

15 March 2016 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks
Despatched: 07.03.16



Audit Committee

Membership:

Chairman, Cllr. Grint; Vice-Chairman, Cllr. Brookbank
Cllrs. Clack, Dyball, Edwards-Winsor, Layland, McArthur, Purves and Reay

Agenda

	Pages	Contact
Apologies for Absence		
1. Minutes To agree the Minutes of the meeting of the Committee held on 12 January 2016 as a correct record.	(Pages 1 - 6)	
2. Declarations of Interest Any declarations of interest not already registered.		
3. Actions from Previous Meeting (if any)		
4. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)		
5. Internal Audit 2015/16 - 3rd Progress Report	(Pages 7 - 18)	Bami Cole Tel: 01732 227236
6. Annual Internal Audit Plan 2016/17	(Pages 19 - 42)	Bami Cole Tel: 01732 227236
7. Internal Audit Strategy 2016/17	(Pages 43 - 68)	Bami Cole Tel: 01732 227236
8. External Review of Internal Audit - Update	(Pages 69 - 78)	Bami Cole Tel: 01732 227236

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|-----|--|------------------|---------------------------------------|
| 9. | External Auditor Relationship and Future Appointments | (Pages 79 - 84) | Adrian Rowbotham
Tel: 01732 227153 |
| 10. | Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2015/16 | (Pages 85 - 94) | Bami Cole
Tel: 01732 227236 |
| 11. | Draft Audit Committee Annual Report 2015/16 | (Pages 95 - 98) | Cllr. Grint |
| 12. | Work Plan | (Pages 99 - 100) | |

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.

If you wish to obtain further factual information on any of the agenda items listed above, please contact the named officer prior to the day of the meeting.

Should you need this agenda or any of the reports in a different format, or have any other queries concerning this agenda or the meeting please contact Democratic Services on 01732 227247 or democratic.services@sevenoaks.gov.uk.

AUDIT COMMITTEE

Minutes of the meeting held on 12 January 2016 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)
Cllr. Brookbank (Vice Chairman)
Cllrs. Brookbank, Dyball, Edwards-Winsor, Layland, McArthur and Reay
Apologies for absence were received from Cllrs. Clack and Purves
Cllr. Dr. Canet was also present.

26. Minutes

Resolved: That the minutes of the Committee held on 8 September 2015 be agreed and signed as a correct record.

27. Declarations of Interest

There were no additional declarations of interest.

28. Actions from Previous Meeting

The actions from the previous meeting were noted.

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

The response from Cabinet was noted.

CHANGE IN AGENDA ITEM ORDER

With the agreement of the Committee, the Chairman brought forward consideration of agenda item 11 to after agenda item 7.

30. External Audit - Housing Benefit Subsidy 2014/15

The Chairman welcomed Mr. Geoffrey Banister from Grant Thornton, the Council's External Auditors, to the meeting.

The Chief Finance Officer introduced a report which explained that Grant Thornton, as the Council's external auditor, was required to certify certain grant claims submitted by the Council. The certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding. Only one claim was certified for 2014/15, the Housing Benefit Subsidy Claim, relating to expenditure of £30m. Errors were identified in the 2014/15

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Audit Committee - 12 January 2016

return; however the number of errors continued to reduce each year. This reflected the measures taken to update the system, increased training and the quality assurance process. Although the impact of the errors on the value of the overall claim was minimal, it was important to claimants that their benefit was calculated correctly. The Department for Work and Pensions (DWP) stipulated high standards of accuracy, resulting in any claims being incorrect by as little as 1p being classified as errors and additional testing then being required on a larger sample. The Chief Finance Officer confirmed that any errors identified by the sample were corrected.

Mr Bannister advised that the audit fee for grant claims in 2014/15 was approximately £18,000 (subject to confirmation). This was more than originally estimated but less than the £19,000 charged in 2013/14, £20,638 charged in 2012/13 and £51,662 charged in 2011/12.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the report be noted.

31. External Audit - Annual Audit Letter 2014/15

The Chief Finance Officer presented the Annual Audit Letter 2014/15 which restated the findings of the external audit of the Statement of Accounts presented to the Committee on 8 September 2015. Mr. Bannister from Grant Thornton explained that an unqualified audit opinion had been provided on the Statement of Accounts, though there was scope to improve the disclosure notes. An unqualified opinion had also been given for the Council's Value for Money arrangements, which had been a continued strength for the Council. Grant Thornton had no issues to highlight from the Council's part in the Whole of Government Accounts.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the report be noted.

32. Statement of Accounts 2015/16 - Preparation Update

The Head of Finance presented a report which explained the changes that were taking place in the Finance Team to produce an improved Statement of Accounts for 2015/16. The Finance Team was to be restructured, creating a Principal Financial Accountant role with responsibility for some elements of the final accounts while a new Finance Systems Team would be created, allowing more of the accountants' time to be released to undertake financial accounting. Savings from the level of the Audit Fee were to be used to improve quality control in the Statement of Accounts.

In response to a question from the Chairman, the Head of Finance confirmed that from 2018 the draft Statement of Accounts would have to be prepared by May rather than

June. Any Audit Committee Working Group to consider the Statement of Accounts would therefore have to meet in June rather than July.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the report be noted.

33. Anti-Fraud Team Update

The Anti-Fraud Manager presented a report which set out the achievements of the Anti-Fraud Team between April 2015 and November 2015 and outlined the proposed re-structure of the Anti-Fraud Team in light of the creation of the Single Fraud Investigation Service within the Department for Work & Pensions.

He explained that the Team were on course to match the record levels of benefit fraud discovered and had already discovered more Council Tax Support fraud than in the whole of 2014/15. The Council would lose all powers in respect of benefit fraud investigation which would pass to the Single Fraud Investigation Service on 1 February 2016. The Council had considered the need to retain a Counter-Fraud Team to protect the tax base. The new team would be smaller than the existing Anti-Fraud Team and would report to the Head of Revenues & Benefits. It would be responsible for all external local government fraud including fraud on Council Tax Support, discounts and exemptions. Though relocating to Sevenoaks, the team would retain hot desks at Dartford Borough Council.

In response to questions the Anti-Fraud Manager confirmed that he had contacted Kent County Council, asking for financial support for the Counter-Fraud Team.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the content of the report, the work of the Anti- Fraud Team between April 2015 and November 2015 and the proposed re-structure of fraud investigation resources in February 2016, be noted.

