

AUDIT COMMITTEE
23 June 2015 at 7.00 pm
Conference Room, Argyle Road, Sevenoaks

AGENDA

Membership:

Chairman: Cllr. Grint Vice-Chairman: Cllr. Brookbank

Cllrs. Clack, Dyball, Edwards-Winsor, Layland, Purves, Reay and a vacancy

	<u>Pages</u>	<u>Contact</u>
Apologies for Absence		
1. Minutes To agree the Minutes of the meeting of the Committee held on 17 March 2015 as a correct record.	(Pages 1 - 4)	
2. Declarations of Interest Any declarations of interest not already registered.		
3. Actions from Previous Meeting	(Pages 5 - 6)	
4. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)		
5. Overview of the Audit Committee	(Pages 7 - 12)	Philippa Gibbs Tel: 01732 227247
6. External Audit - Annual Audit Plan and Update	(Pages 13 - 32)	Adrian Rowbotham Tel: 01732 227153
7. Anti-Fraud Team Report 2014/15	(Pages 33 - 52)	Glen Moore Tel: 01322343240
8. The Role of Internal Audit Presentation		Bami Cole Tel: 01732 227236
9. Internal Review of Effectiveness of Internal Audit	(Pages 53 - 92)	Bami Cole Tel: 01732 227236

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|--|-------------------|---------------------------------------|
| 10. External Review of Internal Audit | (Pages 93 - 112) | Adrian Rowbotham
Tel: 01732 227153 |
| 11. Internal Audit Annual Report 2014/15 | (Pages 113 - 146) | Bami Cole
Tel: 01732 227236 |
| 12. Annual Governance Statement 2014/15 | (Pages 147 - 164) | Adrian Rowbotham
Tel: 01732 227153 |
| 13. Statement of Accounts 2014/15 - Establishment of Member Working Group | (Pages 165 - 166) | Adrian Rowbotham
Tel: 01732 227153 |
| 14. Work Plan | (Pages 167 - 168) | |

EXEMPT INFORMATION

(At the time of preparing this agenda, there were no exempt items. During any such items which may arise, the meeting is likely NOT to be open to the public.)

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Contact Officer named on a report prior to the day of the meeting.

Should you require a copy of this agenda or any of the reports listed on it in another format please do not hesitate to contact the Democratic Services Team as set out below.

For any other queries concerning this agenda or the meeting please contact:

The Democratic Services Team (01732 227241)

AUDIT COMMITTEE

Minutes of the meeting held on 17 March 2015 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Brookbank (Vice Chairman)

Cllrs. Mrs. Bayley, Brown, Orridge, Mrs. Purves and Towell

An apology for absence was received from Cllrs. Fittock

Cllr. Piper was also present.

40. Minutes

Resolved: That the minutes of the Committee held on 13 January 2015 be agreed and signed as a correct record.

41. Declarations of Interest

There were no additional declarations of interest.

42. Actions from Previous Meeting

The actions were noted.

43. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations

There were none.

44. Community Infrastructure Levy (CIL) - Update

The Chairman welcomed Councillor Piper, Cabinet Portfolio Holder for Local Planning & Environment and the Chief Planning Officer to the meeting who were present to answer any questions and update Members on the Community Infrastructure Levy (CIL).

The Portfolio Holder advised that a [report](#) on governance arrangements had been presented and agreed at the Cabinet meeting on 5 March 2015. It had been agreed that a Community Infrastructure Levy (CIL) Spending Board would be established to recommend to Cabinet how CIL funding should be prioritised with Terms of Reference, and a template for applications setting out the information that bidding organisations, including Sevenoaks District Council, would need to provide. It had been agreed that there would be no Cabinet Members on the Board, a fixed Chairman and Vice Chairman and that training be mandatory before sitting on the Board. The Board would be able to accumulate funds, and Cabinet would ratify (or send back) the decisions.

The Chief Planning Officer added that not all development was chargeable and that the Government continued to introduce more exceptions. Parish and Town Councils would benefit by receiving 25% of CIL revenue. In response to a question he explained that monies were payable 60 days after the commencement of development; the obligation rested with the developer to advise when commencement began, however the Council already had enforcement monitoring and the Chief Finance Officer also confirmed that systems were in place. Consideration was being given to the possibility of an instalments policy in case the amount of money needed upfront had a negative impact on developments coming forward. Legal advice was also being sought with regards to where liability rested once the money was passed to the Town and Parish Councils, and the annual Authority Monitoring Report would now feature a chapter on CIL. In response to questions, he advised that there was not a presumption that the money would be spent in the same area it originated from; distribution would be up to the Board and dependant on the applications put forward. In terms of the funding of infrastructure projects, there was an expectation that other funding sources would be utilised as well as CIL. Training on CIL was on the agenda for the Town and Parish Council Forum the following evening.

A Member recommended to the Committee the government's CIL overview guide on their [website](#).

The Chairman thanked the Portfolio Holder and Chief Planning Officer for attending.

45. Internal Audit 2014/15 - 3rd Progress Report

The Audit, Risk and Anti Fraud Manager presented the report which provided details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2014/15 and outcomes of final internal audit reports issued since the meeting of the committee in January 2015.

Further to publication of the papers he could now advise the Committee of further progress made in regard to the following reviews: Key financial systems, Corporate governance and Annual Governance Statement (AGS) and Dunbriek were now at draft report stage; repair and maintenance arrangements was now at feedback process.

Members discussed the role of the Committee in checking management had addressed issues arising out of internal audit reviews, and whether it would be worth investigating as a committee, or having a working group. The Chairman suggested that this could be discussed at the monthly meetings with the Vice Chairman, Audit, Risk and Anti Fraud Manager and Chief Finance Officer, which was agreed.

Action 1: Discussion on areas where it may be appropriate to call in managers responsible for specific actions be discussed at the Chairman's monthly meetings.

Resolved: That the contents of the report and the progress made by the Internal Audit Team in delivering the 2014/15 Annual Internal Audit Plan, be noted.

46. Implementation of Audit Recommendations

The Audit, Risk and Anti Fraud Manager presented the report which updated Members on progress of the implementation of Internal Audit Recommendations agreed with management, and reported on outstanding recommendations due for implementation by 31 January 2015. The report also informed the Committee where implementation dates had been revised, or where agreed recommendations had not been implemented.

The Committee reviewed the information in Appendix A to the report, which gave reasons why the implementation of recommendations had been delayed. It was commended that the list was shorter than the one presented to Committee in January.

Resolved: That

- a) the information in Appendix A be noted; and
- b) the reasons for delayed implementation be noted and the revised dates for implementation provided by management be endorsed, as noted in Appendix B to the report.

47. Review of the Effectiveness of the Audit Committee

The Audit, Risk and Anti Fraud Manager presented a report which put forward proposals for assessing the achievements for the Audit Committee for the year 2014/15, its second full year of operation. Current governance arrangements for Local Councils issued by CIPFA in compliance with the Accounts and Regulations 2011, require that the Audit Committee be assessed annually, in order to determine its effectiveness and identify areas for further development. The process incorporated the recommended self-assessment checklist taken from the CIPFA guide “Audit Committees – Practical Guidance for Local Authorities” and had been amended where necessary to reflect local needs or customs. To facilitate and expedite the process, the checklist had been completed as far as possible drawing from the work of the Committee, in relation to its terms of reference, using the evidence available from the work of the Committee during 2014/15.

The Chairman recommended the following additional wording to the comment box at 4.2 of the checklist: ‘The Audit Committee Chairman is also a member of the Scrutiny Committee, however his work within the Scrutiny Committee has been helpful in fulfilling the Chairman’s role within the Audit Committee. There have been no known conflicts.’

The Chairman thanked Members for their responses to the questionnaire.

Resolved: That the Annual Self-assessment Review of the Effectiveness of the Audit Committee 2014/15, subject to the above amendment, be approved.

48. Internal Audit Plan 2015/16

The Audit, Risk and Anti Fraud Manager presented the report which incorporated the Annual Internal Audit Plan and Programmed Reviews for 2015/16 report. The objective of the plan was to ensure that Internal Audit delivered reasonable assurance to the

Agenda Item 1

Audit Committee – 17 March 2015

Council regarding the effectiveness of internal control, governance and risk management processes, in fulfilment of the Council's statutory responsibilities. The plan had been prepared in accordance with professional guidance, including the new Public Sector Internal Audit Standards 2013 and regulatory requirements, in particular the Accounts and Audit Regulations 2011. The Committee was required by its terms of reference, to approve the Annual Internal Audit Plan prior to its implementation.

A Member queried how the work would be prioritised, especially when there were six more audits planned than carried out in 2014/15 whilst carrying two vacancies. The Audit, Risk and Anti Fraud Manager explained that priority would be given to major financial systems and those areas with greatest financial impact. The workload assumed a full establishment of staff, two vacancies had been carried but were currently filled with agency staff. The Chairman advised that the PricewaterhouseCoopers LLP (PwC UK) report was still awaited before any final decision is made with regards to permanent staffing levels.

A Member raised an issue on pre planning advice, it was noted that audit reviewed procedures and safeguards but was not able to say what procedures should necessarily be in place, only comment on their effectiveness.

The Chairman asked it to be noted that the Committee were concerned by the length of the list of programmed work in that it was quite demanding of the internal audit function.

Resolved: That the draft Internal Audit Plan for 2015/16, be approved.

49. Annual Report to Council

The Committee considered the Chairman's annual report for consideration at the Council meeting on 31 March 2015. It was agreed that it should be amended slightly to reflect the presence of the Portfolio Holder and Chief Planning Officer that evening.

Resolved: That the report be commended to Council subject to the above amendment.

50. Work Plan

The work plan was noted subject to the deletion of the New Audit Standards full report from the summer schedule, and the addition of the Members Allowance Scheme Monitoring.

The Chairman thanked all Members for their hard work and helpful contributions and observations which had contributed to the successful performance of the Committee over the past year.

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THE MEETING WAS CONCLUDED AT 8.40 PM

CHAIRMAN

ACTIONS FROM THE MEETING HELD ON 17.03.2015			
Action	Description	Status and last updated	Contact Officer
ACTION 1	Discussion on areas where it may be appropriate to call in managers responsible for specific actions be discussed at the Chairman's monthly meetings.	This was discussed with the Chairman on 14.04.2015 and it was agreed that there were no plans to call in specific managers at this time. The Committee does have the power to call in managers should there be a wish amongst the membership following a report presented to the Committee.	Adrian Rowbotham Ext: 7153

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OVERVIEW OF THE AUDIT COMMITTEE

Audit Committee – 23 June 2015

Report of Chief Officer Legal and Governance

Status: For Consideration

Key Decision: No

This report supports the Key Aim of effective management of council resources

Contact Officer(s) Philippa Gibbs Ext. 7288

Recommendation to Audit Committee: To note the purpose and remit of the Committee.

Reason for recommendation: To provide Members of the Committee with an overview of the remit and work of the Committee.

Introduction and Background

1. The Council appoints the Audit Committee to discharge the functions conferred by the Accounts and Audit Regulations 2011 in relations to the matters set out in the terms of reference and specifically to consider the council's Financial and Governance arrangements, relating to the system of internal control and the effectiveness of internal audit, the annual governance statement; including the arrangements for the management of business risk, in compliance with Regulations 4 and 6 of the Accounts and Audit Regulations 2011 and any subsequent legislation.

Membership of the Audit Committee

2. The Committee is made up of 9 elected Members, one of which shall serve as Chairman, that follow the political proportionality of the Council .All Members of the Council, except members of the Cabinet or their deputies and the Chairman of the Council, may be a members of the Audit Committee. However, no Member may be involved in reviewing a decisions in which he/she has been directly involved. The chairman of the Audit Committee can not be a member of any Cabinet Advisory Committee.
3. There are four ordinary meetings of the Committee each year. In addition to this, other meetings may be called from time to time as and when appropriate. A meeting of the Committee may be called by the Chairman of the Committee, by a quarter of the Members of the Committee or by the Chief Executive (in consultation with the Chairman and Vice-Chairman, if available) if he considers it necessary or appropriate.

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Terms of Reference

Audit Activity

- (a) To review, in collaboration with the Audit, Risk and Anti-Fraud Manager, the Internal Audit Charter on an annual basis and to consider and approve any further development of the Council's Internal Audit Charter, Strategy or terms of reference such as shall be appropriate.
- (b) To consider and approve the annual internal audit plan, including a summary of internal audit activity regarding the level of assurance that it can give over the Council's internal control, corporate governance and risk management arrangements. Further, to commission work as required from both Internal and External Audit.
- (c) To consider the Audit, Risk and Anti-Fraud Manager's annual report and assurance opinion.
- (d) To consider quarterly progress reports from the Audit, Risk and Anti-Fraud Manager regarding the progress of the Annual Internal Plan. The Committee may request to review any individual audit report should they or the Audit, Risk and Anti-Fraud Manager deem it appropriate to do so.
- (e) To consider a report on the progress of all recommendations made by internal audit and other external regulatory or review agencies.
- (f) To receive and consider the annual report on the review of the effectiveness of the internal audit function.
- (g) To consider confidential reports on investigations carried out by Internal Audit of suspected fraud; corruption or bribery allegations within the Council or its partners.
- (h) To liaise with the Audit Commission regarding the appointment of the Council's External Auditor; to consider the appointed External Auditor's annual letter, relevant reports, and the report to those charged with governance.
- (i) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (j) To consider any external audit report resulting from the Statement of Accounts and any recommendations and comments received from the External auditor.

Regulatory Framework

- (k) To maintain an overview of the effective development and operation of corporate governance and risk management in the Council, and to monitor compliance with

statutory duties and the Council's Constitution in respect of Financial and Contract Procedure Rules.

- (l) To monitor Council policies on 'Raising Concerns at Work'; the anti-fraud and anti-corruption strategy; the Bribery Act; and the Council's complaints process; including the Council's whistleblowing arrangements.
- (m) To consider and approve the Council's Annual Governance Statement and recommend its adoption to Council
- (n) To monitor the Council's arrangements for corporate governance and if necessary to recommend actions to ensure compliance with best practice; and to also consider compliance with the Council's own and other published standards and controls.
- (o) To receive and consider reports from the monitoring officer on lawfulness and/or maladministration; to review any issue referred by the Chief Executive, a Chief Officer, or a Statutory Officer.
- (p) To monitor the implementation of the Members' Allowance Scheme.

Accounts

- (q) To review the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies, including International Financial Reporting Standards, have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (r) To approve the Statutory Statement of Accounts when the deadline for approval does not allow approval by full Council.
- (s) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts, and comments received from the External auditor.

Audit Committee Procedure Rules

- 4. The Committee conducts its proceedings in accordance with the Committee protocols as specified within Section 33 of Part 2 and Section 4 of Part 6 of the Council's constitution.
- 5. The Committee may appoint Sub-Committees or working groups to carry out specific work. These may be appointed for a fixed period or until the next Annual Council meeting.

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6. The Committee is required to periodically set aside time during a meeting where any matters pertaining to the remit of the Committee may be discussed with the Audit, Risk and Anti-Fraud Manager without the presence of other officers of the Council. The Chairman of the Committee can also meet informally with the Audit, Risk and Anti-Fraud Manager and other relevant officers as appropriate prior to all ordinary meetings
7. Any member of the Committee is entitled to give notice to the Chief Executive that he/she wishes an item, relevant to the functions of the Committee, to be included on the agenda for the next available meeting of the Committee.

Business of the Committee

8. Since its creation in May 2013, the Committee has reviewed the following matters:

2013-14	Update from the External Auditors Housing and Council Tax Benefit Grant - External Audit Benefits Fraud Report 2012/13 New Public Sector Internal Audit Standards Report on the Review of the Effectiveness of Internal Audit Risk Management Report Internal Audit Annual Report 2012/13 Report on the Operation of the Council's Surveillance Policy Statement of Accounts Annual Governance Statement Internal Audit Update Reports External Audit - Annual Audit Letter New Audit Standards Charter Risk Strategy Policy Statement Strategic Risk Register
2014-15	Audit Committee Terms of Reference External Audit - Audit Committee Update External Audit - Annual Audit Plan Anti- Fraud Team Report 2013/14 Report on Internal Audit Recommendations Outstanding Annual Self Assessment Review of the effectiveness of Internal Audit Service 2013/14 Internal Audit Annual Report - 2013/14 Annual Governance Statement 2013/14 Draft Strategic Risk Register Statement of Accounts 2013/14 - Member Working Group Review of the Effectiveness of the Audit Committee Internal Audit 2014/15 - Progress Reports Implementation of Audit Recommendations Risk Management Training Statement of Accounts 2013/14 External Audit - Housing Benefit Subsidy 2013/14 External Audit - Annual Audit Letter Implementation of Audit Recommendations

Whistle Blowing Report
Members' Allowances Scheme – Monitoring
External Review of Internal Audit
CIL Update and Presentation
Internal Audit Plan 2015/16
Annual Report to Council

Key Implications

Financial

There are no specific financial implications arising from this report.

Legal Implications and Risk Assessment Statement.

There are no specific legal implications arising from this report.

Equality Assessment

The recommendations in this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Background Papers:

Part 6 of the [Constitution](#) of Sevenoaks District Council

[Agenda Papers](#) for the Audit Committee

Christine Nuttall
Chief Officer for Legal and Governance

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EXTERNAL AUDIT – ANNUAL AUDIT PLAN AND UPDATE

Audit Committee – 23 June 2015

Report of Chief Finance Officer

Status: For Information

Key Decision: No

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the report be noted.

Introduction

- 1 Geoffrey Banister from Grant Thornton would like to present the Audit Plan 2014/15 and update for Sevenoaks District Council to Members.

Key Implications

Financial

None directly arising from this report.

Legal Implications and Risk Assessment Statement.

None directly arising from this report.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users

Appendices

Appendix A – Grant Thornton: The Audit Plan for Sevenoaks District Council

Background Papers: None

Adrian Rowbotham
Chief Finance Officer

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The Audit Plan for Sevenoaks District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

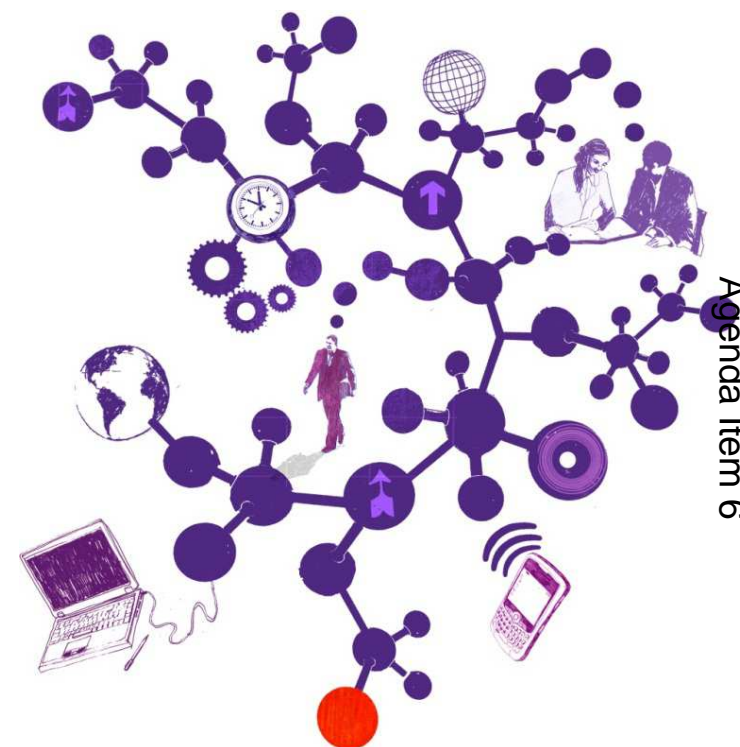
Year ended 31 March 2015

June 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Purpose

This Audit Plan highlights the key elements of our 2014/15 external audit strategy for Sevenoaks District Council. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Audit Committee as those charged with governance for the Council for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISA's (UK & Ireland), and to give an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

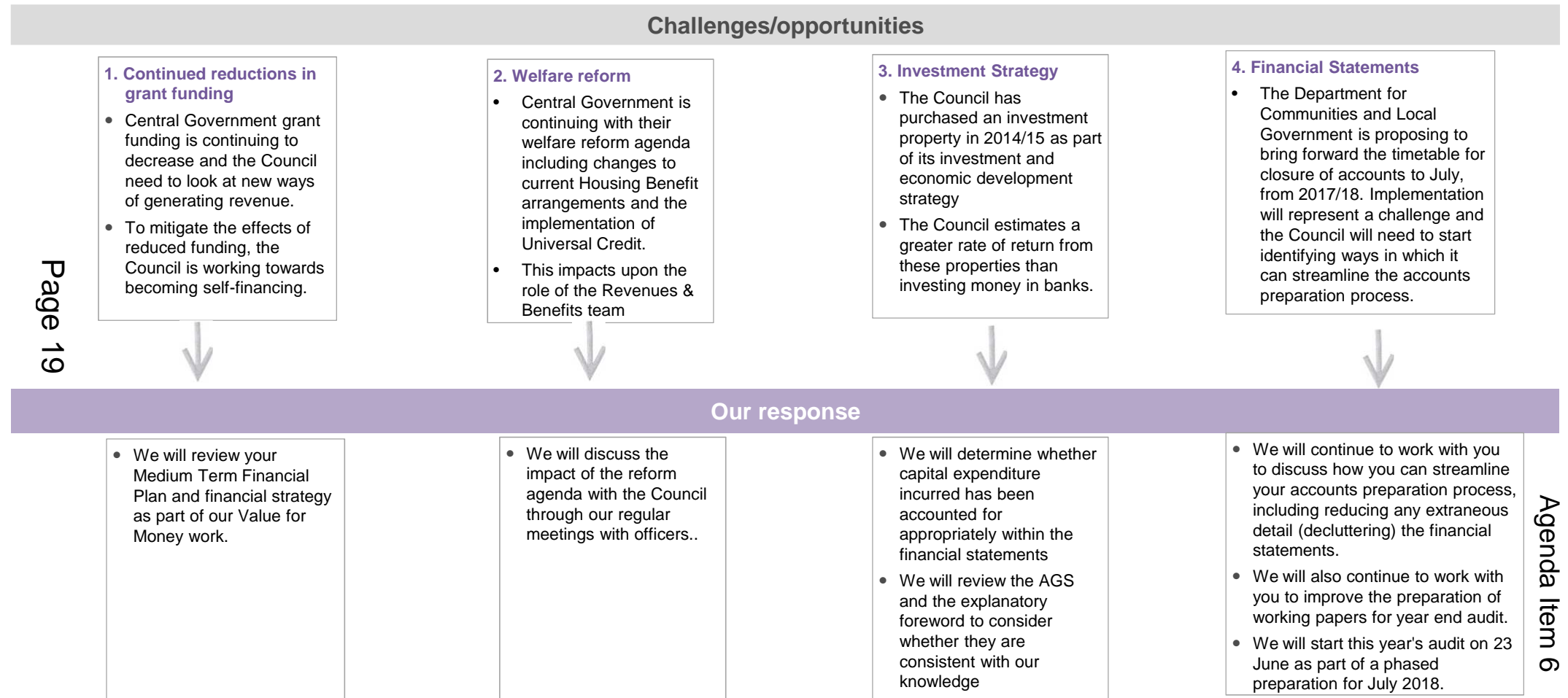
Communicating the results of audit work

The findings from our interim work are communicated in this Plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 14 of this Plan includes the timescale for the audit and audit reporting, which sets this out in more detail.

