

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

3 MARCH 2008

**REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK
STRATEGY**

Report prepared by Brian Parsons

1. INTERNAL AUDIT – SIX-MONTHLY INTERIM REPORT

1.1 Issue for Decision

1.1.1 To consider the work of the Internal Audit Section over the six-month period April 2007 to September 2007 (shown at Appendix A) and note the outcomes of Internal Audit work.

1.2 Recommendation of the Head of Internal Audit & Risk Strategy

It is recommended that the Audit Committee

1.2.1 Note the results of the work of the Internal Audit Section over the period April to September 2007 as shown in Appendix A.

1.2.2 Note that there are no important issues arising from audit work which are outstanding and need to be brought to the attention of Members.

1.3 Reasons for Recommendation

1.3.2 The principal objective of the Internal Audit Section is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council. A total of 16 reports were issued between April and September 2007. This is broadly in line with the performance requirement to deliver the audit plan during the financial year. A summary of the reports and the responses from the respective Head of Service is shown at Appendix A.

1.3.3 Internal Audit is a statutory service under the Accounts and Audit Regulations 2003 (as amended in 2006), which state that 'A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices'.

1.3.4 The adequacy of the internal control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied as to the audit arrangements and to be aware the issues arising from Audit work.

1.3.5 The matters contained within the report were reported to the Cabinet on 13 February 2008. As part of its Terms of Reference, the Audit Committee needs to be satisfied that Cabinet has satisfactorily addressed all of the issues raised.

Reporting

1.3.6 The six-monthly Interim report is principally intended to make Members aware of the relatively recent work of the Internal Audit Team. The annual report, which will be provided to Cabinet and the Audit Committee in June 2008, will provide a more detailed review of Internal Audit work and will include an assessment of the adequacy of the Council's overall internal control environment.

Outstanding issues

1.3.7 At its meeting in July 2006, Cabinet asked that future reports on Internal Audit activity include a section indicating whether there were any important issues outstanding or not. I am pleased to confirm that there are no important issues arising from audit work which are outstanding and specifically need to be brought to the attention of Members in this report.

Assurance Assessments

1.3.8 Each audit review includes an assurance assessment in terms of the adequacy of controls. Appendix A shows that, of 16 projects completed during the six month period, 13 projects resulted in an assessment of 'Substantial' with 3 audit projects assessed at 'Limited'. This is a very positive overall position. A table showing the definitions of the various assessment categories is attached at Appendix B.

Follow-ups

1.3.9 A follow-up to each report is completed, usually three to six months after the date of issue of the original report. The follow-up allows the adequacy of controls to be reassessed. The results of follow-ups completed during 2007/08 will be reported as part of the annual report, in June 2008.

1.4 Alternative Action and why not Recommended

1.4.2 The Internal Audit Team issued a total of 16 reports during the six-month period April to September 2007. The reports have led to improvements in control in the areas that were reviewed.

1.4.3 Although the audit work identified some areas where controls were in need of improvement, the responsible manager has since taken the necessary action to address those weaknesses.

1.4.4 Members need to have an awareness of the work of Internal Audit. No alternative action could, therefore, be recommended.

1.5 Impact on Corporate Objectives

1.5.2 The Internal Audit service contributes towards the Strategic Plan, the annual Best Value Performance Plan and the Community Strategy through its role as an independent and objective appraisal and consulting function, which provides the means to evaluate the adequacy of the controls that management has put in place to achieve their objectives for service delivery.

1.5.3 The role of Internal Audit can be seen to underpin aspects of the Strategic Plan, the Best Value Performance Plan and the Community Strategy by reviewing and reporting on the processes by which corporate objectives are delivered to the public (and other stakeholders), as an aid to management.

1.6 Risk Management

1.6.2 Internal Audit contributes to the overall risk management environment by reviewing the adequacy of controls that management has put in place to manage risks.

1.7 Other Implications

1.7.2

1. Financial	X
2. Staffing	X
3. Legal	X
4. Social Inclusion	
5. Environmental/Sustainable Development	

- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement

1.7.3 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.

1.7.4 Each audit involves the participation of the staff that have responsibility for the various systems and processes that are being audited. The results of Internal Audit work are likely to lead to changes in the procedures operated by those staff.