34. Internal Audit 2015/16 - 2nd Progress Report

The Audit, Risk and Anti-Fraud Manager presented a report which set out progress of the Internal Audit Team in delivering the Council's assurance requirements for 2015/16 and provided a summary of final reports issued since the meeting of the Audit Committee in September 2015. Of the four final reports issued since the last meeting of the Committee, three had Good opinions while one was Satisfactory. Since the Committee report was published, all audit reviews had been allocated to Auditors. The team was also making steady progress in implementing the improvement action plan agreed by the Audit Committee in June 2015.

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He drew Members' attention to the five items on the Audit Plan proposed to be deferred until the following year. The decision on which reports to defer was based on how recently they had been assessed, available capacity and whether deferral would impact the audit assurances that could be given at the end of the financial year.

Responding to Members' questions, the Audit, Risk and Anti-Fraud Manager confirmed that five reviews were being deferred because the team was understrength for much of the year, but the reviews would not be cancelled as they would be included in the 2016/17 Plan. He expected that the remaining reviews in the Plan would be fulfilled as the team was now fully staffed.

The Chairman enquired about the review of Peer Service 2015/16, which had been given Satisfactory opinions for Control Framework and Compliance. The Audit, Risk and Anti-Fraud Manager advised the scheme was innovative and helped spread best practice but was only in its first year of operation and so there was room for further development of the process to make it more effective.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That

- a) the contents of the report and the progress made by the Internal Audit Team in delivering the 2015/16 Annual Internal Audit Plan, be noted; and
- b) the amendments to the Internal Audit Plan 2015/16 as set out in Appendix A to the report, be approved.

35. Report on Internal Audit Recommendations Outstanding

The Audit, Risk and Anti-Fraud Manager presented a 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 30 November 2015. The report also informed the Committee where implementation dates had been revised, or where agreed recommendations had not been implemented. There were seven outstanding recommendations, of which five were low risk and two were medium risk.

Members enquired whether the Audit, Risk and Anti-Fraud Manager was satisfied with the progress made on implementing recommendations. He confirmed he had been working closely with managers and there had been some operational difficulties which had an impact on timescales, however only two were medium risk while the others were low risk.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That

- a) no further information or explanation was required; and
- b) the reasons for delayed implementation be noted, and the revised dates for implementation provided by management be endorsed, as set out in Appendix B to the report.

36. Internal Audit Charter

The Audit, Risk and Anti-Fraud Manager introduced a report which proposed an updated version of the revised Internal Audit Charter which incorporated recommendations made within the external quality review report carried out by PwC in 2015, in order to comply fully with current best practice. The Internal Audit Charter was a key document, which detailed the way Internal Audit would conduct or govern itself, in fulfilling its assurance remit. In particular, it set out the Purpose, Authority, Scope and Responsibilities of Internal Audit. He tabled a [schedule of issues raised by PwC and details of the amendments](#) made to the Charter addressing the issues.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the contents of the report be noted, and the revised Internal Audit Charter approved.

37. Work Plan

The Chief Finance Officer explained that a survey would be sent to Members of the Committee in advance of the next meeting to assist with the report on the Review of the Effectiveness of the Audit Committee.

The work plan was noted.

THE MEETING WAS CONCLUDED AT 8.00 PM

CHAIRMAN

INTERNAL AUDIT 2015/16 - THIRD PROGRESS REPORT

Audit Committee - 15 March 2016

Report of Chief Finance Officer

Status: For Consideration

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

Recommendation to Audit Committee: That Members note the contents of the report and the progress made by the Internal Audit Team in delivering the 2015/16 Annual Internal Audit Plan.

Reason for recommendation: The Audit Committee is required to review the progress of the Internal Audit Plan and approve amendments to the Annual Plan in compliance with its terms of reference.

Introduction

- 1 This report provides details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2015/16 and outcomes of final Internal Audit reports issued since the meeting of the committee in January 2016.
- 2 The Internal Audit function is a key process of the Council's overall governance arrangements. Its key purpose is to conduct independent reviews of the Council's system of internal controls and to provide an assurance to both Senior Management and Members regarding the effectiveness of such systems. In fulfilling his duty and responsibilities, the Audit, Risk and Anti-Fraud Manager, is required to report the progress made in delivering the assurance requirements to the Audit Committee, in accordance with regulatory requirements and relevant professional standards.

Summary of Issues Raised Within the Report:

3. A summary of progress made towards delivering the assurance requirements for 2015/16 is attached as Appendix A to this report, which sets out details of the reviews agreed by the Audit Committee in March 2015. Members may note that all the planned reviews are progressing at different stages of

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completion, with 63% of reviews at draft or final report stage. Of the remaining 37% (7 reviews) four are at feedback stage and the remaining three are at the closing stages of field work. Hence the bulk of the work required to provide an appropriate level of assurance for the Council is nearing completion and we hope to complete it within the next few weeks.

- 3 Appendix C sets out details of the final reports which have been issued since the last meeting of this committee. It also provides a brief summary of the findings and recommendations agreed with service management, to address any areas for further improvements required to strengthen internal controls. Further details on any of the issues raised on the report summaries would be provided to Members of this Committee on request.

Internal Audit Resources

- 4 Members will be pleased to note that the two new members of staff are settling in well. Appropriate training has been identified to enable them to become fully functional over the next few months. Hence the need to facilitate their development has impacted on the speed of delivery of the audit plan.
- 5 Members may also be pleased to note that senior management has approved the purchase of TeamMate, electronic audit management software. This is part of the agreed actions on the internal audit improvement plan and would facilitate the implementation of more modern ways of working, which we expect would lead to greater efficiency and improved quality of the internal audit service.

Progress of Internal Audit Improvement Plan

- 6 The Internal Audit improvement plan is progressing well. The Chair and vice-chair receive regular updates at meetings with the Chief Finance Officer and the Audit, Risk and Anti-Fraud manager. A full report by the Chief Finance Officer will be presented as part of this meeting.

Key Implications

Financial

- 7 Not Applicable.

Legal Implications and Risk Assessment Statement.

- 8 No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2015.
- 9 The Council is required to comply with the requirements of the Accounts and Audit Regulations 2015, regarding its arrangements for Internal Audit, in order to ensure fitness for purpose and taking into account the Public Sector Internal Audit Standards and professional guidance. The recent recruitment of two new staff now brings the team up to full establishment. Hence the team is now better placed to deliver on the Council's assurance

requirements and mandatory guidance. Training and development needs have been identified, to enable all staff to be equipped with the relevant skills required to perform their roles effectively.