We look forward to working with the Council's officers during this year's audit.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10, 11 and 12)

2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

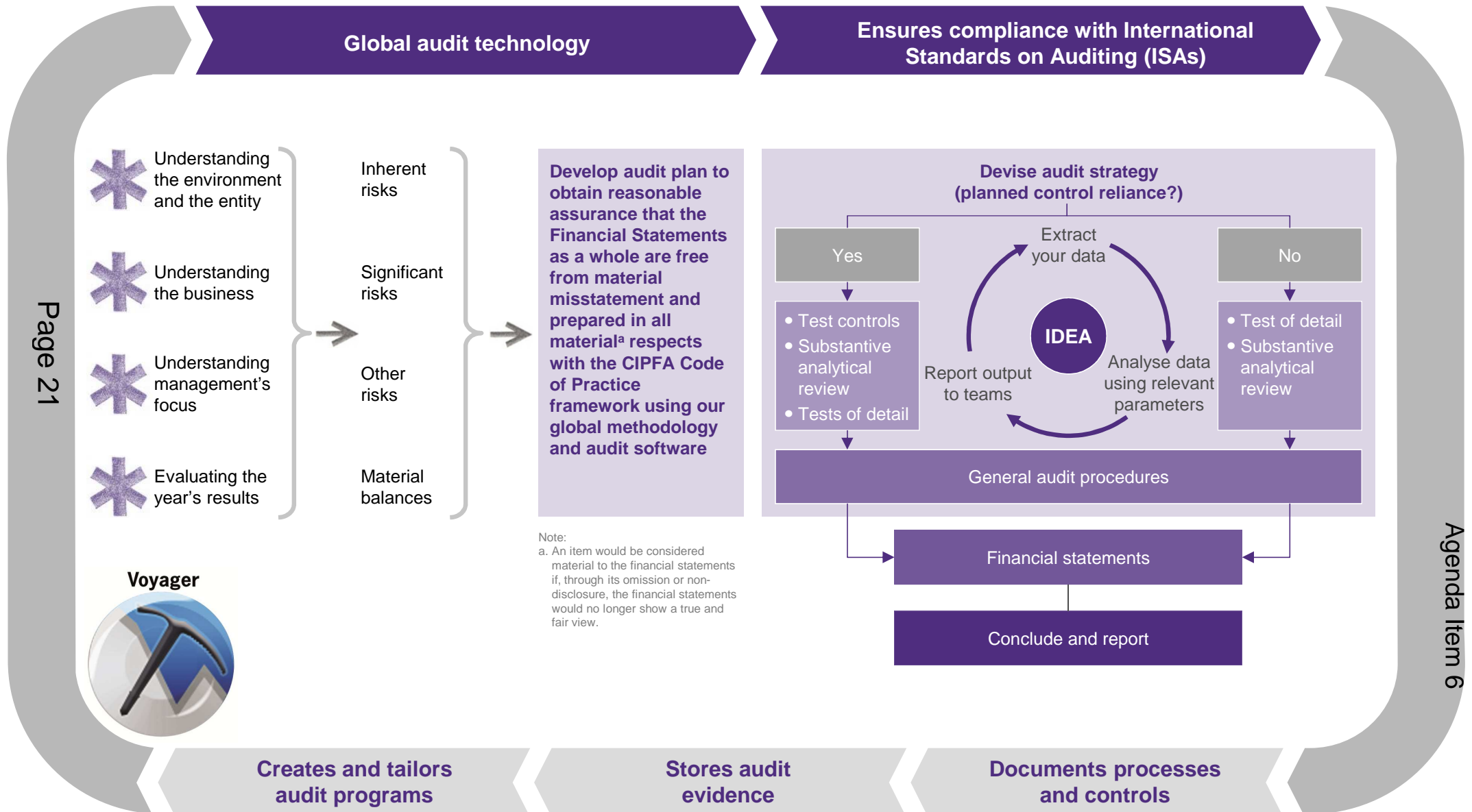
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Sevenoaks District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for the first ten months <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for the remainder of the financial year • Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none">• Substantive testing of operating expenditure payments for first ten months Further work planned: <ul style="list-style-type: none">• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces• Cut off testing to assess whether transactions are recorded in the correct period• Substantive testing of operating expenditure payments for remainder of the year• Substantive testing of year end payable balances• Procedures to gain assurance that material goods and services received prior to the year are correctly accrued for.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none">• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces• Trend analysis and risk identification for monthly payroll costs• Substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's contract of employment and deductions are correctly calculated• Testing to confirm the completeness of payroll transactions and appropriate cut-off.

Other risks identified cont'd

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding <p>Further work planned:</p> <ul style="list-style-type: none">• We will complete modules set by the DWP which include performance of an analytical review and BEN01 certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation• Testing the reconciliation of the Housing Benefit system to the general ledger.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- We will review the Council's arrangements for securing financial resilience for 2014/15 and for future periods, and we will assess the adequacy of the Council's medium term financial strategy
- We will review the risk management and performance management arrangements in place

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

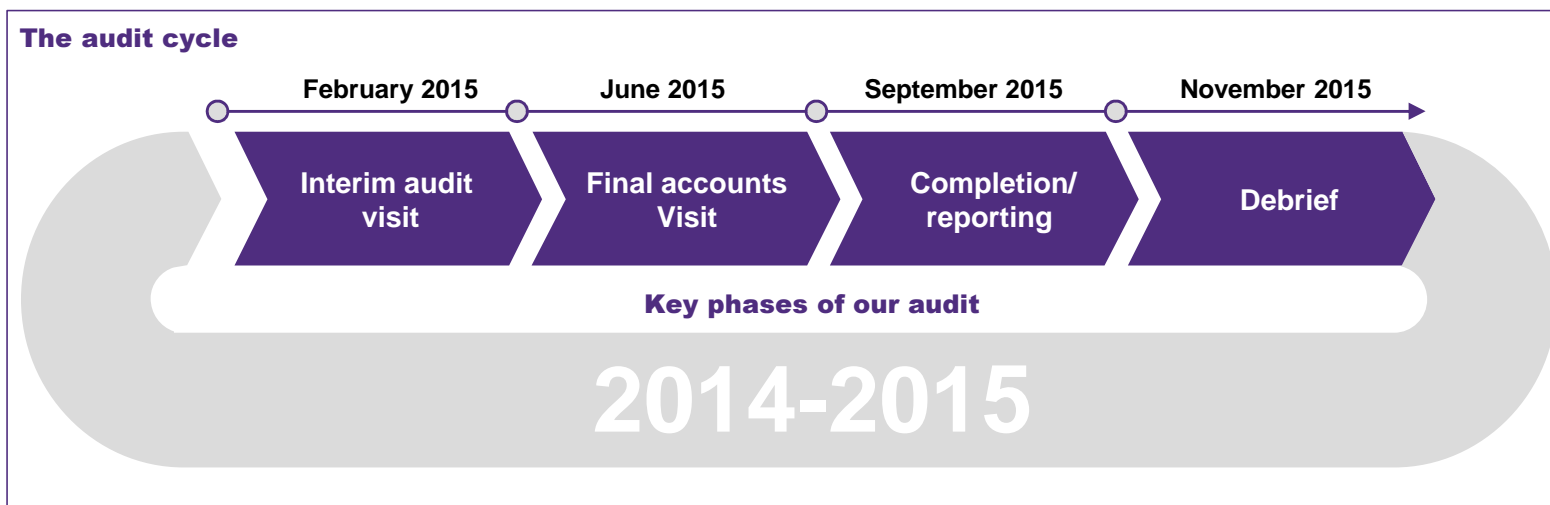
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We also reviewed internal audit's work on the Council's key financial systems to date..	Our work has not identified any issues which we wish to bring to your attention.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements

Results of interim audit work cont'd

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	Our work has identified no material weaknesses which are likely to adversely impact on your financial statements.
Early substantive testing	We have performed early substantive testing of operating expenses for the first ten months.	Our work has identified no material weaknesses which are likely to adversely impact on your financial statements.

Key dates



Date 2015	Activity
January	Planning
23 February	Interim site visit
June	Presentation of audit plan to Audit Committee
23 June -August	Year end fieldwork
August	Audit findings clearance meeting with Chief finance Officer
8 September	Report audit findings to those charged with governance (Audit Committee)
September	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	57,541
Grant certification (estimated)	16,460
Total fees (excluding VAT)	74,001

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Agenda Item 6

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ANTI-FRAUD TEAM REPORT 2014/15

Audit Committee – 23 June 2014

Report of Chief Finance Officer

Status: For Consideration

Also considered by: Cabinet – 16 July 2015

Key Decision: No

This report supports the Key Aim of Effective Delivery of the Corporate Plan

Portfolio Holder Cllr. Searles

Contact Officer(s) Bami Cole, Ext.7236, Glen Moore Ext. 3240.

Recommendation to Audit Committee: That the Committee:

- a) note the content of the report and the work of the Anti-Fraud Team carried out in 2014/15 and the proposed re-structure of fraud investigation resources in February 2016; and
- b) recommend to Cabinet that the updated Anti-Fraud, Sanctions and Prosecution Policy be approved.

Recommendation to Cabinet: That the updated Anti-Fraud, Sanctions and Prosecution Policy be approved.

Reason for recommendation: The Audit Committee is required to review the work of the Anti-Fraud Team.

Introduction and Background

1. This report sets out details of the activities of the Anti-Fraud Team during 2014/15 and sets out details a proposed re-structure of the team in February 2016 caused by the creation of the Single Fraud Investigation Service (S-FIS). Also attached as Appendix B is an updated Anti-Fraud, Sanctions and Prosecution Policy, which has been updated to take account of a change in the Department for Work & Pensions sanctions policy.
2. This is the third report of the Anti-Fraud Team to the Audit Committee. The Anti-Fraud Team is part of the Audit, Risk and Anti-Fraud shared services working jointly with Dartford Borough Council. The team is responsible for carrying out benefit fraud investigations and assists both Councils in highlighting instances of fraud which could adversely affect the level of taxes/income they collect/receive.

Summary of Key Issues in the Report

3. Details of the activities of the team during the year 2014/15 are attached as Appendix A to this report. The team's performance is set out in section three of Appendix A and a proposed re-structure of Sevenoaks District Council's fraud investigation services in light of the creation of the Single Fraud Investigation Service is discussed in sections 4 & 5. Section 5 confirms the team's priorities for 2015/2016.
4. A key highlight for the year is the Anti-Fraud Team's achievement in discovering a record level of benefit fraud during the year and its continued success in assisting the Council's Revenue Departments in highlighting falsely claimed Council Tax discounts which have a direct effect the amount of tax revenue the local authorities can collect.

Key Implications

Financial

Not Applicable

Legal Implications and Risk Assessment Statement.

The Council is required to have effective anti-fraud arrangements in place in order to safeguard public funds and prevent the pursuance of crime. The anti-fraud team effectively contributes towards the council's fraud prevention initiatives. The DWP proposals may put at risk existing arrangements. Therefore the Council would need to assess the implications of the DWP proposals and its impact on existing arrangements.

Equality Impacts

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users

Conclusions

This report sets out the achievements of a successful year for the Anti-Fraud Team during 2014/15 and outlines a proposed re-structure of fraud investigation resources caused by the creation of the Single Fraud Investigation Service. Members are requested to note the report and approve the updated Anti-Fraud, Sanctions and Prosecution Policy.

Appendices

Appendix A – Anti-Fraud Team End of Year Report 2014/15.

Appendix B – Anti-Fraud, Sanctions and Prosecution Policy

Background Papers:

None.

Adrian Rowbotham
Chief Finance Officer

Anti-Fraud Team 2014/15 – End of Year Report

1. Introduction

This report sets out the achievements of the Council's Anti-Fraud Team in 2014/15 and outlines a proposed re-structure of the Council's fraud investigation resources in light of the creation of the Single Fraud Investigation Service (SFIS).

The report also introduces the revised Anti-Fraud, Sanctions and Prosecution Policy which has been updated in light of changes made by the Department for Work & Pensions to their sanction policy.

The Anti-Fraud Team conducts fraud investigations for both Sevenoaks District Council and Dartford Borough Council under a shared service arrangement. This report only relates to work completed by the Anti-Fraud Team on behalf of Sevenoaks District Council.

2. Background

The Anti-Fraud Team performs two main roles for the Council:

- 2.1 investigates instances of alleged benefit fraud which may require joint investigations with officers from the Fraud and Error Service at the Department for Work & Pensions (DWP); and,
- 2.2 assists the Council in highlighting instances of fraud which could adversely affect the level of taxes/income it collects/receives.

3. Performance

Benefit Fraud

Sevenoaks District Council administers the payment of Housing Benefit (and previously Council Tax Benefit (until 1st April 2013 when it was replaced by Council Tax Support)) on behalf of the Department for Work & Pensions (DWP). Claimants can be eligible to receive Housing Benefit due to the fact that they are on a low income or receive 'pass-ported' entitlement because they are eligible to receive certain other DWP benefits such as Income Support, Job Seeker Allowance etc.

Fraud therefore can either be present directly within the Housing Benefit caseload or be introduced via a DWP pass-porting benefit. This means that local authority investigators have to attain a knowledge and understanding of not only local authority administered benefits, but also pass-porting DWP benefits.

During 2014/15 fraud investigators working on behalf of Sevenoaks District Council discovered £320,803 of overpaid Housing Benefit (HB) and £39,504 in overpaid Council Tax Benefit (CTB). The overpaid Council Tax Benefit was retrospective benefits paid out by Sevenoaks District Council prior to 01.04.2013. This is the highest level of HB & CTB fraud discovered by Sevenoaks DC investigators since the shared service partnership began in September 2010 and is a 25% increase of the fraud levels discovered last financial year.

Sevenoaks District Council has a very strong anti-fraud culture and is committed to protecting valuable public funds wherever possible. In 2014/2015 The Anti-Fraud Team

successfully prosecuted 7 benefit fraud offenders and issued a further 3 Formal Cautions and 2 Administrative Penalties.

Council Tax Fraud

Council Tax Support (CTS)

On 1st April 2013 Council Tax Benefit (CTB) was replaced by Council Tax Support (CTS). Council Tax Benefit was a Social Security benefit and was administered under Social Security legislation, however, Council Tax Support is a Council Tax discount administered under the Local Government Finance Act and local authorities bear far more of the impact of fraud in this area than ever before.

In 2013/14 Sevenoaks District Council investigators discovered £1,482 in CTS fraud (as it was relatively new), however, in 2014/15 the fraud discovered figure rose to £20,183. This is a significant rise especially in light of the fact that the Single Fraud Investigation Service (see point 4) will not be responsible for the investigation for CTS fraud and this responsibility will remain with the local authority.

Council Tax Discounts & Exemptions

In 2014/15 the Anti-Fraud Team has continued to support colleagues in the shared Revenues Service by releasing fraud investigation resources to pro-actively seek out Council Tax payers who were incorrectly claiming discounts on their Council Tax bills by falsely stating that they were the only eligible adult in their household.

Last financial year the Anti-Fraud Team discovered 55 incorrectly awarded discounts which allowed the Revenues Department to re-bill SDC tax payers for a further £49,323. An end-of-year audit of the discounts removed showed that the majority remained removed and the authority was seeking a further £19,371 in Council Tax which if it were not for the intervention of the Anti-Fraud Team would probably still have been written off as discounts.

This exercise was started by the Anti-Fraud Team in October 2012 and to date has assisted Sevenoaks DC in removing 229 incorrectly awarded discounts and allowed the Council to issue amended bills requesting a further £198,991 in Council Tax payments. This is the actual amount of Council Tax income and does not take into account any future effect of the discount being removed.

Cost Benefit Analysis 2014/15

	Total £	SDC Anti- Fraud £	
Expenditure:			
Partnership with DBC	184,843	92,422	Costs of the Anti-Fraud Team are split 50:50 with Dartford BC.
Income:			
HB & CTB Admin Grant	(496,010)	(37,746)	DWP's proposed HB & CTB Admin Grant reduction due to SFIS. Used as a proxy for the proportion
Fraud discovered:			
Housing Benefit (HB)	(320,803)	(128,321)	SDC receive additional subsidy of 40% of overpayments discovered
Council Tax Benefit (CTB)	(39,504)	(15,802)	SDC receive additional subsidy of 40% of overpayments discovered
Council Tax Support (CTS)	(20,183)	(2,422)	SDC receive 12%
Deterrent Factor		(73,273)	Assume 50% of HB, CTB & CTS fraud. See (a) below.
Uncollected Estimate		65,945	Assume 30%. See (b) below.
CT Discounts	(49,323)	(5,919)	SDC receive 12%
Uncollected estimate		41	Assume 0.7% as Council Tax collection rate is 99.3%
Net Position		(105,075)	

- (a) We can assume an additional 50% deterrent factor. Probably 95% of current fraud is a failure to report a change in circumstances. £320,803 of overpaid HB was discovered by the Fraud Team during 2014/15. SDC actually raised some £1,224,539 in recorded HB overpayments during 2014/15 (figures obtained from HBRF returns). SDC has an approx. HB caseload of 7000 cases. If we have conducted 100 investigations for the last 10 years then 1/7 of claimants have had some direct contact with the Fraud Team and have hopefully been educated in the art of promptly reporting changes. Therefore you could assume that the Fraud Team had a direct impact on generating the £320,803, but also 50% extra indirectly on people reporting changes to the local authority.
- (b) The DWP rate of recovery is approximately £10 per week. So any overpayments over £5000 would take 10 years to recover and therefore it is unlikely that it will

all be paid. In 2014/2015 the Fraud Team discovered 52 cases of overpaid benefit. 18 of these were over the £5,000 mark (35%), but some will be recovered quickly (for example capital cases) and so a 30% uncollected estimate has been assumed. Of the £380,490 raised in HB, CTB and CTS overpayments during 2014/2015 some £71,000 has already been recovered.

4. The Single Fraud Investigation Service

In December 2013, The Chancellor of the Exchequer confirmed in his autumn statement, the creation of a Single Fraud Investigation Service (S-FIS) which is designed to bring together the expertise of welfare benefits investigators from local authorities, the Department for Work & Pensions and Tax Credits investigators from Her Majesty's Revenues and Customs into one body operating within the Department for Work & Pensions.

The transfer of local authority investigation staff to S-FIS commenced in October 2014 and will be completed by March 2016. Sevenoaks District Council's investigation staff are eligible to transfer to S-FIS in February 2016. If the whole team transfers, then the Council will be left with no capacity to investigate fraud of any kind after the transfer date. The Council therefore needed to consider how it identified, managed and otherwise mitigated risks of fraud without this resource, particularly in relation to Council Tax fraud for which responsibility will remain with the Council.

In 2014/15 Sevenoaks District Council allowed Council Tax Single Person discounts totalling £5,709,466 and awarded Council Tax Support claims totalling £5,767,011. It is the responsibility of Sevenoaks District Council to take reasonable steps for the prevention and detection of fraud and other irregularities. In light of this Sevenoaks District Council has been working closely with its partner Dartford Borough Council to draw up plans to create a Corporate Fraud Team, which from 01.02.2016 will cover the fraud areas not covered by the Single Fraud Investigation Service.

5. Priorities for 14/15

Benefit Fraud Investigations

Sevenoaks District Council will still be responsible for the investigation of Housing Benefit fraud and post-dated Council Tax Benefit fraud until 31.01.2016. The local authority's fraud investigation workload will be migrated to the new Single Fraud Investigation Service and a single point of contact (SPOC) set up within the local authority so that S-FIS investigation staff can have access to local authority databases for future benefit fraud investigations.

Corporate Fraud Team

The new Corporate Fraud Team will predominately concentrate its efforts on areas of Council Tax fraud, but will slowly spread its re-mit into all areas within local government which are susceptible to fraud. The residual resource will also be required to support the following:

- The Council will also continue to receive monthly data match reports from the Housing Benefit Matching Service until Universal Credit is fully implemented;

- National Fraud Initiative (NFI) exercise;
- Referrals from the Kent wide data matching hub;
- DCLG Transparency Code – annual reporting of anti-fraud resources and fraud detection figures;
- DPA information requests.

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Audit, Risk & Anti-Fraud Team

Housing Benefit

Local Council Tax Support

ANTI-FRAUD, SANCTIONS AND PROSECUTION POLICY



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Housing Benefit & Council Tax Support Anti-Fraud Policy

1.0 Introduction

- 1.1 In 2010 Sevenoaks District Council and Dartford Borough Council combined their Audit & Fraud and Revenues & Benefits Services into single shared services. The primary aim of this joint venture was to continue to provide a high quality service, supporting the most vulnerable members within the two districts, in the most efficient and cost effective way.
- 1.2 The Council has a zero-tolerance to all forms of fraud & corruption. This message is keenly promoted through the issuing of a trio of joint working policies – The Anti-Fraud & Corruption Strategy, The Whistle-blowing Strategy and this policy, The Housing Benefit & Council Tax Support Anti-Fraud, Sanctions and Prosecution Policy.
- 1.3 Housing Benefit (HB) is paid to assist people on a low income to meet the rental liability on their main and principal home. Council Tax Support (CTS) is paid to assist people on a low income to meet the annual Council Tax liability on their main and principal home. Housing Benefit is a means-tested benefit, administered by local authorities, on behalf of the Department for Work & Pensions (DWP). Council Tax Support is a means-tested Council Tax discount administered by local authorities.
- 1.4 The Housing Benefit & Council Tax Support Anti-Fraud Policy re-enforces the Council's commitment to :
 - Preventing fraud and error entering the benefit/discount assessment caseloads by having robust internal systems and checking procedures in place.
 - Detecting incorrect and fraudulent claims for both benefit and discounts by running pro-active drives as well as fully participating in all the government led anti-fraud data-match initiatives.
 - Putting incorrect claims right quickly and getting back what we are owed.
 - Issuing sanctions, in line with the joint Sanctions and Prosecution Policy, against people proven to have cheated the system.
 - Where appropriate, deter future fraudulent claims by publicising the work of the Anti-Fraud Team and the punishments handed out by courts in prosecution cases.
- 1.5 The Housing Benefit & Council Tax Support Anti-Fraud, Sanctions and Prosecution Policy will be reviewed annually to take into account any legislative and procedural changes.

