Appendix A

Annual Internal Audit Report
& Audit Opinion

2017/18

SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2017/18

Contents

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Background

1.   This report deals with the outcome of the work undertaken by the Internal Audit Team, for the period 2017/18. The report also contains the overall Assurance Opinion of the Principal Auditor (Acting as Audit Manager) regarding the effectiveness of the systems of the control environment within the Council for the period 2017/18; 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.

2.   The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for an Internal Audit service.

3.   Financial Management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-

- Responsibility for Internal Control
- Accounting records and control systems
- Internal Audit
- Review of the Internal Control System.

4.   Internal Audit is governed by the Public Sector Internal Audit Standards 2016. This requires compliance with these standards and therefore this report is prepared in compliance with relevant professional standards and the practice guidance notes issued by CIPFA.

Introduction

5.   This report sets out the following details relating to the team's service plan objectives for 2017/18:

- To provide an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2017/18
- Summarises the outcome of the team's work during 2017/18 with respect to:
  o The Annual Internal Audit Plan for 2017/18
  o Risk Management
  o Annual Governance Statement

- Assesses Internal Audit performance against a range of performance measures
- Summarises the results of 2017/18 audit reviews.

Basis of the opinion on the Council's Control Environment

6.   The Principal Auditor's (Acting as Audit Manager) opinion on the Council's system of internal control environment is substantially based on the work of the Audit Team during 2017/18. In addition other sources of assurance, including the work of the external auditors are also taken into consideration in the overall opinion where appropriate.

**Overall Assurance Opinion on the Council's Control Environment**

7.   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 Acting 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 2017/18 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)

8.   Whilst it was identified that management had, in the main, established an effective control environment within the areas reviewed by internal audit during 2017/18, 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.

9.   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.

Activity During The Year

10.   The key responsibility of the team is to provide an in-house internal audit service for Sevenoaks District Council as part of a shared service agreement with Dartford Borough Council.

11.   Internal Audit is defined by the Public Sector Internal Audit Standards 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".

12. The original audit plan for 2017/18 contained 24 reviews. However as a result of raising the profile of Internal Audit requests for 3 additional pieces of work were added to the plan. At the request of management and with approval of the Audit Committee 5 reviews were removed from the plan.

13. A summary of the opinions given for each review is contained in Appendix A – Annex 2 of this report.

14. 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.

15. 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.

16. The table below shows a summary of the opinions for individual reviews from the 2017/18 plan, conducted during the year. It is to note that 36% (8) reviews had an opinion of 'Full Assurance', 23% (5) reviews 'Substantial Assurance' and 23% (5) reviews 'Limited Assurance'. Reviews that have 'no opinion given' was work carried out for information and guidance purposes only. The definitions of audit opinions are given in Appendix A Annex 3 at the end of this report.

