system were tested sufficiently prior to the commencement of the financial year to ensure that the accurate assessments and calculation of demands for all categories of ratepayers was undertaken.

Regular reports from the Valuation Officer are received throughout the year and were acted upon within a reasonable period. The inspections process is effective and the reporting process is evidenced manually and electronically. New properties are entered into the Northgate system expediently and liability is raised and charged to tax payers at the earliest opportunity as a result of the inspection process in place.

Exemptions and discounts are applied sufficiently however there is some concern that regular follow ups are not as efficient as it could be and regular review could be improved.

Demand notices contain sufficient information and are dispatched at least 14 days prior to the first instalment being due. Data held within Northgate was accurate and current and supported by electronic evidence scanned into the Anite dip and workflow system.

Individual staff have their own access levels to the system set by the control team and each is password protected.

The work of the Control Team who continually assess, monitor and report performance, supports the council tax function and the standards of reporting information that were made available to the auditor provided assurance that the reconciliation and year end procedures are carried out efficiently and effectively.

2.1.4 Audit Assurance

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

2.2 Housing Benefit Claim Checks

2.2.1 Business Objective

That all Housing Benefit claims are processed promptly and correctly for the year 2009-10 to ensure that the payments made to claimants are correct.

2.2.2 Audit Objective

To provide assurance on the accuracy of the data contained within the Housing Benefit system for the claims processed for the year, to ensure that new claims and amendments to current claims are processed correctly.

2.2.3 Summary of Findings

For the 2009/10 financial year twenty five claims including new, cancellation and change of circumstances of each benefit type were randomly selected for verification of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

The sample selected included working claims, self employed claims, employment support allowance claims and pass ported claims such as Income Support, Job Seekers Allowance and Pension Guarantee Credits.

Results of the testing have confirmed there are sound procedures and controls in place. Experienced benefit staff have provided assurances that the assessment and decision making processes in place are being applied on a consistent basis.

A number of minor errors were highlighted that did not raise major concerns over any particular assessment area. Staff need to be more careful when completing the self employed calculator, that they include all of the expenses relevant to each claim and when an expense is not allowed a diary note should be made with an explanation why.

The Northgate and Anite systems used in benefits were easy to navigate and extract the necessary data. The Anite system holds scanned records of the evidence provided to support each award and the Northgate system provides detailed breakdown of income used, rental liability and the applicable needs for each claim. There were no areas of concern highlighted with these systems.

2.2.4 Audit Assurance

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

2.3 Housing Rents / Repairs

2.3.1 Business Objective

To ensure that the Housing Rents system is properly controlled to enable all rents charged to be correct and all payments, (including Housing Rebate transfers) made by the tenants to be processed correctly, accurately, timely and be properly recorded on the correct account. All debts should be effectively pursued to obtain as much revenue as possible for the authority. Also to provide an efficient and cost effective responsive repairs service to Council tenants by the use of partnering contracts and to ensure that all repairs undertaken contribute to the good management, maintenance and improvement of the council's housing stock.

2.3.2 Audit Objective

To provide assurance on the adequacy and effectiveness of the procedures and controls established in the systems to ensure achievement of the business objectives.

2.3.3 Summary of Findings

The Council makes use of the Capita Housing Management system to hold information on the individually rented garages, houses and flats it owns. The same database retains the tenant details and history and is used for the management of income. I was advised during the course of the audit that there had been a considerable number of problems within Capita which had adversely affected the trustworthiness of the data that could be drawn from the system. In addition problems of starting and ending access rights for staff had influenced the way the system could be used.

The process for calculating new rent charges for the year was undertaken in good time for the 2009/10 financial year with notifications to tenants being dispatched in March for April. After rent increase letters had been dispatched to tenants the government changed the inflation criteria to be used necessitating a complete review and change in rental charges, this change created a number of billing issues which took some while and considerable extra work to unwind. The team should be complemented on their resolution of this problem. Resilience of the rent calculation process is, however, compromised by the lack of procedural notes to support the rent calculation process, this is recognised but, none the less, needs to be addressed.

Refunds are available to tenants where overpayments have been made and a sample of these transactions was reviewed to confirm that they complied with best practice. In some instances a signed request for a refund had not been submitted as expected, verbal instructions being accepted instead. This did not follow the established procedural process and in future needs to be corrected.

A review of the income process revealed that where a payment has inaccurate supporting information it is placed in a holding account from where the Debtor Section manually allocates it to the correct account following investigation. There are a number of instances where it appears that the same payee has payments placed in suspense each time. Recurring items are creating un-necessary work in identifying where the error lies and correcting the problem should resolve this.