1.7.5 Internal audit is a statutory requirement under the Accounts and Audit Regulations 2003 (as amended in 2006).

1.8 Conclusions

1.8.2 The Interim report highlights the work of the Internal Audit Section between April and September 2007 and provides assurance to Cabinet and to the Audit Committee that overall good standards of internal control are in place. Where controls were not adequate at the time of the audit, action has since been taken to improve controls. There were no fundamental weaknesses identified during the period which need to be urgently brought to the attention of the statutory officers or Members.

1.9 Background Documents

1.9.2 The individual Internal Audit Reports for those projects which are listed at Appendix A

<u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan?			

Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
<u>Reason for Urgency</u>				
[State why the decision is urgent and cannot wait until the next issue of the forward plan.]				

Appendix A

Service Section: Finance

Audit Title: Debtors (Key Control Testing) (Report issued 23 April 2007)

Audit Scope: The audit sought to establish and test the key controls over:

- Debtors invoices
- Periodic Income Accounts
- Debt recovery

Findings: The report concludes that controls over the Debtors system are strong in these areas. Invoices are raised correctly and on a timely basis. The Periodic Income Accounts are properly supported by documentation to substantiate the debt. The debt recovery element of the system provides for automatic escalation of the process where payment is not received. Testing confirmed that appropriate debt recovery action is taken in practice. The only significant area of non payment relates to former tenants arrears at the time of the transfer of the housing stock to Maidstone Housing Trust.

Assurance Assessment at the time of the audit:
Substantial

Management Response:
Action has been taken to implement the recommendations.

Service Section: Finance

Audit Title: Creditors (Key Control Testing) (Report issued 23 April 2007)

Audit Scope: The audit set out to evaluate the effectiveness of the key controls within the Creditor Payment system and to determine the accuracy of data. The review tested the following areas.

- Official Orders
- Invoices
- Authorised signatories
- Creditor documents
- Suppliers and Creditor details

Findings: The results of testing confirm that purchase orders are being raised in accordance with financial rules and are being appropriately authorised. Invoices were found to be properly authorised and filed. Some minor errors were identified in relation to supplier details and some updating of the authorized signatories log was considered to be necessary. All other areas were satisfactory.

Assurance Assessment at the time of the audit:
Substantial

Management Response:

The recommendations are accepted and will be implemented as part of the upgrading process for the latest Creditor payment module of Agresso.

Service Section: Finance

Audit Title: Devolved Budgets (Report issued 27 April 2007)

Audit Scope: The audit set out to review the adequacy of the controls over the Devolved Budget scheme, which provides for an annual budget of £3,000 to each Councillor to be spent at their discretion to fund suitable projects and schemes within their wards, subject to certain guidelines. These projects or schemes have to be linked to local ward priorities to be eligible for consideration. They also have to be for activities which are the responsibility of the Council.

Findings: The report concludes that the Devolved Budget Scheme is well controlled. However, several areas were identified where improvements could be made:

- The Devolved Budget scheme is not regularly reported to Management and other interested parties. The provision of annual updates on the projects assisted by the scheme would help to ensure that the ongoing value of the scheme is reviewed and monitored.
- Members do not always complete the 'Declaration of Interest' statement on the claim application form. This may mean that interests in a particular project are not properly declared.
- Monies to be carried forward from a previous financial year are not being recorded on the current database. As a result the starting balance reported on Agresso does not match the starting balance reported on the Devolved Budget database.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

Consideration of an annual report will be given following the Best Value review of the Council's overall Grants arrangements. The recommendations relating to the other two areas were implemented immediately.

Service Section: Customer Services (Housing)

Audit Title: Maidstone Housing Trust – Housing Transfer Obligations (Report Issued 30 April 2007)

Audit Scope: The review focused on the procedures and frameworks in place to effectively monitor performance and to ensure successful delivery of agreed promises to tenants. The review also

considered the relationships in place to optimize the benefits to the parties involved within the partnership agreement to ensure effective delivery of statutory, regulatory and internal obligations and objectives.

