

Internal Audit Annual Report

2015/16



**SEVENOAKS DISTRICT COUNCIL
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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 2015/16. The report also contains the overall Assurance Opinion of the Internal Audit Manager regarding the effectiveness of the systems of the control environment within the Council for the period 2015/16; and a summary of the reviews carried out, including outturn performance indicators for the period. For the purposes of this report, control environment means, the system of internal control, risk management and governance process across the Council.

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

2. The Accounts and Audit Regulations 2015, require local Councils to comply with proper practices regarding their arrangements for internal audit and internal control. This requires compliance with the Public Sector Internal Audit Standards. This report is therefore prepared in compliance with relevant professional standards and the practice guidance notes issued by CIPFA.

Introduction

- 3 This report sets out the following details relating to the team's service plan objectives for 2015/16:
 - Provides an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2015/16
 - Summarises the outcome of the team's work during 2015/16 with respect to:
 - The Annual Internal Audit Plan for 2015/16
 - Risk Management
 - Annual Governance Statement
 - Assesses Internal Audit performance against a range of performance measures
 - Summarises the results of 2015/16 audit reviews. (Annex 2)

Basis of the opinion on the Council's 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 2015/16, details of which can be found in Annex 1 of this report. In addition other sources of assurance, including the work of the external auditors are also taken into consideration in the overall opinion where appropriate.

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4.1. Overall Assurance Opinion on the Council's Control Environment

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 2015-16 and giving regard to the work of the External Auditors and other sources of assurance. Control environment means, 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 an effective control environment within the areas reviewed by internal audit during 2015-16, 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 2015/16 contained 24 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 2015/16. Five reviews were deferred which have been included in the annual audit plan for 2016/17 The remaining reviews were completed at least, to draft report stage. A summary of the outcome of reviews is attached as Annex 2 to this report.

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8. The key aspects of internal audit assurance responsibilities are aimed at achieving the following:
 - to facilitate adherence to Council policies, strategies and directives, including the Council's risk management framework and its Constitution, in order to achieve the organisation's objectives;
 - to safeguard assets from mismanagement, fraud and prevention of bribery and corruption;
 - 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 the control environment and assurance.
10. Annex 2 shows a summary of the 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 31 May 2016.
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 fully implemented 8 (18.6%) (32, 38% in 2014/15) of agreed recommendations, with a further 20 (47%) in progress of implementation and the remainder is due for implementation over the coming months.

Prepare the Internal Audit Plan for 2016/17

12. The audit plan for 2016/17 was presented to the Audit Committee in March and June 2016. 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 the Audit Risk and Anti-Fraud Manger worked closely with the Council's officers risk management group to co-ordinate the implementation of the Council's risk management framework and in particular, to review the Council's strategic risk register. In addition, ongoing advice and support was provided to mangers across the Council,

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including the dissemination of good practice in order to further embed the benefits of effective risk management.

Annual Governance Statement (AGS)

14. The Accounts and Audit Regulation 2015 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 internal audit 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 Governance Statement will be presented to Members by the Chief Finance Officer at the June meeting of the Audit Committee.

Other Activities

15. A summary of the non-core activities undertaken by the team is as follows:
- Liaise with the Council's External Auditors to facilitate closer co-operation and minimise duplication, where appropriate 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
 - Provide ad hoc advice and guidance to management on request in order to further the exigencies of Council business
 - 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 2015/16:

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

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- 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 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 2015/16 one investigation was undertaken. This investigation is still on-going and at a critical stage. Members will be advised further at the appropriate time, following conclusion of the investigation.
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

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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* -. During the year we worked closely with the Council's External Auditors Grant Thornton to facilitate the assurance requirements.
24. The Public Sector Internal Audit Standards requires the Internal Audit Service to carry out an annual self-assessment of compliance with the standards, and an external review by an independent firm every five years. The outcome of this year's review annual review is set out as a separate agenda item at this meeting. The external review was carried out in 2014 and an action plan produced to address areas identified for further improvements. Substantial progress has been made in delivering the action plan. This was reported upon separately by the Chief Officer at the last meeting in March.

Audit satisfaction questionnaires - As part of our overall approach to quality, a customer survey questionnaire is sent to all recipients of internal audit final reports; in order to obtain feedback from audit clients regarding the effectiveness of the audit process and client's perception of the value added to their service. The purpose of this questionnaire is to enable monitoring of the audit process, to provide assurance that individual audit reviews have been conducted in a professional manner; that reported findings and recommendations are soundly based; and that the audit client has been appropriately consulted during the audit process. The survey results received so far are summarised in the table below. To date, 12 questionnaires have been sent out and 7 (58%) have been returned. The analysis of the results demonstrates that there is unanimous consensus on all issues raised regarding the effectiveness of the audit process; and an almost unanimous consensus amongst all managers that the audit outcome added value to their service.

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Responses to Questionnaires: -

	Question	Yes	%	No	%	N/A	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued	7	100%	0	0%	0	0%
2	Appropriate staff were interviewed	7	100%	0	0%	0	0%
3	Audit objectives covered all the relevant issues	7	100%	0	0%	0	0%
4	I am confident with the accuracy of the audit findings	7	100%	0	0%	0	0%
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback	7	100%	0	0%	0	0%
5b	and my views were adequately reflected in the final report	7	100%	0	0%	0	0%
6a	The final audit report was timely	7	100%	0	0%	0	0%
6b	and clear and understandable	7	100%	0	0%	0	0%
7a	The audit recommendations in the final report were relevant,	7	100%	0	0%	0	0%
7b	practical,	7	100%	0	0%	0	0%
7c	realistic	7	100%	0	0%	0	0%
8a	Has this audit added value.	6	86%	0	0%	1	14%
8b	given assurance of adequacy	7	100%	0	0%	0	0%

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	(or not) of internal controls						
9	Did this audit identify any unknown issues	7	100%	0	0%	0	0%

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	2015/16		2014/15	
	number	%	number	%
accepted	43	100	85	100
Rejected	-	-	-	-
recommendation implemented	8	21	32	38
implementation in progress	20	53	30	35
implementation planned	15	26	23	27
no action recorded	-	-	-	-

28. In total, we have agreed 43 recommendations to date in 2015/16. The majority of which, are in the process of being implemented.
29. The above shows that services are taking action on 100% of our recommendations.