As mentioned above the quality of the output data from Capita has been questionable. The Finance team has faced considerable difficulties in reconciling the Capita income record to the Integra record. The enforced delay highlighted the failings in the previous reconciliation process and during the course of the audit a new system has been developed and tested. As a result the year to date reconciliation has only just been completed and whilst the delay was not to be welcomed, it had the beneficial effect of concentrating activity on redressing all of the issues previously identified. Guidance notes for the new procedure will need to be prepared.

The Capita database is protected by passwords and permissions levels, these define the activity an individual may undertake. The present practice of giving a new member of staff the same permissions as the leaver takes no account of job evolution and should be rectified by carrying out a full review of current rights and needs. In addition Capita need to repair the systems which are currently preventing the proper, secure use of the database.

Rent statements have not been properly dispatched this year and this was attributed to the Capita problems. I was assured that this problem was close to resolution and a phased programme of statement issue will take place in the near future.

The staff in Housing are not currently required to complete declarations of interest; this omission will be corrected.

The Authority is provided with performance statistics by the current repairs contractor however these are not tested by random spot checks and may therefore be inaccurate, to the benefit of the contractor. This should be addressed by the introduction of random sampling when the new contract for repairs is introduced.

The property master file and the Capita database are updated with sales and disposals following receipt of a memo from legal. There is, however, no annual reconciliation undertaken between these two sets of records to ensure that no entries have been missed, this should be rectified by the introduction of a simple process at year-end.

2.3.4 Audit Assurance

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

2.4 **Procurement**

2.4.1 Business Objective

To ensure that the Council procures goods and services in an effective, efficient and economic manner to achieve best value for the Council's financial resources and to meet the Council's service objectives.

2.4.2 Audit Objective

To provide assurance on the adequacy and effectiveness of the procedures and controls established in the systems to ensure achievement of the business objectives in relation to the selection and employment of consultants.

2.4.3 Summary of Findings

As part of the audit, the process for appointing a sample of thirteen consultants used across the Council was reviewed to ascertain the procedures being adopted by officers when appointing consultants. As part of that appointment process compliance with CSO's was also reviewed. A list of 18 basic questions was sent to officers across the Council who were responsible for the engagement of the Consultants selected for testing.

As a result of the information obtained during the audit, the overall level of compliance with the questions raised was lower than expected. This demonstrates that the empowering of management to undertake the engagement of consultants without approval from Senior Management is a decision that is worthy of review.

While there were pockets of good practice evidenced during the review, on the whole it was found that a number of consultants are being engaged with no consideration being given to compliance with CSO's or even the taking up of references and financial health checks prior to the consultant commencing work on, in some cases high profile projects.

At the time of the audit, no formal procedures are in place regarding the appointment and engagement of consultants to demonstrate to Senior Management that the consultant is being correctly engaged so that the Council obtains the services, knowledge and skills of a consultant as a result of those skills lacking within the Council, rather than diverting staff from other projects which would result in a much lower level of cashable outlay for the Council.

2.4.4 Audit Assurance

Management can have Limited Assurance that officers are able to adequately demonstrate that they on behalf of the Council are appointing Consultants in such a manner which both complies with Contract Standing Orders (CSO's) and at the same time and just as importantly demonstrates economy and probity in the procurement process.

2.5 **CCTV**

2.5.1 Business Objective

To provide a 24-hour emergency control room that monitors Canterbury CCTV cameras and that responds to emergency situations to provide protection to visitors and residents in the district

2.5.2 Audit Objective

To evaluate, with a view to providing assurance on the adequacy, application and effectiveness of the internal controls present in the CCTV system and to ensure that procedures are in place to administer the CCTV function in compliance with all relevant legislation and Council policies.

2.5.3 Summary of Findings

The function has benefitted from a number of beneficial changes that seek to enhance service functionality such as new equipment and professionally qualified and licensed resource, however these changes need to be adequately reflected in revised policies and procedures governing the function. The discrepancies raise the risk of non compliance with legislative or other requirements. Staff guidance to cover day to day operations is not complete to sufficiently demonstrate compliance.

The CCTV function shares premises with other services (Lifeline and Out of Hours Lines). Of the three elements CCTV has a legislative and supervisory framework that impacts on the staff and operation of the function. These issues impact on others entering or sharing the premises i.e. that non CCC CCTV persons are subject to specific protocols sufficient to demonstrate compliance with CCTV (and related) legislative and supervisory requirements.

