

This Report will be made public on 29 November 2022



Report Number **AuG/22/17**

To: Audit and Governance Committee
Date: 7 December 2022
Status: Non-Executive Decision
Corporate Director: Charlotte Spendley – Director – Corporate Services (S151)

SUBJECT: QUARTERLY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th September 2022.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

- 1. To receive and note Report AuG/22/17.**
- 2. To note the results of the work carried out by the East Kent Audit Partnership.**

1. INTRODUCTION

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting.

2. AUDIT REPORTING

- 2.1 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 Heads of Service, as well as an appropriate manager for the service reviewed.
- 2.2. 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.
- 2.3. 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.
- 2.4 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. There is currently one review with such a level of assurance as shown in appendix 2 of the EKAP report.
- 2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.
- 2.6 To assist the Committee in meeting 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.

3. SUMMARY OF WORK

- 3.1. There have been three audit reports completed during the period. These have been allocated assurance levels as follows: one was Substantial / Limited and two were Limited assurance. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, two follow up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.

3.3 For the period to 30th September 2022 177.14 chargeable days were delivered against the planned target for the year of 350 days, which equates to achievement of 50.61% of the planned number of days.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

| Perceived risk | Seriousness | Likelihood | Preventative action |
|--|-------------|------------|---|
| Non completion of the audit plan | Medium | Low | Review of the audit plan on a regular basis |
| Non implementation of agreed audit recommendations | Medium | Low | Review of recommendations by Audit and Governance Committee and Audit escalation policy. |
| Non completion of the key financial system reviews | Medium | Medium | Review of the audit plan on a regular basis. A change in the external audit requirements reduces the impact of non-completion on the Authority. |

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's comments (AK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (CS)

Responsibility for the arrangements of the proper administration of the Council's financial affairs lies with the Director – Corporate Services (s.151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 **Head of the East Kent Audit Partnership comments (CP)**

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 **Diversities and Equalities Implications (CP)**

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

- 6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership
Telephone: 01304 872160 Email: Christine.parker@folkestone-hythe.gov.uk

Charlotte Spendley Director – Corporate Services (S151)
Telephone: 01303 853420 Email: Charlotte.spendley@folkestone-hythe.gov.uk

- 6.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit working papers - Held by the East Kent Audit Partnership.

Attachments

Annex 1 – Quarterly Update Report from the Head of the East Kent Audit Partnership.

INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit and Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2022.

2. SUMMARY OF REPORTS

| Service / Topic | | Assurance level | No of recs | |
|-----------------|---|-----------------------|------------|----|
| 2.1 | Car Parking Income | Substantial / Limited | C | 0 |
| | | | H | 7 |
| | | | M | 0 |
| | | | L | 0 |
| 2.2 | Garden Waste / Recycling Management | Limited | C | 0 |
| | | | H | 2 |
| | | | M | 5 |
| | | | L | 0 |
| 2.3 | Contract Management – Controls and Governance | Limited | C | 0 |
| | | | H | 10 |
| | | | M | 0 |
| | | | L | 0 |

2.1 Car Parking Income – Substantial / Limited Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income due from car parks, including machine income, residents' permits, and season tickets and penalty charge notices is adequately monitored and reconciled to expected and banked income and that income trends are monitored for individual car parks for management information.

2.1.2 Summary of Findings

Car Parking and Enforcement income is a major income stream to the Council therefore there is the need to ensure that monies are collected and banked in a timely manner and processes are in place to recover any outstanding monies.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Established processes are in place for the processing of permit applications and the recovery processes for PCN`s.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- There are ongoing issues with the Kent wide cash collection contract which means that car park income in its various forms (cash, card payments and RINGO) has not been reconciled correctly since September 2021. Audit tickets are not being provided by the contractor which impacts on the reconciliation routines at the time of the audit.
- There have been instances of the car park machines becoming out of service due to being full, as the cash boxes have not been pulled by the contractor.
- There are issues with a small number of car park machines causing reports produced from the car park machine system to possibly not be accurate.

2.2 Garden Waste / Recycling Management – Limited Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the waste recycling income, comprising green waste, food waste, paper/card, glass, tin and plastic is being correctly charged for, in accordance with Council policy / agreements and that all income is correctly received and reconciled.

2.2.2 Summary of Findings

Dover District Council (DDC) and Folkestone & Hythe District Council (FHDC) are the statutory local Waste Collection Authorities (WCA). For the service delivery they maintain a joint Waste, Recycling and Street Cleansing contract, with Veolia Environmental Services UK Ltd; with DDC acting as the lead authority. The current Contract commenced in January 2021.

