

RSM Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Annual Report

Year ended 31 March 2012

Presented at the Governance & Audit Committee meeting of: 29th June 2012

Approved by: Chris Williams as Head of Internal Audit



Your council working for you

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1 INTRODUCTION

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of South Kesteven District Council's assurance cycle and if used properly can help to inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Council and Governance & Audit Committee.

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Annual Governance Statement

The preparation and publication of an annual governance statement in accordance with the CIPFA / SOLACE Good Governance Framework is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations, which set out a statutory requirement for authorities to prepare a statement of internal control in accordance with "proper practices".

As your internal audit provider, the assignment opinions that RSM Tenon provides the organisation during the year are part of the framework or assurances that assist the Council prepare an informed governance statement.

2 INTERNAL AUDIT ASSURANCE FOR 2011/2012




2.1 Context

As the provider of the internal audit service to South Kesteven District Council we provide the Council through the Governance & Audit Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of Members and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

2.2 Internal Audit Assurance Statement

This annual Head of Internal Audit opinion is provided to South Kesteven District Council by RSM Tenon Limited.

<p>We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Kesteven District Council's arrangements.</p> <p>For the 12 months ended 31 March 2012, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of South Kesteven District Council's arrangements for governance, risk management and control is as follows:</p>	
	<p>Red Amber Green</p>
<p>Governance The Council has adequate and effective Governance arrangements.</p>	
<p>Risk Management The Council has adequate and effective Risk Management arrangements.</p>	
<p>Control The Council has adequate and effective control arrangements.</p>	

2.3 Scope of the Internal Audit opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2012 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether high or medium recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Governance & Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation;
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

We undertook a total of 19 Internal Audit reviews, six Advisory reviews and four Follow Up reviews of recommendations made during the year. Overall, this resulted in 14 'Substantial' assurance opinions (i.e. "Green") and five 'Reasonable' assurance opinions (i.e. "Amber-Green") being given over the control environment.

With the exception of the following agreed changes, all audits that were on the original 2011/12 Internal Audit Plan have been carried out:

- The Performance Management audit was deferred to 2012/13 due to changes in the Performance Indicator Framework;
- The Asset Management Plan audit was replaced with a review of Travel and Subsistence;
- The IT Change Management, ICT Strategy, Health & Safety and the Carbon Reduction Programme audits were undertaken as advisory reviews and the findings were presented to management;
- The Supporting People review was removed from the audit plan, as the Authority were in the process of carrying out a review of the service and working with the County Council on the proposals for the re-shaping of the older persons service; and
- The Flexible Working review was deferred to 2012/13 and the days were used to undertake an advisory review of 'Housing Allocations for Persons with Housing Related Debt'.

Governance

As part of this year's review we looked at the Governance Arrangements in relation to Committee and reporting structure; this resulted in three 'Low' risk recommendations being raised.

The implementation and management agreement to the recommendations that are raised during the course of the year are an important contributing factor when assessing the assurance opinion on Governance. Four Follow Up reviews were undertaken during the year. Overall we concluded that "Adequate" progress has been made to implement recommendations.

Risk Management

An advisory Risk Maturity review was undertaken; this resulted in no recommendations being made. Our objective was to identify the level of maturity, measured against the risk matrix, through an assessment against components relating to Governance, Risk Identification, Risk Assessment, Risk Mitigation, Assurance and Monitoring. The key findings show that the Council is achieving Risk Managed status.

Control

The Control Environment is a key aspect of Risk Management, and as can be seen from the number of recommendations raised there is some room for improvement in strengthening the Control Environment. However, it must also be noted that year on year there has been a marked improvement in the strengthening of the control framework, which is reflected by the higher assurance opinions being given to individual audit assignments.

In last year's Annual Report there were two 'No' assurance opinions (i.e. red) and three 'Some' assurance opinions (i.e. Amber – Red) being given, which resulted in an overall 'Amber' traffic light in the Annual Report for Control. However, we have awarded a 'Green' traffic in this report to mark the improvements that have been made and the increased assurance opinions given.