Findings:

The audit established that, since the transfer in February 2004, partnership arrangements have generally been well established and maintained and that monitoring processes have been put in place. The Authority's obligations for the provision of funding and support for 200 additional affordable housing units was confirmed to be well progressed, to the extent that the Authority has made an internal commitment to a further 600 homes by the target deadline of 2008. A number of recommendations are made in the report to:

- Improve the member and officer monitoring arrangements – including consideration of the ongoing objectives and governance responsibilities of the Strategic Housing Advisory Committee; ongoing strategic management of the agreement and improvements to monitoring data.
- Improve the mid-term review of the financial impacts of the transfer and ongoing income projections
- Verify the current management assumptions over the validity of financial and operational performance data provided by the Trust.
- Give consideration to the need to confirm the programme of environmental and communal improvements and disabled facilities and adaptations as stated within the sixth schedule – the Deed of Covenant by the company.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and will be implemented.

Service Section: Corporate Review

Audit Title: Emergency Planning (Report issued 14 June 2007)

Audit Scope: The audit review made use of the Audit Commission's Emergency Planning Self Assessment Toolkit. The audit tested compliance with the 'best practice' advocated by the Commission and examined the evidence that is available to support the self assessment. The audit concentrated on three of the eight sections contained in the Commission's toolkit, being:

- Corporate arrangements

- Risk assessment
- Emergency planning

Findings: The report concludes that most of the best practice set out in the Audit Commission's tool kit is already in place. However, the report recommends that a more formal approach is taken to testing and exercising the plan, with records kept of the lessons learnt and the outcomes of the exercises. The report also recommends that the self assessment against the toolkit should become an annual review, with the results being formally reported through Management Team to the Cabinet.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

Ten of the twelve recommendations are accepted and will be implemented. Of the two remaining, the Emergency Planning Manager considers that the Authority should have direct arrangements with the contractors that may be required in an emergency, rather than identifying contractors through the Kent Resilience Forum. The EPM also believes that a reasonable frequency of self assessment reviews is either 2 or 3 year intervals. Each review produces an action plan and it is that action plan which should be reviewed annually and reported to Management Team and Cabinet.

Service Section: Development and Community Services

Audit Title: Sports, Play and Youth Development (Report issued 22 June 2007)

Audit Scope: The Hotfoot scheme is run throughout the school holidays at a price per week per child. The audit considered the project management controls for running the scheme and assessed the various project records used to monitor and document the scheme. The review specifically considered the following areas:

- The Hotfoot Easter and Summer sports scheme
- The various individual events within the Freefall programme
- The arrangements for the collection, banking and reconciliation of income
- Service related expenditure, including the payment of temporary staff
- Recruitment and training of staff

Findings: The overall management of the scheme is strong, and its objectives are in line with the Youth Development plan for the Borough. Extensive testing was conducted during the audit to ensure that income received from the scheme is being reconciled and fully banked. Additional testing was conducted on the various other events that are run throughout the year

under the 'Freefall' scheme. Several relatively minor weaknesses were identified within the financial controls for the receipting and reconciliation of income. The majority of income is banked promptly; however on occasion banking is delayed until a scheme is fully booked. This exposes the Section and Council to a degree of risk should anything happen to the income between the time it is received and banked.

The audit report confirms that there are good financial controls over service expenditure and budget monitoring. The audit was completed by testing the recruitment process as all members of staff are working with vulnerable children. The procedures are considered to be strong.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and have been implemented.

Service Section: Business Operations

Audit Title: Development Control Fees (Report issued 30 June 2007)

Audit Scope: The review set out to examine and evaluate the procedures in place for the processing of Development Control fees. In particular the audit considered the following areas:-

- The calculation of the fee due
- The receipt and processing of the payment due
- The submission of documents in support of the planning application
- The implementation of a Cash Receipting Terminal to receipt payments
- Reconciliation and banking of income
- Overall reconciliation between APAS and Agresso

Findings: The audit concluded that overall, there are good procedures of control in place over the receipt of Development Control fees. Testing confirmed that fees have been correctly paid and income is banked accurately and on a timely basis. However a number of issues were identified which should be addressed, these include the need to:-

- Prepare written procedures once the revised receipting arrangements are in place.
- Provide VAT receipts for those companies requesting one for the payment of planning advice fees.
- Ensure that the complete system (including the accounting arrangements) is in place prior to the implementation of the electronic cash receipting terminal.
- Ensure that strong procedures of control remain in place over the receipt, banking and reconciliation of income.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and will be implemented.