The Council offers a (non-statutory) Garden Waste collection service, for an annual subscription; and statutory (non-chargeable) household waste and recycling collection service. The councils also provide a bulky waste collection service, for items that will not fit in a designated container, and all items, but especially those that the Council are unable to collect, can be taken to a Household Waste Recycling Centre (operated by Kent County Council).

The day-to-day management and monitoring of the contract is through the joint DDC/FHDC Waste Services Team.

The Waste Management System, ECHO, currently records that there are 14,747 subscribers to the FHDC garden waste collection service.

Effective control was evidenced in the following areas:

- The Council has an approved garden waste charging policy for 2022/23 which is correctly advertised on the Council's Website.
- Fees are received in advance of services being provided.
- Monthly contract monitoring meetings are held with performance statistics provided by Veolia.
- Recycling and waste performance statistics are updated in line with DEFRA requirements and performance statistic are also reported quarterly to Cabinet.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- Refund processing and record retention are open to error which may result in collection services continuing where payment has not been received.
- There is no reconciliation between the actual income received as recorded on the financial management system and expected income as recorded on the Garden Waste system.
- Due to a lack of an interface between the in-house garden waste system and Veolia's manual intervention is required, which leaves the system open to error and has resulted in discrepancies between the two systems.

2.3 Contract Management – Controls and Governance – Limited Assurance

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the organisation's internal controls over contract management are robust and there are sound governance processes in place.

2.3.2 Summary of Findings

A sample of contracts from across all directorates (with the exception of Housing Planned Maintenance as these were tested as part of a separate review earlier in 2022/23) was tested.

Contract Standing Orders (CSOs) set out the minimum requirements to be followed by officers to procure works, supplies (goods) and services. Testing found a number of instances whereby officers are failing to comply with CSOs and therefore by definition are failing to achieve the standards required by the Council in terms of procurement. It should be noted that none of the CSOs tested have an impact on the transactions in the Financial Statements.

Effective control was identified in the following areas:

- For all of the contracts tested, sufficient budget was confirmed to be in place prior to the advertising of the procurement opportunity.
- The Council publishes details of purchase orders raised above £5,000 on its website.

- CSO 14.2 – On the whole, all contract variations and extensions are being properly documented and approved.
- All payments to suppliers were properly reviewed and authorised.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- CSO 7.4 (a) - From a sample of 15 suppliers tested, 4 were found to have not been advertised, the CSO's require competition to ensure best value is obtained.
- CSO 7.4 - From a sample of 15 contracts, five (33%) contracts had an approved waiver in place which resulted in 3 (30%) of the remaining 10 having not obtained the required number of quotes or tenders as required by CSOs. Therefore 7 (70%) contracts had obtained the required number of quotes/tenders.
- CSO 3.4 – For a sample of 15 contracts with a value of £10,000 a contract was in place for 9 (60%) suppliers.
- CSO 5.4(f) - For a sample of 15 suppliers with expenditure in excess of £5,000. 9 (60%) were found to have been listed on the Contracts Register.
- Meetings to formally review performance against the contract are taking place in 8 (53%) of the 15 contracts.

Testing identified a number of weaknesses that are considered to be as a result of officers responsible for the procurement and management of contracts requiring CSO awareness training. While officers were found to be aware of the existence and general principles of CSOs, most were unfamiliar with all the requirements specified in CSOs. Testing also established that officers are unaware of the requirements to undertake a genuine pre-estimate of the contract value covering the whole life of the contract.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work two follow 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.

3.2

| Service / Topic | Original Assurance level | Revised Assurance level | Original recs | Outstanding recs |
|-------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Garage Management | Reasonable | Substantial / Reasonable | C 0 H 3 M 7 L 1 | C 0 H 0 M 0 L 0 |

| Service / Topic | Original Assurance level | Revised Assurance level | Original recs | Outstanding recs |
|---------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| Resident Engagement | Reasonable | Reasonable | C 0 H 0 M 3 L 0 | C 0 H 0 M 0 L 0 |

- 3.3 Details of any individual critical or high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Audit & Governance Committee (none this quarter).

The purpose of escalating outstanding high-priority recommendations which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK IN PROGRESS

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Freedom of Information, Creditors, Council Tax, Homelessness and Fraud resilience.