We are satisfied that sufficient support has been given by the Authority to Internal Audit, thus allowing the delivery of the plan and a formal opinion to be given.

Acceptance of Recommendations

A total of 63 recommendations have been raised during the year (excluding those recommendations raised as part of the Follow Up reviews), all of which were accepted by management.

2.5 The Annual Governance Statement

The overall opinion may be used by the Council in the preparation of the annual governance statement.

2.6 Conflicts of Interest

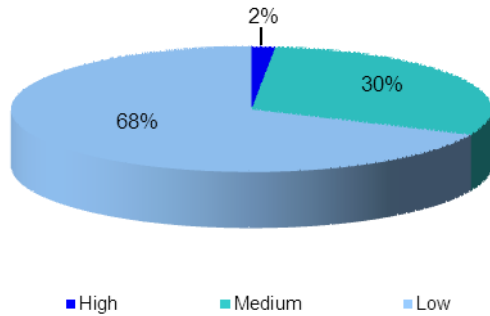
We have not undertaken any work or activity during 2011/12 that would lead us to declare any conflict of interests.

2.7 Benchmarking Data

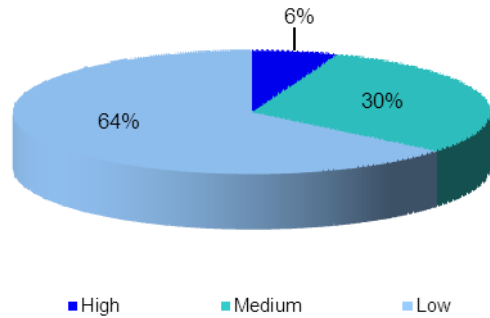
The tables below show the split of internal audit recommendations and opinions for South Kesteven District Council in 2011/12 and those made in 2010/11.

Comparison of the Number of Recommendations Made

Recommendations 2011/12

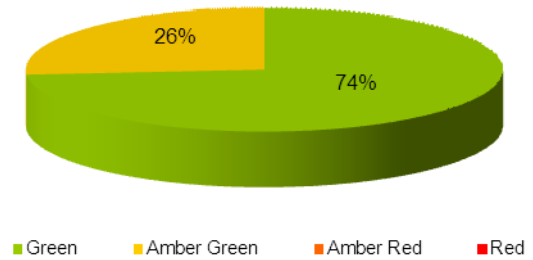


Recommendations 2010/11

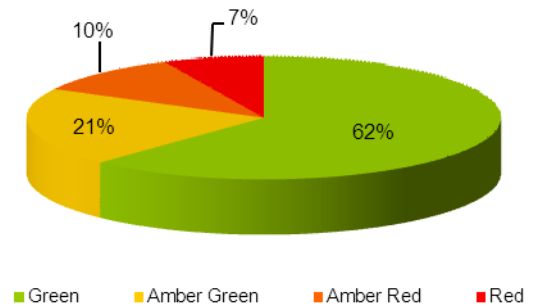


Comparison of the Number of Assurance Opinions Made

Assurance Levels 2011/12



Assurance Levels 2010/11

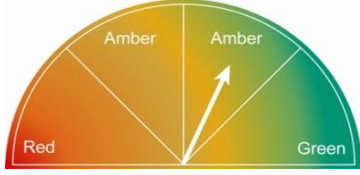
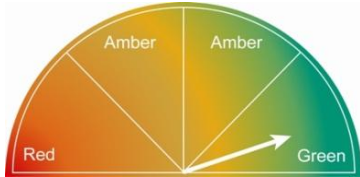