Service Section: Regulatory and Environmental Services

Audit Title: The Cemetery (Report issued 31 July 2007)

Audit Scope: The audit review set out to review the financial and administrative arrangements for the Cemetery at Sutton Road, Maidstone. In particular the following aspects were considered:-

- Income
- Expenditure
- Burial records
- Grave digging
- The headstone re-instatement project
- Performance targets
- Cemetery Lodge

Findings: The audit identified some significant control weaknesses in need of urgent attention. The main areas being:

- The headstone re-instatement project was significantly behind schedule which was resulting in a large number of complaints from the grave 'owners'.
- Due to poor record keeping it was not possible to identify the number of instances where payments have been received in advance from grave owners but where the work was still outstanding.
- The computer system was not updated when a headstone had been re-instated. As a result it was not clear how many headstones had actually been re-instated.
- The paperwork held for headstone re-instatements, memorial permits, exhumations and exclusive rights did not clearly evidence the payment received. As a result it was not clear if income due had been received.

Note: At the time of the audit the Facility Management Officer had become aware of some of the issues identified during the audit and action was being taken to improve the procedures.

Assurance Assessment at the time of the audit:

Limited

Management Response:

The recommendations are accepted and urgent action will be taken to implement them.

Service Section: Customer Services

Audit Title: Document Imaging Programme (DIP) (Report issued 31 July 2007)

Audit Scope: The audit review of the DIP service established and evaluated the procedures and arrangements in place for the effective and efficient management of electronic imaging of the Authority's records. The audit focused on key management controls which are in place to ensure that scanned documents and records are accurate and secure. The audit also evaluated and tested the procedures, service agreements and resource planning arrangements which are being managed on a day-to-day basis by the Contact Centre Team Manager for Corporate Support (DIP team Manager).

Findings: The audit report concludes that controls over the arrangements have improved over recent months. However, several areas were identified where significant improvements could and should be made. Recommendations require attention at both a corporate and local level and relate to coordination of the business change programme; electronic records retention; systems support; quality and performance management and internal recharges.

Assurance Assessment at the time of the audit:
Limited

Management Response:
All of the recommendations are accepted and will be implemented; several will link with the office move.

Service Section: Regulatory & Environmental Services

Audit Title: Car Parking – Pay & Display Income (Report issued 15 August 2007)

Audit Scope: The review set out to establish and test the key controls over the following areas:-

- Management Information
- Pay & Display Machines
- Fees & Charges
- Season Tickets
- Income

Findings: The audit confirmed that there are good procedures of control in place over the receipt and banking of money relating to the Councils car parks. Extensive testing confirmed that income from the pay and display machines is collected in accordance with the agreed rota and banked on a timely basis. Furthermore

money collected is agreed on a daily basis to the audit tickets produced and is then reconciled overall to Agresso.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and have been implemented.

Service Section: Corporate Finance

Audit Title: Treasury Management (Report issued 15 August 2007)

Audit Scope: The audit set out to:

- Establish and evaluate the controls over the operational arrangements for Treasury Management.
- Test that transactions are in accordance with the Councils Treasury Management Policy.

Findings: The report concludes that the Treasury Management function is well managed. However, some areas are in need of further attention:

- Procedures documents need to be updated to reflect changes in processes
- Any borrowings that the Council conducts should be fully recorded in a loans register
- The sufficiency of the Bankline back-up data should be confirmed with IT, and supported by sufficient procedures.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All recommendations are accepted. Action will be taken to review and update the procedures notes by December 2007. The Cashflow spreadsheet will be updated to include a register for all loans by October 2007. IT will be consulted to confirm both the regularity and sufficiency of the Bankline back-up data.

Service Section: Corporate Review – Change and Support Services

Audit Title: Data Quality - Best Value Performance Indicators (Report issued 31 August 2007)

Audit Scope: This work has been completed in addition to the external audit checks but is complementary in terms of the assurance over the Council's data quality procedures. The review focused on key management controls that are in place over the quality

management of performance data, for a sample of performance indicators. The indicators were selected for review either due to a significant variance in the performance data being reported for 2006/07 compared to the previous reporting year, or due to a significant risk of misinterpretation of indicator guidance.

Findings: The review comprised an assessment, for each indicator, of the accuracy and completeness of performance data and an assessment of the adequacy of supporting evidence to confirm the validity of the data being reported and the quality controls in place to ensure that reported performance is in line with indicator definitions and supporting guidance. A number of minor weaknesses in supervisory controls were identified during the audit, which were appropriately addressed with relevant managers during the audit. Otherwise the arrangements are considered to be sound and effective

Assurance Assessment at the time of the audit:

Substantial

Management Response:

No recommendations made – no response required.