Assurance Rating

	Value
Full Assurance	8
Substantial Assurance	5
Limited Assurance	5
No Assurance	0
No Opinion Given	4
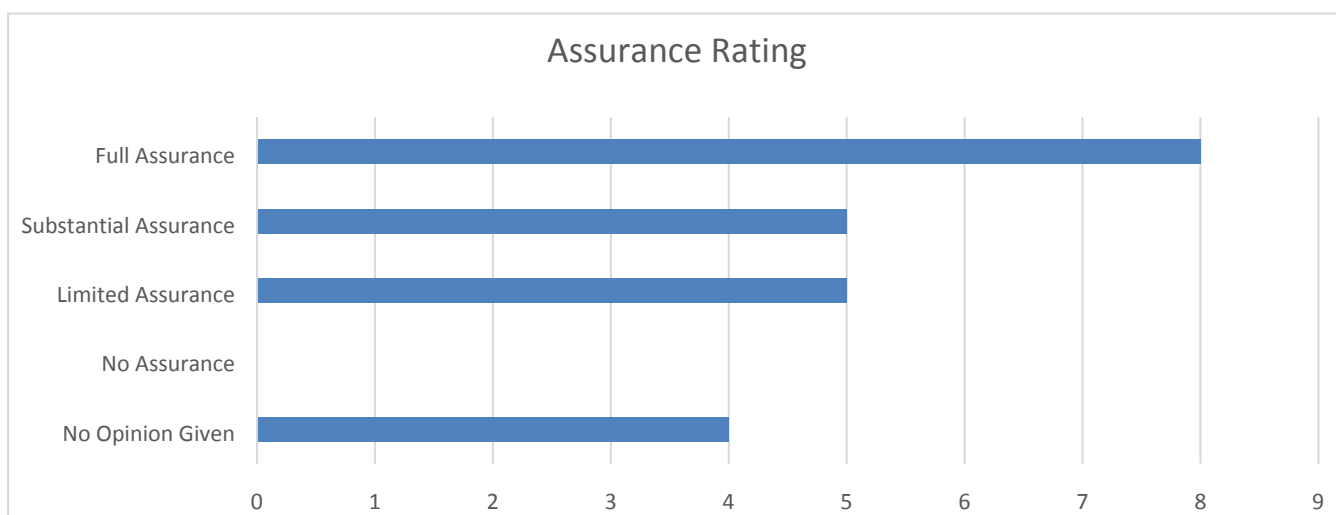
17.   There were no significant issues arising from audit work completed. We received a good response to our recommendations to improve control across the organisation. To date, departments have fully implemented 19 (50%) (3, 15.8% in 2016/17) of agreed recommendations, with a further 8 (21%) in progress of implementation and the remainder are due for implementation over the coming months.

Internal Audit Plan for 2017/18

18.   In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas, are considered based on an audit needs analysis, which evaluates the audit universe used on a scoring system. In order to ensure that the Audit Plan for 2017/18 addressed the Council's key risks and adds value, we have identified and prioritised the areas for coverage by:-

- Reviewing the Council's Risk Registers and Corporate Plan;
- Identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review.
- Analysing coverage of Internal Audit reviews over the last three years and the assurance opinions provided following each review, to identify any gaps or areas where follow up work would be of value.
- Identifying any areas of the Audit Universe, which have not been subject to an Internal Audit review for during the past three years.
- Meetings with Senior Management to discuss key risks and emerging risk areas for the year ahead.

19.   The audit plan for 2017/18 contained 24 reviews and was approved at the Audit Committee in April 2017. The internal audit plan was designed to be flexible to the needs of the Council and was therefore be revised as necessary to reflect any changes in risk profiles, or the Council's priorities. Any revisions to the audit plan were presented to the Audit Committee for approval.

Risk Management

20.   The Council has a well-established risk management process, which is monitored by the Risk Management Working Group. There is a strategic risk register and an operational risk register for each service of the Council. The operational risk process is co-ordinated by the Internal Audit Team.   Risk owners and management monitor the risk registers to ensure they are up to date to ensure that obsolete risks are deleted and new emerging risks are added.

Annual Governance Statement (AGS)

21.   The Accounts and Audit Regulations 2015 require 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 feeds 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 was presented to Members by the Chief Finance Officer at the April meeting of the Audit Committee.

Other Activities

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

- Liaison 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.
- The Principal Auditor also attended regular Finance Managers' meetings and Strategic Management Team meetings.

Risk Based System Reviews

23.   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

Fraud and Corruption

24.   It is not the primary role of Internal Audit to detect fraud, however we have a role in providing and independent assurance on the effectiveness of the

processes put in place by management to manage the risk of fraud. We consider fraud and corruption risks in all of our audit projects. Both the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy had previously been updated by Internal Audit and were approved by the Audit Committee in April 2017. A recent review of the policy and strategy concluded that no further updates or amendments were required.

Whistleblowing Policy

25. The Whistleblowing Policy states that Internal Audit is one route where concerns can be raised with regard to inappropriate or criminal behaviour. During the 2017/18 year there have been no whistleblowing concerns raised with Internal Audit.

Following up Previous Year's Audit Recommendations

26. 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 which address identified weaknesses in internal controls. Whilst carrying out an audit, we follow up any previous audit recommendations as part of the 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 "Limited Assurance or No Assurance", follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

27. 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 10 to 13).

Quality Measures

28. During the year we worked closely with the Council's External Auditors Grant Thornton to facilitate the assurance requirements.