Data sharing protocols are not sufficiently robust or documented to cover all instances affecting CCTV. CCC CCTV makes use of non CCC CCTV material (White Friars feeds) which may then be passed onto police. Police access is not always supervised nor in response to defined and documented basis (the nature of the enquiry / offence / purpose). Relationships and disclosures lack clarity and appropriate supporting documentation such as Memoranda of Understanding.

Compliance with DPA and CCTV legislative and supervisory requirements means that any changes to camera location must take note of guidance such as the Privacy Impact Assessment Handbook.

2.5.4 Audit Assurance

Management can place Limited Assurance on the system of internal controls in operation currently, however this assurance should increase as management recognises that policies and procedures such as the Code of Practice requires revision and this is now planned.

2.6 **Security**

2.6.1 Business Objective

To provide effective security for both the Council and its employees based at the Civic Centre by restricting access to un-authorised persons.

2.6.2 Audit Objective

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure achievement of the business objectives. Ensuring that all personnel are properly authorised for access to all relevant areas and visitors are supervised at all times for their safety and that of the Council's officers.

2.6.3 Summary of Findings

Observation testing has been undertaken to identify physical failure of the Security Policy. Areas of concern are: -

- Failure to wear ID badges.
- Failure to challenge Officers who are not wearing ID badges.
- Officers/Members of the public tailgating when entering the building.
- Visitors not signed out of the building or returning temporary ID badges.
- No procedures in place for notifying other Councils when an Officer has left their employment of the Council who also have access to other Councils ICT and Buildings.

For the Security Policy to be effective requires Senior Management willingness to support and enforce compliance.

2.6.4 Audit Assurance

Management can place Limited Assurance that Officers, Members and Visitors are adhering to the Canterbury City Council Security Policy.

3.0 **FOLLOW UP OF AUDIT REPORT ACTION PLANS**

3.1 As part of the period's work, four 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	Current Assurance level	No Recs Made		No Recs Implemented	
			H	M	L	M
Bank Reconciliation	Substantial / Reasonable	Substantial / Reasonable	H	3	H	3
			M	0	M	0
			L	2	L	2
Creditors	Reasonable	Substantial	H	0	H	0
			M	3	M	3
			L	2	L	2
GCSX – Audit Logs	Reasonable	Substantial	H	5	H	5
			M	3	M	3
			L	0	L	0
Mobile Phones	Limited	Limited	H	3	H	0
			M	0	M	0
			L	0	L	0

3.2 The follow up reviews have found that many of the agreed recommendations have been implemented, and where these have not yet been put into place, the remainder are currently pending implementation. The only exception to this is the review of the Mobile Phones where it was found that insufficient progress had been made implementing the recommendations. This review will be followed up again in the future to ensure that progress has been made in strengthening the internal controls.

4.0 WORK IN PROGRESS

4.1 During the period work has also been undertaken on the following topics, which will be reported to this Committee at a future meeting: Credit References, CDM Regulations, Child protection – Safeguarding, Housing Benefit – KLOE, Theatre income and Payroll data

5.0 CHANGES TO THE AGREED AUDIT PLAN

5.1 The Audit plan was agreed by Members at the meeting of this Committee in March 2009.

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 will be made to the plan during the course of the year as some high profile projects or high-risk areas maybe requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 INTERNAL AUDIT PERFORMANCE

6.1 For the period to 31st March 2010 260.94 chargeable days were spent out of a planned total of 254 days. The additional days incurred will be adjusted against the new plan

for 2010/11. The majority of the recommendations made within reports to management have been accepted by them.

- 6.2 The financial performance of the EKAP exceeded target and Canterbury City Council along with other partners, have enjoyed consistent savings from EKAP's performance. The saving for 2009/10 for Canterbury City Council is £4,085.
- 6.3 As part of its commitment to continuous improvement and following discussions with the s.151 Client Officer Group, the EKAP has improved on the range of performance indicators it records and measures quarterly. There are no concerns regarding the resources engaged or outputs achieved to report to Members at this time.
- 6.4 The EKAP audit introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. The current feedback arising from the customer satisfaction surveys is attached as Appendix 4.

Attachments

Appendix 1 Summary of high risk recommendations resulting from the period's work

Appendix 2 Summary of services with Limited / No Assurances

Appendix 3 Progress to 31st March 2010 against the agreed 2009/10 Audit Plan.

Appendix 4 Feedback from Customer Satisfaction Questionnaires Received During the period.

Appendix 5 Assurance statements