

Internal Audit Annual Report

2010/11

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**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2009/10**

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Background

1. This report covers the outcome of the work undertaken by the Audit and Risk and Ant-Fraud Team for the period 2010/11. The report also contains the overall Assurance Opinion of the Audit Manager regarding the effectiveness of the systems of internal controls within the Council for the period 2009/10; and a summary of the reviews carried out, including outturn performance indicators for the period.

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

2. The Accounts and Audit Regulations (Amendment) 2006, require local Councils to comply with proper practices regarding their arrangements for internal audit and internal control. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) details guidance regarding proper practice in relation to internal audit. This report is therefore prepared in compliance with the CIPFA Code of Practice (CoP).

Introduction

- 3 This report highlights the following details relating to the team's service plan objectives for 2010/11:
 - Provides an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2010/11
 - Summarises the outcome of the team's work during 2010/11 with respect to:
 - The annual audit plan for 2010/11
 - Risk Management
 - Annual Governance Statement
 - Progress on Procurement
 - Assesses Internal Audit performance against a range of performance measures
 - Summarises the result of 2010/11 audit reviews. (Annexe 1)

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

The Internal Audit Manager's opinion on the Council's system of internal control environment is based on the work of the Audit and Efficiency team during 2010/11, details of which can be found in Annex A of this report.

4.1. Overall Assurance Opinion

In my opinion as Internal Audit Manager, Sevenoaks District Council's system of internal control contributes satisfactorily 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 2010-11 and giving regard to the work of the External Auditors.

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Whilst it was identified that management had, in the main, established effective internal controls within the areas reviewed by internal audit during 2010-11, there were areas which presented opportunities for further improvements in internal control or where compliance with existing controls could be enhanced, to reduce the financial 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 system of internal control 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.

- 4.2. The assurance is based on the premise that the system of internal control is designed to manage risk to a reasonable level rather than eliminate risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance regarding the effectiveness of such controls.

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 CIPFA CoP as; “an assurance function that provides an independent and objective opinion to the organisation on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.
7. The audit plan for 2010/11 contained 23 reviews for 2010/11. All of which have been completed, with the exception of one, the review of risk management, which was been taken forward for operational reasons and is currently in progress.
8. The key aspects of our internal control responsibilities are aimed at achieving the following:
- to ensure adherence to management policies and directives in order to achieve the organisation’s objectives
 - to safeguard assets
 - 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 the Council’s external auditors place reliance on our audit reviews in order to minimise the work they undertake

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regarding systems testing. This reduces the Council's total audit costs and keeps duplication between external and internal audit work to a minimum. In order to meet the external auditor's requirements, we aim to test the key controls operating in all major financial system each year

10. Annex 2 shows a summary of 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 2011.
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. Departments implemented 12 (31%) (30/40. % in 2009/10) of our recommendations immediately following the audit, with action in progress or planned to implement the remainder within a reasonable timescale.

Prepare the Internal Audit Plan for 2011/12

12. The draft audit plan for 2011/12 was completed in March 2011 and agreed by Performance & Governance Committee on 19 April 2011. The plan is risk based, and reflects the Council's risk profile. At the time risk registers were being prepared. Thus the plan would be revised as necessary to reflect changes in the operational risk profiles of the Council. Any revisions will be taken to the next Performance and Governance Committee for approval.

Risk Management

13. The team currently co-ordinates the Council's strategic risk register, and updated it during the year to reflect changes and improvements in its presentation. The risk management framework is however under review; in the light of the shared partnership with Dartford Borough Council. To this effect we intend to refresh and update the approach in order to incorporate current developments in risk management.

Annual Governance Statement (AGS)

14. Regulation 4 of the Accounts and Audit Regulations (Amendment 2006) requires the Council to carry out an annual review of its governance arrangements. The team co-ordinated the information gathering process which fed into the production of the AGS and offered advice and information to Management in order to facilitate the effective completion of the process. A report on the Annual Governance Statement is included as agenda item for this meeting.

Summary of Activities/Progress on Procurement

15. The team provided corporate guidance on strategic procurement. During the year. The key activities undertaken during the year are set out in bullet points below. However, in view of the shared services arrangements between

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Sevenoaks and Dartford Councils, we are currently exploring closer working with Dartford Council on procurement, were this would improve quality and value for money.

- Updated the procurement toolkit to include the new EU thresholds
- Developed a comprehensive contract register incorporating the Council's contracts
- Incorporated the Council's contracts into the South East Centre of Excellence (SECE) business portal to enable a more effective management of the contracting process.
- Co-ordinated and supported the work of the Council's Strategic Procurement Group
- Offered advice and information on Procurement, Contracting and Tendering to management and staff as necessary, both to ensure compliance and to maximise value for money
- Network and collaborated with other Kent Councils on Procurement initiatives through the West Kent Partnership

Other Activities

16. The team was part of the Revenues and Benefits shared services arrangement between Sevenoaks and Dartford Councils. As part of the implementation programme, a new joint Audit, Risk and Anti-Fraud Team was formed, incorporating the Benefits Fraud Investigations Team from both Councils.
17. A summary of the non-core activities undertaken by the team is as follows:
 - Liaise with the Council's external auditors and inspectors regarding matters pertaining to internal audit, risk management and procurement
 - KAG – participated in the Kent Audit Group (for heads of internal audit), conference and the Audit Manger acted as chairman for the group in 2010/11.
 - WKC – participated in the West Kent Consortium partnership in exploring areas for procurement efficiencies and closer working
 - Working with three other North West Kent Councils to collaborate and develop procurement initiatives in order to obtain greater efficiencies and a more effective procurement process.