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Input Resources

30. *Staffing* - During the year the team had two vacancies, one of which was the Principal Auditor. Temporary agency cover was used for these vacancies for some of the time. The vacancies were filled later in the year. The team has now been fully staffed since November 2015.
31. *Sickness levels* - Total sick days for the year for the team was 18 days in 2015/16, averaging 5.67 days. The average number of sickness days for the Council as a whole for 2015/16 is 9.02 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:
- Team Mate Demonstration
 - MKInsight Demonstration
 - Internal Audit Development Day
 - Excel
 - CIPFA - Introduction to Internal Audit
 - Channel General Awareness
 - KAG (Kent Audit Group) Conference
 - CIPFA - Audit Conference
 - Security Training
 - Disability Awareness
 - Customer Care
 - Leadership Master Classes
 - Coaching
 - Personal Best
 - 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
 - London Audit Group on selected topics

Output Measures

Completion of the audit programme:

34. The original audit plan consisted of 24 reviews. However this was revised to take account of changes in assurance requirements and available resources. The revised audit plan consisted of 19 reviews. All of the 19 reviews in the revised internal audit plan for 2015/16 were completed to draft or final

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stage. Five reviews were deferred and approved by the Audit Committee. These were taken forward to the 2016/17 internal Audit Plan.

Performance measures

35. In 2015/16, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2014/15.

	<i>Measure</i>	<i>Target</i>	<i>Actual 2015/16</i>	<i>Actual 2014/15</i>
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>	89.20%	89.45%
2	<i>Efficiency of the audit service</i>	<i>95% of draft reports issued within 15 working days of completion of the audit fieldwork.</i>	*78%	*75%
3	<i>Efficiency of the audit service</i>	<i>95% of audits achieved in allocated days (+10%)</i>	**50%	**67%
4	<i>Client satisfaction with audits carried out</i>	<i>92% client satisfaction as indicated by the responses to the post audit questionnaires.</i>	99%	96%
5	<i>Completion of the Internal Audit Plan</i>	95 %	100%	95%

36. * Item 2 is mainly due to the impact of two vacancies and the use of agency staff in the interim (2015/16).

**This takes account of the training needs of two new staff (accounting for 42% of auditors) within the team. Their initial assignments were part of their training, as they are both new to the Council and also to local government.

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Appendix A - Annex 1 - Progress Against 2015-16 Internal Audit Plan

PROGRESS AGAINST 2015/16 INTERNAL AUDIT PLAN							Status at 30/05/16
		Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Defer to next year
1	Payments Kiosk	x					
2	Payroll	x					
3	Implementing CIL						x
4	Key Financial Systems	x					
5	Council Tax/NDR	x					
6	Council Tax Housing Benefit		x				
7	Procurement & Contracting						x
8	Agency Staff, Contracting & Consultants						x
9	Environmental Health						x
10	Dunbrik (a) (Special Project)	x					
10b	Dunbrik (b) (Regulatory)	x					
11	Organisational Effectiveness and HR Strategy	x					
12	Projects Regarding Additional Income		x				
13	Peer Service Review Process	x					
14	Members Allowance	x					
15	Corporate Fraud Post DWP Proposals	x					
16	IT Systems	x					
17	Community Grants	x					
18	Economic Development						x
19	Section 106 & Affordable Housing		x				
20	Planning Pre-Applications		x				
21	Corporate & Service IT Applications	x					
22	Car Parks	x					
23	Electoral Service	x					
	Total	15	4	0	0	0	5

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Appendix A - Annex 2 PROGRAMMED AUDIT WORK COMPLETED DURING 2015-16

Audit title	Opinion: Framework/Compliance
Key Financial Systems 2014/15	Good/Good
Repair & Maintenance Arrangements 2014/15	Satisfactory/Satisfactory
Insurance Arrangement 2014/15	Good/Satisfactory
Agency Staff, Consulting & Contracting 2014/15	Good/Satisfactory
Senior Management & Organisational Changes 2014/15	Good/Good
Community Grants 2015/16	Good/Good
Dunbrik Workshop 2015/16	Good/Good
Peer Service Review 2015/16	Satisfactory/Satisfactory
Corporate & Service IT Applications 2015/16	Good/Good
Organisational Effectiveness & HR Strategy 2015/16	Satisfactory/Good
Payroll 2015/16	Good/Good
Members Allowance 2015/16	Good/Good
Car Parking Services 2015/16	Good/Good
IT Systems 2015/16	Good/Good
Key Financial Systems 2015/16	Good/Good
Electoral Services 2015/16	Good/Good
Payments Kiosk 2015/16	Good/Satisfactory
Overall Opinion	See opinion on Para 4.1

Note: See annex 3 below for definitions of audit opinions.

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Appendix A - Annex 2 - DEFINITIONS of AUDIT OPINIONS

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	... there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.

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	development in framework is needed to make the system effective.	
Minimum requirement	Control requirements are patchy and unreliable	Testing results identified one or 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.	... 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.
		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”
Minimum requirement	No evidence of control exists	Testing results identified one or more very high risk.