2.0 Definition of Benefit Fraud

2.1 Benefit fraud is where a person, dishonestly, or not, whilst applying for or in receipt of a Social Security benefit:

- makes a false statement,
- produces a false document and/or
- fails to promptly notify of a relevant change in circumstances which the person knows will affect the rate of benefit there are entitled to/or are in receipt of.

2.2 Most benefit fraud offences are prosecuted under the Social Security Administration Act 1992:

- Section 112(1)a – making a false statement, producing a false document
- Section 112(1A) – failing to report a relevant change in circumstances.
- Section 111A – obtaining benefit dishonestly.

However other relevant pieces of legislation can be used, for example the Fraud Act 2006, where the crime is of a specific type.

3.0 Council Tax Support Fraud

3.1 Council Tax Support came into existence on 1st April 2013 and replaced Council Tax Benefit.

3.2 Council Tax Benefit was a Social Security benefit administered by local authorities on behalf of the Department for Work & Pensions. Council Tax Support is a discount awarded against the annual Council Tax liability, by local authorities, created by the Local Government Finance Act 2012.

3.3 Council Tax Support Fraud offences will be prosecuted under section 14B of the Local Government Finance Act 1992.

4.0 The Anti-Fraud Team

4.1 The Anti-Fraud Team has a main base at Dartford Borough Council's Civic Centre in Dartford and also a hot-desk arrangement at Sevenoaks District Council's Argyle Road offices in Sevenoaks. The team comprises specially trained officers, responsible for investigating allegations of fraud & corruption for both Sevenoaks District Council and Dartford Borough Council.

4.2 The teams' main role is the investigation and detection of suspected Housing Benefit & Council Tax Support frauds, but where called upon, the officers will conduct specific enquiries relating to Housing Tenancy fraud, Council Tax fraud and other frauds found within local government.

The Anti-Fraud Team's main objectives are:

- Assist with the creation of systems which help prevent fraud from entering the system and to unearth fraud once it has established itself.
 - To teach front-line staff techniques of how to identify fraud and instil confidence in the procedure for reporting suspicions relating to potential fraudulent claims and how they can seek advice for handling such situations.
 - To maximise the potential results and effectiveness of data-matching exercises available to local councils which seek to identify fraud using all the appropriate legal gateways open to them.
 - To facilitate joint working with external anti-fraud agencies to ensure that the councils have a cohesive approach to the fraud investigation process.
 - To investigate instances of suspected benefit fraud, collate evidence which assists in the determination of the validity of a benefit claim and to take appropriate action against any perpetrators.
- 4.3 The Anti-Fraud Team is managed by the Fraud Manager, who reports to the Audit, Risk & Anti-Fraud Manager and is responsible for the day-to-day management of 4 Investigation Officers (2 full-time, 2 part-time) operating across two sites.
- 4.4 Cases of suspected benefit fraud can be referred to the Anti-Fraud Team electronically by members of the Benefit Assessment Team (via forms located on the benefit operating system 'Academy') or via e-mail/in writing from all other internal departments. There is a dedicated fraud hotline (0800 496 3245) situated within the Dartford office of the Anti-Fraud Team. Outside office hours there is an answerphone service attached to this number.

5.0 Culture

- 5.1 The Council takes any form of fraud or corruption very seriously. Separate Anti-Fraud & Corruption and Whistleblowing policies have been devised to embrace the issues of fraud and corruption. The Whistleblowing Policy specifically encourages both staff and members of the public to report such matters, in confidence, to the Council.
- 5.2 The Council is committed to ensuring that benefit is paid to only those who are entitled to receive it.
- 5.3 The Council is committed to ensuring that the benefits service is easily accessible and can be taken up by all members of society irrespective of their social status or background.
- 5.4 The Council will, where appropriate, work in co-operation with external agencies such as the Department for Work & Pensions, the Police, Her Majesty's Customs & Excise, the Border Force Agency and other local authorities in order to combat benefit fraud.

- 5.5 The Council will maintain and advertise a 24-hour reporting line (0800 496 3245 and other points of reference felt appropriate) so suspected benefit fraud can be reported.
- 5.6 All reports of suspected fraud will be logged and assessed in line with the joint fraud referral processing policy (within at least 10-working days) and an appropriate course of action assigned to each allegation.
- 5.7 The Council will, where proportionate and reasonable, actively report successive prosecutions through local media sources in order to promote and publicise the work of the Fraud Team to act as a deterrent to other would-be benefit fraudsters.
- 5.8 All investigation staff will receive quality training to ensure that investigations are conducted in accordance with the relevant legislation and that all procedures & practices are lawful and fair.
- 5.9 The Council will actively seek the repayment of **all** overpaid benefit deemed recoverable.

6.0 Prevention, Detection and Investigation

- 6.1 All benefit staff can contact the Anti-Fraud Team by telephone or e-mail to receive advice and guidance in relation to the handling of potential fraudulent claims for benefit/discounts and they will receive regular updates of any emerging trends in the field of benefit fraud which they need to be aware of when they are examining claims for Housing Benefit & Council Tax Support.
- 6.2 Benefit Staff will receive regular reports on the Fraud Team's successes and specifically the way in which these cases were discovered, so that useful lessons can be learned, which will hopefully prevent more fraudulent claims entering the system in the future.
- 6.3 Sevenoaks District Council is fully committed to all the available government anti-fraud schemes and performance measures (For example, Housing Benefit Matching Service (HBMS), National Fraud Initiative (NFI)) and regularly allow their benefits data to be cross-matched with outside organisations for the lawful purpose of highlighting potential instances of fraud within the benefits caseload.
- 6.4 All investigators are PINS accredited fraud investigators (PINS - Professionalism in Security). This is a nationally recognised qualification, accredited by Portsmouth University, and requires each student to successfully complete 7 separate fraud modules, with exams at the end of each module.
- 6.5 The PINS qualification ensures that all investigation staff are fully conversant with all the relevant legislation covering the collation and recording of evidence (Criminal Procedures & Investigations Act 1996); the interviewing and treatment of suspects (Police & Criminal Evidence Act 1984) and

authorisation of/use of surveillance techniques (Regulation of Investigatory Powers Act 2000).

- 6.6 In cases where the Housing Benefit and/or Council Tax Support recipient is in receipt of another Social Security benefit (for example - Income Support, Job Seekers Allowance or Employment Support Allowance) local authority investigators will join forces with colleagues from the Department for Work & Pensions' Fraud Investigation Service to conduct a joint investigation.
- 6.7 Sevenoaks District Council has an excellent working relationship with the local Fraud Investigation Service (DWP) and work hard to maintain the close links between the organisations. A majority of the benefit fraud investigations instigated by the Councils will be joint ventures with the DWP.
- 6.8 All persons suspected of submitting fraudulent benefit claims/failing to declare relevant changes in their circumstances are invited to attend a formal interview to:
- show the claimant the evidence the authority has collated which appears to show that certain offences have been committed and,
 - seek a response/explanation from the claimant to the evidence shown as well as understand any mitigating circumstances that the claimant may have had, during the period in question, which may have caused their actions/behaviour.
 - At the end of the interview the person being interviewed will be informed by the investigating officer that, where appropriate, a report will be issued to the Benefit Assessment Team to adjust any payments of benefit they may have had and depending on the size of their overpayments and the circumstances under which this overpayment arose, a panel of senior managers will decide what action, if any, the relevant local authority would take in this case.
- 6.9 All cases in which the investigation results in an overpayment of benefit or the removal of a discount will be reviewed against the Housing Benefit & Council Tax Support Sanctions and Prosecution Policy to decide upon the most appropriate action to take.
- 6.10 The decision on appropriate action is not taken lightly and as such it is based upon the informed decisions of a panel of senior officers within the local authority taking all aspects of the case into account.

Housing Benefit & Council Tax Support Sanctions and Prosecution Policy**7.0 Introduction**

- 7.1 Sevenoaks District Council has a duty to protect the public purse and as part of that commitment they have a responsibility to prevent and detect fraud. This policy is designed to provide clear guidance on the measures available to both authorities on how to deal with those who are found to have committed either benefit fraud and/or Council Tax Support fraud.
- 7.2 The guidelines in this policy must be implemented in a fair and unbiased manner each investigation is unique and must be judged on its own merits, with regard to the full facts of the case before an appropriate sanction is imposed.
- 7.3 In general the Council has 4 main options for further action when an investigation concludes that there has been an overpayment of benefit or an incorrectly awarded Council Tax discount:
- a) **A Warning letter** – Letter issued by the investigating officer explaining that the Council has decided that it is not in the public interest to take any further action against them, but they should make every effort to ensure that they repay the overpaid benefit and/or their increased Council Tax liability as quickly as possible in order to prevent civil recovery action being instigated.
 - b) **Formal Caution** (benefit offences only) – The offender signs a written admission to all the alleged offences and the authority retains this statement for 5 years. The cautions are logged on a national database of all sanctions (administered by the DWP) and any future sanction action would be influenced by earlier decisions.
 - c) **Administrative Penalty** – The offender does not admit to the alleged offences in this instance, but accepts to pay an additional amount to the authority to prevent the Council from instigating legal action. Again the penalty action taken in benefit fraud cases is logged on a national database so that, where necessary, checks can be made in case that claimant is the subject of an investigation in the future.
 - d) **Prosecution** – the local authority takes the claimant to court, citing offences either under the Social Security Administration Act 1992 (for benefit fraud offences) or under the Local Government Finance Act 1992 (for Council Tax Support fraud offences), or other legislation if found appropriate.
- 7.4 Formal Cautions, Administrative Penalties and prosecution are commonly referred to as sanctions. A local authority will only issue a sanction when there is a realistic prospect of obtaining a successful prosecution. In cases where offenders are offered a caution or penalty and these sanctions are refused the local authority will review the case again and decide if legal proceedings are now appropriate.

- 7.5 In all investigations conducted by the Anti-Fraud Team evidence is obtained and collated in accordance to the Police & Criminal Evidence Act 1984 and the Criminal Procedures and Investigations Act 1996. This means that, if deemed appropriate by senior management, cases can be referred for legal proceedings.
- 7.6 A case will only be deemed suitable for prosecution after it has been thoroughly reviewed and confirmed that it meets the requirements of the Code for Crown Prosecutors.
- 7.5 There are 2 main requirements – The Evidential Test and The Public Interest Test.

8.0 Evidential Test

- 8.1 The prosecuting authority must be satisfied that there is sufficient evidence to provide a ‘realistic prospect of conviction’ on each charge. Consideration should be given to what the claimant’s defence may be and how it is likely to affect the prospects of conviction.
- 8.2 A realistic prospect of conviction is an objective test based solely upon the prosecuting authority’s assessment of the evidence and any information that the authority has about the defence that the suspect may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them.
- 8.3 When deciding if there is sufficient evidence to prosecute the authority will consider:

Can the evidence be used in court?

- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)
- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to be given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?

Is the evidence reliable?

- Does the suspect have a creditable explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect’s level of understanding?

- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?
- Do any of the witnesses have previous convictions or out-of-court disposals which may affect their credibility?

9.0 Public Interest Test

9.1 When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the 'public interest' for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority's decision to either take legal action or refrain from instigating legal proceedings.

9.2 Some common public interest factors tending against prosecution:

- The offence committed can be proven to be the result of a genuine mistake or misunderstanding on the claimant's part.
- The claimant's age would deter the authority from taking further action.
- The claimant's mental or physical health would deter the authority from taking further action.
- The claimant has repaid the overpaid benefit in its entirety (balanced with the seriousness of the offence)
- It can be established that part of the overpaid benefit was due to an error in benefit administration either on the part of the local authority or the Department for Work & Pensions.
- The investigation process contains unexplained long delays.
- The consequences of the claimant receiving a criminal record may far outweigh the benefits of the authority taking the action.
- The claimant's family circumstances or adverse recent events may deter the authority from taking the person to court.

9.3 Some common public interest factors tending in favour of prosecution:

- The seriousness of the offence as reflected by the general guideline thresholds set in advance by local authority (see section 9.4).
- The claimant held a position of trust or responsibility.

- The offences are pre-planned or pre-meditated or contain an element of pre-planning or an intention to deceive the authority to obtain benefit.
- The claimant has previous convictions or sanctions related to the current offence.
- The offences are repeated or continued over a long period.
- The claimant has been offered an alternative sanction (i.e. Formal Caution or Administrative Penalty), but has refused it.

9.4 As a guideline, if the adjudicated collective overpayment/incorrectly awarded discount is above £4,000, the local authority would deem this a serious offence and the case should be considered for prosecution. In cases where the collective overpayment/incorrectly awarded discount is below £4,000 the authority may consider an alternative to prosecution, for example a Formal Caution (benefit offences only) or an Administrative Penalty. However, senior management may decide that legal proceedings are still appropriate due to the circumstances in which the overpayment occurred.

10.0 Formal Cautions and Administrative Penalties

10.1 The Council may consider offering a Formal Caution in relation to a benefit offence following the review of the evidence and public interest criteria and a decision has been made that it is not in the public interest to proceed to legal action. The case should fulfil the following criteria:

- The makes an admission of the offence
- In joint investigations the DWP have decided it is appropriate to issue a Formal Caution
- The claimant has not been issued with a Formal Caution or Administrative Penalty in the last 5 years
- The caution is deemed to be an appropriate deterrent to prevent this happening again in the future

10.2 In cases where the offender does not admit the offence put before them the Council may offer them an Administrative Penalty as an alternative to prosecution. The level of the penalty would be as follows:

- Benefit offences committed before 8.5.2012 the penalty imposed would be 30% of the net adjudicated overpayment.
- Benefit offences committed wholly on or after 8.5.2012 the penalty imposed would be 50% of the net adjudicated overpayment, with a minimum of £350 up to a maximum of £2,000.
- Council Tax Support offences the penalty imposed would be 50% of the excess reduction of Council Tax liability, with a minimum of £100 up to a maximum of £1000.

11.0 Publicity

- 11.1 The Council has a statutory responsibility to prevent the waste, theft and fraud of public money. To this end, the Council has put in place a range of measures to ensure that benefits are paid only to those persons who are entitled to them.
- 11.2 These measures include actions that are taken after detection of an offence, as well as measures to prevent and deter the commission of an offence.
- 11.3 One such measure is publication of convictions. The publicity generated by a conviction for benefit fraud acts as a deterrent to others seeking to claim benefit to which they are not entitled. It also reassures the general public that the Council takes a serious view of fraud and actively seeks to protect public funds.
- 11.4 The Council will therefore consider publicising successful convictions of fraud (subject to obtaining prior advice from the relevant legal services section), together with specific details of the offence(s) in question. In reaching a decision as to whether to publish such information, the Council will consider the following factors:
- The specific details of the offence committed.
 - The public interest in disclosing personal information e.g. the deterrent effect of the publication.
 - Whether the publication would be proportionate.
 - The personal circumstances of the offender.
 - Whether any other persons may be affected by the publication e.g. family members.
- 11.5 This list is not exhaustive and other factors may be relevant in the circumstances of an individual case.
- 11.6 When it is considered appropriate to publish details relating to a conviction, the reasons for such publication will be recorded by the Anti-Fraud Team.
- 11.7 Any press release on the Council's website will normally be removed after a period of 1 month.

INTERNAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Audit Committee – 23 June 2015

Report of: Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Searles

Contact Officer(s) Bami Cole Ext. 7236

Recommendation to Audit Committee: That Members support the conclusion of the Annual Self-assessment Review of the Effectiveness of Internal Audit Service 2014/15 against the Public Sector Internal Audit Standards, that the Council had an adequate and effective Internal Audit service which contributes towards the proper, economic and effective use of resources in achieving its objective.

Introduction

- 1 This report deals with the outcome of the annual self-assessment review of the Council's Internal Audit Function. It is the second report to be produced in accordance with the new Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013. Previous Members of this Committee had been briefed regarding the implications of the new standards in previous meetings of the Committee. The new standards relate to all Public Sector Internal Audit functions and are mandatory. Appendix A sets out the details of the self-assessment, which was undertaken using the standardised checklist. The Audit Committee is required to consider the self-assessment of the effectiveness of Internal Audit as part of its standard terms of reference remit.

Summary of Issues Raised Within the Report

- 2 Regulation 6.3 of the Accounts and Audit Regulations 2011 requires the Council to carry out an annual review of the effectiveness of its Internal Audit Function. The regulation does not stipulate a prescriptive process by which the review may be undertaken, except that the review should be carried out in accordance with "Proper Practices" as defined by relevant professional bodies. In previous years, this has been in accordance with practice guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) 2006. Following the introduction of the new PSIAS, this year's self-assessment is carried under new Practice Notes issued by CIPFA in 2013. This review sets out the outcome of the processes and the conclusions drawn from it. The results from this process will also feed into the Internal Audit Manager's Annual Report and the Council's

Agenda Item 9

Annual Governance Statement. The outcome of the self-assessment was reviewed by the Strategic Management Team on 27 May 2015, prior to finalising this report.

Results of the Self-assessment of Internal Audit

- 3 Appendix A sets out the results of the self-assessment. As indicated above, the process involved the completion of the self-assessment checklist by the Audit, Risk and Anti-Fraud Manager, using the Practice Notes issued by CIPFA in order to assess compliance with the new Public Sector Internal Audit Standards. The assessment covers the arrangements, practices, performance and achievements of the Internal Audit function during the year.
- 4 The self-assessment also took account of an independent quality assessment undertaken by PricewaterhouseCoopers (PWC). A separate report on this will be presented at this Committee by the Chief Finance Officer.
- 5 Where it is assessed that full compliance has not been attained on any assessment criteria, appropriate action is proposed to enable compliance. The result of the review process indicates that the Council's Internal Audit arrangements substantially meets the new Code Standards, however, some areas for further development have been identified in order to meet full compliance. These are set out in column marked "evidence/comments". The key aspects for further development which are set out in a separate action plan will be presented by the Chief Finance Officer, as part of his report on the external review by PWC.

Conclusion

- 6 The Audit Manager's opinion therefore is that the Council's arrangements in place for Internal Audit, in 2014/15 were substantially compliant with the new PSIAS, but requires further development to achieve full compliance with the new standards. The areas identified as requiring further developments are set out in an action plan which will be presented by the CFO.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

The review of the effectiveness of the Internal Audit function is a regulatory requirement designed to ensure that the service is effective in carrying out its statutory duties aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks. The agreed action plan has identified areas for further development which will enable the audit function to achieve full compliance within a reasonable timeframe.

Value for Money and Asset Management

A robust Internal Audit function contributes to the effective management of the Council and would help mitigate against poor value for money in service provision.

Equality Impacts

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Appendices

Appendix A – Self-Assessment Checklist

[The Accounts and Audit \(England\) Regulations 2011](#)

Background Papers:

[Public Sector Internal Audit Standards.](#)

Adrian Rowbotham
Chief Finance Officer

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APPENDIX A - CHECKLIST - COMPLIANCE WITH THE PSIAS

Please tick to indicate Y = YES, P = PARTIAL, N = NO.

Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Note: The references made to the Chief Audit Executive (CAE) within the Standards, refers to the Audit, Risk and Anti-Fraud Manager (ARAFM) at SDC

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
3	Definition of Internal Auditing				
	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes	Y			Internal Audit Charter. The Charter requires an update to reflect recommendations made in the EQA by PWC. The revised version will be presented to the Audit Committee in September.
4	Code of Ethics				
	<p>Public sector requirement: Internal auditors in UK public sector organisations must conform to the Code of Ethics. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.</p> <p>The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance regarding risk management, control and governance.</p> <p>The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:</p> <ol style="list-style-type: none"> 1. Principles that are relevant to the profession and practice of internal auditing; and 2. Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to 	Y			<p>Internal Audit Charter, Quality Manual and Protocol</p> <p>All staff are required to comply with the PSAIS code of ethics as part of their appraisal objectives. Staff understand their responsibilities in ensuring that the function maintains its independence and ethical behaviour.</p> <p>In addition, all internal Audit staff have confirmed that they have read the Code of Ethics and have regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life'</p> <p>All internal audit staff completes an annual</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>guide the ethical conduct of internal auditors.</p> <p>The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.</p> <p>Public sector interpretation: The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.</p> <ol style="list-style-type: none"> 1 Integrity 2 Objectivity 3 Confidentiality 4 Competency <p>Public sector requirement: Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk</p>				<p>interest declaration form.</p> <p>Internal Audit Charter para. 3.</p>
5	Standards				
	Attribute Standards				
1000	Purpose, Authority and Responsibility				
	<p>The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</p>		P		<p>The terms of reference for the internal audit service will be confirmed within the revised Audit Charter</p> <p>This will form part of the standard reporting process.</p>
	<p>Interpretation: The Internal Audit Charter is a formal document</p>				A separate Charter has

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.</p> <p>Public sector requirement: The internal audit charter must also:</p> <ul style="list-style-type: none"> • Define the terms 'board' and 'senior management' for the purposes of internal audit activity; • Cover the arrangements for appropriate resourcing; • Define the role of internal audit in any fraud-related work; and • Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. 				<p>been completed for each authority within the partnership, in order to reflect the individual authority's culture, traditions and bespoke requirements, however, the essential principles of the PSIAS remains.</p> <p>The Charter will be amended to reflect the recommendations made by PWC following the EQA.</p>
	<p>1000.A1 The nature of assurance services provided to the organisation must be defined in the Internal Audit Charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.</p>				Included in the Internal Audit Charter (para 1 and 2).
	<p>1000.C1 The nature of consulting services must be defined in the internal audit charter.</p>				Included in the Internal Audit Charter (para 2).
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter				
	<p>The mandatory nature of the Definition of Internal Auditing, the Code of Ethics and the Standards must be recognised in the internal audit charter. The chief audit executive should discuss the</p>	Y			Internal Audit Charter (para 1 and 2).