Service Section: Development & Community Services

Audit Title: Park and Ride

Audit Scope: The review set out to establish and test the key controls over the following areas:-

- Income (Financial Monitoring)
- Expenditure (Payment of Invoices)
- Management of the Contract
- Season Tickets
- Park & Sail Service

Findings: The report concludes that controls over the arrangements are generally strong. Testing confirmed that good controls exist over the financial monitoring of the contract with regard to the accounting of daily income received on each route and the payment of invoices. However, several areas are identified where improvements can be made, including the need to review and revise the Park and Ride procedures manual and to undertake financial monitoring checks to ensure that all issued season tickets are properly accounted for.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted; several were implemented immediately.

Service Section: Regulatory & Environmental Services

Audit Title: Fixed Penalty Notices (Report issued 25 September 2007)

Audit Scope: Fixed penalty notices are issued by various Officers, with the majority being issued by the Environmental Crime Officers within the Pollution team. The Council is also required to enforce the new Smokefree legislation. This will utilise the existing procedures for the issue of Fixed Penalty Notices. The audit review considered the controls surrounding:

- Procedures and records management
- Management and Reporting
- Collection, receipt and banking of income
- Reconciliation of income
- Procedures for the implementation of 'Smokefree' fines

Findings: The report concludes that control weaknesses exist over several areas and improvements should be made in relation to:

- The collection and reconciliation of income
- The accuracy and sufficiency of reports and records management
- Management checks and reporting lines

Assurance Assessment at the time of the audit:

Limited

Management Response:

All of the recommendations are accepted and have been implemented.

Service Section: The Museums & Heritage Manager

Audit Title: The Museum

Audit Scope: The audit set out to:

- Consider whether the Museum's artifacts are properly accounted for.
- § Identify and evaluate the security arrangements in place at the Museum.
- § Establish if all income due is received and banked.
- § Test expenditure incurred during 2006/07.
- § Review employment of staff at the Museum, including volunteers and casuals.

Findings: The report concludes that the Museum is well managed and controls are good. However, some areas are in need of further attention.

- There are no additional resources available for the cataloguing project. As a result the cataloguing of artefacts has slowed down.
- The overall insurance value of the Museum artefacts is thought to be considerably understated. It is recommended that items with an exceptionally high value should be valued to ensure that insurance cover for these items is adequate.
- The East Wing Development will mean that a large number of the artefacts will be displaced. This could have serious implications for security and requires a detailed risk assessment and project plan.

Assurance Assessment at the time of the audit:

Substantial.

Management Response:

All of the recommendations have been agreed by the Museums & Heritage Manager. The Museums & Heritage Manager proposes to implement 14 of the 17 recommendations by the end of December 2007. The remaining 3 recommendations, which relate to the ongoing cataloguing project, are due to be implemented by the end of March 2008.

Service Section: Customer Services

Audit Title: KPR (Payment Kiosk) Project Management

Audit Scope: The review set out to establish and test the key controls over the following areas:-

- Float Management
- Banking arrangements
- Security of income and data
- System Integration to back office systems
- Business continuity/ reliability
- Project Implementation costs
- Contract Management – KPR, electronic payment processing.
- Business Planning Strategy – relocation and cashless working projects

Findings: The report concludes that controls over the day-to-day management of the payment kiosk are generally strong. Recommendations arising within the report predominantly relate to strategic project management and systems development opportunities to improve income security, physical security of the kiosk, and project and performance management enhancements to drive increased customer use of the kiosk

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and detailed responses have been provided. The recommendations are all scheduled for implementation prior to the office relocation and the expansion of the kiosk payment facility within the new Gateway.

Other Internal Audit work between April and September 2007

In addition to the specific audit projects listed above, Internal Audit carried out follow-ups to the audit reports issued in the previous six month period and provided advice and guidance on controls to management and staff. Work also occurred in relation to the following:

- Several minor investigations were carried out during the period.
- Internal Audit worked with management on the procurement/implementation of the new Payroll system.
- Liaison with the external auditors including regular meetings.
- The National Fraud Initiative.

Appendix B

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 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	The authority and/or service is 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.
Limited	Improvements in controls or in the application of controls are required	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.
Substantial	Controls are in place but improvements would be beneficial	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
High	Strong controls are in place and complied with	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.