Audit Approach

18. The following highlights our approach in carrying out our audit responsibilities during 2010/11:

Systems Based Reviews

19. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then

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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. The types of controls we expect to be in place are:

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

Contract Audit

20. As well as maintaining the Contracts Register, we advise on tendering procedures and compliance with legislation and regulations. We follow the progress of the contract throughout its life 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.

Fraud and Corruption

21. 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. Our work in this area this year includes:
- Investigation of two cases of suspected irregularity and other special investigations are set out in Appendix A Annexe 4 below.
22. The Audit Commission provides us with 'fraud warnings' throughout the year. Where appropriate, we will investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council. We also liaise with the National Fraud Initiative (NFI) regarding exchange of information to improve fraud monitoring as part of the risk management process. During the year we participated on the biennial NFI data gathering process which commenced in August 2010 and worked closely with the NFI and other Councils in pursuing data matches. This is a major regulatory exercise which aligns with both Councils' Anti-Fraud and corruption strategy. The data collated is processed by the Audit Commission to assess unusual activities which might lead to the identification of fraud or money laundering activities.

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Following up Previous Year's Audits

23. 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.

Internal Audit Section Performance

24. 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 standards. Outturn data for performance measures are highlighted below (see paragraphs 31, 33, 36, 39, 41).

Quality Measures

25. *External Audit assessment* – The Audit Commission became the new external auditors of the Council in 2010. Since then we have worked closely with the District Auditor and his staff to meet the assurance requirements. We also agreed a communications protocol with the Audit Commission which informed and facilitated co-operation and liaison between internal and external audit.
26. 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 with the external auditors in 2011 to ensure an integrated audit approach.
27. *Audit satisfaction questionnaires* – At the completion of each audit, all recipients of our reports are asked to comment on their satisfaction with the audit process, by way of a survey questionnaire. The survey results are summarised in the following table.

Responses to Questionnaires

Question	2010/11		2009/10	
	yes (%)	no (%)	yes (%)	no (%)
Did the audit report give a true and fair view?	100	-	100	-
Was the report constructive and realistic?	100	-	100	-
Did the audit cover the subject	100	-	100	-

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fully?				
Were you satisfied with the content of the report?	100	-	91	-
Did you find the auditor approachable and sufficiently responsive to your queries and comments?	100	-	100	-
Were the recommendations discussed and explained to you or your staff during the audit or before the issue of the report?	100	-	100	-

28. The survey results are excellent and improve upon the previous year's results. We hope to sustain this level of customer satisfaction in the current year.

Implementation of Recommendations

29. Following our audit all report recipients are asked to complete a progress 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	2010/11		2009/10	
	number	%	number	%
accepted	39	100	75	100
Rejected	0	0	0	0
recommendation implemented	12	31	30	40
implementation in progress			41	50
implementation planned	26	67	0	0
no action recorded	1	3	1	1

In total, we made 39 recommendations in 2010/11. Some reports did not receive a recommendation, were the controls were found to be strong (see Appendix A annex 1)

30. The above shows that departments are taking action on 97% of our recommendations.

Input Resources

31. **Staffing** – The team has the full complement of staff agreed in the shared services agreement between Sevenoaks and Dartford Councils.
32. **Sickness levels** – The team has maintained total sickness level of 23 days in 2010/11, averaging less than 4 days (9 days in 2009/10).

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33. **Training** – Training is important to equip staff with the skills they need to provide a quality and effective services, especially in the wake of shared services partnership. Over the past year, team members participated in the training covering the following areas:

- IDEA interrogation audit tool
- Use of Covalent risk management software
- Diversity Awareness
- Information systems auditing
- Time management
- New Agresso system
- Communications workshop
- Ivy soft (IN-house on-line training on a range of subjects)
- Assertiveness
- Disability Awareness
- Risk-Based Internal Auditing
- Stress Awareness
- Shared Services Architecture
- Professional briefings and workshops run by the Institute of Internal Auditors

In addition to the above, the trainee auditor successfully completed the examinations module of the Institute of Internal Auditors.

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

- Kent Audit Group meetings – Heads of Audit
- West Kent Procurement partnership
- London Risk Management Group

Shared Services Agreement

35. This is the first annual report following the shared services arrangement with Dartford Borough Council for the provision of a joint internal audit service. The audit service is based at Dartford Council and has operated well during the year. A joint Audit Charter and Audit Strategy were approved by the Performance and Governance Committee in November 2011. During the year, all auditors from both councils were given the opportunity of experiencing working at both sites and have contributed to developing best practices from this experience, thus contributing towards a more effective assurance process. As part of the arrangement the team now also have lead role for risk management within Dartford Borough council. A review of requirement is currently being undertaken, in order to facilitate proposals to management which would be presented to the Performance and Governance Committee for consideration at the next meeting.