Equality Assessment

- 10 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

- 11 This report sets out progress of the Internal Audit Team in delivering the Council's assurance requirements for 2015/16 and provides a summary of final reports issued since the meeting of the Audit Committee in January 2016. The team is also making steady progress in implementing the improvement action plan agreed by the Audit Committee in June 2015.

Appendices

Appendix A - Progress Against 2015/16 Plan

Appendix B - Summary of Final Reports Issued

Appendix C - Audit Opinions - Definitions

Background Papers:

[Internal Audit Annual Plan for 2015/16](#)

New Public Sector Internal Audit Standards 2013

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

[Audit Committee Report 23 June 2015](#)

Accounts and Audit Regulations 2011

<http://www.legislation.gov.uk/ukxi/2011/817/contents/made>

Adrian Rowbotham
Chief Finance Officer

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PROGRESS AGAINST 2015/16 INTERNAL AUDIT PLAN		Status at 29/2/16					
		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 10b	Dunbrik (a) (Special Project) Dunbrik (b) (Regulatory)	x			xb		
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	6	6	4	3	0	5
	COMPARATIVE POSITION Jan 2015	8	5	1	4	0	3

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**Review of Organisational Effectiveness
& HR Strategy 2015/16**

Issued 15 January 2016

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

The purpose of this review was to provide an assurance in regard to the Council's overall organisational effectiveness and human resources strategy.

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

- 1) Risk that arrangement in place for knowledge management may not be optimised
- 2) Risk that the organisational culture may not be vibrant or congruent with council vision and ambition
- 3) Risk that there is insufficient organisational resilience and capacity in place
- 4) Risk that there is insufficient succession planning in place
- 5) Risk that effective and robust strategic budgeting may not be in place
- 6) Risk that operational and strategic risk assessments may not be undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in five of the aspects examined, whilst one aspect was not met in relation to the framework (Risk 1).

The opinion of the auditor was that the framework of controls for the system was "satisfactory". Compliance with the framework was found to be "good". This means controls exist to enable the achievement of strategic and operational objectives, obtain good corporate governance and mitigate against significant foreseeable risks and control requirements are substantially being met and that controls are substantially being complied with and risk management process is considered to be good. Only minor errors or omissions have been identified.

The following six recommendations were agreed with Management to address the areas where controls were not met. These relate to risks 1, 2, 3 & 4.

- The Council's Human resources strategy is documented, fully revisited and updated to reflect current requirements
- The Council's Workforce Development Plan and other key HR policy documents are fully revisited and updated in a risk basis for their fitness for current council requirements and an HR policy review plan or schedule, signed off by the Chief Officer - Corporate Support, covering all HR policies to be updated and incorporating expected times scales for this, is also produced

Appendix B

- An agreed and time-scaled organisational action plan is formulated arising from the results of the staff survey
- Consideration should be given as to how awareness can be raised regarding cross-section resourcing and particularly the encouragement of further usage
- The Council considers the desirability of putting in place a training model which is based on what it considers to be required and universal core training for all staff. This should be made available upon request to all staff or by the request of line management
- Consideration is given to making succession planning an agenda item at joint SMT and SMG meetings with a view to considering whether the arrangements for succession planning need to be more explicit

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

Review of Payroll 2015/16

Issued 15 January 2016

Opinion: Control Framework - Good (Previous review - N/A)
Compliance with Framework - Good (Previous review - N/A)

The purpose of this review was to provide an assurance on payroll arrangements as a fundamental and material system of the Council following implementation of the new integrated payroll and human resources system I-Trent in April 2015 and to ensure that these arrangements are fit-for-purpose to deliver service objectives and comply with council procedures.

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

- 1) Risk that the new I-Trent system may not have been subject to sufficient post-implementation audit and review (including data migration and parallel runs)
- 2) Risk that the Council may not comply with relevant legislation, policies or good practice, such as the proper PAYE collection of tax and national insurance
- 3) Risk that payroll payments are not made on a due and timely basis
- 4) Risk that fraud and corruption may be undetected, for example in regard to allowances claimed or “ghost employees” or other inaccurate, unauthorised or fraudulent payroll payments being made and starters and leavers may not be correctly set up or removed

- 5) Risk that changes to individual pay scales may not be correctly set-up and authorised
- 6) Risk that the payroll system may not correctly reconcile to the main accounting system resulting in potential misstatements in the accounts
- 7) Risk that overtime payments may not be appropriate, correctly applied and authorised
- 8) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised, for example greater use of on-line transactions and access
- 9) Risk that operational and strategic risk assessments may not be undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in all of the aspects examined.

The opinion of the auditor was that the framework of controls for the Payroll system was “good”. Additionally, compliance with the framework was also found to be “good”. This means 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 and that controls are substantially being complied with and risk management process is considered to be good. Only minor errors or omissions have been identified.

The following recommendation was agreed with Management to enhance controls. This related to risk 6.

- The Salaries Reconciliation of Control Account is signed off by the appropriate officers as “prepared by” and “certified by” and duly dated.

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

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 risks examined 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 risks examined are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration
Un-satisfactory	... 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.

	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
Un-acceptable	... 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 controls exit	Testing results identified one or more very high risk

ANNUAL INTERNAL AUDIT PLAN 2016/17

Audit Committee - 15 March 2016

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: It be RESOLVED that Members:

Approve the draft Internal Audit Plan for 2016/17

Reason for recommendation: The Internal Annual Audit Plan is required to be approved by the Audit Committee prior to implementation.

Introduction

- 1 This report incorporates the Annual Internal Audit Plan and Programmed Reviews for 2016/17, attached as an Appendix to this report. The objective of the plan is to ensure that Internal Audit resources are deployed in order to add value to the Council's objectives, whilst delivering reasonable assurance to the Council, regarding the effectiveness of internal control, governance and risk management processes in fulfilment of the Council's statutory responsibilities.
- 2 The plan has 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 2015.
- 3 The Audit Committee is required by its terms of reference, to approve the Annual Internal Audit Plan prior to its implementation.
- 4 The programmed work of Internal Audit is informed by an assessment of the audit environment consisting of all the activities within the Council. This took account of changes proposed or implemented within the Council over the last 12 months; incorporating audit priorities on a risk assessed basis, in consultation with senior management. This methodology has been used to help ensure that audit resources are targeted to the areas where the work of Internal Audit would be most effective in improving internal controls, the

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efficiency of service delivery, and to facilitate the effective management of identified risks.