5.0 CHANGES TO THE AGREED AUDIT PLAN

- 5.1 The 2022-23 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 16th March 2022.
- 5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy 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 are made to the plan during the course of the year as some high-profile projects or high-risk areas may be 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 FRAUD AND CORRUPTION

There are currently no reported incidents of fraud or corruption being investigated by EKAP on behalf of Folkestone-Hythe District Council.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the period ended 30th September 2022 177.14 chargeable days were delivered against the planned target for the year of 350 which equates to achievement of 50.61% of the original planned number of days.
- 7.2 The financial performance of the EKAP for 2022-23 is on target.

Attachments

- Appendix 1 Summary of high priority recommendations outstanding after follow up.
- Appendix 2 Summary of services with limited / no assurances yet to be followed up.
- Appendix 3 Progress to 30th September 2022 against the 2022-23 Audit plan.
- Appendix 4 Balanced Scorecard to 30th September 2022.
- Appendix 5 Assurance Definitions.

| SUMMARY OF CRITICAL /HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1 | | |
|--|---|--|
| Original Recommendation | Agreed Management Action, Responsibility and Target Date | Manager’s Comment on Progress Towards Implementation. |
| None | | |
| | | |

| SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED | | | |
|--|------------------------------|---------------------------|-----------------------------|
| Service | Reported to Committee | Level of Assurance | Follow-up Action Due |
| Right to Buy | September 2022 | Limited | March 2023 |

PROGRESS AGAINST THE AUDIT PLAN 2022/23

| Review | Original Planned Days | Revised Planned Days | Actual To 30/09/2022 | Status and Assurance level |
|-------------------------------------|-----------------------|----------------------|----------------------|--|
| FINANCIAL SYSTEMS: | | | | |
| Bank Reconciliation | 10 | 0 | 0 | Deferred (to cover Officers Interests) |
| Car Parking Income | 10 | 16 | 16.56 | Finalised – Reasonable / Limited |
| Council Tax | 10 | 10 | 0.30 | Quarter 3 |
| Creditors | 10 | 10 | 3.75 | Work in progress |
| Housing Benefit Admin & Assessment | 10 | 10 | 0.28 | Quarter 3 |
| Housing Benefit Subsidy | 10 | 0 | 0 | Deferred (to cover disposal of logs / white goods) |
| HOUSING SYSTEMS: | | | | |
| Capital Programme Planned Repairs | 10 | 10 | 0.55 | Deferred (to cover Housing contract man) |
| Housing Anti-Social Behaviour | 10 | 10 | | Quarter 4 |
| Improvement Grants & DFGs | 10 | 10 | 0.16 | Quarter 3 |
| Tenants Health& Safety | 10 | 10 | 0.36 | Quarter 3 |
| Housing Contract Management | 10 | 25 | 25.55 | Finalised – No Assurance |
| New Build Capital Programme | 10 | 0 | 0.73 | Quarter 4 |
| Responsive Repairs and Maintenance | 10 | 10 | 0.17 | Quarter 4 |
| Right to Buy | 10 | 10 | 10.19 | Finalised - Limited |
| Tenancy & Estate management | 10 | 10 | | Quarter 4 |
| Tenancy Counter Fraud | 10 | 10 | 0.36 | Quarter 3 |
| Homelessness | 15 | 15 | 10.64 | Work in progress |
| TECHNOLOGY / CYBER: | | | | |
| ICT Review | 10 | 10 | 0.14 | Quarter 3 |
| CORPORATE GOVERNANCE: | | | | |
| Otterpool Governance | 10 | 10 | 1.41 | Quarter 4 |
| Whistleblowing | 5 | 5 | 3.06 | Work in progress |
| COUNTER FRAUD: | | | | |
| Fraud Resilience Arrangements | 10 | 6 | 0.03 | Quarter 3 |
| PROCUREMENT & CONTRACTS: | | | | |