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Definition of Internal Auditing, the Code of Ethics and the Standards with senior management and the board.				
1100	Independence and Objectivity				
	The internal audit activity must be independent and internal auditors must be objective in performing their work.	Y			See paragraph 6 of the Internal Audit Charter. And as stated above audit staff also complete an annual declaration of interest form.
	<p>Interpretation: Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.</p> <p>Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.</p>				Internal Audit Charter (para 6).
1110	Organisational Independence				
	The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least	Y			The ARAFM reports to the CFO at SDC. The Audit, Risk and Anti-Fraud Manager reports

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	annually, the organisational independence of the internal audit activity.				formally to the Audit Committee at SDC. The Audit Manager's Annual Internal Audit Report which goes to the Audit Committee addresses the issue of independence.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
A	<p>Interpretation: Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</p> <ul style="list-style-type: none"> • Approving the internal audit charter; • Approving the risk based internal audit plan; • Approving the internal audit budget and resource plan; • Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; • Approving decisions regarding the appointment and removal of the chief audit executive; • Approving the remuneration of the chief audit executive; and • Making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. <p>Public sector requirement: The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.</p> <p>Public sector interpretation: Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also obtained from the chair of the Audit Committee/Board.</p>				<p>Included under the 'Reporting' and 'Independence' sections of the Internal Audit Charter template (Para 4,5 and 6).</p> <p>See comments below.</p> <p>Included under the 'Reporting' and 'Independence' sections of the Internal Audit Charter.</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	1110.A1 The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.				Included in the Internal Audit Charter. Internal Audit Quality Manual (pages 16 and 17).
1111	Direct Interaction with the Board				
	The chief audit executive must communicate and interact directly with the board.	Y			The ARAFM communicates directly with the chairs of the relevant committee and attends meetings
1120	Individual Objectivity				
	Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.	Y			See Internal Audit Charter Paragraph 6 and the Quality Manual pages 16 to 17 (page 4) 2. For all internal audit staff, personal independence responsibilities are essential. Ethical compliance is part of staff appraisal objectives. <ul style="list-style-type: none"> Also, all staff are required to complete an annual declaration of interest return.
	Interpretation: Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
1130	Impairment to Independence or Objectivity				
	If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.	Y			See above. All staff receives regular 1:1 with their line manager and internal audit work is quality assessed for conformance with the PSIAS.
	<p>Interpretation: Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.</p> <p>The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.</p>				
	1130.A1 Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.				Included under the 'Independence' section of the Internal Audit Charter template - see paragraph 6 and Part 4 of quality manual
	1130.A2 Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.				Risk management lead co-ordination is undertaken by the ARAFM, but is overseen by the officer's risk group at SDC.
	1130.C1 Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.				N/A

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>1130.C2 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.</p> <p>Public sector requirement: Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.</p>				<p>Proposals regarding protocol for consulting to be agreed with management, and will be included in the revised Audit Charter.</p> <p>Included under the 'Independence' section of the Internal Audit Charter template.</p>
1200	Proficiency and Due Professional Care				
	Engagements must be performed with proficiency and due professional care.		P		<p>There is an effective framework in place to facilitate this, but in practice limitations are imposed by individual auditor qualification, experience and capabilities.</p> <p>Room for improvements were identified in the EQA. Relevant action plan have been agreed with senior management on 27 May 2015 and will be presented to the Audit Committee in June.</p>
1210	Proficiency				
	Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.		P		<p>See above. Also, there is insufficient technical knowledge and expertise resilience within the existing team, to secure short term effectiveness and future viability. The Principal Auditor position remains vacant. Staff acting up do not possess the required qualifications and technical knowledge to fulfil the</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					<p>necessary technical and professional requirements of the role.</p> <p>The lack of expertise at Principal Auditor (Supervisory level) meant the ARAFM is overstretched and thinly spread, as he is forced to deal with both strategic and operational matters. However, this will be resolved following the decision to fill the Principal Auditor and Auditor vacancies.</p>
	<p>Interpretation: Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.</p> <p>Public sector requirement: The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.</p>		P		<p>Some key staff lack adequate professional qualifications, knowledge and appropriate skills to fulfil their roles effectively. This has caused some quality difficulties. This was also identified in the EQA by PWC. As already cited above, these issues would be resolved once the action plan agreed by senior management is implemented.</p> <p>ARAFM is a graduate and CMIIA qualified, with over 20 year's relevant experience.</p>
	<p>1210.A1 The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.</p>		P		<p>Where necessary this is addressed by use of agency staff, but is subjected to budget constraints.</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	1210.A2 Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.		P		The risk of fraud is a key consideration as part of the audit process. However the effectiveness of how this is dealt with during an engagement is limited by the individual auditor's capabilities. As cited in the EQA by PWC, there is room for further improvements, which will be addressed by the agreed action plan.
	1210.A3 Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.		P		Where appropriate temporary technical support is obtained from recruitment agencies. Also the ARAFM runs periodic technical meetings, as part of the on-going development and quality improvements programme for auditors.
	1210.C1 The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.				Consulting engagements will not be accepted without an assessment of relevant competencies and approval by the Audit Committee/ Board (see Audit Charter). Protocol for consulting to be agreed with senior management.
1220	Due Professional Care				
	Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.		P		Due professional care and skill is subject to individual auditor capability. As already cited above, there is room for improvement.
	1220.A1 Internal auditors must exercise due professional care by considering the: <ul style="list-style-type: none"> Extent of work needed to achieve the 		P		This is an area for further development, as cited above

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>engagement's objectives;</p> <ul style="list-style-type: none"> Relative complexity, materiality or significance of matters to which assurance procedures are applied; Adequacy and effectiveness of governance, risk management and control processes; Probability of significant errors, fraud, or non-compliance; and Cost of assurance in relation to potential benefits. 				
	<p>1220.A2</p> <p>In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.</p>		P		Use is made of exiting technology and techniques. Additionally we have now obtained IDEA to facilitate more effective interrogation and analysis and intend to obtain and audit management software to enhance quality of the audit product.
	<p>1220.A3</p> <p>Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.</p>		P		The audit process makes provision for this, but again is limited by individual auditor capabilities.
	<p>1220.C1</p> <p>Internal auditors must exercise due professional care during a consulting engagement by considering the:</p> <ul style="list-style-type: none"> Needs and expectations of clients, including the nature, timing and communication of engagement results; Relative complexity and extent of work needed to achieve the engagement's objectives; and Cost of the consulting engagement in relation to potential benefits. 		P		Some room for improvements, as indicated above. Relevant action plan sent to senior management to address the pertinent issues.
1230	Continuing Professional Development				
	Internal auditors must enhance their knowledge,		P		Auditors attend the KAG

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	skills and other competencies through continuing professional development.				conference which covers some key audit issues, and also some training identified during appraisal. .However, more could be done by individual auditors to proactively seek continuing professional development.
1300	Quality Assurance and Improvement Programme				
	The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.		P		<p>The Quality Manual was specifically designed to prescribe clearly the role and objectives of internal audit and to ensure compliance with relevant professional standards. The Quality Manual is being revised to reflect all the key requirements of the new PSIAS with a view to ensuring that the system and controls in place will achieve consistent and high quality service delivery.</p> <p>This will be done in conjunction with proposal set out in the action plan to address areas for further development.</p>
	<p>Interpretation:</p> <p>A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.</p>				This will be set out in the updated Audit Charter

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
1310	Requirements of the Quality Assurance and Improvement Programme				
	The quality assurance and improvement programme must include both internal and external assessments.	Y			As already stated above
1311	Internal Assessments				
	Internal assessments must include: <ul style="list-style-type: none"> On-going monitoring of the performance of the internal audit activity; and Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. 	Y			The self-assessment process is detailed and comprehensive. The results are considered by suitably qualified and experienced senior management
	<p>Interpretation:</p> <p>On-going monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. On-going monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.</p>				
1312	External Assessments				
	<p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> The form of external assessments; The qualifications and independence of the 		P		EQA was recently completed by a qualified and experienced assessor (PWC). Relevant proposals and action plan have been agreed by senior management

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>external assessor or assessment team, including any potential conflict of interest; and</p> <ul style="list-style-type: none"> The need for more frequent external assessments. 				
	<p>Interpretation: External assessments can be in the form of a full external assessment, or a self-assessment with independent validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.</p> <p>An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.</p> <p>Public sector requirement: The chief audit executive must agree the scope of external assessments with an appropriate sponsor (e.g. the Accounting/Accountable Officer or chair of the audit committee) as well as with the external assessor or assessment team.</p>	Y			Process was carried out by an independent assessor.
1320	Reporting on the Quality Assurance and Improvement Programme				
	The chief audit executive must communicate the results of the quality assurance and improvement	Y			As already stated above

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	programme to senior management and the board.				
	<p>Interpretation: The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of on-going monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.</p> <p>Public sector requirement: Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.</p>				<p>Included under the 'Reporting' section of the Internal Audit Charter. Also included in the annual report. (Also see section 10 of Quality Manual).</p> <p>This will form part of the standard reporting process.</p>
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing				
	The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement programme support this statement.	Y			On the assumption that there is no evidence to the contrary.

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	<p>Interpretation: The internal audit activity conforms with the International Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and International Standards.</p> <p>The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.</p>				
1322	Disclosure of Non-Conformance				
	When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.	Y			This is part of the standard assessment process.
	Public sector requirement: Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.				See above.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Performance Standards				
2000	Managing the Internal Audit Activity				
	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.	Y			This is part of the audit process. All internal audit briefs are agreed with senior management. Value for money considerations is also part of the standard audit brief
	<p>Interpretation: The internal audit activity is effectively managed when:</p> <ul style="list-style-type: none"> • The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter; • The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and • The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards. <p>The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.</p>				See above
2010	Planning				
	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.		P		See above. The audit planning process is risk based. Also all internal audit briefs are risk based and have risk as a standard control item on the audit brief. However, there is room for further development; largely due to resource constraints. This would be fully addressed

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					when the vacancy of the Principal Auditor is filled.
	<p>Interpretation: The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.</p> <p>Public sector requirement: The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.</p>				See above and also the internal audit plan.
	<p>2010.A1 The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>				The audit plan gives consideration to the Council's strategic risk assessment process. However, is an area for further development, as a result of resource constraint which will be addressed once the vacancy of the PA position is filled.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	2010.A2 The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.				This is part of the standard audit process. Timely discussions are undertaken with management if it is likely that expectations could be breached.
	2010.C1 The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.				This is part of standard audit process. .
2020	Communication and Approval				
	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.	Y			This is part of the standard process. Where appropriate additional resources have been obtained through commissioning of agency staff
2030	Resource Management				
	The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.		P		The agreed action plan will address and deficiencies identified once implemented
	Interpretation: Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan. Public sector requirement: The risk-based plan must explain how internal audit's resource requirements have been assessed.		P		The agreed action plan will address any deficiencies identified once implemented Regarding qualifications, the ratio is 33% relevant qualifications. Opportunities for staff to obtain qualification are available and staff are actively encouraged to pursue professional qualifications

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.				
2040	Policies and Procedures				
	The chief audit executive must establish policies and procedures to guide the internal audit activity.	Y			<p>The existing quality manual and relevant procedures have been under review to refresh and update as appropriate in order to reflect the requirements of the PSIAS.</p> <p>Periodic technical meetings are held in addition to monthly team meetings and quarterly quality meetings in order to address and update technical and address any skills gaps or quality issues identified through the review process or from an analysis of the customer satisfaction questionnaire process.</p> <p>The above process together with the quality manual set out the processes for identifying, implementing and managing the way in which services are delivered, and the methods by which function would ensure continuous improvement of Quality and service delivery.</p> <p>The processes are subject to continuous review by management to re-affirm their adequacy for the</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					current requirements of the service.
	<p>Interpretation:</p> <p>The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.</p>				
2050	Coordination				
	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.	Y			The ARAFM meets and liaises regularly with the external auditors. (section 11.5 Audit Charter)
	<p>Public sector requirement:</p> <p>The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p>				Part of standard assurance process
2060	Reporting to Senior Management and the Board				
	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Y			Part of standard audit process (See Audit Charter para 9 and Quality manual (Para 10.3 to 10.5).
	<p>Interpretation:</p> <p>The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.</p>				
2070	External Service Provider and Organisational Responsibility for Internal Audit				

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	When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.				
	Interpretation: This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the Definition of Internal Auditing, the Code of Ethics and the International Standards.				
2100	Nature of Work				
	The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	Y			Part of standard audit process.
2110	Governance				
	The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: <ul style="list-style-type: none"> Promoting appropriate ethics and values within the organisation; Ensuring effective organisational performance management and accountability; Communicating risk and control information to appropriate areas of the organisation; and Coordinating the activities of and communicating information among the board, external and internal auditors and management. 	Y			Part of Audit process as set out in the Audit Charter and the Quality Manual.
	2110.A1 The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.				
	2110.A2 The internal audit activity must assess whether the				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	information technology governance of the organisation supports the organisation's strategies and objectives.				
2120	Risk Management				
	The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	Y			See above.
	<p>Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:</p> <ul style="list-style-type: none"> • Organisational objectives support and align with the organisation's mission; • Significant risks are identified and assessed; • Appropriate risk responses are selected that align risks with the organisation's risk appetite; and • Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities. <p>The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.</p> <p>Risk management processes are monitored through on-going management activities, separate evaluations, or both.</p>				<p>All internal audit briefs have risk management control as a standard control object</p> <p>The risk management process is reviewed regularly</p> <p>Internal audit co-ordinates risk assessments and risk actions co-ordination and reports to the Audit Committee on progress of risk management.</p> <p>Internal audit is careful not become too close to risk ownership of operational areas, as this is a management function.</p> <p>Internal audit can offer advice and guidance on control and control requirements.</p>
	<p>2120.A1 The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> • Achievement of the organisation's strategic objectives; • Reliability and integrity of financial and operational information; 				See above.

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<ul style="list-style-type: none"> Effectiveness and efficiency of operations and programmes; Safeguarding of assets; and Compliance with laws, regulations, policies, procedures and contracts. 				
	2120.A2 The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.				Part of standard audit process.
	2120.C1 During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.				
	2120.C2 Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.				
	2120.C3 When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.				
2130	Control				
	The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.	Y			This is part of the audit process and included in the scope of audit briefs.
	2130.A1 The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the: <ul style="list-style-type: none"> Achievement of the organisation's strategic objectives; 				See above and internal audit files.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<ul style="list-style-type: none"> Reliability and integrity of financial and operational information; Effectiveness and efficiency of operations and programmes; Safeguarding of assets; and Compliance with laws, regulations, policies, procedures and contracts. 				
	2130.C1 Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes.				Joined up approach is evidenced through technical and quality meetings.
2200	Engagement Planning				
	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
2201	Planning Considerations				
	<p>In planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> The objectives of the activity being reviewed and the means by which the activity controls its performance; The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level; The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and The opportunities for making significant improvements to the activity's governance, risk management and control processes. 	Y			See above.
	2201.A1 When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other				

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	expectations, including restrictions on distribution of the results of the engagement and access to engagement records.				
	2201.C1 Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.				
2210	Engagement Objectives				
	Objectives must be established for each engagement.	Y			See above.
	2210.A1 Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.				
	2210.A2 Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.				
	2210.A3 Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria. Public sector interpretation: In the public sector, criteria are likely to include value for money.				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	2210.C1 Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.				
	2210.C2 Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.				
2220	Engagement Scope				
	The established scope must be sufficient to satisfy the objectives of the engagement.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
	2220.A1 The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.				
	2220.A2 If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.				
	2220.C1 In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.				
	2220.C2 During consulting engagements, internal auditors				

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	must address controls consistent with the engagement's objectives and be alert to significant control issues.				
2230	Engagement Resource Allocation				
	Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
2240	Engagement Work Programme				
	Internal auditors must develop and document work programmes that achieve the engagement objectives.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
	2240.A1 Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.				
	2240.C1 Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.				
2300	Performing the Engagement				
	Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
2310	Identifying Information				
	Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.	Y			Part of standard audit process. See section 9 Quality Manual. Also

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					evidenced within audit files.
	<p>Interpretation:</p> <p>Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.</p>				
2320	Analysis and Evaluation				
	Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
2330	Documenting Information				
	Internal auditors must document relevant information to support the conclusions and engagement results.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
	<p>2330.A1</p> <p>The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.</p>				The ARAFM does not release these records without authority except to the External Auditors
	<p>2330.A2</p> <p>The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.</p>				
	<p>2330.C1</p> <p>The chief audit executive must develop policies</p>				Will be fully achieved in the revised Quality Manual.

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.				
2340	Engagement Supervision				
	Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.		P		The agreed action plan will address and deficiencies identified once implemented
	Interpretation: The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.				
2400	Communicating Results				
	Internal auditors must communicate the results of engagements.	Y			Part of standard audit process see section 10 Quality Manual.
2410	Criteria for Communicating				
	Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.	Y			Part of standard audit process (see Quality Manual).
	2410.A1 Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>Interpretation:</p> <p>Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.</p>				
	<p>2410.A2</p> <p>Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p>				
	<p>2410.A3</p> <p>When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.</p>				
	<p>2410.C1</p> <p>Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.</p>				
2420	Quality of Communications				
	<p>Communications must be accurate, objective, clear, concise, constructive, complete and timely.</p>	Y			Part of standard audit process and quality review system.
	<p>Interpretation:</p> <p>Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail,</p>				

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	redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.				
2421	Errors and Omissions				
	If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.	Y			See above.
2430	Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing				
	Internal auditors may report that their engagements are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, only if the results of the quality assurance and improvement programme support the statement.	Y			Part of standard quality process.
2431	Engagement Disclosure of Non-conformance				
	When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the engagement results must disclose the: <ul style="list-style-type: none"> • Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved; • Reason(s) for non-conformance; and • Impact of non-conformance on the engagement and the communicated engagement results. 	Y			On the assumption that there is no evidence to the contrary.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
2440	Disseminating Results				
	The chief audit executive must communicate results to the appropriate parties.	Y			Standard audit process.
	Interpretation: The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated.				Part of standard audit process.
	2440.A1 The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.				See above.
	2440.A2 If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must: <ul style="list-style-type: none"> Assess the potential risk to the organisation; Consult with senior management and/ or legal counsel as appropriate; and Control dissemination by restricting the use of the results. 				
	2440.C1 The chief audit executive is responsible for communicating the final results of consulting engagements to clients.				
	2440.C2 During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.				
2450	Overall Opinions				
	When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be	Y			Part of standard audit process.

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	supported by sufficient, reliable, relevant and useful information.				
	<p>Interpretation:</p> <p>The communication will identify:</p> <ul style="list-style-type: none"> • The scope including the time period to which the opinion pertains. • Scope limitations. • Consideration of all related projects including the reliance on other assurance providers. • The risk or control framework or other criteria used as a basis for the overall opinion. • The overall opinion, judgment or conclusion reached. <p>The reasons for an unfavourable overall opinion must be stated.</p> <p>Public sector requirement: The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.</p> <p>The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.</p> <p>The annual report must incorporate:</p> <ul style="list-style-type: none"> • The opinion; • A summary of the work that supports the opinion; and • A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme. 				
2500	Monitoring Progress				
	The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	Y			Part of standard audit process.
	2500.A1				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.				
	2500.C1 The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.				
2600	Communicating the Acceptance of Risks				
	When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.	Y			
	Interpretation: The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.				

EXTERNAL REVIEW OF INTERNAL AUDIT

Audit Committee – 23 June 2015

Report of Chief Finance Officer

Status: For Information

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources.

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That Members approve the Action Plan in Appendix B and receive updates at future meetings.

Introduction and Background

- 1 New mandatory Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The standards provide a comprehensive and consistent framework for internal audit across the UK public sector. The standards include a requirement for an external quality assessment.
- 2 The purpose of the review was not only to ensure that the Internal Audit Team are compliant with the new standards but also to provide assurance that the Internal Audit Service is effective at strengthening internal control, risk management and governance processes within the Council and makes appropriate recommendations through its audit reviews to improve both the internal control framework and the achievement of value for money.
- 3 The Internal Audit Team is a shared service between Dartford Borough Council and Sevenoaks District Council. The team is ISO accredited and works in compliance with ISO quality standards, as well as relevant professional standards. The shared services agreement between the parties has been in operation since April 2010. The establishment consists of an Audit Manager, a Principal Auditor, 2.8 FTE Senior Auditors, an Auditor and an Admin Assistant at 0.5 FTE.
- 4 The internal audit manager carried out a self-assessment of the service in line with new PSIAS which identified areas for further development. This was reported to the Audit Committee on 10 June 2014.
- 5 This review was to consider the service as a whole but also consider where practices and approaches differ between the two authorities, including practical difficulties experienced by the shared service function, and how these have been addressed.

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- 6 Quotations for the external review were received from three organisations and PwC were awarded the work.

Scope of the Review

- 7 To evaluate the compliance of Internal Audit against the PSIAS criteria.
- 8 To evaluate the effectiveness of Internal Audit by focussing on the following areas:

Organisation

- Review the effectiveness of the reporting lines and roles and responsibilities of the Internal Audit Team, including where the team reports and how it is line managed.

Independence

- Review the position of Internal Audit within the organisation to assess whether this provides sufficient independence and objectivity and allows the internal audit activity to fulfil its responsibilities.
- Assess whether the internal audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results.

Audit Team

- Assess the knowledge, skills and experience of the internal audit team.
- Assess the level of direction and support provided to the team by the Audit Manager.
- Assess the level of support provided by senior management to the audit manager
- Assess the work of the individual auditors.

Quality Assurance

- Assess whether the audit plan is based on a sound documented process which effectively considers risk.
- Determine the level of quality assurance that is undertaken with regards to the internal audit activity and assess its effectiveness in monitoring progress, assessing quality and in supervising staff.
- Provide comment on the standard of the audit reports issued to management and whether they are supported by sufficient, reliable, relevant and useful information.
- Provide comment on the standard and relevance of the reports from Internal Audit that are presented to the Audit Board/Audit Committee.

Managing the work

- “The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”
- Assess whether the internal audit activity add value to the organisation by providing objective and relevant assurance.
- Review recommendations made in previous audits and assess whether they are practical, relevant and add value and are prioritised according to risk.
- Review the performance measures in place for the team and comment on their effectiveness.

Other

- Review the effectiveness of the internal audit team in identifying and evaluating key controls and suggesting improvements to both controls and the achievement of value for money.
- Review the effectiveness of the involvement of the audit team in the risk management processes.

Outcome of the Review

- 9 The detailed review has now been completed and the Executive Summary and Summary of Recommendations produced by PwC are included as Appendix A.
- 10 The outcome of the review shows that the PSIAS are largely complied with and suggests ways for the service to move forward.
- 11 The Action Plan is specifically designed to address the identified gap between existing operations and practices; and the requirements of the PSIAS. It also takes account of expectations for the service and how these could be addressed, including the need to ensure delivery of an added value assurance process.
- 12 Appendix B contains the Proposed Action Plan and the Internal Audit Organisational Chart is included as Appendix C.

Key Implications

Financial

The cost of the review was £13,500 which has been split equally between the two partner authorities.

Legal Implications and Risk Assessment Statement.

Compliance with the new standards is a regulatory requirement designed to make the Internal Audit service more effective. Compliance with the new standards should ensure

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that the service is effective in carrying out its statutory duties, aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

As the Council continues to operate in challenging financial times, the actions proposed should ensure that the Internal Audit Team are able to add more value and contribute to the future success of the Council.

Appendices

Appendix A – PwC Internal Audit – External Quality Assessment

Appendix B – Proposed Action Plan

Appendix C – Organisational Chart and Summary of Responsibilities

Background Papers:

Report on the Public Sector Internal Audit Standards
– Audit Committee 10 June 2014

External Review of Internal Audit – Audit Committee
13 January 2015

Adrian Rowbotham
Chief Finance Officer

Internal Audit External Quality Assessment

*Sevenoaks District Council
May 2015*

Executive Summary

Background

The purpose of the review was to assess the current level of performance of the Internal Audit function against relevant industry / sector best practice where appropriate and professional internal audit standards including the Public Sector Internal Audit Standards (PSIAS).