Summary of Issues in the Audit Plan:

- 5 The proposed Audit Plan for 2016/17 has 30 key reviews totalling 300 direct audit days, which cut across the whole Council and includes key financial systems. This would enable sufficient audit work to be carried out within the limits of existing Internal Audit establishment.
- 6 In addition to the planned reviews, 20 audit days have been set aside for system advice and information, 30 days for fraud irregularity and special projects (including participating in the National Fraud Initiative (NFI) aimed at protecting the Council against external fraud), 250 days for service development, audit planning, risk management, Audit Committee reporting and general administration. Thirty six days is also set aside for Audit Management and Supervision.
- 7 In addition to the programmed reviews set out in Annex 1 to the Appendix, a resource plan for Sevenoaks District Council is attached as Annex 2 to the Appendix, showing the resource available for the year and how it has been allocated.
- 8 All work undertaken during the year and any proposals for amendments of the plan will be reported to the Audit Committee through the routine monitoring arrangement of progress against the Audit Plan by the Audit Committee.

Liaison and Co-operation with External Audit

- 9 During the course of the year, Internal Audit will work closely with the External Auditors, Grant Thornton, within the terms of an agreed protocol, to ensure an effective and efficient delivery of the assurance requirements for the Council and to minimise duplication.

Revisions to the Audit Plan

- 10 The plan is risk based and took account of the assessed risks at the time of planning. However, in view of the changing and dynamic nature of the current economic, political and regulatory environment, risk profiles may change at fairly short notice. Hence Internal Audit will remain responsive to the needs of the Council during 2016/17. As a result, revisions to the plan may be required should the risk profiles, or regulatory requirements affecting the Council changes, or in the event of a change in Council policy following the outcome of the EU referendum. Where changes within the environment necessitate revisions to the audit plan, any proposed changes would be agreed with Senior Management prior to seeking the approval of the Audit Committee, and before implementation.

Key Implications

Financial

8. Not Applicable.

Legal Implications and Risk Assessment Statement.

9. No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2015.

The Council is required to comply with the requirements of the Accounts and Audit Regulations 2015, regarding its "arrangements to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". The report indicates that the Council has effective arrangements in place as required by regulatory requirements and professional standards.

Equality Assessment

11. 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

12. The attached plan incorporates the assurance requirements for 2016/17, and had been prepared in accordance with relevant professional and regulatory requirements. The Committee is therefore requested to approve the plan.

Appendices

Appendix A - Draft Internal Audit Plan for 2016/17

Annex 1 - Details of Programmed Reviews 2016/17

Annex 2 - Resource Plan 2016/17

Background Papers:

Internal Audit Annual Plan for 2016/17

New Public Sector Internal Audit Standards 2013

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Accounts and Audit Regulations 2015

<http://www.legislation.gov.uk/uksi/2011/817/contents/made>

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Adrian Rowbotham

Chief Finance Officer

Internal Audit Plan

2016/17

D R A F T



Background

1. The Accounts and Audit Regulations 2015 requires the Council to have an effective Internal Audit Function which would provide an opinion on the adequacy and effectiveness of financial control, as well as to provide reasonable assurance on the Council's overall governance and internal control processes. This includes the arrangements for the Annual Governance Statement, the review of the effectiveness of internal audit and the management of business risks.
2. This requires an annual internal audit plan which:
 - Draws on effective co-operation with External Auditors and other external review agencies, from which the public may gain assurance regarding the effectiveness of the Council's system of internal control.
 - Provides Councillors, the Chief Executive, the section 151 Officer, and other senior managers with an overall opinion on the status of the Council's governance arrangements, including internal control and risk management.
 - Supports the Chief executive in fulfilling his obligations under Section 151 of the 1972 Local Government Act and the Accounts and Audit Regulations 2011, to ensure the Council operates safe and efficient financial and management information systems.
 - Enables the Council to place assurance on the work of Internal Audit in fulfilling its obligations under the Accounts and Audit Regulations 2015, Regulation 4, to establish proper practices for the publication of an Annual Governance Statement; and Regulation 6 to review the effectiveness of the internal audit function.
 - Conducts audit reviews of the Council's risk management, internal control, and governance arrangements in a way that takes full account of the Council's objectives and risks.
 - Aims to improve the Council's risk management, internal control, and governance arrangements by providing line management with practical recommendations arising from audit work; including consultancy and advice and information as necessary or on request.
 - Delivers an audit service that meets the Public Sector Internal Standards 2013 and relevant guidance issued by CIPFA.

Internal Audit's objectives

3. The internal audit function is provided through a shared services arrangement with Dartford Council which came into force in April 2010. Its remit is set out in the Internal Audit Charter. The objective of the team is to provide relevant services for both Councils. However, this plan deals with the team's work for Sevenoaks District Council only, regarding the provision of Internal Audit Services, in fulfilment of the Council's section 151 responsibilities and its obligations under the Accounts and Audit Regulations 2015. To this effect, the objective of the team's work in this area is to give an assurance to the Council on the effectiveness of the overall governance, risk management and internal control processes of the Council.
4. In recognition of the statutory requirement, it is the responsibility of Internal Audit to review, appraise and report upon:
 - The soundness, adequacy, and application of financial and other management controls.
 - The extent of compliance with, relevant and financial effect of, established policies, plans and procedures.
 - The extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - Fraud, bribery, corruption and other offences
 - waste, extravagance, and inefficient administration, poor value for money and other causes.
 - The suitability and reliability of financial and other management data developed within the organisation.
 - The effectiveness of the Council's risk management framework

Proposed Audit Techniques

5. To fulfil our responsibility we propose to adopt the following techniques. The relevant technique adopted will depend on the nature and scope of each audit review:

Risk-based audit

Risk-based auditing takes account of the Council's strategic and operational objectives, and evaluates through audit testing the management of risks to achievement of these objectives, thereby providing an opinion on the quality of internal control within a system. Recommendations for improvements in control are proposed proportionate to the impact and likelihood of existing risks.

Systems-based audit

Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of systems weaknesses and assist in improving the effectiveness of controls.

Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the Audit Commission.