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Output Measures

Completion of the audit programme:

36. Twenty two (96%) of the 23 reviews identified within the audit programme for 2010/11 were completed. A minimum of 90% of the planned programme is required to be completed in order to obtain an adequate assurance opinion. The review not undertaken (Risk management Review) was carried forward to the 2011/12 Audit Plan and currently in progress.

Performance measures

37. In 2010/11, we were measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows our actual against our target performance for 2009/10.

	Measure	Target	Actual 2010/11	Actual 2009/10
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>	78%	80%
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>	100%	92%
3	<i>Efficiency of the audit service</i>	<i>95% of audits achieved in allocated days (+10%)</i>	90%	92%
4	<i>Client satisfaction with audits carried out</i>	<i>92% client satisfaction as indicated by the responses to the post audit questionnaires.</i>	100%	99%

38. The performance figure for one above is affected by the transition phase during the shared services arrangement as there was some disruption and down time caused during initial staff consultation meetings and subsequent office moves. However overall performance did not suffer much, despite the transformational change undergone by staff within the service.

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Appendix A - Annex 1

PROGRESS AGAINST SDC 2010/11 INTERNAL AUDIT PLAN						Status at 13/6/11	
	System audited	Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Possibly defer or cancel
1	Annual Governance Statement	✓					
2	Budgetary Control	✓					
3	Cash and Bank Reconciliation	✓					
4	Community Engagement	✓					
5	Concessionary Fares	✓					
6	Corporate Property	✓					
7	Council Tax and NNDR	✓					
8	Creditors	✓					
9	Debtors	✓					
10	Housing & Council Tax Benefits	✓					
11	Impact of Budget Constraints on Services	✓					
12	IT Implementation & Security Arrangements	✓					
13	Main Accounting System (✓					
14	New Auditor Arrangements	✓					
15	Payroll	✓					
16	Performance Management	✓					
17	Planning	✓					
18	Procurement	✓					
19	Project Delivery	✓					
20	Risk Management & BCP			✓			
21	TASK Systems & Dunbrik Depot	✓					
22	Treasury Management	✓					
23	Use of Natural Resources	✓					
Total		22	0	1	0	0	

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Appendix A - Annex 2

Audit title	Opinion
Annual Governance Statement	N/A
Budgetary Control	Good
Cash & Bank Reconciliations	Good
Community Engagement	Good
Concessionary Fares	Good
Corporate Property Management	Satisfactory
Council Tax/NNDR	Good
Creditors	Satisfactory
Debtors	Good
Housing & Council Tax Benefits	Good
Impact of Budget Constraints on Services	Good
IT Implementation & Security Arrangements	Satisfactory
Main Accounting System	Satisfactory
New Auditor Arrangements	N/A
Payroll	Good/Satisfactory
Performance Management	Good
Planning	Satisfactory
Procurement	Satisfactory
Project Delivery Arrangements	Satisfactory
TASK Systems & Dunbrik Depot	Satisfactory
Treasury Management	Good
Use of Natural Resources	Satisfactory

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Appendix A - Annex 3

AUDIT OPINIONS - Definitions

- Good** *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.*
- Satisfactory** *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.*
- Adequate** *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.*
- Unsatisfactory** *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.*
- Unacceptable** *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.*

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Appendix A - Annex 4

Summary of Special Investigations and Irregularity work for 2010/11

Description of Tasks	Work Carried out and Results
Special Investigations allegation of misuse of overtime	Internal Audit was requested by management to look into concerns regarding overtime claims following an allegation regarding over-claims. A further complaint was received by an external customer regarding over charge for services which was linked to the same team. The investigation determined that there was some substance to the allegations. The available evidence was reported to management for further action.
Review of Customer complaints investigation	<p>Internal Audit was requested to review the complaints process undertaken by the Council's complaints procedure regarding several allegations of unfair treatment in relation to Council Tax Benefits by a member of the public. The complaints had already been through the Council's complaints process and were not upheld. However, as the complainant remained unsatisfied and continued to make further allegations, management requested internal audit to have an independent look regarding how the process was conducted and also to offer an opinion regarding the substance of the complaints.</p> <p>The review concluded that the Council's complaints procedure was properly implemented by officers in the way the complainant's complaints were dealt with and that the allegations were not supported by available evidence.</p>
NFI Data Requirements	The team worked with the Audit Commission's, National Fraud Initiative to process data required to identify fraud. This exercise is carried out every 2 years and has been very successful. Reports are produced by the Audit Commission detailing data matches which are further investigated locally. The matches are produced where fraudulent activity is suspected. This could be a number of areas from ineligibility to claim benefits to duplicate payment of creditor invoices. Currently 1254 out of 1621 matches have been cleared. The remaining cases are being investigated with approx £7k currently in recovery, although this is expected to rise following further investigation results.

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Statistical Returns to the DCLG	We liaise with the DCLG and respond to requests for information and statistics regarding procurement. There are no major issues to report regarding this matter.
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