

This Report will be made public on 13 September 2022



Report Number: **AuG/22/13**

To: Audit and Governance Committee
Date: 21 September 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 June 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/22/13.**
- 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 are currently no reviews 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 limited and two were not applicable for an assurance. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, five 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 June 2022 86.32 chargeable days were delivered against the planned target of 350 days, which equates to achievement of 24.66% 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 (DK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (TM)

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 June 2022.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Right To Buy	Limited	C H M L	1 3 0 1
2.2	Disposal of logs	Not applicable	C H M L	0 1 0 1
2.3	Disposal of white goods	Not applicable	C H M L	0 0 0 2

2.1 Right to Buy – Limited Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the sale of Council houses is completed in line with Government guidance or legislation and that the capital receipts are correctly administered.

2.1.2 Summary of Findings

The Right to Buy (RTB) scheme gives tenants the opportunity to purchase their home at a discount on the market value. The longer the applicants have been tenants, the

more discount they are entitled to up to the maximum discount value. For 2022/23 the maximum discount available to applicants is £87,200.

Nationally there is a focus on counter fraud work on social housing as it has been targeted in several ways over the years, for Right to Buy tenants can be both victims of 'organised' crime and sometimes the perpetrators of a fraud. Housing tenancy fraud within social housing has been estimated to currently cost the government £900 million each year. This ultimately comes at considerable cost to the taxpayer with social housing fraud identified as the largest type of fraud loss across local government. Legislation came into effect to assist with prosecutions in this area in 2013. The Council took part in a pilot scheme in 2020 with Ashford Borough Council's Counter Fraud Team, this was hampered by restrictions during the pandemic, but the Council has made the decision to undertake additional checks utilising an in house Investigations Specialist to undertake checks on all RTB applicants if there is a suspicion of fraud.

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

- No risk register is in place detailing the risks associated with the RTB process.
- The Council's website does not contain the most up to date guidance information around the RTB process.
- There are no contingency arrangements in place around the RTB process meaning that in the absence of the Leasehold Management Senior Specialist, no progress is made on ongoing RTB applications.
- The lack of contingency arrangements also means that calculations of discounts are not subject to review.
- Anti-Money Laundering checks are not sufficiently robust to identify and document the source of funds being used to purchase properties through the right to buy scheme.
- Two, from the ten applications tested, resulted in the property being sold without a valid EPC certificate in place, which is not in accordance with current legislation for the sale of houses.

Effective control was however identified in the following areas:

- Internal Procedures for the RTB process are aligned with current legislation.
- Suitable checks are being undertaken and documented to ensure applicants are eligible to make an application under the RTB scheme.
- All property valuations are being undertaken by a suitably qualified valuer.
- For leasehold properties, the buyer is being notified of future service charges in line with RTB legislation.
- All aspects of the RTB process are being completed in accordance with the timescales laid down in RTB legislation.
- Detailed notes are being added to the title deeds of properties to inform the buyer of discounts which are repayable if the property is sold within 5 years of being purchased.

2.2 Disposal of felled and fallen trees – Not applicable for an assurance

2.2.1 Audit Scope

To establish the facts in response to allegations made, as far as possible, surrounding the correct processes for disposing of felled and fallen trees.

2.2.2 Summary of Findings

The Council's Grounds Maintenance Team include four tree gang positions to manage the felling of and fallen trees within the district. This is a specialist role for which the officer must be certified.

Management recently became aware of concerns that staff may be privately selling logs acquired from the Council's management of trees. This review establishes the procedures and practices currently in place for the disposal of felled and fallen trees, and whether these are appropriate.

The purpose of this report is to set out the agreed system and process in place, not to conduct any substantive testing, or investigate any allegations made, therefore an assurance opinion is not applicable.

The review highlighted that:

- Documented procedures may not be in place but processes for the disposal of felled and fallen trees are well established.
- A number of factors have prevented the Council from commercially selling its timber waste; mainly being the lack of sufficient suitable storage, limited access to Hawkinge Depot and lack of sufficient resources to process timber to a standard that can meet legislative requirements for the sale of logs; and the lack of volume of timber of sufficient quality to make a profit.
- Improvements are required to ensure that compliance with Contract Standing Orders when procuring good/services is sufficiently documented.
- Staff have been allowed to take small quantities of logs home for personal use only; with continued verbal reminders from Grounds Maintenance management that the logs must not be sold.

2.3 Disposal of white goods left in housing voids – Not Applicable for an assurance

2.3.1 Audit Scope

To establish the facts in response to allegations made, as far as possible, surrounding the correct processes for disposing of white goods left in housing voids.

2.3.2 Summary of Findings

There are on average 16 properties per month (based on 2021/22 relets) which become void, often requiring works to bring them up to standard. Former tenants may leave goods in a property, which may include white goods. A procedure is in place for managing void properties that includes how to deal with possessions left by former tenants.

Management recently became aware of concerns that staff may be personally keeping; or privately selling and retaining the profit of white goods acquired from void housing properties. This review establishes the procedures and practices currently in place for the disposal of white goods left in housing voids, and whether these are appropriate.

The purpose of this report is to set out the agreed system and process in place, not to conduct any substantive testing, or investigate any allegations made, therefore an assurance opinion is not applicable.