Financial/Probity Reviews

Examination of financial records for compliance with agreed policy, regulations, and procedures.

Investigation of Irregularities

We will undertake enquiries into cases of discovered or reported irregularity including, where required, liaison with other investigatory bodies, such as the National Fraud Initiative (NFI). These usually lead to the enhancement of risk management activities within the Council, and strengthening of internal controls.

Advice and Information

We offer advice, information and assistance to all levels of management on internal control, governance and risk management.

IT audit

IT audit is a specialist area, to this effect we will seek to buy in technically qualified and experienced agency staff, or liaise with other Kent Councils for assistance in providing this service for any relevant aspects which requires technical expertise.

VFM audit

Value for money considerations will be factored into our approach where relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities available to them for obtaining good value for money, especially within the current austerity environment

Audit Approach

6. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas, is considered based on a risk assessment, which evaluates:
- materiality
 - the inherent risk associated with the activity (high risk activities are those which involve access to cash or complex activities where errors, loss or fraud could arise)
 - the controls in place to prevent and detect losses and errors
 - knowledge from previous audit reviews
 - Legal or regulatory compliance
7. This risk assessment is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.
8. In compiling the Plan for 2016/17 we have taken into account:
- the internal Audit Strategy and Internal Audit Charter
 - the financial risk assessment of the Council's activities
 - strategic risks assessments
 - shared services and partnership arrangements
 - discussions with senior officers
 - brought forward work from 2015/16
 - the incidence of irregularities over the past year
 - resources available
 - significant changes arising from external and internal pressures
 - organisational changes within the last 12 months
 - the results of external audit work, or external regulatory assessments from other review agencies
 - the Public Sector Internal Audit Standards and relevant professional guidance were applicable
9. **The Plan for 2016/17**

The table on Annex 1 to this report sets out details of the reviews which would be undertaken during 2016/17 and a summary of the scope of each review. As part of the process we carry out an annual review of key financial systems. These are usually systems with high inherent risks, usually areas of major income and expenditure where a failure to manage risks effectively might result in material financial loss, or significant damage to the Council’s reputation. The reviews are intended to ascertain the arrangements management have in place to manage operational or business risks and to give an assurance regarding their effectiveness. Where the audit opinion has remained “Good” over the last two years, it is proposed to carry out a scaled down review, which would incorporate only key controls; aspects not covered in previous reviews, or areas which may have given rise to concerns since the previous audit review. This approach is consistent with the risk based audit approach inherent in the Council’s internal audit strategy.

[See Annex 1 - attached for details of reviews proposed for 2016/17] In addition to the programmed reviews, the resource plan also includes work in the following aspects:

Arrangements to prevent fraud and corruption

<i>audit area</i>	<i>review objectives</i>
Contracts	To check that contract payments are only made in accordance with contract terms and when properly authorised.
Cashing up	To check that officers are able to account for all income received by them on the day of the cashing up.
Housing Benefits	To check the robustness of the process to prevent and detect fraud in accordance with National Fraud Initiative requirements.
Special investigations	To carry out investigations into suspected frauds, losses etc in accordance with the Fraud Response Plan.

Follow up of recommendations made in previous audit reports

Audit reports	To follow up recommendations made in previous reports, to confirm that agreed action has been implemented effectively within the agreed time scales.
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SEVENOAKS DISTRICT COUNCIL
ANNUAL AUDIT PLAN 2016/17

Available Resources

12. A resource plan is set out on Annex 2 to this report

Internal Audit Performance

13. During 2016/17, the team will continue to work in compliance with the Public Sector Internal Audit Standards and professional guidance issued by CIPFA.
14. The following seven performance indicators relating to the delivery of the audit plan are proposed and are consistent with current professional benchmarks:

	<i>Measure</i>	<i>Target 2016/17</i>
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>
2	<i>Percentage of Final Reports issued within 15 working days of completing field work</i>	<i>95 % following feedback meeting</i>
3	<i>Percentage of audits completed within allocated time.</i>	<i>90% of audits achieved within allocated time.</i>
4	<i>Percentage of audit briefs issued within 10 days of audit start date.</i>	<i>90% of audits</i>
5	<i>Client satisfaction with audits carried out</i>	<i>95% client satisfaction as indicated by the responses to the post audit questionnaires.</i>
6	<i>Value to the Council - Percentage of audit recommendations agreed and implemented by management</i>	<i>95% of audit recommendations accepted and completed within the agreed timescale.</i>
7	<i>Ability to delivery effective assurance</i>	<i>100% of planned work to be completed to Draft report Stage by 31 March 2017</i>
8	<i>Percentage of Feedback Delivered within 35 days of commencement of Field Work</i>	<i>90% of planned reviews</i>

Reporting Protocol

15. Internal audit work undertaken is reported to clients (Service Managers, Heads of Services and Chief Officers), the culmination of the year's work being an annual report to the Audit Committee. Our reports provide an

overall audit opinion as to the adequacy of the control environment within the area examined. The annual report will contain an overall opinion on the adequacy of internal control, governance and risk management within the Council.

Audit Opinion

16. The audit opinions are formed following discussions with offices/management, observation of working practices, and the assessment and testing of systems and compliance. This is to ascertain whether key controls are in place and whether they are being complied with, or whether there are compensating controls, which provide the same level of overall control and protection against identified risks. New Audit opinions are proposed for 2016/17. These are set out on Para 6.14 of the Internal Audit Strategy, which is also included with the papers in this pack.
17. We aim to involve auditees at key stages of the audit process and to ensure their agreement to audit findings and recommendations. The table below sets out how auditees will be involved in the audit process this year. There are no changes to the process from last year.