29. The Public Sector Internal Audit Standards require 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 Self-Assessment is to be presented to the Audit Committee in July 2018. An external review was carried out in 2014 and an action plan produced to address areas identified for further improvements. Towards the end of 2017 a follow up review was under taken by PWC which highlighted significant improvements to the Internal Audit Service and that substantial progress has been made in delivering the 2014 action plan.

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. 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 mangers that the audit outcome added value to their service.

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.	20	100%	0	0%	0	0%
2	Appropriate staff were interviewed.	20	100%	0	0%	0	0%
3	Audit objectives covered all the relevant issues.	20	100%	0	0%	0	0%
4	I am confident with the accuracy of the audit findings	20	100%	0	0%	0	0%
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback,	20	100%	0	0%	0	0%
5b	and my views were adequately reflected in the final report.	20	100%	0	0%	0	0%
6a	The final audit report was timely,	20	100%	0	0%	0	0%
6b	and clear and understandable.	20	100%	0	0%	0	0%
7a	The audit recommendations in the final report were relevant,	19	95%	0	0%	1	5%
7b	practical,	18	90%	1	5%	1	5%
7c	realistic,	19	95%	0	0%	1	5%
8a	Has this audit added value.	17	85%	0	0%	3	15%
8b	Given assurance of adequacy (or not) of internal controls.	20	100%	0	0%	0	0%
9	Did the audit identify any unknown issues?	8	40%	12	60%	0	0%

Implementation of Recommendations

30. Following an 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	2017/18		2016/17	
	number	%	number	%
accepted	38	100	50	100
Rejected	-	-	-	-
recommendation implemented	19	50	37	74
implementation in progress	8	21	8	16
implementation planned (Not yet due)	11	29	5	10
no action recorded	-	-	-	-

31. In total, we have agreed 38 recommendations to date in 2017/18. The majority of which, are in the process of being implemented.

32. The above shows that services are taking action on 100% of our recommendations.

Input Resources

Staffing

33. The Principal Auditor had stepped up to the Audit Manager's role to ensure continuity of the audit service.   As a result current staffing resource for the audit partnership with Dartford Borough Council, consists of a Principal Auditor (Acting as Audit Manager) and 3.8 FTE Senior Auditors and an Administration Assistant (0.54 FTE). For the 2018/19 financial year the number of FTE Senior Auditors has reduced to 2.8.

Training

34. 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 (Internal Audit Software) Training
- Various Talent In Me (TIM) Courses provided by SDC

- Insights into Internal Audit Standards (CIPFA Professional Standards and CIPFA Introduction to Internal Audit)
- Ivy soft (In-house on-line training on a range of subjects)
- Attendance at the Local Audit Quality Forum
- Chartered Institute of Management Accountants Annual Conference

35.   The team also participated in the County Wide Kent Audit Group where best practice is discussed and disseminated.

Performance measures

36.   In 2017/18, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance.   The following shows actual performance against targets for 2016/17 and 2017/18.

	Measure	*Target*	*Actual 2017/18*	*Actual 2016/17*
1	*Percentage of internal audit time spent on direct activity*	*80% of available time.*	82.24%	86.43%
2	*Efficiency of the audit service*	*95% of draft reports issued within 15 working days of completion of the audit fieldwork.*	*100%*	*100%*
3	*Efficiency of the audit service*	*95% of audits achieved in allocated days (+10%)*	77%	82.35%
4	*Client satisfaction with audits carried out*	*92% client satisfaction as indicated by the responses to the post audit questionnaires.*	97%	94%
5	*Completion of the revised Internal Audit Plan*	*95 %*	*100%*	*100%*