APPENDIX A: INTERNAL AUDIT ASSURANCE MAP 2011/2012

Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
Corporate Governance	Corporate Risk Register	<p>We reviewed the Council's Governance arrangements, in particular the committee structure, Scheme of Delegation, Financial Regulations and the information available to Members to enable informed decision making.</p> <p>Three Low risk recommendations were raised in this area and these were accepted by management.</p>	
Treasury Management	Identified by Management/ Internal Audit	<p>The Council's Treasury Management Strategy was reviewed. The purpose of this review was to clarify the Council's cash position, its investment portfolio, borrowings and the use of treasury management advisors.</p> <p>Overall processes and controls were found to be in place and operating well. No recommendations were made as part of this review.</p>	
Budgetary Control and Budget Setting	Identified by Management/ Internal Audit	<p>We reviewed the Council's budget setting and budgetary control procedures, in particular the compliance with budget setting, monitoring and reporting, staff training and the dissemination of policy and procedures.</p> <p>One Low risk recommendation was raised in this area and this was accepted by management.</p>	
Cash and Banking	Identified by Management	<p>We reviewed the Council's cash and banking arrangements across the four customer service centres. The purpose of this review was to ensure monies were being accurately recorded upon receipt, monies were held securely and banking was completed in a timely manner.</p> <p>One Medium and one Low risk recommendation were raised in this area and these were accepted by management.</p>	

Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
Payroll	Identified by External Audit	<p>We reviewed the Council's payroll arrangements with an emphasis on amendments to standing data including starters, leavers and changes, deductions made, exception reporting, BACS payments and payroll reconciliations.</p> <p>Four Low risk recommendations were raised in this area and these were accepted by management.</p>	
Risk Management	Corporate Risk Register/ Identified by Internal Audit	<p>We undertook a Risk Maturity review; in particular we considered not only what framework South Kesteven District Council had in place to identify, assess, record and monitor risks, but how that information was used within the Council. In doing this we have assessed against the following key components: Governance, Risk Identification, Risk Assessment, Risk Mitigation, Assurance and Monitoring and Reporting.</p> <p>Overall processes and controls were found to be in place and operating well. No recommendations were made as part of this review.</p>	Advisory
Insurance	Identified by Management	<p>We reviewed the Council's Insurance arrangements to cover its operations and assets, in particular we focussed on procedures for dealing with and reporting claims, submission of claims to the Insurance company, retention of documentary evidence relating to claims, use of central insurance mailbox and reporting of claims information to management and members.</p> <p>Three Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>	

Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
Housing Benefit	Identified by External Audit	<p>Housing Benefits is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas of the review included: legislative changes, policies and procedures, sample testing of housing benefit claims and controls in place to ensure completion of statutory returns.</p> <p>Three Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>	
Council Tax	Identified by External Audit	<p>Council Tax is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas reviewed as part of this audit included: parameter files, billing and valuations, invoices raised and dispatched, VO listings, bank and direct collections and reconciliation of Council Tax to the Main Accounting System.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>	

Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
<p>NNDR</p>	<p>Identified by External Audit</p>	<p>NNDR is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas reviewed as part of this audit included: reconciliation of rateable value to the valuation list, changes to properties, relief applications, daily cash balances reconciled to NNDR accounts and reconciliation of NNDR to the Main Accounting System.</p> <p>One High, one Medium and three Low recommendations were made in this area. All recommendations were accepted by management.</p> <p>The High recommendation made was:</p> <ul style="list-style-type: none"> ➤ A reconciliation should be performed to identify and resolve discrepancies between the Valuation Office schedule and the Academy system. <p>On a weekly basis the Valuation Office schedule should continue to be reconciled to the Academy system with any discrepancies immediately corrected.</p>	
<p>Retention and Redeployment</p>	<p>Identified by Management</p>	<p>The purpose of this review was to confirm HR policies and procedures were in place in relation to monitoring of staff retention and workforce planning.</p> <p>One Low risk recommendation was raised in this area and this was accepted by management.</p>	

Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
MOT Services	Identified by Management	<p>We reviewed the Council's arrangements in place to ensure compliance with VOSA regulations in ensuring staff are appropriately qualified/ trained in undertaking MOT's and MOT's are conducted in accordance with the regulations. Our review also included a review of Council policies and procedures, fees set and a reconciliation of MOT bookings to MOT certificates issued and income receipted.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>	
Pollution Control – Contaminated Land	Identified by Management	<p>We undertook a review of Pollution control with a focus on Contaminated Land. The purpose of the review was to clarify how the Council complied with Investigation and enforcement legislation including monitoring and recording of incidents, dealing with enquiries/ complaints and the use of specialist staff.</p> <p>Two Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>	
Travel and Subsistence	Identified by Management	<p>We undertook a review of Travel and Subsistence with a focus on the compliance with the Council's Travel and Subsistence policy. The purpose of this review was to ensure claim forms were completed and supported by receipts, claims were checked and appropriately authorised, correct mileage rates were used, reconciliations of payments made and the retention of claim forms and receipts.</p> <p>Two Medium and four Low risk recommendations were raised in this area and these were accepted by management.</p>	

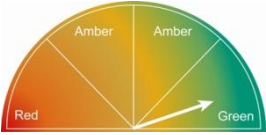
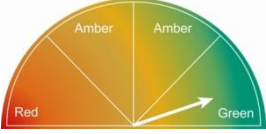
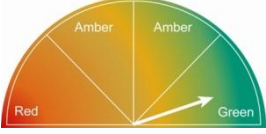
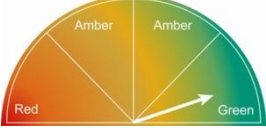
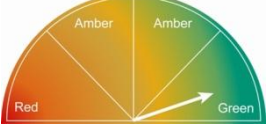
Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
Markets	Identified by Management	<p>We undertook review of the Grantham, Stamford and Bourne Markets. The purpose of this review was to ensure that trading rules were communicated to market traders, rent charges were reviewed annually, income from market rent was collected and banked, traders were issued with market licence conditions and health and safety regulations were complied with.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>	
Development Control	Identified by Management	<p>We undertook a review of Development Control, in a particular we focussed on sample testing of planning case files to ensure compliance with policies and procedures when dealing with caseloads including assessment of applications, inspections, maintaining records, approving applications and ensuring applications were processed within statutory time period.</p> <p>Two Medium and seven Low risk recommendations were raised in this area and these were accepted by management.</p>	
Building Control	Identified by Management	<p>We undertook a review of Building Control, in a particular we focussed on sample testing of case files to ensure compliance with policies and procedures when dealing with caseloads including assessment of applications, inspections, maintaining records, approving applications and ensuring applications were processed within statutory time period.</p> <p>One Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>	

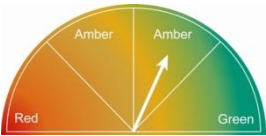
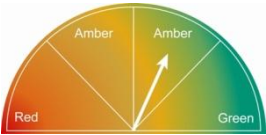
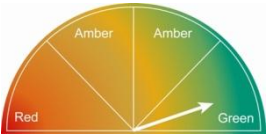
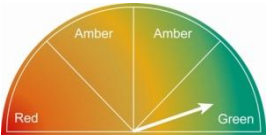
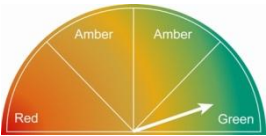
Risk Based Coverage			
Area of Risk	Source	Headline Findings	Assurance
Partnerships	Identified by Management	<p>We reviewed the Council's arrangements as set out in the Council's Partnerships Policy, in particular our review focussed on the arrangements and controls in place for four partnerships namely: Community Safety Partnership, Local Strategic Partnership, Grantham Growth Partnership and the Bourne Town Centre Management Partnership.</p> <p>One Low risk recommendations was raised in this area and this was accepted by management.</p>	
Disabled Facilities Grants	Identified by Management	<p>We undertook a review of Disabled Facilities Grants to provide assurance that grants are awarded in accordance with legislation and only to bona fide eligible applicants in an effective and efficient manner. A sample of grant applications were reviewed to confirm these had fulfilled the eligibility criteria, had been appropriately authorised, grant works had been inspected and payments were approved in line with financial regulations.</p> <p>Three Low risk recommendations were raised in this area and these were accepted by management.</p>	
Better Warmer Homes	Identified by Management	<p>We undertook a review of Grants for Better Warmer Homes to provide assurance that grants are awarded in accordance with the eligibility criteria relating to Decent Homes standard and only to bona fide eligible applicants. A sample of grant applications were reviewed to confirm these had fulfilled the eligibility criteria, surveys had been completed by applicants, applications had been appropriately authorised, quotes had been obtained for works, grant works had been inspected and payments were approved in line with financial regulations and made direct to contractors.</p> <p>One Medium and two Low risk recommendations were raised in this area and these were accepted by management.</p>	