Audit stage	Involvement
Agreement of brief at the start of the audit	Head of Service/Chief Officer
Feedback and discussion of main findings arising from an audit	Service Manager/Head of Service
Agreed report	Chief Executive Chief Financial Officer Chief Officer as appropriate Head of Service Service Manager
Audit satisfaction questionnaire completion	Head of Service/Service Manager as appropriate
Half yearly progress reports	Strategic Management Team and Audit Committee
Annual Report Annual Plan	Strategic Management Team and Audit Committee

Audit Recommendations

18. We will continue to report recommendations by highlighting the significance of each item in relation to risk and materiality. Thus as a guide, recommendations will be graded as follows:

High - Fundamental weaknesses in the system or process under review

Medium - System weaknesses which leave the system open to minor risks

Low - Desirable but non-threatening improvements

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SEVENOAKS DISTRICT COUNCIL - DRAFT INTERNAL AUDIT PLAN 2016/17

1. BROUGHT FORWARD REVIEWS FROM 2015/16 ANNUAL INTERNAL AUDIT PLAN

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/Rationale	Risk Ranking	Proposed Number of days
1		Community Infrastructure Levy	To review the implementation of CIL in order to provide an assurance regarding compliance with Council policy and procedures in the allocation of funds.	M	5
2		Review of Procurement and Contracting	This review will examine proposed procurement and recent procurement activities, in order to ascertain compliance with procedures and VFM regarding proposals, or regarding recent procurement activities. To facilitate the review, a comprehensive list of all planned procurement across the Council for 2016/17 and recent procurement undertaken in 2015/16, will be obtained as the basis of sample selection, in order to review the process or arrangements implemented, to facilitate the assurance process. Also the arrangements for managing contacts will form part of the scope of this review, in order to provide assurance regarding compliance with Council policies and best practice.	H	15
3		Review of Environmental Health Services	The Councils within the shared services are currently carrying out, or plan to carry out a number of developments which are likely to increase economic activities within their respective boundaries. The impact of this is also likely to give rise to further demands on the capacity of the Environmental Health Service. This review will therefore look at the level of growth in activity within the partnership areas and how this will impact on the capacity and resources of the Environmental Services team; including how the team is gearing to	M	15

			accommodate expected growth in demand for its services. The review will also seek to ascertain the proportion of available resources that will be required to meet expected growth in the requirements, or needs of each partner within the partnership. (15 days)		
4		Review of Agency Staff and Contracting, Including the use of Consultants	In view of the Council's commitment to providing good value for money, it is proposed to undertake a follow-up review towards the end of the in municipal year in 2016, to ascertain the effectiveness of implementation of recommendations from the review undertaken in 2014/15. (5 days)	M	5
5	Page 34	Review of Economic Development	This review will examine the arrangements in place to progress the Council's Economic Development Strategy. The review will determine the fitness for purpose of the strategy in delivering its objectives and how it contributes towards the Council's vision and priorities. Including how identified and identifiable "Opportunities" and "Threats" are being addressed to facilitate effective service delivery. It will also assess whether initial expectations have been achieved, or being achieved and any areas for improvements which may be necessary. (20 days)	H	20

2. REVIEWS WITHIN CHIEF FINANCE OFFICER'S SERVICES

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/Rationale	Risk Ranking	Proposed Number of days
6		Key Financial System (Annually)	Annual review of the Council's key finance systems, in order to provide assurance regarding the accuracy and	H	15

			completeness of transactions and compliance with Council policy. In addition, the review will provide assurance regarding how the new structure is embedding within finance.		
7		Income Generation Activities	To review the arrangements for delivering the Council's ambitions to be financially self-sufficient, in order to provide assurance regarding progress made and whether relevant risks are being identified and managed appropriately to facilitate delivery of the Council's objectives.	H	15
8		C/tax and Benefits	Annual review of Council tax arrangements to provide an assurance regarding the effectiveness of controls to enable timely and accurate assessments of Council tax due and Council tax refund process.	H	10
9		Payroll (2014&15)	To provide as assurance regarding the accuracy, authenticity and completeness of the payroll system.	M	10
10		Treasury Management, including Arrangements to facilitate financing of Capital	To review the Council's Treasury Management arrangements, including arrangements, or proposals to facilitate borrowing to fund capital programme, in order to provide assurance regarding compliance with Council Policy, and regulatory, or professional guidance in delivering the Council's objectives.	M	10
11		Business Rates (Revenues) (2015)	To review the arrangements for billing and collecting business rates in order to provide an assurance regarding accuracy and timeliness; and to ensure that all business rates due are being collected.	M	10
12		New Anti-Fraud Arrangements	To review the Council's new anti-fraud arrangements in order to provide an assurance regarding its fitness for purpose in delivering service objectives and to achieve its income target.	M	5

3. REVIEWS WITHIN CHIEF OFFICER COMMUNITIES AND BUSINESS SERVICES

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/RATIONALE	Risk Ranking	Proposed Number of days
13		Grant Income	To provide assurance regarding compliance funding requirements in regard to specific grant income, in order to facilitate sign off by the sec 151 officer.	M	5
14		Repair and Maintenance, including Leisure Centres .	To review the Council's arrangements for repair and maintenance of Council buildings in order to provide assurance that the council is obtaining good value for money and that there are appropriate controls in place to ensure probity. This will also include the Council's arrangements for the repair and maintenance of leisure centres, in order to provide an assurance regarding value for money and the effectiveness of the monitoring arrangements.	M	15

REVIEWS WITHIN CHIEF OFFICER ENVIRONMENTAL AND OPERATIONAL SERVICES

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/RATIONALE	Risk Ranking	Proposed Number of days
15		Parking (2014&15)	A light touch review to provide and assurance regarding the security and safety of parking income.	M	5
16		Review of Direct Services	This review will focus areas not covered within the scope of internal audit review over the last two years. The specific areas to be covered will be agreed with senior management during the scoping meeting.	M	15
17		Licensing	To review the Council's arrangements for Licensing in order to provide and assurance regarding compliance with legislation, Council policies and procedures and the	H	5

			effectiveness in delivering service objectives.		
18		Business Continuity	To review the Council's arrangements for the continuation of Council business, in the event of a disaster, in order to provide assurance regarding its effectiveness to facilitate continuity of council business and to enable a swift return to normality.	H	5
19		Emergency Planning	Review of the Council's arrangements for supporting the public in cases of emergency, for e.g flooding. The review will provide assurance regarding the effectiveness of the arrangements to act quickly and efficiently in meeting the needs of residence during an emergency,	M	5

4. REVIEWS WITHIN CHIEF OFFICER CORPORATE SUPPORT

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/RATIONALE	Risk Ranking	Proposed Number of days
20		Asset Management	To provide assurance regarding the effectiveness of the arrangement in place to manage the Council's physical assets, including as assessment of the deployment of Council assets in order to maximise usage and available opportunities.	M	10
21		IT Strategy/Acquisitions	To review the Council's IT arrangements in order to provide an assurance regarding its compliance with Information Security Standard and arrangements for obtaining VFM in acquisitions.	M	10
22		Payroll (2014&15)	To provide an assurance regarding the accuracy, authenticity and completeness of the payroll system.	M	5