| | | | | |
|--|------------------------------|-----------------------------|-----------------------------|---|
| Contract Management / CSOs | 10 | 12 | 10.65 | Finalised - Limited |
| ASSET MANAGEMENT: | | | | |
| Asset Management | 10 | 0 | 0 | Deferred (to cover Housing contract management) |
| SERVICE LEVEL: | | | | |
| Corporate Responsive Repairs | 10 | 0 | 0 | Deferred (to cover corporate leak review) |
| Review | Original Planned Days | Revised Planned Days | Actual To 30/09/2022 | Status and Assurance level |
| Members Allowances | 10 | 10 | 0.27 | Quarter 3 |
| Planning Income | 10 | 10 | | Quarter 4 |
| Garden Waste / Recycling Management | 10 | 21 | 21.17 | Finalised - Limited |
| PEOPLE MANAGEMENT: | | | | |
| Employee Benefits in Kind | 10 | 10 | 0.19 | Quarter 3 |
| Recruitment | 10 | 10 | | Quarter 4 |
| OTHER: | | | | |
| Committee Reports & Meetings | 10 | 10 | 7.66 | Ongoing |
| S151 Meetings & Support | 10 | 10 | 8.76 | Ongoing |
| Corporate Advice / CMT | 5 | 8 | 8.46 | Ongoing |
| Liaison with External Audit | 1 | 1 | 0.92 | Ongoing |
| Audit Plan Prep & Meetings | 10 | 7 | 2.92 | Ongoing |
| Follow Up Reviews | 14 | 12 | 12.18 | Ongoing |
| FINALISATION OF 2021-22 AUDITS: | | | | |
| COVID Grants | 10 | 1 | 0.54 | Finalised - Reasonable |
| Freedom of Information | | 3 | 2.89 | Work in progress |
| Housing Data Integrity | | 6 | 5.51 | Finalised – N/A |
| RESPONSIVE ASSURANCE: | | | | |
| Corporate Leak Investigation | 0 | 5 | 3.05 | Finalised – N/A |
| Officers' Interests | 0 | 11 | 10.88 | Finalised – Reasonable / Limited |
| Disposal of logs / white goods | 0 | 6 | 6.85 | Finalised – N/A |
| Total | 350 | 350 | 177.14 | 50.61% |

BALANCED SCORECARD

Appendix 4

| <u>INTERNAL PROCESSES PERSPECTIVE:</u> | <u>2022-23 Actual</u> | <u>Target</u> | <u>FINANCIAL PERSPECTIVE:</u> | <u>2022-23 Actual</u> | <u>Original Budget</u> |
|---|-----------------------|---------------|--|-----------------------|------------------------|
| | Quarter 2 | | Reported Annually | | |
| Chargeable as % of available days | 88% | 90% | <ul style="list-style-type: none"> • Cost per Audit Day | £ | £ |
| Chargeable days as % of planned days | | | <ul style="list-style-type: none"> • Direct Costs | £ | £ |
| CCC | 50.89% | 50% | <ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) | £ | £ |
| DDC | 51.03% | 50% | <ul style="list-style-type: none"> • - 'Unplanned Income' | £ | Zero |
| TDC | 41.75% | 50% | | | |
| F&HDC | 50.62% | 50% | | | |
| EKS | 38.45% | 50% | | | |
| Overall | 47.36% | 50% | <ul style="list-style-type: none"> • = Net EKAP cost (all Partners) | | £ |
| Follow up/ Progress Reviews; | | | | | |
| <ul style="list-style-type: none"> • Issued | 25 | - | | | |
| <ul style="list-style-type: none"> • Not yet due | 15 | - | | | |
| <ul style="list-style-type: none"> • Now due for Follow Up | 29 | - | | | |
| Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details) | Partial | Partial | | | |

| <u>CUSTOMER PERSPECTIVE:</u> | <u>2022-23 Actual</u> | <u>Target</u> | <u>INNOVATION & LEARNING PERSPECTIVE:</u> | Actual | Target |
|--|----------------------------------|----------------------|---|---------------|---------------|
| | Quarter 2 | | Quarter 2 | | |
| Number of Satisfaction Questionnaires Issued; | 30 | | Percentage of staff qualified to relevant technician level | 61% | 60% |
| Number of completed questionnaires received back; | 20 | | Percentage of staff holding a relevant higher level qualification | 36% | 36% |
| | = 67% | | Percentage of staff studying for a relevant professional qualification | 14% | N/A |
| Percentage of Customers who felt that; | | | Number of days technical training per FTE | 2.48 | 3.5 |
| <ul style="list-style-type: none"> • Interviews were conducted in a professional manner | 100% | 100% | Percentage of staff meeting formal CPD requirements (post qualification) | 50% | 50% |
| <ul style="list-style-type: none"> • The audit report was 'Good' or better | 94% | 90% | | | |
| <ul style="list-style-type: none"> • That the audit was worthwhile. | 97% | 100% | | | |

Appendix 5

Definition of Audit Assurance Statements & Recommendation Priorities

CiPFA Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.