Our review has included interviews with key business and Internal Audit stakeholders (including Senior Management and the Chairman of the Audit Committee), a review of the Internal Audit function's organisation, methodology and human resource capability and a detailed review of a sample of Internal Audit working paper documentation and reporting.

The internal audit service for Sevenoaks is shared with Dartford Borough Council and this assessment has been undertaken as a joint exercise but is reported separately to each Council. We have considered the context and organisation of the internal audit service at each council separately; this is the key difference between the two reports.

Context

The Dartford and Sevenoaks shared internal audit service

The shared service function has been in operation since April 2010. This is part of a wider partnership incorporating the Benefits and Revenues Function and Anti-Fraud. The partnership created the Audit, Risk and Anti-Fraud team, which is line managed by the Audit, Risk and Anti-Fraud Manager.

The audit team currently comprises 2.8FTE senior auditors who work across both councils, a full time Audit, Risk and Anti-Fraud Manager and 0.6FTE administrative assistant. There are currently two full time vacancies in the team; a senior auditor and a principal auditor, an agency member of staff is supporting the team in the short term. The team work to the same set of protocols and manuals and deliver approximately 630 days of work for each council which covers audit work, fraud, advice, administration and management.

Scope of our work

The scope of our review considered the following elements:

- a) **Organisation and independence** : the way that Internal Audit is structured and supported by the organisation to allow it to deliver its terms of reference;
- b) **Audit Team**: the availability (both in terms of quality and quantity) and management of internal audit resources to allow Internal Audit to deliver its remit;
- c) **Quality Assurance and Audit Management**: the processes and procedures in place to assess risk across the organisation and to develop high level plans for internal audit activities; the processes and procedures in place to ensure the efficient and effective detailed planning and completion of internal audit activities;
- d) **Communication and reporting**: the way that Internal Audit interacts with the organisation and third parties to ensure that the results of the audit are fully understood and appropriately acted upon; and
- e) **Quality, Tools and Performance Management**: to determine whether internal audit has processes and tools to ensure the quality of its delivery, including the appropriate and effective use of technology, sharing knowledge across the function and performance metrics in place to measure the effectiveness of Internal Audit against Stakeholders' objectives.

Overall observations

Areas of strength

- The Audit, Risk and Anti-Fraud Manager has undertaken a self - assessment of the internal audit function against the Public Sector Internal Audit Standards (PSIAS). The results of this assessment have been communicated to the management team and the Audit Committee and the team have an action plan in place to address gaps/ areas for improvement. The team also had an away day to identify further areas for improvement; these were incorporated into the action plan. The assessment and action plan was provided to us as part of this review and a number of the findings in this report are consistent with issues identified in this self-assessment.
- An audit manual and full set of templates is in place which is used by all team members; this supports the team and brings consistency. The team also has a quality management system in place which complies with ISO 9001: 2008. The manual and quality management system are comprehensive in that they cover all aspects of internal audit including the role of audit, independence and ethics, relationships, reporting, strategy, and steps for individual assignments, follow ups and other audit work. Some minor areas for improvement were identified which are detailed in there port below, however the documents in place largely represent good practice and conform with PSIAS.

Our review has identified a number of improvements to processes and procedures which Management and Internal Audit should consider as part of their continuous improvement programme. In particular our interviews with senior stakeholders identified a clear desire for Internal Audit to add more value. On further exploration it was clear that the internal audit function needs to strengthen its relationships with management to ensure that their needs are understood and that the key events, issues and risks the Council is managing are identified and that internal audit can be agile to provide assurance over these. This could include a greater use of internal audit advisory work, where appropriate, to provide ongoing assurance support, which will help to prevent risks crystallising and the objectives of management and the wider organisation being achieved.

Our findings below and the resulting action plan should be considered in accordance with the requirement for greater engagement with management and the need to understand what value from internal audit looks like from the perspective of senior stakeholders.

Significant issues and key areas for improvement

Area 1: Organisation and Independence –we have identified scope for improvement in the following areas; strategy, independence safeguards and updates to the Internal Audit Charter and Service Level Agreement.

Through stakeholder interviews we identified that there is currently a gap between current internal audit delivery and where stakeholders would like the service to be. The Council has changed a lot in recent years and the internal audit service needs to modernise and move on from, what may be seen as, more traditional approaches to audit and find innovative ways of providing assurance and adding value to the organisation. Examples of this could include the greater use of data tools and specialist skill sets to ensure that audit is providing assurance over the most complex and difficult risks that the Council is trying to manage.

This requirement should be captured in an audit strategy or vision to which all of the other recommendations in this report should be linked. There is a need for internal audit to showcase the good work it is doing and importantly the value it can add to the organisation and this strategy and vision is a good way to do this.

Area 2: Audit team – the current audit team are all generalist auditors with no specialisms or training in areas such as IT audit or project audit. A skills assessment of the current team against audit needs of the Council now and in the future should be undertaken.

Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council including filling current vacancies where appropriate. We have also identified areas below where training is needed now (for example application of methodology) to address immediate quality concerns.

In some cases it is not practical or possible to train an in house team to cover all of the specialist areas that an internal audit function needs to look at. Therefore, a review of the operating model is required to determine whether such skills and experience can be sought from within council departments (on a secondment basis), from audit functions at other councils or from private sector internal audit providers.

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Area 3: Quality assurance and audit management – we identified scope for improvement in the following areas; risk assessment and planning; assignment planning; methodology; and review of working papers. A number of these areas should be addressed as a matter of urgency to improve the quality of the audit work delivered by the team:

- **Annual audit planning** - the PSIAS state that internal audit's plan of activity should be based on a documented risk assessment undertaken at least annually. The current audit planning process does not clearly evidence this requirement and we cannot confirm that the audit plan covers all relevant strategic risk areas.
- **Methodology** – we identified areas for improvement in audit protocols and templates used by the team. The key finding in this area was in relation to the application of methodology – auditors did not clearly articulate risks in Audit Briefs and did not clearly identify key controls in place within processes and systems to mitigate risks within audit test papers; training and detailed supervision is needed to improve quality in these areas.
- **Review of working papers** – peer review was in operation at the time of this review; the Audit, Risk and Anti-Fraud Manager did not review all working papers. We identified issues in the quality of audit work based on our file reviews that should have been identified in this review process; this suggested

the peer review process does not provide adequate oversight and challenge. We understand this system is no longer in place; however the new arrangements in place should be reviewed to ensure this provides adequate challenge and oversight.

The current structures and quality assurance process need to be considered as part of any review of the operating model, structure and resource needs of the function.

Area 4: Communication and reporting – we have suggested improvements in communication of audit annual risk assessment; format and content of audit reports; summary reporting; and audit follow up. Follow up results are currently reported based on returns from management; audit confirmation of implementation through review of evidence is not currently up to date or adequately documented.

Area 5: Quality, tools and performance management – we identified areas for improvement in the review process (as mentioned previously), an additional performance indicator that should be tracked (the time between completion of fieldwork and reporting), lack of technology and tools in use (paper files are still used), a lack of knowledge sharing, including of good practices across councils and time taken to complete audits

We found that a time tracking template is in use and auditors should track any delays and seek approval for additional time needed for audits. We reviewed some of these tracking templates and found that explanations were not comprehensive; the audit manager should further investigate the root causes of delays and where explanations are not provided more stringent measures should be considered.

Summary of recommendations

2.1 Organisation and independence

- a) **Strategy and vision** – the Audit, Risk and Anti-Fraud Manager should work with key stakeholders including the Chief Executive and the Strategic Management Team to understand expectations of internal audit; what they want from the service now and in the future. This should be captured in a strategy and vision for internal audit and an analysis undertaken to determine what additional skills and resources are needed to achieve this vision (see further recommendations below on Audit Team).
 - b) **Internal Audit Charter** – a number of improvements should be made as follows:
 - a. The Charter should clearly define the ‘board’ and ‘senior management’ within the Authority;
 - b. Further detail should be included on work undertaken outside of the audit programme and independence safeguards in place to maintain auditor independence;
 - c. The PSIAS state that the Charter should define the role of internal audit in fraud related work; this is not captured in the Charter at present; and
 - d. Reporting in place, including the annual summary report should be noted in the Charter.
 - c) **Service Level Agreement (SLA)** – ongoing operational issues should be resolved as a matter of urgency and the SLA should be updated and finalised to ensure arrangements for the provision of the internal audit service are clear.
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2.2 Audit team

- a) **Skills assessment and training/ development plan**- the Audit, Risk and Anti-Fraud Manager should undertake a skills assessment of the current team against audit needs of the Council now and in the future. Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council.

In some cases it is not practical or possible to train an in house team to cover all of the specialist areas that an internal audit function needs to look at. Therefore, a review of the operating model is required to determine whether such skills and experience can be sought from within Council departments (on a secondment basis), from audit functions at other councils or from private sector internal audit providers.
 - b) **Training** – weaknesses were identified in audit files reviewed, see 2.3.3 and 2.3.4. There are therefore some immediate training needs within the audit team including articulation of risk and identification of controls.
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2.3 Quality assurance and audit management

- a) **Audit risk assessment and planning** – the Audit, Risk and Anti-Fraud Manager should ensure a full risk assessment is undertaken, this should be kept up to date, discussed with senior management and the audit committee and should drive the audit plan.
- b) **Audit scoping/ planning meetings** – these should be mandated in the audit manual and held for all audits to ensure auditors gain a more detailed understanding of the area under review and the key risks. This also helps auditors to build rapport with auditees and manage expectations. The Strategic Management Team should support this approach.
- c) **Content of Audit Brief** – the audit brief should be expanded to include a section on limitations, generic risks should be tailored to the area under review and risks should be clearly articulated. The Audit, Risk and Anti-Fraud Manager should hold a risk session with auditors to help them more clearly articulate risks.
- d) **Identification and assessment of controls** – test papers require auditors to document controls but this requirement is not being complied with. Additional training and guidance should be provided to all auditors to enable them to effectively identify, document and assess controls to mitigate risks in the processes/ systems under review for all risks identified in the audit brief.
- e) **Audit risk assessment and planning** – the Audit, Risk and Anti-Fraud Manager should ensure a full risk assessment is undertaken, this should be kept up to date, discussed with senior management and the audit committee and used to create the audit plan.
- f) **Sample sizes** – sample size guidance should be included in the audit manual to ensure consistency in sample testing across the audit team. Auditors should then justify sample sizes in working papers.
- g) **Review of reports and working papers** – the current review process should be reviewed to ensure adequate challenge, oversight and consistency of all reports and working papers.

2.4 Communication and reporting

- a) **Communication of audit risk assessment** – an audit risk assessment should be undertaken and the results of this should be discussed with relevant stakeholders and then used to inform the audit plan. The audit plan should be presented to the Management team and the Audit Committee in the context of this risk assessment.
- b) **Audit reports** – The Audit, Risk and Anti- Fraud Manager should review the report template and consider including an executive summary, limitations, the period covered by testing and good practice feedback. When reviewing audit reports the Audit, Risk and Anti-Fraud Manager should ensure adequate context is included in the action plans, and that actions are agreed and assigned a responsible officer and implementation deadline.
- c) **Annual report** – the Audit, Risk and Anti-Fraud Manager should review the opinion statement in the

annual audit report and update this to reflect the requirements of the PSIAS.

- d) **Summary reporting** – the Audit, Risk and Anti-Fraud Manager should ensure all relevant KPIs are regularly reported to Strategic Management Team and the Audit Committee.

- e) **Reporting of audit recommendation implementation** - the Audit, Risk and Anti-Fraud Manager should make it clear to the Audit Committee that, at present, reporting of implementation is based on confirmation from the audit owner and no audit follow up procedures undertaken.

- f) **Validation of implementation of audit recommendations** – validation of implementation should be brought up to date as a matter of urgency, test papers should also be created so it is clear what evidence has been reviewed to confirm implementation. Guidance on the level of audit evidence deemed appropriate should also be included in the audit manual.

2.5 Quality, tools and performance management

- a) **Performance metrics** – the Audit, Risk and Anti-Fraud manager should consider more formally tracking time between completion of fieldwork and reporting to ensure audit findings are reported and agreed in a timely manner.

- b) **Time delays** – whilst the Audit, Risk and Anti-Fraud manager has implemented tracking of audit days and auditors are required to provide explanations of additional time/ audit days needed to complete audit work and seek approval, delays are still occurring and explanations are not always sufficiently documented. The Audit, Risk and Anti-Fraud manager should seek to get to the root causes of these delays and incorporating unexplained delays into staff performance appraisals. This also needs to be considered as part of the risk assessment and planning process to ensure that audits are as efficient and effective as possible.

- c) **Audit tools and technology** – the audit team should consider implementing an electronic audit management tool to document audits to enable greater efficiency. They should also commence the use of Idea before knowledge gained through the training is lost and consider what other tools would be useful in the context of the internal audit strategy and vision.

- d) **Sharing knowledge and good practices across councils** - the internal audit team should consider how they can better share knowledge and good practice across the two councils where relevant. This is a key benefit of the shared service that is currently not being fully realised.

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Issues	Proposed Action	Benefits	Imp. Date
<div data-bbox="91 730 136 916" data-label="Page-Header">Page 105</div> <p>1 Organisation & Independence</p> <p>The key objective is to ensure compliance with the PSIA Standards in maintaining Internal Audit independence, whilst at the same time strengthening closer working with management to facilitate and ensure the effective delivery of organisational objectives and management expectations</p>	<p>a) Senior management to review the position of IA within the organisation and address the issue of the CAE, in line with the standards/PWC recommendation. (The requirement is that the CAE should not report to a manager lower than the executive MT).</p> <p>b) ARAFM to amend Internal Audit Charter to reflect PWC recommendations.</p> <p>c) Partnership management to finalise and agree Service Level requirements/expectations and formalised into an SLA in order to clarify both into measureable Input/outcomes</p> <p>d) The ARAFM to update the Internal Audit Strategy to reflect the above, and determine what skills and resources are needed in order to facilitate strengthening of the relationships with senior management and delivery of expectations.</p>	<p>Key benefits are:</p> <ul style="list-style-type: none"> • The credibility of Internal Audit and the assurance process would be maintained (or restored). • Necessary empowerment and recognition, would lead to better motivated team and much improved outcomes • Compliance with the standards, whilst facilitating an added value process to enable IA to deliver on management expectations • Clarity of requirements/expectations • Clarity of direction and improved engagement with senior management, leading to added value outcomes. 	<p>ASAP</p> <p>May 2015</p> <p>ASAP</p> <p>June 2015</p>
<p>2 Audit Team</p> <p>The key issue is to have a competent (suitably qualified); technically sound and accessible audit team, with clear definable roles and individual objectives, supported by credible PIs. A team that understands the issues which are important to</p>	<p>a) Senior management to approve recruitment to fill existing vacancies of Principal Auditor and Senior Auditor Role, in line with attached organisation chart.</p> <p>b) Responsibilities of the CAE and PA to be clearly defined (see organisational chart)</p> <p>c) ARAFM to undertake a skills gap analysis of staff and identify relevant training needs, including delivery methods.</p>	<p>Key benefits are:</p> <ul style="list-style-type: none"> • Adequate staffing resources to deliver professional responsibilities of the service • Clarity of roles and responsibilities to facilitate effective service delivery • Enable ARAFM to better utilise his knowledge and expertise on consultancy, or added value projects. 	<p>May 2015</p> <p>May 2015</p> <p>June 2015</p> <div data-bbox="2136 1054 2181 1326" data-label="Page-Header">Agenda Item 10</div>

Page 106	<p>the organisation and is instinctively sensitive and responsive to senior management expectations, whilst delivering constructive and objective assurance.</p>	<p>d) ARAFM to define precise objectives and relevant PIs to facilitate effective monitoring of individual performance, to enable more precise identification of underperformance, in order to facilitate remedial action.</p> <p>e) Undertake a development day as soon as the new team is in place, in order to reenergise the team and refocus on new ways of working, designed to facilitate the delivery of senior management expectations and added value, as well as the PSIAS.</p> <p>f) SDC management to review accommodation at SDC for hot-desking staff, in order to ensure suitable arrangements to facilitate effective working</p>	<ul style="list-style-type: none"> • Identification of knowledge or skills gap to facilitate remedial action • A team with sufficient levels of technical competence to deliver on senior management expectations whilst demonstrating a credible and objective assurance approach. Thus adding value to the audit process. • A more professional working environment which will facilitate effective team working and improved outcomes 	<p>May 2015</p> <p>May 2015</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Agenda Item 10</p>
3	<p>Quality Assurance & Audit Management</p> <p>The key issue is to ensure a quality assurance process which facilitates or enable compliance with PSIAS and good professional practice, including outcomes which will lead to sustainable improvements and or tangible value for money benefits.</p>	<p>a) The ARAFM to refresh the audit needs assessment by completing a separate comprehensive “Audit Universe” for each Council, supported by a full risk assessment; to be used for future annual audit planning discussions with senior management.</p> <p>b) AFAFM to incorporate key aspects of the PWC report relating to 2.3 of their recommendations.</p> <p>c) The recruitment of a suitably qualified Principal Auditor with clearly defined roles will facilitate improved synergies and resilience; leading to more effective delivery of outcomes and senior management expectations.</p> <p>d) The current ISO accreditation to be discontinued after</p>	<p>Key benefits are:</p> <ul style="list-style-type: none"> • More reliable and up to date information for audit planning • Both Councils will realise quantifiable benefits, which will lead to organisational improvements, or facilitate achievements of Corporate Plan and Service objectives • The External Auditors will be able to place greater reliance on IA • Could lead to less work by EA and lower EA fees • Will lead to a more efficient 	<p>By December 2015</p> <p>May 2015</p> <p>March 2016</p>

Proposed Action Plan

Appendix B

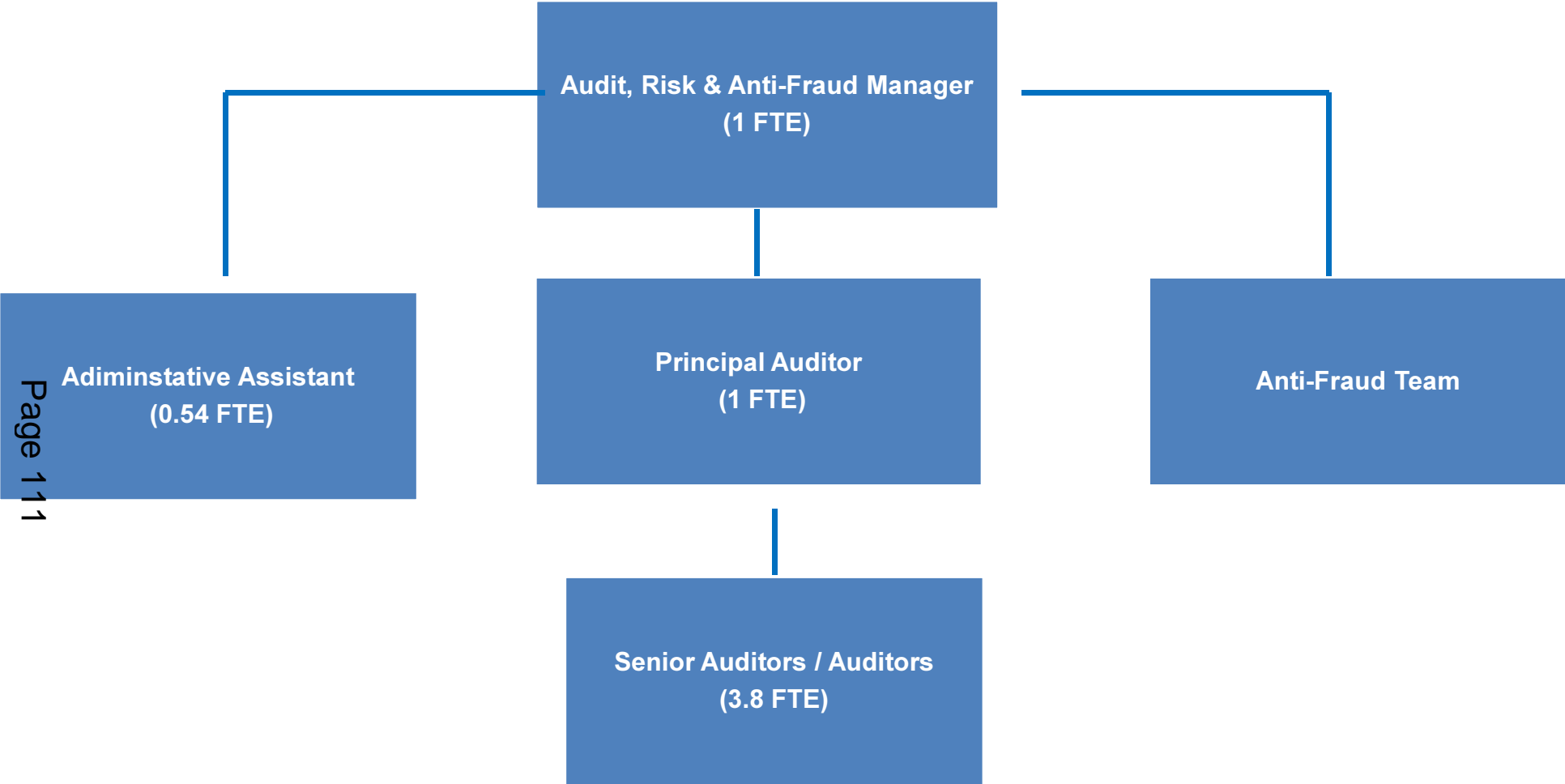
		<p>this year, generating a small financial saving and much greater savings in staff time</p> <p>e) The ARAFM to undertake the SDC Leadership Programme by attending the Masterclasses.</p>	<p>audit process, as current gains are already embedded and continued subscription is now at diminishing returns.</p> <ul style="list-style-type: none"> To acquire greater understanding and knowledge of the requirements, attributes and skills that contributes towards an effective leader 	<p>May 2015</p>
<p>4</p> <p>Page 107</p>	<p>Communication & Reporting</p> <p>The key issue here is to ensure clear, precise, timely and effective engagement with management, in order to enable the scope, objectives and outcomes of Internal Audit work to be understandable to management and also to facilitate a clear understanding of management expectations within the audit process; to enable constructive engagement, including clear and concise reporting of audit findings and recommendations.</p>	<p>a) The Audit Needs Assessment to be presented by the ARAFM to MT and relevant Committees.</p> <p>b) ARAFM to review the report template for audit reports in line with 2.4 (b) of the PWC recommendations</p> <p>c) ARAFM to implement sections 2.4 (c,d and f) of the PWC recommendations, affecting, Annual Report, Summary Report and Validation of Implementation of Audit Recommendations</p>	<p>Key benefits are:</p> <ul style="list-style-type: none"> Improved communication, engagement and understanding of Internal Audit and Assurance requirements by SMT and Audit Committee/Board Improved opportunities for SMT expectations to be communicated to the ARAFM A more robust and effective assurance process, focussing on key aspects to enable added value to be delivered. Auditors will be clear regarding senior management expectations and organisational goals, including their responsibilities to facilitate, improvements in systems and added value. A more efficient audit process, 	<p>January 2016</p> <p>May 2015</p> <p>June 2015</p> <p>Agenda Item 10</p>

			leading to rededications in time spent trying to address disagreements on audit findings. Much improved and incisive recommendations leading to quantifiable and sustainable outcomes.	Agenda Item 10
5	Quality, Tools and Performance Management The key issue here is to facilitate a more efficient and accurate audit process, with clearly measurable outcomes that deliver professional requirements and management expectations.	a) The ARAFM to implement new PIs designed to facilitate speedier completion of IA work. E.g. PI to measure the timescale for delivery of a piece of work, from start to draft report, in addition to total time spent on the engagement activity. b) Management to support more stringent action where there are notable failures to delivery on required performance level (quality or quantity) c) To implement new electronic audit management tool to facilitate a more efficient audit process, including developing the use of IDEA. d) The ARAFM to define more precisely, monitoring responsibilities for the CAE and PA and also agree with SMT what indicators they would find useful, for regular reporting. e) The customer questionnaire to be amended to indicate whether management expectations has been effectively delivered for each engagement activity	Key benefits are: <ul style="list-style-type: none"> • Improved turnaround time for audit reports, leading to more effective assurance process, as issues or risks identified could be addressed more speedily • To discourage underperformance and poor quality. • More accurate and efficient audit process • More precise performance reporting and management, in order to improve individual responsibility and accountability. • To enable customer dissatisfaction to be timely and more accurately 	

			identified, in order to facilitate remedial action	
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Internal Audit Organisational Chart