5. REVIEWS WITHIN CHIEF PLANNING OFFICER SERVICE

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/RATIONALE	Risk Ranking	Proposed Number of days
23		Planning Applications and Appeals	To review the process for planning applications and appeals, in order to provide an assurance regarding compliance with Council procedures and statutory requirements	M	10

6. COUNCILWIDE REVIEWS - GENERIC REVIEWS WHICH IMPACTS ON OVERALL GOVERNANCE, CONTROL AND EFFECTIVENESS

	MANAGER	SERVICE AREA/DEPT/SYSTEM	ISSUE/RATIONALE	Risk Ranking	Proposed Number of days
24		Due Diligence Review of Recent Organisational Changes	To carry out a review of the recent changes with senior management structure, in order to provide assurance that all relevant activities impacted by the change have been appropriately transferred to an appropriate responsible officer with the appropriate level of capacity to fulfil the role.	H	10
25		Corporate Governance	To review the Council's overall Corporate Governance arrangements, in order to provide an assurance regarding fitness for purpose and support the Annual Governance Statement process. Also, to ascertain the Council's readiness to implement with new requirements coming from 1 April 2016.	M	15
26		Risk Management	To review the Council's risk management process arrangements, in order to provide an assurance regarding	M	10

			fitness for purpose, support for the Annual Governance Statement process and the Audit Universe methodology. Robust risk management underpins other key aspects of the Council's delivery capability, hence it is essential that an appropriate level of assurance be provided on risk management.		
27		Transparency Code	To review the Council's transparency reporting arrangements to provide assurance that current legislative requirements are being adhered to	M	5
28		Audit Universe	To review necessary information required to compile a complete audit universe of the organisation and compile a complete universe which will inform future audit planning process	H	15
29		FoI/Data Protection	To review the Council's arrangements for implementing legislation in relation to FoI and DPA, in order to provide an assurance regarding compliance with relevant legislation.	M	10
		Review of Cash income Across the Council	This review will seek to ascertain all the areas within the Council which still receive physical cash as part of income, in order to provide assurance regarding probity of the arrangements, including security and accountability of cash received.	H	10

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SDC - RESOURCES FOR ANNUAL INTERNAL AUDIT PLAN 2016/17

	DAYS PLANNED
Total Available Days for Year 2016/17	810
LESS Unavailable Days:	
Bank holidays and authorised leave	127
Staff development & training	29
Sick leave	18
Total	174
AUDIT DAYS AVAILABLE	636
Planned Direct Audit Days	300
Fraud, irregularity and special projects	30
Contract audit	6
Systems advice & information	20
General administration/Board reporting/service development/Audit Planning/risk management/joint working	250
Audit Management and supervision	30
Total Days	636

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INTERNAL AUDIT STRATEGY 2016/17

Audit Committee - 15 March 2016

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

Portfolio Holder Cllr. Searles

Contact Officer Bami Cole, ext. 7189

Recommendation to Audit Committee: That Members consider the contents of the report and approve the Internal Audit Strategy 2016/17.

Reason for recommendation: The Internal Strategy sets out how internal audit resources will be allocated or deployed, to meet the expectations of key stakeholders, as well as delivering regulatory assurance. It sits side by side with the Internal Audit Charter and is linked to organisational objectives and priorities. It is therefore a key document affecting the effectiveness of Internal Audit. The Audit Committee is required to approve the Strategy, as part of its terms of reference remit, to oversee the effectiveness of the Council’s Internal Audit Service.

Introduction and Background

- 1 The Internal Audit Strategy is a high level document which sets out how internal audit resources will be allocated to deliver stakeholder expectations and regulatory assurance. The existing strategy was last approved by the Performance and Governance Committee in 2006 and is no longer fit for purpose. Hence the new strategy has been developed to address the changing needs of the organisation and in particular, will facilitate greater engagement with key stakeholders in delivering added value assurance for the Council. The Internal Audit Strategy sits side by side with the Internal Audit Charter. Both are key documents intended to facilitate an effective Internal Audit Service.

- 2 A copy of the Strategy is attached as an Appendix to this report. Members may note that whilst the Internal Audit Service is a shared service with Dartford Borough Council; as is acknowledged within the Strategy, the attached Audit Strategy is bespoke to Sevenoaks District Council and takes account of the customs, traditions and bespoke needs of Sevenoaks District Council.

Agenda Item 7

Key Implications

Financial

Not Applicable

Legal Implications and Risk Assessment Statement.

No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2015 in regard to its arrangements for Internal Audit.

The Council is required to have adequate and effective Internal Audit arrangements in place. The revised Internal Audit Charter sets the basis of the arrangement and reflects relevant regulatory and professional standards.

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

This report presents the Internal Audit Strategy which sets out how internal audit resources will be allocated or deployed, to meet the expectations of key stakeholders, as well as delivering effective regulatory assurance. Members are requested to approve the Strategy.

Appendices Appendix A - Internal Audit Strategy

Background Papers: a) The Accounts and Audit Regulations 2015
[<http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>]

b) The Public Sector Internal Audit Standards 2013
[<https://www.gov.uk/publications/public-sector-internal-audit-standards>]

c) Sevenoaks District Council's Constitution.

Adrian Rowbotham

Chief Finance Officer

Sevenoaks District Council
Internal Audit Strategy
2016



Agenda Item 7
SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

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SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

1. INTRODUCTION

1.1 The requirement for an Internal Audit function within Local Government is set out on Regulation 5 of the Accounts and Audit Regulations 2015, as follows:

“A relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector Internal Auditing standards or guidance”.

1.2 Regulation 3 of the Accounts and audit regulations requires the Council to have “sound system of internal control” which:

- a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- b. ensures that the financial and operational management of the authority is effective; and
- c. includes effective arrangements for the management of risk.

1.3 The responsibility for maintaining effective systems of internal control within Sevenoaks District Council, [“the Council”] lies with the Chief Finance Officer.

1.4 The purpose of Internal Audit is to provide independent and objective assurance to the Council regarding the effectiveness of the Council’s risk management, internal control and governance processes, and their application by management, in delivering the Council’s stated objectives.

1.5 The purpose of this Strategy therefore, is to set out the parameters regarding how Internal Audit will deliver on its purpose and duties; and the resources it will deploy in delivering an appropriate level of assurance to the Council, within an added value context.