The review highlighted that:

- The Council has a documented voids management policy in place, which links to the Tort Procedure that provides instruction to ensure obligations are met under the Torts (Interference with Goods) Act 1977 as a landlord in respect of goods left in a property by a former tenant or other occupant.
- It was encouraging to see procedures now in place and being complied with by FHDC officers. Those procedures however do not appear to reflect the previous practices when managed by East Kent Housing. An audit review of Garage Management in 2021/22, highlighted the Auditor was advised that approximately sixty garages are being used as storage facilities for evicted tenants' possessions and some have been used for up to ten years. Work has been found to be underway on addressing the historic use of garages by EKH.
- The policy and procedures are accessible to all housing staff, and require full records of goods left by former tenants to be retained.
- The documents provide clear instruction and guidance to staff, with the exception that the 'gifting' of quality white goods to the new incoming tenants is not mentioned.
- Former tenants are invoiced to recover clearance and disposal costs incurred.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work five 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
Engineers	Reasonable	Substantial	C 0	C 0

			H 0 M 2 L 0	H 0 M 0 L 0
Community Safety Partnership	Reasonable	Reasonable	C 0 H 4 M 4 L 0	C 0 H 0 M 0 L 0
Climate Change	Reasonable	Reasonable	C 0 H 3 M 0 L 0	C 0 H 0 M 0 L 0
Safeguarding	Reasonable	Reasonable	C 0 H 1 M 0 L 0	C 0 H 0 M 0 L 0
Pre – OFSTED Apprentices	N/A	N/A	C 0 H 0 M 11 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, Officers Interests, Car Parks Income, Homelessness and Garden Waste / Recycling.

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 June 2022 86.32 chargeable days were delivered against the planned target of 350 which equates to achievement of 24.66% 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 or in progress after follow up
- Appendix 2 Summary of services with limited / no assurances yet to be followed up.
- Appendix 3 Progress to 30th June 2022 against the 2022/23 Audit plan.
- Appendix 4 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
None			

PROGRESS AGAINST THE AUDIT PLAN 2022/23

Review	Original Planned Days	Revised Planned Days	Actual To 30/06/2022	Status and Assurance level
FINANCIAL SYSTEMS:				
Bank Reconciliation	10	0		Deferred
Car Parking Income	10	10	5.24	Work in progress
Council Tax	10	10	0.03	Quarter 2
Creditors	10	10	0.07	Work in progress
Housing Benefit Admin & Assessment	10	10		Quarter 2
Housing Benefit Subsidy	10	10		Quarter 3
HOUSING SYSTEMS:				
Capital Programme Planned Repairs	10	10	0.17	Quarter 3
Housing Anti-Social Behaviour	10	10		Quarter 4
Improvement Grants & DFGs	10	10	0.07	Quarter 2
Tenants Health& Safety	10	10	0.20	Quarter 3
Housing Contract Management	10	25	24.69	Draft report
New Build Capital Programme	10	10	0.73	Quarter 3
Responsive Repairs and Maintenance	10	10	0.17	Quarter 4
Right to Buy	10	10	3.65	Draft report
Tenancy & Estate management	10	10		Quarter 4
Tenancy Counter Fraud	10	10		Quarter 3
Homelessness	15	15	5.35	Work in progress
TECHNOLOGY / CYBER:				
ICT Review	10	10	0.14	Quarter 2
CORPORATE GOVERNANCE:				
Otterpool Governance	10	10		Quarter 4
Whistleblowing	5	5	2.13	Work in progress
COUNTER FRAUD:				
Fraud Resilience Arrangements	10	10	0.03	Quarter 2
PROCUREMENT & CONTRACTS:				
Contract Management / CSOs	10	15	0.04	Work in progress
ASSET MANAGEMENT:				
Asset Management	10	0		Deferred
SERVICE LEVEL:				
Corporate Responsive Repairs	10	0		Deferred

Review	Original Planned Days	Revised Planned Days	Actual To 31/06/2022	Status and Assurance level
Members Allowances	10	10	0.09	Quarter 3
Planning Income	10	10		Quarter 2
Garden Waste / Recycling Management	10	10	10.07	Work in progress
PEOPLE MANAGEMENT:				
Employee Benefits in Kind	10	10		Quarter 3
Recruitment	10	10		Quarter 4
OTHER:				
Committee Reports & Meetings	10	10	1.98	Ongoing
S151 Meetings & Support	10	10	4.56	Ongoing
Corporate Advice / CMT	5	5	4.26	Ongoing
Liaison with External Audit	1	1	0.52	Ongoing
Audit Plan Prep & Meetings	10	10	1.69	Ongoing
Follow Up Reviews	14	11	5.68	Ongoing
FINALISATION OF 2021-22 AUDITS:				
COVID Grants	10		0.54	Finalised - Reasonable
Freedom of Information			2.89	Work in progress
Housing Data Integrity			5.51	Finalised – N/A
RESPONSIVE ASSURANCE:				
Corporate Leak Investigation	0	3	3.05	Finalised – N/A
Officers Interests			2.77	Work in progress
Total	350	350	86.32	24.66%

BALANCED SCORECARD

<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 1		Reported Annually		
Chargeable as % of available days	88%	90%	• Cost per Audit Day	£	£
Chargeable days as % of planned days			• Direct Costs	£	£
CCC	25.59%	25%	• + Indirect Costs (Recharges from Host)	£	£
DDC	25.43%	25%	• - 'Unplanned Income'	£	Zero
TDC	22.09%	25%			
F&HDC	24.66%	25%			
EKS	22.26%	25%			
Overall	24.11%	25%	• = Net EKAP cost (all Partners)		£
Follow up/ Progress Reviews;					
• Issued	12				
• Not yet due	12	-			
• Now due for Follow Up	19	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2022-23 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	Actual	Target
	Quarter 1		Quarter 1		
Number of Satisfaction Questionnaires Issued;	11		Percentage of staff qualified to relevant technician level	61%	60%
Number of completed questionnaires received back;	11		Percentage of staff holding a relevant higher level qualification	36%	36%
	= 100%		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	1.21	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 	100%	90%			
<ul style="list-style-type: none"> • That the audit was worthwhile. 	100%	100%			

Appendix 4

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.