Summary of Key Responsibilities

Position	Main Duties	Required Qualifications
Audit, Risk & Anti-Fraud Manager (Chief Audit Executive)	To have overall responsibility for delivering the Councils' Internal Audit, Risk and Anti-fraud functions within the shared services partnership between Sevenoaks District and Dartford Borough Councils; and to assume lead responsibility for co-ordinating the management of business risks across both Councils. To facilitate the Councils' delivery of the Public Sector Internal Audit Standards (PSIAS) and the delivery of the Sec 151 Officer's responsibility, in relation to Internal Control by developing an Internal Audit Charter and Strategy and oversee the design and delivery of a risk based audit needs assessment. To provide an objective and evidence based opinion on all aspects of governance, risk management and Internal Control on behalf of both Councils.	Graduate with Full Consultative Committee of Accountancy Bodies (CCAB) or Chartered Member of the Chartered Institute of Internal Auditors (CMIIA).
Principal Auditor (Supervisory Staff)	To supervise Internal Auditors in the delivery of the Annual Internal Audit Plan, providing appropriate technical support to ensure compliance with professional standards and the Internal Audit Charter. To undertake more complicated assurance reviews and investigations as directed by the ARAFM in order to provide assurance to Senior Management and Council in accordance with the PSIAS and professional practice. To assist the Audit, Risk and Anti-Fraud Manager in fulfilling the requirements of the Audit, Risk and Anti-Fraud Service Plan.	Five GCSEs or equivalent, including Mathematics and English Membership of relevant professional body (CCAB, MIIA, PIIA) or actively studying towards a recognised relevant qualification.
Senior Auditors	To provide Internal Audit coverage across both Councils, in accordance with the Annual Audit Plan and PSIAS, conducting specific assignments, using risk based auditing techniques and providing Advice and Guidance to managers and staff in fulfilling the Audit Risk and Anti-Fraud Service Plan, as requested by management.	Five GCSEs or equivalent, including Mathematics and English. Membership of relevant professional body (AAT, PIIA or equivalent) or studying towards a relevant qualification.
Administration Assistant	To work with the Audit, Risk and Anti-Fraud Manager to support the activities of the Audit, Risk and Anti-Fraud Team, by providing administrative support to facilitate the delivery of the audit plan, including collation of performance data.	Good communication, numerical accuracy and organisational skills.

INTERNAL AUDIT ANNUAL REPORT 2014/15

Audit Committee – 23 June 2015

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Searles

Contact Officer(s) Bami Cole Ext. 7236

Recommendation to Audit Committee: That Members:

- a) support the work of the Internal Audit Team for 2014/15; and
 - b) support the Audit Manager's Annual Assurance opinion that the Council had effective internal controls, risk management and governance arrangements in place for delivering its objectives and the management of its business risks.
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Introduction

- 1 This report sets out the achievements of the Internal Audit team in delivering the assurance requirements for the period April 2014 to March 2015. This is the third report of its kind to the new Audit Committee and is in compliance with the committee's terms of reference remit, to review and support the work of Internal Audit in delivering the assurance requirement for the Council.
- 2 The report is prepared in compliance with the Accounts and Audit Regulations 2011, and professional guidance issued by CIPFA. The report also took account of the outcome of the review of the effectiveness of the Internal Audit function which is attached as a separate agenda item for this meeting. Members may note that this report also supports the Council's Annual Governance Statement (AGS) which will also be considered by this committee along with the Statements in June 2015.

Summary of Issues Raised Within the Report

- 3 Details of the activities of the team during the year 2014/15 are attached as an Appendix to this report. Annex 1 to the Appendix sets out details of the work done in completing the annual internal audit plan for 2014/15 and outcome of each review. Annex 2 details summaries of reports issued since the last meeting of this committee.
- 4 In 2014/15 the team completed 17 reviews. This is equivalent to 100% of the revised internal audit plan. The original plan consisted of 20 reviews. This was

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later revised to 17 reviews to reflect changes in assurance requirements. This was approved by Members at the meeting in January 2015. The deferred review was taken forward to the annual audit plan for 2014/15. The three reviews deferred were carried forward and included in the Annual Internal Audit Plan for 2015/16. Paragraph 35 of the attached Appendix sets out the summary of the team's performance indicators for 2014/15.

- 5 Based on the work completed in 2014/15 and other sources of assurance available to the team, the Audit Manager's overall annual assurance opinion is that the Council's arrangements for internal control, risk management, governance and anti-fraud during the period is "effective" (see paragraph 4.1 on page 4 of the Appendix) for regulatory purposes. This opinion will be taken into consideration during the preparation of the Annual Governance Statement.
- 6 Details of the activities of the team during the year are included in paragraphs 5 to 13 of the Appendix and outturn data for performance are set out on pages 7 to 11 of the Appendix.
- 7 In summary, the overall impact of the report is that the team has performed well within its available resources and has met the objective of providing an adequate and effective internal audit and control framework for the Council during the year.

Audit Partnership with Dartford Borough Council

- 8 This is the fifth annual report following the shared services arrangement with Dartford Borough Council for the provision of a joint internal audit service. The audit service has operated well during the year and has produced a satisfactory level of assurance to both councils.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

This report has no additional legal implications other than stated above. The report addresses the risk associated with non-compliance with Accounts and Audit 2011 and public Sector Audit Standards. It is management view that the relevant risks are effectively being managed.

Value for Money and Asset Management

A robust internal audit function contributes to the effective management of the Council and would help mitigate against poor value for money in service provision.

Equality Impacts

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

9. The report sets out the achievements of the Internal Audit Team for the period 2014/15, and concludes that the Council's arrangement for internal control, risk management, governance and anti-fraud are effective. This opinion is based on the work completed by Internal Audit during the year and other available sources of assurance. This Committee is requested to approve the report and support the assurance opinion for the year.

Appendices

Appendix A – Internal Audit Annual Report 2014/15

Background Papers:

[The Accounts and Audit \(England\) Regulations 2011](#)

[Public Sector Internal Audit Standards](#)

[Annual Internal Audit Plan 2014/15](#)

Adrian Rowbotham
Chief Finance Officer

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Internal Audit Annual Report

2014/15



**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2014/15**

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Background

1. This report deals with the outcome of the work undertaken by the Audit Risk and Anti-Fraud Team for the period 2014/15. The report also contains the overall Assurance Opinion of the Internal Audit Manager regarding the effectiveness of the systems of internal controls within the Council for the period 2014/15; and a summary of the reviews carried out, including outturn performance indicators for the period.

Members may note that this is the fifth annual report following the shared services agreement with Dartford Borough Council.

2. The Accounts and Audit Regulations 2011, require local Councils to comply with proper practices regarding their arrangements for internal audit and internal control. This requires compliance with the new mandatory Public Sector Internal Audit Standards which came into effect on 1 April 2013. This report is therefore prepared in compliance with the new standards and the practice notes issued by CIPFA in 2013.

Introduction

- 3 This report sets out the following details relating to the team's service plan objectives for 2014/15:
 - Provides an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2014/15
 - Summarises the outcome of the team's work during 2014/15 with respect to:
 - The Annual Internal Audit Plan for 2014/15
 - Risk Management
 - Annual Governance Statement
 - Assesses Internal Audit performance against a range of performance measures
 - Summarises the result of 2014/15 audit reviews. (Annex 1)
 - Summaries of outcome of the findings and recommendations of reports issued since the last meeting of the committee are attached in Annex 2

Basis of the opinion on the Council's Internal Control Environment

4. The Internal Audit Manager's opinion on the Council's system of internal control environment is substantially based on the work of the Audit, Risk and Anti-Fraud team during 2014/15, details of which can be found in Annex 1 of this report. Other sources of assurance are also taken into consideration in the overall opinion where appropriate.

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4.1. Overall Assurance Opinion

Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; in my opinion as Internal Audit Manager, Sevenoaks District Council's Control Environment, contributes effectively to the proper, economic, efficient and effective use of resources in achieving the Council's objectives. This opinion is based on the work of the Internal Audit Service during 2014-15 and giving regard to the work of the External Auditors and other sources of assurance. By control environment is meant, the entire system that contributes towards, identifying and delivering organisational objectives (In particular, internal control processes, risk management and governance)

Whilst it was identified that management had, in the main, established effective control environment within the areas reviewed by internal audit during 2014-15, there were areas which presented opportunities for further improvement within the control environment , or where compliance with existing controls could be enhanced, to reduce the financial, legal or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.

The control environment is designed to manage risks to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Activities During The Year - Internal Audit

5. The key responsibility of the team is to provide an in-house internal audit service on behalf of the Council.
6. Internal Audit is defined by the new Public Sector Internal Audit Standards 2013, as; "an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes".
7. The original audit plan for 2014/15 contained 20 reviews. During the year the plan was revised to reflect available resources and to take account of risk and materiality in delivering the assurance requirements for 2014/15. Three reviews were deferred which have been included in the annual audit plan for 2015/16. The remaining reviews have all been completed at least to draft report stage. A summary of the outcome of reviews is attached as Annex 1 to this report.
8. The key aspects of our internal control responsibilities are aimed at achieving the following:
 - to ensure adherence to Council policies and directives in order to achieve the organisation's objectives
 - to safeguard assets

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- to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and
 - to ensure compliance with statutory requirements.
9. An additional responsibility is that internal audit works closely with the Council's external auditors in order to minimise duplication and disruption to service. We also share our findings which contribute towards strengthening of internal controls an assurance.
 10. Annex 1 shows a summary of the findings and opinions on individual reviews conducted during the year. Given that some of the audit work was carried out over a year ago, where appropriate, an updated opinion is given to reflect changes over the period and the position as at 26 May 2015.
 11. There were no significant issues arising from the work done with regard to the audit plan. We received a good response to our recommendations to improve control across the organisation. To date departments have implemented 32 (38%) (16, 46% in 2013/14) of our recommendations, immediately following the audit, with action in progress, or have plans to implement the remainder within an agreed timescale.

Prepare the Internal Audit Plan for 2015/16

12. The audit plan for 2015/16 was presented to the Audit Committee in March 2015. The plan is risk based, and reflects the Council's risk profile. At the time of audit planning, operational risk registers were being updated and the strategic risk register was under review by senior management. The internal audit plan is designed to be flexible to the needs of the Council and would therefore be revised as necessary to reflect any changes in risk profiles, or the Council's priorities. Any revisions to the audit plan will be presented to the next meeting of the Audit Committee for approval.

Risk Management

13. During the year substantial progress was made in implementing the new risk management framework. The new risk management Strategy was approved both by the Audit Committee and Cabinet. The strategic risk register is being updated to reflect the key priorities of the new Council, following the May elections. The updated strategic risk register will be presented to this Committee at the meeting in September 2015.

Annual Governance Statement (AGS)

14. Regulation 4 of the Accounts and Audit Regulations 2011 requires the Council to carry out an annual review of its system of internal control; risk management processes and governance arrangements. The outcomes of these reviews are required to be included in an Annual Governance Statement (AGS). The team co-ordinated the information gathering process, which fed into the production of the AGS, and offered advice, guidance and information to Management, in order to facilitate the effective completion of the process. A report on the Annual

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Governance Statement is included in the papers to the June Audit Committee for their consideration.

Other Activities

15. A summary of the non-core activities undertaken by the team is as follows:

- Liaise with the Council's new External Auditors to facilitate closer co-operation and minimise duplication in delivering the assurance requirements for the Council and to strengthen internal control.
- Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives
- The Audit Manager also attended regular finance managers' meetings and Senior Management Group meetings

Audit Approach

16. The following sets out our approach in carrying out our audit responsibilities during 2014/15:

Risk Based System Reviews

17. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:

- up-to-date procedure notes, so that staff are aware of the procedures they should be following
- separation of duties and third party checks, so that staff act as checks on each other's actions
- effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
- reconciliations between financial records and other records held, to confirm the accuracy of the financial records
- access to records is limited to those who are authorised to use it for pursuance of Council business
- effective review of exception reports and other management information

Contract Audit

18. As well as reviewing the Council's Contracts Register, we advise on tendering procedures and compliance with legislation and regulations. We also follow the progress of the contract throughout its life where appropriate and confirm the final accounts have been checked to ensure these are in accordance with the contract and any variation orders. In accordance with guidance from CIPFA, we do not audit final accounts, as we place reliance on the technical staff responsible

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for managing and monitoring the contracts in compliance with Council procedures.

Fraud and Corruption

19. When a loss or potential fraud is brought to our attention or discovered during an audit, we undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we make recommendations to improve controls within the system affected by the loss or allegation. During the year 2014/15 one investigation was undertaken.
20. We work closely with the Audit Commission's National Fraud Initiative (NFI) who provides us with 'fraud warnings' and relevant fraud data throughout the year. Where appropriate, we investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council, as part of the fraud risk management process. During the year we carried out investigations into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

Following up Previous Year's Audits

21. Follow-up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management to address identified weaknesses in internal controls. When we carry out an audit, we follow up on any previous audit recommendations as part of our review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is unsatisfactory, follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

22. Internal Audit's performance over the past year is analysed over a number of factors in order to facilitate continuous monitoring of inputs, outputs and quality, and to maintain high professional standards. Outturn data for performance measures are highlighted below (see pages 8 to 11 below).

Quality Measures

23. *External Audit* – Grant Thornton became the new external auditors in 2012/13. During the year we worked closely with the District Auditor and staff to meet the assurance requirements.
24. The reliance placed on our work by the external auditors reduces both the duplication of audit effort and the total cost to the Council of work done by the external auditors. We will continue to work in co-operation with the external auditors in 2015 to ensure an integrated audit approach.
25. The team is ISO9001 accredited and had a successful review following the last assessment by BSI in August 2014.

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26. *Audit satisfaction questionnaires* – As part of our overall approach to quality, we send a customer questionnaire to all recipients of our reports, who are asked to comment on their satisfaction with the audit process and outcomes. The survey results received so far are summarised in the table below:

Responses to Questionnaires: –

	Question	Yes	%	No	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued	13	100%	0	0%
2	Appropriate staff were interviewed	10	77%	3	23%
3	Audit objectives covered all the relevant issues	11	85%	2	15%
4	I am confident with the accuracy of the audit findings	13	100%		
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback	13	100%	0	%
5b	and my views were adequately reflected in the final report	13	100%	0	%
6a	The final audit report was timely	10	77%	3	23%
6b	and clear and understandable	13	100%		
7a	The audit recommendations in the final report were relevant,	12	92%	1	8%
7b	practical,	12	92%	1	8%
7c	realistic	13	100%	0	0%
8	This audit has added value and/or assurance of adequacy (or not) of internal controls	11	85%	2	15%
9	Did this audit identify any unknown issues	1	8%	12	92%

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Implementation of Recommendations

27. Following our audit all report recipients are asked to complete a monitoring sheet showing whether they agree with the recommendations made and how they plan to implement them. The results are summarised as follows:

Analysis of progress sheets

Recommendations	2014/15		2013/14	
	number	%	number	%
accepted	85	100	35	100
Rejected	-	-	0	0
recommendation implemented	32	38	16	46
implementation in progress	30	35	12	34
implementation planned	23	27	7	20
no action recorded	0	0	0	0

28. In total, we have agreed 85 recommendations to date in 2014/15. The majority of which have either been implemented or are being implemented.
29. The above shows that departments are taking action on 100% of our recommendations.

Input Resources

30. **Staffing** – The team had two vacancies for much of the year, one of which was the Principal Auditor. However, we used agency staff to cover for the vacancies and would be looking to recruit permanent staff to the vacant positions in the coming months.
31. **Sickness levels** – Total sick days for the year for the team was 34 days in 2014/15, averaging approximately 5.81 days.. The sickness levels are skewed by the long term illness of one staff member, who was off for 20 days. Excluding the long term sickness, the average sickness is 2.39 days. The average number of sickness days for the Council as a whole for 2014/15 is 8.65 days.
32. **Training** – Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:
- Internal Audit Development Day
 - Markets Administration Cash Collection System (MACCS)
 - Cedar Financials
 - IDEA
 - NFI
 - Budget Monitoring
 - KAG Conference

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- CIPFA – Audit Conference
- ALARM Development Day
- Ivy soft (In-house on-line training on a range of subjects)

33. The section also participated in the following County Wide and professional group meetings where best practice is discussed and disseminated:

- Kent Audit Group meetings – Heads of Audit
- Institute of Internal Auditors Heads of Internal Audit Forum

Output Measures

Completion of the audit programme:

34. Seventeen reviews out of seventeen within the revised internal audit plan for 2014/15 were completed to at least to draft stage. The original plan consisted of 20 reviews. However, the plan was revised in January 2014 to take account of changes in operational and assurance requirements for the year. Three reviews were deferred and approved by the Audit Committee. These were taken forward to the 2015/16 internal Audit Plan.

Performance measures

35. In 2014/15, the team was measured against the following Pls for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2014/15.

	Measure	Target	Actual 2014/15	Actual 2013/14
1	Percentage of internal audit time spent on direct activity	80% of available time.	89.45%	88%
2	Efficiency of the audit service	95% of draft reports issued within 15 working days of completion of the audit fieldwork.	*75%	89% (16/18)
3	Efficiency of the audit service	95% of audits achieved in allocated days (+10%)	**67%	48% (10/21)
4	Client satisfaction with audits carried out	92% client satisfaction as indicated by the responses to the post audit	96%	89%

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		<i>questionnaires.</i>		
5	<i>Completion of the Internal Audit Plan</i>	95 %	95%	100%

36. * Item 2 is mainly due to the impact of the vacancies.

**item 3 this is much improved from last year, when the impact of long term sickness was evident. However, the use of agency staff to cover for existing vacancies had an initial effect on this indicator, due to the fact that agency staff requires more time to settle down and find their way around the organisation.

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Appendix A - Annex 1 – Summary of Reports Issued During the Year

Audit title	Opinion
IT Security 2013/14	Good/Satisfactory
Planning & Development Control 2013/14	Satisfactory/Satisfactory
Bank Reconciliations 2013/14	Good/Good
Main Accounting 2013/14	Good/Good
Shared Service Recharges 2013/14	Good/Good
VFM Postage Review 2014/15	Good
Building Control 2014/15	Good/Good
Markets 2014/15	Good/Good
Data Protection & Records Management 2014/15	Good/Good
Disabled Facilities Grants 2014/15	Good/Satisfactory
Risk Management 2014/15	Good/Good
Procurement & Contracting 2014/15	Good/Good
Housing Benefits & Council Tax Support 2014/15	Good/Good
Performance Management & Data Quality 2014/15	Satisfactory/Satisfactory
Council Tax/NDR 2014/15	Good/Good
Electoral Process 2014/15	Good/Good
Dunbrik (Green Waste) 2014/15	Good/Good
Key Financial Systems 2014/15	Good/Good
Repair & Maintenance Arrangements 2014/15	Satisfactory/Satisfactory.
Overall Opinion	See opinion on Para 4.1

Note: See annex 4 below for definitions of audit opinions.

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Appendix A – Annex 2 – Summary of Report Findings Since Last Meeting

Review of Council Tax/NDR 2014/15**Issued: 05 March 2015**

Opinion: Control Framework – Good (Previous year - Good)
Compliance with Framework – Good (Previous year - Good)

The purpose of this review was to provide an assurance regarding the effectiveness of the new system for Non Domestic Rates. It assessed its fitness for purpose including maximisation of available income opportunities. It also assessed any new areas for innovation.

To this effect, the following key risks and controls were examined:

- 1) Risk that the Council may not comply with relevant legislation, policy or good practice.
- 2) Risk that the accounting for the Business Rate retention scheme may not be operating correctly.
- 3) Risk that the system for collecting income, including recovery arrangements and over payments, may not be effective
- 4) Risk that rate relief and reductions may not be allocated or accounted for correctly.
- 5) Risk that refunds may not be effectively controlled.
- 6) Risk that fraud and corruption may be undetected.
- 7) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
- 8) Risk assessments may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in seven of the aspects examined, whilst one was partially met in relation to fraud controls (Risk 6).

The opinion of the auditor was that the framework of controls for the NDR system was “good”. Additionally, compliance with the framework was also found to be “good”. This meant that a high level of control framework was in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. There was evidence that the framework of controls were substantially being complied with and the risk management process was considered to be good. Only minor errors or omissions were identified.

The following recommendations were agreed with Management to address the areas where one control was partially met (risk 6) and another could be enhanced (risk 3).

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- The Business Rates team should prepare written procedures covering the processes involved in Business Rates to enable new/inexperienced staff to deal with the workload of the section and to act as a reference for existing staff
 - Internal Audit found a 'dummy' account on the NDR system containing credits of £6,505.91 going back to 2005. Management should investigate the reason for the existence of this account and take necessary steps to transfer the account into the appropriate fund

Members will be advised of the progress in implementing this recommendation in due course.

**Review of Performance Management &
Data Quality 2014/15**

Issued 9 March 2015

Opinion: Control Framework – Satisfactory (Previous review – N/A)
Compliance with Framework – Satisfactory (Previous review – N/A)

The purpose of this review was to provide assurance regarding the effectiveness and accuracy of the Councils arrangements for measuring the performance of service delivery against the Corporate Plan. In addition the review would consider and challenge if the PI data and targets were fit for purpose and relevant in their current form and going forward to enable management to be able to rely upon them as an accurate measure of service performance to enable well informed, appropriate and timely management decisions to be made. This is particularly important given this is the first combined Performance Management & Data Quality review undertaken and the first to cover the period since the Council management restructure in September 2013.