Appendix A - Annex 1 – Progress Against 2017-18 Internal Audit Plan

	PROGRESS AGAINST 2017/18 INTERNAL AUDIT PLAN				Status at 15/5/18		
		Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Removed from 17/18 plan
1	Community Infrastructure Levy						x
2	IT Acquisitions	x					
3	NDR (Business Rates)	x					
4	Licensing	x					
5	Key Financial Systems	x					
6	Housing Benefit & Council Tax Reduction	x					
7	Property Investment Strategy	x					
8	Discretionary Housing Payments	x					
9	Insurances	x					
10	HERO Project	x					
11	Private Sector Letting Scheme						x
12	Homelessness Prevention**						x
13	Safeguarding	x					
14	Disabled Facilities Grants	x					
15	Vehicle Procurement (Dunbrik)	x					
16	Health & Safety	x					
17	Environmental Health	x					
18	Project - Environmental Health	x					
19	Members Expenses	x					
20	Payroll	x					
21	Operational Changes (Planning)						x
22	Print Studio	x					
23	Quercus7	x					
24	Channel Shift (Phase 1)						x
25	Physical Data Security	x					
26	Tree Preservation Orders	x					
27	Financial Systems at SDC	x					
	Total	22	0	0	0	0	5
	COMPARATIVE POSITION June 2017	21	0	0	0	0	8

Appendix A - Annex 2 PROGRAMMED AUDIT WORK COMPLETED DURING 2017-18

	Audit title	Opinion:
1	Asset Management 2016/17	Substantial Assurance
2	Cash Income 2016/17	Substantial Assurance
3	Car Park Income 2016/17	Full Assurance
4	New Anti-Fraud Arrangements 2016/17	Substantial Assurance
5	Licensing 2017/18	Position Statement no opinion provided
6	IT Acquisitions 2017/18	Substantial Assurance
7	Physical Data Security 2017/18	Limited Assurance
8	Discretionary Housing Payments 2017/18	Full Assurance
9	HERO Service 2017/18	Limited Assurance
10	Disabled Facilities Grants 2017/18	Full Assurance
11	Insurances 2017/18	Substantial Assurance
12	Safeguarding 2017/18	Substantial Assurance
13	Housing Benefits & Council Tax Support 2017/18	Full Assurance
14	Non-Domestic Rates 2017/18	Full Assurance
15	Finance Systems (TASK & Agresso)	No opinion given, report was for advice purposes only
16	Tree Application Decision Making	Limited Assurance
17	Property Investment Strategy 2017/18	Full Assurance
18	Environmental Health Customer Service Questionnaire Process 2017/18	This review was for information and guidance purposes only, and therefore no audit opinion is given.
19	Payroll 2017/18	Full Assurance
20	Members' Expenses	Substantial Assurance
21	Key Financial Systems 2017/18	Limited Assurance

22	Vehicle Procurement 2017/18	Full Assurance
23	The Print Studio 2017/18	Limited Assurance
24	Corporate Health & Safety 2017/18	Full Assurance
25	Quercus 7 2017/18	Substantial Assurance
26	Environmental Health Project 2017/18	This review was for information and guidance purposes only, and therefore no audit opinion is given.
	Overall Opinion	See opinion on Paragraph 7

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

Appendix A – Annex 3 – DEFINITIONS of AUDIT OPINIONS

OPINION	DEFINITIONS
Full Assurance (no High or Medium Risk Recommendations)	A sound framework of control is in place that meets the Council's or service objectives. All expected controls tested are in place and are operating effectively. No specific follow-up review will be undertaken; follow-up will be undertaken as part of the next planned review of the system.
Substantial Assurance (no High Risk Recommendations)	There is generally a sound framework of control in place designed to meet the Council's or service objectives. However, there are isolated weaknesses in design of controls, or inconsistent application of controls, which puts the achievement of a limited number of objectives at risk. Follow up of medium priority recommendations only will be undertaken within 3 to 6 months; follow up of low priority recommendation will be undertaken as part of the next planned review of the system.
Limited Assurance	Weaknesses identified within the framework and there exist evidence of non-compliance with Council procedures or good practice, which puts the achievement of the Council's or service objectives in many of the areas reviewed at risk. Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.
No Assurance	Absent or non-existent evidence of framework; fundamental weaknesses identified within design; operation of key controls has resulted in failure, or could result in failure to achieve the Council's or service objectives in the areas reviewed. Follow-up of high and medium priority recommendations only will take place within 3 to 6 months; follow-up of low priority recommendations will be undertaken as part of the next planned review of the system.