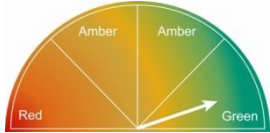
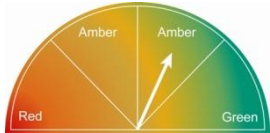
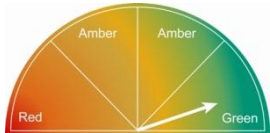
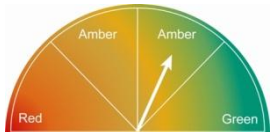

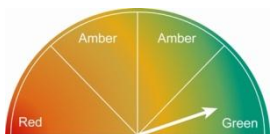
Other Coverage			
Area	Rationale for Coverage	Headline Findings	Assurance
Markets Follow Up	Identified by Management	<p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in the Markets report in 2010/11. The eight recommendations considered in this review comprised of four 'medium' and four 'low' recommendations.</p> <p>Three low risk recommendations were reiterated, where these had not been fully implemented.</p>	ADEQUATE PROGRESS
Follow Up 1	Ongoing Assurance	<p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in ten reports. The 22 recommendations considered in this report comprised of one 'fundamental', eight 'significant', one 'high' and 12 'medium'.</p> <p>One high and five medium risk recommendations were reiterated, where these had not been fully implemented.</p>	ADEQUATE PROGRESS
Follow Up 2	Ongoing Assurance	<p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in eight reports. The 23 recommendations considered in this report comprised of two 'high', 15 'medium' and six 'significant'.</p> <p>Three medium risk recommendations were reiterated, where these had not been fully implemented.</p>	GOOD PROGRESS

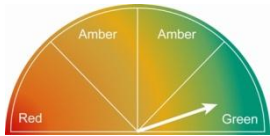
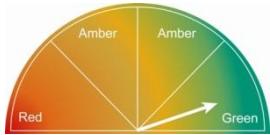
Other Coverage			
Area	Rationale for Coverage	Headline Findings	Assurance
Follow Up 3	Ongoing Assurance	<p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in eight reports. The 20 recommendations considered in this report comprised of three 'high', 16 'medium' and one 'significant'.</p> <p>Two high and four medium risk recommendations were reiterated, where these had not been fully implemented.</p>	ADEQUATE PROGRESS

APPENDIX B: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2011/2012

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Corporate Governance		0	0	3	3	3
Treasury Management		0	0	0	0	0
Budgetary Control and Budget Setting		0	0	1	1	1
Cash and Banking		0	1	1	2	2
Payroll		0	0	4	4	4
Risk Management	ADVISORY	0	0	0	0	0

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Insurance		0	3	3	6	6
Housing Benefit		0	3	3	6	6
Council Tax		0	1	1	2	2
NNDR		1	1	3	5	5
Retention and Redeployment		0	0	1	1	1
MOT Services		0	1	1	2	2

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Pollution Control – Contaminated Land		0	2	1	3	3
Travel and Subsistence		0	2	4	6	6
Markets		0	1	1	2	2
Development Control		0	2	7	9	9
Building Control		0	1	3	4	4
Partnerships		0	0	1	1	1

Auditable Area	Assurance Level Given	Number of Recommendations made				
		High	Medium	Low	In Total	Agreed
Disabled Facilities Grants		0	0	3	3	3
Better Warmer Homes		0	1	2	3	3
Markets Follow Up	ADEQUATE PROGRESS	0	0	3	3	3
Follow Up 1	ADEQUATE OROGRESS	1	5	0	6	6
Follow Up 2	GOOD PROGRESS	0	3	0	3	3
Follow Up 3	ADEQUATE PROGRESS	2	4	0	6	6