To this effect, the following key risks and controls were examined:

- 1) Risk that Ineffective performance monitoring arrangements leading to inability to achieve the Councils key priorities and objectives.
- 2) Risk that the Council may not comply with relevant legislation, the local plan and good practice.
- 3) Risk that service plans may be inaccurate or not up to date.
- 4) Risk that timetables, deadlines and milestones may not be met.
- 5) Risk of financial Impact (poor performance).
- 6) Risk that fraud or corruption may be undetected and or inaccurate data may be processed and produced by the system.
- 7) Risk that ineffective decision making due to inaccurate or incomplete information.

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- 8) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
- 9) Risk that measuring achievement against targets may be ineffective.
- 10) Risk assessment may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in six of the aspects examined, whilst one aspect was partially met in relation to compliance (Risk 6). The remaining three aspects were found to be partially met in relation to both compliance and framework (Risks 1, 3 & 5).

The opinion of the auditor was that the framework of controls was “Satisfactory”. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. The effectiveness of the control framework was also “Satisfactory” which means occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

Five recommendations were agreed with Management to address the areas where controls were partially met. These relate to risks detailed above where partial compliance was found.

- The Data Quality Statement (DQS) statement needs to be reviewed annually and updated as required. The current document does not reflect the September 2013 restructure and the proposed changes in Transparency to be implemented in June 2014 may also require revision. References to other policies/documents may have been updated and require revision.

In particular with regard to the PI's the next review/update should consider and document common procedures for all Council service areas to comply with the DQS principles of data quality, the roles and responsibilities and the provision of documented assurances with each PI submission that the data provided complies with the DQS requirements. If there are any departures from the DQS however minor they should be formally documented and written into the PI section of the Service Plan each year and all staff made aware of the agreed change/departure.

- Given how fundamentally important the Service Plans are to performance delivery, management and measurement it is recommended that a timetabled process be documented and put in place and detailed on Insite.

It is recommended that the Senior Managers Group ('SMG') take ownership of this timetabled process due to the frequency that they meet guided by the Head of Transformation and Strategy for the review and approval of the Service Plans, PI's and targets. Formal sign off should be evident.

- Given the fundamental importance of the Service Plans to the performance management and risk register assessment of service areas we would recommend that the PI sections be expanded to fully detail each PI so there is a fully documented point of reference to refer to and review each year. This would also

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serve as an annual reminder to staff of their roles and responsibilities and should also trigger a critical annual review if there had been any changes which could impact on the PI or source data. We would suggest the following should be included:

General

- 1) Introduction and reference to the requirement for all indicators (Local Performance Indicators and Management Performance Indicators) and staff compiling/checking to comply with the DQS highlighting the roles and requirements.

For each indicator (LPI and MPI)

- 2) Summary of the indicator, its purpose and importance if not obvious
- 3) The PI officer, data inputter and data checker personnel
- 4) How the indicator is calculated and where the source data is derived from
- 5) Any reliance on 3rd parties for information including agreed deadlines
- 6) How the data is to be reported and by when (standard 15 days)
- 7) Any agreed variations from the DQS with regard to the reporting method/deadlines.

As the indicators will likely remain fairly static each year this should not be too onerous as it would be a one off exercise to document the indicator formally in year 1 followed by a critical annual review as part of the Service Plan and PI/target setting each year thereafter. The annual review would therefore be more informed and should raise questions on the applicability or fine tuning of the indicator(s).

The initial documentation process would also be a valuable exercise in challenging the understanding of the current indicators as to its relevance and current/ongoing applicability.

- The Council quite rightly relies upon Finance to provide financial budget v actual data and commentary for financial performance which is the responsibility of the Finance and Resources Advisory Committee. Most PI's do not provide direct financial information and as a result Cabinet who generally meet before the Finance and Resources Advisory Committee will not be in a position to evaluate the financial impact of poorly performing PI's unless they make specific enquiry referrals to the Scrutiny Committee who meet after the Finance and Resources Advisory Committee. The only exception to this would be if a PI didn't meet a target where service areas would be required to provide accompanying notes but this would not necessarily include any financial evaluation in the notes.

In order to better inform Cabinet when it reviews the PI's we would recommend that when management select relevant PI's each year that consideration is also given to requesting related/linked financial data from the service area. This would only be required if relevant and applicable to adequately assess, measure and review performance particularly if targets are not met. It can be done by the service manager by directly entering accompanying notes to allow management to better understand and be able to make informed and timely decisions on the PI's without the need to make lengthy referrals.

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- The recommendations made in finding one and three should provide greater clarity over the roles and responsibilities and the calculations required for PI's. In addition we would recommend that the Transformation & Strategy team play a more active role in proactively reporting failures to provide the independent data checking assurance signoffs to both Cabinet as part of the quarterly reporting and each month to the service teams. This should reinforce the DQS role and responsibilities requirement and instil a better quality review to eliminate errors and inaccuracies in the data submitted each month/period.

Members will be advised of the progress in implementing these recommendations in due course.

Review of Dunbrik (Green Waste) 2014/15**Issued: 20 March 2015**

Opinion: Control Framework – Good (Previous review - Good)
Compliance with Framework – Good (Previous review - Good)

The purpose of the review was to provide an assurance regarding the effectiveness of internal controls within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies. This review will focus on the systems and arrangements for operational control and service delivery, including carrying out a review of green waste in order to streamline and manage demand of this service.

To this effect, the following key risks and controls were examined:

- 1) Risk that the Council may not comply with relevant legislation, policies or good practice.
- 2) Risk that green waste processes may be labour intensive incurring additional costs.
- 3) Risk that green waste collections may not meet customer expectations, with collections missed or collection days changed particularly after the Christmas/New Year period.
- 4) Risk that Customers subscribing to the annual Service Permit may encounter delays in receiving their garden waste bins after payment has been made.
- 5) Risk that fraud and corruption may be undetected.
- 6) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
- 7) Risk assessment may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in six of the aspects examined, whilst one aspect was not met in relation to framework and compliance. (Risk 2).

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The opinion of the auditor was that the framework of controls for the Green Waste system was “good”. Additionally, compliance with the framework was also found to be “good”. This meant that a high level of control framework was in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. There was evidence that the framework of controls were substantially being complied with and the risks management process was considered to be good. Only minor errors and omissions were identified.

The following recommendation was agreed with Management to address the areas where controls were not met. These relate to risk 2.

To improve efficiency and reduce labour costs, consideration should be given

- Ideally to implement a direct debit system. If this were introduced one letter should be sufficient to advise the customer one month before expiry of the permit that upon renewal the payment will be taken by direct debit. A reminder letter should be sent to customers who opt to pay by alternative methods one month before expiry of the permit.

Second reminder letters and subsequent letters addressed to ‘the occupier’ should be dispensed with.

I.T. to investigate establishing on line payments in addition to the kiosk being enabled to facilitate chip and pin, cheque and cash receipts mapped to the TASK finance codes.

The Head of Direct Services and the Finance and Admin Manager should investigate software options to automate and streamline permits management in place of using Excel spreadsheets in order to enhance service resource that could be allocated to other areas within the service.

Members will be advised of the progress in implementing these recommendations in due course

Review of Electoral Process 2014/15

Issued: 20 March 2015

Opinion: Control Framework – Good (Previous year – N/A)
Compliance with Framework – Good (Previous year – N/A)

The purpose of the review was to provide an assurance regarding the Council’s arrangements for implementing the new requirements for registration of electors and elections and to ascertain fitness for purpose in delivering service objectives and resilience of provision in delivering an effective service.

To this effect, the following key risks and controls were examined:

- 1) Risk that the Council may not comply with the new arrangements, legislation and good practice.

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- 2) Risk that proper plans are not in place.
 - 3) Risk that there is insufficient funding to cover all costs.
 - 4) Risk that there is insufficient public awareness regarding IER.
 - 5) Risk that there is insufficient resources to deal with changes
 - 6) Lack of, or Loss of IT capability
 - 7) Risk that queries may not reach electoral staff timely for effective resolution
 - 8) Risk that the electoral registration process may not be accessible to all
 - 9) Risk that the electoral registration information provided to the public, including key dates, may not be accurate
 - 10) Risk that fraud and corruption may be undetected.
 - 11) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
 - 12) Effective risk assessments may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in eight of the aspects examined, whilst four aspects were partially met in relation to framework and compliance. (Risk 1,2,5 & 12).

The opinion of the auditor was that the framework of controls for the Electoral Process was “good”. Additionally, compliance with the framework was also found to be “good”. This meant that a high level of control framework was in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. There was evidence that the framework of controls were substantially being complied with and the risks management process was considered to be good. Only minor errors and omissions were identified.

The following findings and recommendations were agreed with Management to address the areas where controls were not met. These relate to risks 1, 2, 5 & 12.

- The Electoral Working Group (EWG) consists of the Chief Executive as well as a number of Chief and Senior officers. The meetings are used to discuss progress and important milestones. Although individual officers take their own notes the meetings are not minuted.

Recommendation One

Consideration should be given to ensure that any actions agreed at the meeting should be recorded and distributed as an action list. This will provide confirmation

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and clarity regarding any actions and officer responsibilities, thus contributing to a more effective process.

- In September 2013 the Electoral Commission (EC) issued two new performance standards to support Electoral Registration Officers (EROs) in planning and delivering the transition to IER. These standards are designed to work alongside current EC guidance to manage services throughout the transition.

PS1) Understand the particular challenges in your registration area and develop a plan for engaging with residents which responds to these challenges

PS2) Deliver your implementation plan, monitoring progress and making amendments where necessary.

Testing in this area has established that the challenge of PS1 has been met. An implementation plan, strategy and risk register covering key areas is in place, together with data matching and the assessment of the quality of data. However although part of PS2 has been met regarding implementation which includes the supply of the register. The data and progress available regarding the integrity of registration is limited. This is also the case for public engagement.

Recommendation Two

Detailed IER Application Statistics need to be available regarding the integrity of the register. This should include contextual data demonstrating the scope and scale of the challenges and progress made in response to those challenges.

This would involve the monitoring of statistics such as –

- Number of residents rated red, amber and green following matching against DWP data
- Number of electors not confirmed
- Number of individual invitations to register (ITR) issued to non-confirmed electors

These statistics once reported upon accurately by Xpress will ensure that everyone including managers and officers have a realistic, clear and current picture as to the processes surrounding an individual's registration.

Recommendation Three

Consideration should be given to an Engagement Strategy whereby implementation can be evaluated. When measuring the success or otherwise of public engagement activity (including care homes) the following could be considered.

- Whether there have been increases in the number of people taking action, such as registering to vote

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- Whether positive feedback has been received from participants in a scheme
- Whether people's understanding of the process has increased
- Whether there has been an increase in requests for information

The following mechanisms could be used for collecting evidence to support the evaluation

- Recording feedback from the public at events or via your website
 - Recording the level of responses as a result of the activity
 - Recording the number of enquiries on the subject
 - Recording the number of hits to the website requesting information
 - Recording any feedback provided on social media
-
- An able team is now in place to provide sufficient resources. A full complement of staff has only been in place since November 2014 due to a management retirement and officer resignation. Until then the team has been under resourced whereby they have relied upon occasional assistance from other officers and a temp to keep on top of the work load.
The implementation of these resolutions together with an increased workforce has since seen the work queues reduced dramatically and a steady state of operation. In the run up to the 2015 elections this steady state may not be maintained due to the increase of activities (detailed below) and subsequent workload (detailed below); and the lack of spare capacity due to staff sickness for example.
- Mini canvass (49,000 household notification letters)
 - Influx of registrations and postal vote applications due to parliamentary elections
 - Complexities of verifying electors identities under IER

Recommendation Four

Consideration should be given to recruiting a temporary member of staff to maintain a steady state of operation in the run up to the 2015 elections.

Members will be advised of the progress in implementing these recommendations in due course. Please note that recommendations 1&4 were implemented immediately.

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Review of Key Financial Systems 2014/15

Issued: 5 May 2015

Opinion: Control Framework – Good (Previous year - Good)
Compliance with Framework – Good (Previous year - Good)

The purpose of the review was to provide assurance on the effectiveness of the Council's Key Financial Systems. This was a reduced scope audit, in view of the fact that Key Financial Systems are reviewed annually and the most recent review obtained favourable audit opinions. To this effect, the scope of the review only covered areas which were identified within the Service Risk Register as requiring further assurance. The key aspects covered were the following areas; the new Building Control partnership and its impact, staffing of Finance and level of service and the revised purchase order processing module. The risks for all other financial systems were shown as being suitably mitigated.

To this effect, the following key risks and controls were examined:

- 1) Risk that the Council may not comply with relevant legislation, policies or good practice.
- 2) Risk that controls, processes and procedures may not have been recorded for circulation to relevant staff in relation to new business.
- 3) Risk that budgetary control under-spend may have a detrimental impact on services where staff have maintained the level of service with fewer staff.
- 4) Risk that the revised Agresso purchase order processing system may not have been fully embedded and fully utilised by all users.
- 5) Risk that individual risk registers with revised financial operations may be out of date
- 6) Risk that fraud and corruption may be undetected.
- 7) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
- 8) Risk assessment may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in seven of the aspects examined, whilst one aspect was not met in relation to framework and compliance. (Risk 2)

The opinion of the auditor was that the framework of controls for the Key Financial Systems was "good". Additionally, compliance with the framework was also found to be "good". This meant that a high level of control framework was in place to ensure the achievement of service objectives, good corporate governance and to protect the Council

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against foreseeable risks. There was evidence that the framework of controls were substantially being complied with and the risks management process was considered to be good. Only minor errors and omissions were identified.

The following recommendation was agreed with Management to address the areas where controls were not met. These relate to risk 2.

- During discussions with staff it emerged that no formal processes or procedures have been formulated in respect of the Building Control partnership with TMBC or the new kiosk. Processes and procedures should be formulated and circulated to all relevant staff.

Members will be advised of the progress in implementing these recommendations in due course

Review of Repair & Maintenance Arrangements 2014/15**Issued: 5 May 2015**

Opinion: Control Framework – Satisfactory (Previous year – N/A)
Compliance with Framework – Satisfactory (Previous year – N/A)

The purpose of this review was to provide an assurance regarding the effectiveness of the Council's arrangements for the repairs and maintenance service in delivering Council objectives. This would be the first review following the implementation of a new structure and configuration for the service. To this effect the review will primarily focus on fitness for purpose of the framework and related compliance.

To this effect, the following key risks and controls were examined:

- 1) Risk that the Council may not comply with relevant legislation, policies or good practice.
- 2) Risk that the asset management action plan may not be complete or current.
- 3) Risk that the asset management action plan may not be complied with or monitored.
- 4) Risk that the repairs may not be prioritised or undertaken in order to protect from further damage.
- 5) Risk that the repairs may not be undertaken in a cost effective or safe manner.
- 6) Risk that repairs may not be undertaken by legitimate service providers or using agreed contract arrangements.
- 7) Risk that maintenance and repairs may not be managed within the agreed budgets.

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-
- 8) Fraud and corruption may be undetected.
- 9) Opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
- 10) Risk assessment may not be undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in three of the aspects examined, whilst five aspects were partially met in relation to compliance (Risks 1,2,3,8 and 10). The remaining two aspects were found to be partially met in relation to both compliance and framework (Risks 4 & 7).

The opinion of the auditor was that the framework of controls was “Satisfactory”. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. The effectiveness of the control framework was also “Satisfactory” which means occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

Thirteen recommendations were agreed with Management to address the areas where controls were partially met. These relate to risks detailed above where partial compliance was found.

- Key access, holding and numbering arrangements is reviewed to ensure all keys held and related locations are current, accurate, complete, accessible and clearly marked to enable expeditious entry.
- A scheduled maintenance plan is produced for the principal, key and operational assets in the estate as soon as this is practicable.
- A timetable for arrangements to inspect the structure and condition of the Argyle Road exterior building are included in the building’s planned maintenance schedule.
- Consideration should be given to setting of targets, or similar indicators for the raising of emergency and non- emergency orders.
- Full written procedures should be produced for raising emergency and non-emergency (Agresso) purchase orders and for approving invoices for payment. Such procedures should make adequate provision for the operation of segregation of duties and internal check and cover both routine and also absence-cover arrangements for both the preparer and authoriser of the transaction. Invoices should not be paid unless supported by an Agresso purchase order.
- Repairs and maintenance activity should be recorded and manipulated on the Supportworks system already in place for recording facilities management and IT activity levels.
- A quarterly financial reconciliation should be undertaken between the repairs and maintenance Agresso budget statements and the service’s own internal financial spreadsheet records. This reconciliation should be relatively brief and structured

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for reporting purposes and contain sufficient narrative explanation as well as financial information to account for any differences between the two balances.

- The above reconciliation is signed off by the Service Accountant and Facilities Manager and dated and the evidence of the reconciliation retained on file.
- An annual spending plan is produced and is updated on a quarterly basis alongside the above reconciliation. The plan should be relatively brief, but clearly indicate the ambitions, amount, location and timing of future repairs and maintenance spend across the current financial year.
- Repairs and maintenance cost centres, account codes are reviewed to ensure where different cost centres and codes are used the narrative descriptions used are similarly clear and distinct from one another and duplication is avoided. The use of contingency as an appropriate description could be explored.
- The section has identified a number of single-point dependencies in the team and through the planning and staff appraisal process is now deploying a programme of training, up-skilling and multi-skilling of staff to address this in contingency terms. This issue must be identified as a risk stated on the section's risk register and appropriately managed.
- Risks identified by the section and included in the operational risk register are linked strongly to the 2015/16 service plan.
- The risk of fraud must be included in the sections risk register.

Members will be advised of the progress in implementing these recommendations in due course.

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Appendix A - Annex 3

AUDIT OPINIONS - Definitions

Good	<i>Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.</i>
Satisfactory	<i>Controls exist to enable the achievement of service objectives, obtain good corporate governance, and protect against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.</i>
Adequate	<i>Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council exposed to some minor risks. There is therefore, a need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council.</i>
Unsatisfactory	<i>Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.</i>
Unacceptable	<i>Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.</i>

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Appendix A – Annex 4**Audit Opinions**

Since January 2013 a trial of two audit opinions have been given for each audit review.

Framework. – the systems in place and controls within it.

The first opinion refers to the framework of controls in place to manage the risks. This refers to the controls in place established by management to manage the risks which could prevent the achievement of service objectives. The review of framework is designed to identify areas where there are control gaps, or a need to enhance existing controls. It will then make recommendations for additional or improved controls.

Effectiveness – the effectiveness of the controls in place.

This opinion refers to the effectiveness of existing controls. This refers to the degree of compliance with established controls. Compliance with established controls is what makes a system effective, assuming that the controls are strong enough to facilitate the effective management of identifiable risks and the delivery of objectives. Substantive testing is undertaken to assess the degree of compliance. The higher the degree of compliance, the more effective the system would be in delivering objectives. Testing will identify where controls are not achieving the required outcomes, or where they are not being followed. Recommendations will then be made to either strengthen or enforce compliance with existing controls.

No compliance testing will be undertaken where no framework exists. However, weakness or threat testing may be undertaken, in order to establish the extent of the risk, or the potential loss to the Council.

Additionally, to support this new approach, the opinions have been redefined and the revised definitions are below.

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Opinion	Framework	Effectiveness(Implementation)
Excellent	... innovative frameworks are in place, which demonstrate efficiencies and excellent value for money, whilst ensuring the achievement of service objectives, good corporate governance and high level of protection for the council against foreseeable risks.	... there is full compliance with the framework of controls and the risk management process is considered to be fully effective. There is evidence of notable practice and no areas of concern were identified.
Minimum requirement	All controls are in place	All controls are fully implemented
Good	... a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.	... the framework of controls is substantially being complied with and risk management process is considered to be good. Only minor errors or omissions identified
Minimum requirement	All controls are in place	51% or above of testing results are low and the remainder are medium. Limited room for further development
Satisfactory	... controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks.	... occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.
Minimum requirement	Control requirements are substantially met	Up to 50% of testing results are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration
Unsatisfactory	... limited controls are in place but there are gaps in the process, which leave the service exposed to foreseeable risks. Hence further development in framework is needed to make the system effective.	... there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.
Minimum	Control requirements are patchy	Testing results identified one or

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requirement	and unreliable	more high risk
Unacceptable	... controls are considered to be inadequate or non-existent with the absence of at least one critical control mechanism. An urgent need exists to introduce appropriate level of controls without delay.	<p>... failure to urgently improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.</p> <p>Note: compliance testing in this circumstance may not add value. However, there would be some value in conducting weakness testing in some circumstances to determine the level of “threat” or “loss” to the Council. Hence an opinion for compliance may not be given where the framework is “unacceptable”</p>
Minimum requirement	No evidence of control exits	Testing results identified one or more very high risk.

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ANNUAL GOVERNANCE STATEMENT 2014/15

Audit Committee – 23 June 2015

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

This report supports the Key Aim of Effective Management of Council Resources.

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: It be resolved that the Annual Governance Statement for 2014/15, which accompanies the Council's Accounts be agreed for signature by the Leader of the Council

Reason for recommendation: the committee is required to consider the Council's Annual Governance Statement as part of its terms of reference remit, in compliance with statutory requirements.

Introduction and Background

- 1 Sevenoaks District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded and properly accounted for. In discharging this overall responsibility, the Council has to ensure that it has sound systems of internal controls and good governance arrangements in place to facilitate the exercise of its duties. Additionally, the Council is required to continuously review these arrangements and to ensure that the arrangements are considered by an appropriate body of the Council annually. This report sets out the governance arrangement and the system of internal control which operated during 2014/15 and up to the time of the review.

Ownership of the Annual Governance Statement (AGS)

- 2 The Annual Governance Statement is a corporate document which explains the Council's governance arrangements and the controls it employs to manage the risk of failure to achieve strategic objectives. It is owned by all Senior Officers and Members of the Council. The Council's remit in relation to the Annual Governance Statement process is informed by Regulation 4 of the Accounts and Audit Regulations (England) 2011, of which regulation 4.1 requires that:

“The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of

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internal control which facilitates the effective exercise of that body's function and which includes arrangements for the management of risk"

- 3 The Council is also required to conduct a review, at least once a year; of the effectiveness of its system of internal control and that the statement accompanies the Council's annual accounts. The Council is further required to conduct this process and the preparation of its annual accounts in accordance with "proper practices", In this context, the Council complied with relevant professional codes and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the preparation of the AGS. The involvement of the Audit Committee in the process complies with Regulation 4.2, 4.3 and 4.4 (a) of the Accounts and Audit Regulations 2011.

The Annual Governance Statement Process

- 4 In compiling the Annual Governance Statement a shared approach was adopted, involving Chief Officers, Heads of Service, relevant managers, the Internal Audit Manager, Chief Executive (also as Head of Paid Service and Section 151 Officer) and the Monitoring Officer, prior to consideration and endorsement by Strategic Management Team on 27 May 2015. Additionally, the statement would be required to be certified by signatories of the Leader of the Council and the Head of Paid Service after approval by the Audit Committee.

Outcome of the Process

- 5 The process confirms that the Council has sound systems of internal control and good governance arrangements in place. The only significant governance issue identified is set out in Paragraph 7 of the Governance Statement. Progress on the 2013/14 action plan is attached as an Annex to Appendix A.

Key Implications

Financial

None directly arising from this report.

Legal Implications and Risk Assessment Statement.

No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2011 in regard to the AGS process.

The Council is required to produce an Annual Governance Statement to demonstrate that it has effective internal controls and sound governance arrangements in place throughout the financial year. There is a risk that failure to produce the Annual Governance Statement in accordance with statutory requirements would have negative consequences for the Council. The Statement accompanying this report meets statutory requirements and was produced in compliance with proper practices, giving regard to relevant professional guidance. Hence relevant risk is effectively being managed.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

The Annual Governance Statement (AGS) was prepared in accordance with relevant professional guidance. It demonstrates that the Council had sound governance arrangements in place during the municipal year 2014/15 and in the period leading up to the preparation of the AGS and the Council's Accounts.

Appendices

Appendix A – Annual Governance Statement
2014/15

Background Papers:

- a) [The Accounts and Audit Regulations 2011](#)
- b) Internal Audit Annual Report 2014/15
- c) [Sevenoaks District Council Community Plan 2013 – 2018](#)
- d) [Sevenoaks District Council's Constitution](#)
- e) [Sevenoaks District Council Code of Corporate Governance \(Performance and Governance Committee – 24 June 2008\)](#)

Adrian Rowbotham
Chief Finance Officer

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**Sevenoaks District Council
Governance Action Plan 2013/14**

	Governance Issue	Detailed Action	Lead Officer	Date	Comments
1	Significant Governance Issues There is an on-going regulatory inquiry into the fatal road traffic accident on 13th September 2010 involving one of the Council's road sweeping vehicles. The coroner's inquest determined the cause of death this being a road vehicle accident. Sympathy was extended to family members. The Council is continuing to assist the Health and Safety Executive with their investigations.	Management will continue to monitor and assist the HSE with their investigation and will implement any relevant recommendations arising from the investigation upon its conclusion.	Chief Officer for Environmental & Operational Services	Ongoing	This matter is included in the Annual Governance Statement for 2014/15
2	Issues requiring close monitoring or further development The following areas although not considered as 'significant issues' of concern have been identified as areas requiring close monitoring or further development within the scope of the Governance Statement:				

2.1	<p>New Management Structure</p> <p>The Council's new senior management structure fully came into effect in September 2013.</p>	<p>An impact assessment of the changes will be carried out within a reasonable timescale, to determine the effect of the recent changes in delivering the Council's vision and objectives.</p>	<p>Chief Executive</p>	<p>June 2014</p>	<p>An internal audit review of the new Senior Management Structure was conducted in 2014/15. The draft report has been agreed with senior management. The opinions assessed as Good for Framework and Satisfactory Effectiveness. Relevant actions to strengthen areas identified for further improvement have been agreed with senior management.</p>
2.2	<p>New Governance Arrangements</p> <p>The Council adopted new governance arrangements from the beginning of the 2013/14 municipal year.</p>	<p>The Governance Committee reviewed the new governance arrangements that were introduced at Annual Council in May 2013. Work was undertaken by the Governance Committee Working Group who reported to the Governance Committee throughout the municipal year and two member surveys were undertaken during that time. The Governance Committee then reported to Council in April 2014 and Council approved certain changes to improve the governance arrangements which were implemented on the 13th May 2014 at Annual Council.</p>	<p>Chief Officer Legal & Governance</p>	<p>June 2014</p>	<p>An internal audit review of the new Governance Arrangements was conducted in 2014/15. The draft report is being discussed with senior management. The opinions assessed as Good for both Framework and Effectiveness</p>

2.3	New Public Sector Internal Audit Arrangements The Council has reviewed the implications of the mandatory elements within the new Public Sector Internal Audit Standards 2013 and how these could be effectively implemented within the Council's governance and assurance framework.	The Internal Audit Function has been assessed against the practice guidance notes issued by CIPFA in 2013. The function is found to be substantially compliant with the new standards. Areas for further development have been identified and proposals sent to management for their consideration. A report will be taken to the Audit Committee in June 2014 on the proposals for their consideration	Audit, Risk and Anti-Fraud Manager	June 2014	Done – Action Plan agreed by Strategic Management Team
2.4	Revised Strategic Risk Management Framework The Council's revised strategic risk management framework required senior management endorsement prior to full implementation.	The revised risk management framework has now been considered by senior management. The revised risk management strategy has been approved by both the Cabinet and the Audit Committee. The refreshed strategic risk register will be sent to the Audit Committee for their consideration in June 2014.	Audit, Risk and Anti-Fraud Manager	June 2014	Done.

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ANNUAL GOVERNANCE STATEMENT 2014/15

1. Background

1.1 Further to Regulation 4 of the Accounts and Audit Regulations (England) 2011, the Council is required to produce an Annual Governance Statement (to be published with its financial statements) which sets out its arrangements for delivering good governance within the framework of sound internal controls.

1.2 The Annual Governance Statement (AGS) is a corporate document involving a variety of people charged with developing and delivering good governance including:

- the Leader of the Council and the Chief Executive (Head of Paid Service) as signatories;
- Chief Officers, Heads of Service and relevant managers assigned with the ownership of risks and the delivery of services;
- the Chief Executive who is responsible for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972;
- the Monitoring Officer in meeting statutory responsibilities of ensuring the legality of Council business;
- the Council's Internal Audit function;
- Members (for example, through the committees such as the Governance, Audit, Scrutiny and the Strategy and Performance Advisory Committees); and
- others responsible for providing assurance, in particular Grant Thornton, in their role as the Council's External Auditor.

1.3 Thus the AGS, as a corporate document, is owned by all Senior Officers and Members of the Council. A shared approach was taken in compiling the AGS with the objective of engaging all managers integrally involved in the delivery of services covering the whole authority within the process and also encouraging a high degree of reflection and corporate learning. This increases the statement's significance and encourages managers to objectively assess their responsibilities.

1.4 The system of corporate governance highlighted in the AGS, together with the system of internal control, is reviewed continually throughout the year as part of routine governance and managerial processes; examples being the authority's performance management and risk management frameworks.

1.5 Although corporately owned, the AGS requires internal control assessments/assurance statements from individual Heads of Service and relevant managers, Chief Officers, the Internal Audit Manager, the Head of Paid Service, the

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Monitoring Officer and the Section 151 Officer, all of which were obtained as part of this process.

2. Scope of Responsibility

2.1 Sevenoaks District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded from waste, extravagance or misappropriation. The Council seeks to ensure that its expenditure and activities are transparent and properly accounted for. The Council has a duty under the Local Government Act 1999 to make proper arrangements to secure continuous improvement in the way in which it carries out its functions, having regard to ensuring economy, efficiency, effectiveness and fairness in the exercise of its responsibilities. In discharging this overall responsibility, to ensure its business is conducted in accordance with the law, proper standards and delivering continuous improvements, Sevenoaks District Council is also responsible for ensuring that there is a system of corporate governance which facilitates the effective and principled exercise of the Council's functions and which includes arrangements for the effective management of risk. The Council seeks to conduct these responsibilities within the framework of high quality service provision to enhance and facilitate community wellbeing and engagement.

2.2 The roles of the Chief Executive (as Head of Paid Service), the Section 151 Officer and the Monitoring Officer are defined within Part 13 of the Council's Constitution. The Executive Role of Members is defined within Part 4 of the Council's Constitution.

2.3 Officers and Members are expected to conduct themselves in a proper manner in accordance with the Constitution and both are expected to declare interests that may impact on the objectivity of the Council's decision making process. These interests are held on a register and are reviewed on a regular basis by the Monitoring Officer.

2.4 Sevenoaks District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the Audit, Risk and Anti-fraud Team, or via the Council's website. This statement explains how Sevenoaks District Council has implemented both the code and the requirements of regulation 4(3 & 4) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an Annual Governance Statement.

3. The Purpose of the Governance Framework

3.1 The governance framework comprises the systems and processes, culture and values, by which the authority informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It also seeks to maximise available opportunities in achieving good value for money delivering its objectives and priorities.

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts. Since 14 May 2013, a new governance framework has been implemented which was formalised in September 2013. The changes were subjected to review during the year, which was undertaken by the Council's Internal Audit Service. The review identified that the Council's Governance Framework was effective.

4. The Governance Framework

4.1 The following represent the key elements of the governance framework within Sevenoaks District Council:

- The Council's vision and promises for the period ending in March 2015 were set out in its Corporate Plan, which was revised and updated in November 2013. The Corporate Plan sets out the actions that the Council has committed to undertake to deliver on its promises with progress against these reviewed annually. The Sevenoaks District Sustainable Community Plan covers the period from 2013-28. Every three years the Community Plan is comprehensively reviewed in consultation with residents and other interested stakeholders. A three year action plan is agreed with partners at each review point, with the current action plan covering the period from April 2013 to March 2016. Progress against each of the actions is reviewed quarterly with an Annual Report produced each year. The plans and report can be found on the Council's website, via the following links:

Sustainable Community Action Plan 2013-28 & 2014 Annual Report:

[<http://www.sevenoaks.gov.uk/services/community-and-living/community-plan>]

Corporate Plan:

[<http://www.sevenoaks.gov.uk/services/council-and-democracy/the-councils-vision-and-promises>].

- Both of the existing plans above are subject to considerable Member review and challenge by Cabinet, or the appropriate Select/Scrutiny Committee, the Finance and Resources Group and ultimately by the full Council. The governance arrangements put in place on 14 May 2013, continue to operate well during the year new and also includes an Audit Committee, whose terms of reference is

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consistent with CIPFA standards. . This arrangement will be subjected to review following the election of a new Council at the May Elections. Hence the plans will continue to be scrutinised under existing arrangements and any changes will be considered and determined by the full Council. The promises and priorities within the plans are also cascaded to individuals within the Council through Service Plans and individual action plans via the staff appraisal process.

- Policy and decision-making is facilitated through reports from Officers to Cabinet and Council. Each Cabinet Member has responsibility for a specific portfolio and will take decisions on matters relevant to that portfolio. Each portfolio also has an Advisory Committee which will consider officer reports in advance of them being considered by Cabinet and provide their recommendations on the policy direction or decision making of the Cabinet or Council. The Scrutiny Committee has the opportunity to 'call-in' the decisions of Cabinet and to recommend changes to decisions or policies.
- The Council's Constitution specifies the roles and responsibilities of Members and Officers and the financial and procedural rules for the efficient and effective discharge of the Council's business.
- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) Internal Audit

During 2014-15, the Council's internal audit team worked to an approved annual audit plan and undertook the work in accordance with the Mandatory Public Sector Internal Audit Standards (PSIAS) 2013 which have replaced the CIPFA Code of Practice for Internal Audit in the United Kingdom (revised 2006).

Individual audit reports are produced for relevant management, with copies distributed to the Chief Executive, Section 151 Officer and the relevant Chief Officers. Internal audit reports on the progress of internal audit in delivering the assurance plan are also distributed to the Audit Committee. Periodic reports highlight the results of individual risk-based audit reviews, while the annual report, which contains the Audit Manager's overall assurance opinion, evaluates the overall internal control environment as tested through audit work undertaken in the year. The review of the effectiveness of Internal Audit was assessed in 2014/15 as 'effective' in meeting the requirements of an adequate and effective internal audit service. A number of areas were suggested for further developments. A copy of the report is included in the agenda for this meeting.

An external quality review of internal audit was also undertaken by PricewaterhouseCoopers in December 2014. The review outcome was largely consistent with that of the internal review undertaken by management and also suggested a number of areas for further development. An action plan has been presented to the Strategic Management Team to address the relevant issues raised.

The outcome of the review of the effectiveness of internal audit therefore indicates that the arrangements in place for the provision of an internal audit service are “effective” and delivers good value for money, but it does not yet meet full compliance with the new Public Sector Internal Audit Standards.

b) External Audit

The external audit service is provided by Grant Thornton. The External Auditor’s reports are sent to senior management and Members (via the Audit Committee).

Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations.

The Council’s current financial management was commended in all its recent audit and inspection reports by the external auditors, Grant Thornton, and unqualified opinions were issued in relation to both financial statements and value for money for 2013-14

c) Financial Management

A robust budgetary control system is in place and regular monitoring reports are produced for Chief Officers and the Strategic Management Team, Heads of Services and relevant managers, Cabinet, the Finance Advisory Committee (previously Finance and Resources Advisory Committee). Senior accountants conduct monthly client liaison meetings with responsible budget holders.

d) Performance Management

Monitoring of progress towards the achievement of the Council’s promises and objectives is undertaken through the Council’s performance management system. Performance is monitored monthly and enhanced with commentaries from senior managers where performance is behind target. Strategic information is regularly reported to the Management Team, Cabinet Members, and Advisory Committees.

e) Arrangements for Partnerships

The Council enhances value for money in service delivery through innovative and cost-effective partnership working. The Council engages in extensive discussion and planning to develop efficient working arrangements while protecting quality of services. Decisions to enter into partnership working are supported by a detailed business case and cost-benefit analysis, and are subject to scrutiny and approval by Members. The Council has partnerships in place for the delivery of services relating to Licensing, Revenues and Benefits, Audit and Anti-Fraud, Environmental Health and Building Control.

f) Risk Management

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In January 2015 an internal audit of the new arrangements for risk management brought in during 2013/14 was carried out and assessed the new arrangements as “Good” for both Framework and Effectiveness.

g) Relationships and Ethics

Good co-operative relationships exist between the Council and its external auditors and inspectors and between Officers and Members. Relationships between Officers and Members are guided by a protocol embedded in the Councils Constitution. A written communications protocol has also been established between the Leader and the Chief Executive. The Council has clear Codes of Conduct for Members and Officers embedded within its Constitution, underpinned by a culture of integrity and ethical behaviour. Member conduct is scrutinised by the Standards Committee.

h) Service Delivery by Trained and Experienced People

The Council has a robust recruitment policy and relevant procedures in place. The Council holds Gold and ‘Champion’ status in the Investors in People (IiP) New Choices scheme, conferred by an external inspection regime in December 2012. The Council was one of the first local authorities nationally to achieve this standard in its previous inspection in 2009. Staff appraisals take place annually, including an annual review of service and training plans, training evaluation and recruitment and selection procedures. The Council has designed, delivered and developed a Leadership Masterclass, a bespoke training programme for Managers of all levels within the organisation. The programme consists of 38 modules delivered covering key aspects of modern day management, empowering managers to manage, support and develop their staff to the best of their ability

i) Monitoring Officer

The Council’s Monitoring Officer oversees compliance with laws and statutory obligations. The Monitoring Officer reports to the Council’s Standards Committee. Regular meetings between the two Officers form part of the Council’s governance arrangements. The impact of changes regarding the Council’s new senior management structure was reviewed in 2014/15 by internal audit and the opinions for both framework and effectiveness were assessed as good.

j) Anti-fraud and Corruption

The Council has put in place a fraud and corruption policy, including a new whistle-blowing policy introduced in 2015, which is published on its intranet site. The Council also has a dedicated Benefits Fraud Team and a well-publicised ‘fraud hotline’, available to both staff and members of the public, which allows individuals to report anonymously any suspected cases of fraud and corruption. As part of fraud risk management, all staff and Members are required to complete annual declarations of interests. Appropriate briefings have been made to all staff regarding the Bribery Act 2010. The risks of fraud

and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

The Council's Benefits Fraud investigations team is due to be transferred over to the Department for Works and Pensions (DWP) in February 2016 under the new arrangements introduced by central government. Proposals for an in-house anti-fraud arrangement, post DWP transfer, which will retain experienced staff, have been considered by management and are currently being discussed with the affected staff.

5. Role of the Section 151 Officer

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility to the Chief Executive. An internal audit review of the new senior management structure was completed in 2014/15, as part of the 2013/14 Annual Governance Statement Action Plan. The review concluded that the current arrangements were effective.

5.2 CIPFA has issued a Statement on the Role of the Section 151 Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate the role of the Section 151 Officer. The Council has considered this Statement, and believes that, during the financial year 2014-15, it has complied fully with the governance requirements of the Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution ensure that all the appropriate responsibilities are delegated and reserved to the Section 151 Officer as the Statement recommends.

6. Review of Effectiveness

6.1 Sevenoaks District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the outcome of the work of the Council's internal auditors during the year and by Chief Officers who have responsibility for the development and maintenance of the internal control environment. It also considers comments made by the external auditors and other external review agencies and inspectorates.

6.2 The External Auditor concluded that, for 2014-15, the Council had effective arrangements in place to ensure value for money was achieved. An unqualified opinion was issued in relation to the Council's financial statements. The Council is not aware of any issues arising from the current work being undertaken by the External Auditor.

6.3 Internal audit reports are regularly distributed to the Audit Committee and an Annual Internal Audit Report presented to the Council's Audit Committee, which sets out the Audit, Risk and Anti-Fraud Manager's overall opinion on the Council's internal control, risk management and governance arrangement. The opinion for 2014/15 indicates that the Council's control environment is effective.

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6.4 The Head of Paid Service and Section 151 Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the relevant Codes of Conduct. The issues raised in last year's governance statements and action plan have been all been satisfactorily addressed, or where appropriate, re-stated in this year's AGS as areas to be addressed going forward.

6.5 The Council continues to review and improve its governance arrangements on a continuous basis, as appropriate. Improvements during 2014-15 include the following:

- i). The Council's Monitoring Officer oversees compliance with laws and statutory obligations.
- ii). The Monitoring Officer reports to the Council's Standards Committee and Governance Committee as well as Legal and Democratic Advisory Committee. A Monitoring Officer Report is produced each year which is presented to Full Council.
- iii). Regular meetings between the two Statutory Officers who are responsible for the three Statutory Functions within the authority this being Monitoring Officer, S.151 Officer and Head of Paid Service Function. These meetings form part of the Council's governance arrangements.
- iv). The impact of changes regarding the Council's new senior management structure was reviewed in 2014/15 by internal audit and the opinions for both framework and effectiveness were assessed as good.
- v). As a result of The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 all councils were required to adopt the practice of recorded votes on any decision relating to the budget or council tax at the relevant budget setting meeting of Full Council. As a result of such legislation Standing Orders were amended so as to include provisions requiring recorded votes at budget meetings and this was approved by Council in April 2014.
- vi). The recording of all meetings of Full Council, Development Control and Licensing Hearings was introduced by Full Council in November 2014. In addition following the implementation of The Openness of Local Government Bodies Regulations 2014 the Council's Standing Orders were amended to allow the public to report all meetings via social media of any kind such as tweeting, blogging or via Facebook including the filming of meetings.
- vii). Following the introduction of the Local Government (Electronic Communication) (England) Order 2015 Members were given the option of receiving agendas electronically by nominating an electronic address for delivery.
- viii). The Governance Committee were tasked in April 2014 with continuing to investigate future Governance arrangements in general to allow the newly elected administration in 2015 to consider future governance. Several reports were produced for the Governance Committee during 2014/15 concentrating on the advantages and disadvantages of the

Committee System and the Leader and Cabinet System. This work is on-going and is on the work plan for the Governance Committee in 2015-16.

iX) The issues set out in last year's Governance Statement have been addressed, with the exception of the issue set out in 7.1 below. The updated action plan for 2013/14 is attached as annex to this report.

7. Significant Governance Issues

7.1 It is the recommendation of the Statutory Officers of the Council to include in this statement, that the Health and Safety Executive (HSE) have initiated two charges under the Health and Safety at Work Act 1974 following an incident on the 13th September 2010 where a motorbike rider collided with Sevenoaks District Council road sweeper lorry. The Council is represented by its insurers and are receiving legal representation.

Certification

Signature:Date:.....

Cllr. Peter Fleming (Leader of the Council & Cllr for Sevenoaks Town & St. John's)

Signature:..... Date:

on behalf of Sevenoaks District Council

Dr. Pav Ramewal Chief Executive and Section 151 Officer June 2015

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STATEMENT OF ACCOUNTS 2014/15 – ESTABLISHMENT OF MEMBER WORKING GROUP

Audit Committee – 23 June 2015

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That a Member Working Group be set up to review the 2014/15 Draft Statement of Accounts.

Introduction

- 1 Until 2009/10 it was a requirement of The Accounts and Audit Regulations 2003 that Members' approve the Draft Statutory Statement of Accounts by 30 June following the financial year end and that the Audited Statutory Statement of Accounts be approved by Members by 30 September.
- 2 In 2010/11 these requirements changed and now only the Audited Statutory Statement of Accounts have to be approved by Members by 30 September.
- 3 As the Statement of Accounts are very detailed, the Chairman has suggested that a small working group should be established to review the draft during July.
- 4 The working group should have the authority to recommend changes to the Statement of Accounts ensuring that they still adhere to the statutory regulations, and would report to the September Audit Committee.
- 5 A working group was established last year to review the 2013/14 Draft Statement of Accounts and recommended a number of presentational changes which were incorporated in the Accounts. Members of last years working group were Cllrs. Grint, Mrs Bayley, Brookbank, Fittock, with the Portfolio Holder for Finance & Resources, Cllr. Ramsay and Deputy Portfolio Holder Cllr. Firth invited to attend.

Key Implications

Financial

None directly arising from this report.

Legal Implications and Risk Assessment Statement.

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None directly arising from this report.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Appendices None

Background Papers: None

Adrian Rowbotham
Chief Finance Officer

Audit Committee 2015/16 –Work Plan

	23 June 2015	8 September 2015	12 January 2016	15 March 2016
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Internal Audit 2014/15 - Annual Report Internal Review of Effectiveness of Internal Audit External Review on Internal Audit	Internal Audit 201/16 – 1 st Progress Report Report on Internal Audit recommendations outstanding	Internal Audit 2014/15 – 2 nd Progress Report	Internal Audit 2013/14 – 3 rd Progress Report Internal Audit Plan
Risk Management		Risk Management Training Risk Management Plan including Strategic Risk Register Risk Management Update report		Risk Management Strategy
Accounts and External Audit	Statement of Accounts 2014/15 – set up Member Working Group External Audit - Annual Audit Plan and Update	Statement of Accounts 2014/15	External Audit – Annual Audit Letter	

	23 June 2015	8 September 2015	12 January 2016	15 March 2016
Other	Annual Fraud report Annual Governance Statement Audit Committee Terms of Reference	Members' Allowance Scheme Monitoring		Review of the Effectiveness of the Audit Committee Annual Report to Council