2. Internal Audit Partnership and Vision

2.1 The Internal Audit Service is a partnership between Sevenoaks District Council and Dartford Borough Council, which has been in existence since April 2010. However, this Strategy deals predominately with Sevenoaks District Council.

2.2 The development of the Internal Audit Partnership brings together the professional disciplines and benefits of streamlining Internal Audit Services across partnering organisations.

2.3 The Partnership blends together the individual requirements of participating organisations and synergies, to achieve efficiencies, during a period of austerity, to facilitate effective service delivery and resilience in delivering a modern risk based Internal Audit service.

2.4 The partnership has ambitions to strengthen its approach, by employing modern electronic Audit Management and Interrogation Tools, and other

innovations, in order to improve quality and performance and to deliver added value outcomes for its partners.

2.5 The Internal Audit partnership has a vision to deliver:

2.6 A collaborative and innovative Audit Partnership, which is customer focussed and aligned to the business needs and objectives of the Council, leading to improved and quantifiable outcomes; through:

- Developing closer understanding of customer needs and expectations
- Improved competencies of its staff through training and development
- Developing a robust but simplified assurance and opinion process, which aspires to best practice
- Delivering added value and quantifiable outcomes for its stakeholders
- The Internal Audit Partnership is structured to maximise its shared expertise and resilience across the partnering organisations:

3. Internal Audit Strategy

3.1 The Council’s Internal Audit Strategy 2016/2017 will be presented to the Audit Committee, which is the relevant oversight committee responsible for overseeing the work of Internal Audit.

3.2 This Internal Audit Strategy is a high level statement on how Internal Audit will deliver audit services to Sevenoaks District Council. It lies side by side with the Internal Audit Charter and links to organisational objectives and priorities. This document incorporates and combines the in-house management and audit resources of the Sevenoaks District Council and Dartford Borough Council Internal Audit Partnership and documents how the Audit Risk and Anti-Fraud Manager will deliver assurance to Sevenoaks District Council.



SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

- 3.3 The key elements considered when developing the Strategy are depicted in the above diagram.
- 3.4 This Strategy will be approved, but not directed by, the Audit Committee for Sevenoaks. It will be reviewed annually. Any material changes to the Strategy will be required to be approved by Senior Management and the Audit Committee.
- 3.5 The Strategy sets out how the Council’s Internal Audit Service will be managed, delivered and developed in 2016/17 to facilitate:
- delivery of an Internal Audit opinion on Sevenoaks District Council’s internal control, risk management, governance arrangements and to inform the annual governance statement;
 - audit of Sevenoaks District Council’s internal control, risk management and governance systems through the risk based Internal Audit plan, in a way which affords due consideration to the Council’s key objectives and significant risks;
 - continuous improvement of the internal control, risk management and governance framework and processes within the Council;
 - identification of the resources and skills required and method of delivery of an Internal Audit service that meets the Public Sector Internal Audit Standard’s and Professional Guidance;
 - effective cooperation with the External Auditors and other external review bodies; and
 - on-going provision of assurance and advisory services by Internal Audit.
- 3.6 This Strategy is based on the Risk Based Internal Auditing [“RBIA”] concept. This means Internal Audit activity will be closely linked to the Council’s overall risk management framework and therefore its key priorities and objectives, enabling Internal Audit to provide reasonable assurance regarding effectiveness of how the Council’s risks are being managed to deliver on its stated objectives.
- 3.7 In the published Sevenoaks District Council Corporate Plan 2010 to 2015, the Council has identified the following five key priorities that underpin the Council’s objectives:
- To provide Value for Money
 - To work in partnership to keep the District of Sevenoaks safe
 - To collect rubbish efficiently and effectively
 - To protect the Green Belt
 - To support and develop the local economy
- 3.8 The RBIA methodology ensures that Internal Audit effort will be aligned with the Council’s key priorities in planning and performing its work.

- 3.9 The ARAFM is responsible for ensuring that the Internal Audit Strategy is reviewed annually and that the Audit Committee approves any significant amendments to the Strategy.

4. INTERNAL AUDIT TERMS OF REFERENCE

4.1 Purpose

4.1.1 Internal Audit Terms of reference sets out the Purpose, Authority and Principal Responsibility of Internal Audit within Sevenoaks District Council [the Council]

4.1.2 Internal Audit is identified 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”.

4.1.3 Internal Audit may also provide independent and objective advice in order to assist management to improve the Council’s control environment and value for money.

4.1.4 Internal Audit may also provide specialist skills and knowledge to assist in, or lead on fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal Audit’s role in this respect is outlined in the Council’s Anti-Fraud and Anti-Corruption Strategy

4.1.5 Internal Audit aims to provide high quality services that:

- adds value and contribute to the achievement of the Council’s aims and objectives;
- support elected Members and Officers of the Council in the effective discharge of their responsibilities;
- specifically support the Chief Finance Officer in the discharge of his duties as proper officer for Sec 151 responsibilities
- are innovative and constructively challenging, shaping the values and standards of the Council; supporting and promoting the need for sound internal controls; effective risk management, governance and, encouraging management to take ownership of processes, systems and policy; and
- maintain a level of independence and integrity which supports the proper delivery of the Internal Audit function

4.2 Statutory framework

4.2.1 Internal Audit is a statutory function within the Council.

SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

4.2.2 The requirement for an Internal Audit Function for local authorities is implied by Section 151 of the Local Government Act 1972 (S151), which requires that authorities “make arrangements for the proper administration of their financial affairs.” Regulation 5(1) of the Accounts and Audit (Amendment) Regulations 2015 specifically requires “A relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance”.

4.2.3 Regulation 5 (1) of the Accounts and Audit Regulations sets out that the standards which Internal Audit should take into account are the Public Sector Internal Audit Standards and Professional Guidance by CIPFA.

4.3 Accountability

4.3.1 The Audit, Risk and Anti-Fraud Manager (ARAFM) reports to the Chief Finance Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972 for ensuring an effective system of internal financial control and proper financial administration of the Council’s affairs.

4.3.2 The ARAFM has direct access to the Chief Executive as Head of Paid Service and carries the responsibility for the proper management of the Council and; for ensuring that the principles of good governance and sound ethics are reflected within the Council’s management arrangements.

4.3.3 The ARAFM has direct access to the Council’s Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

4.3.4 Where it is considered necessary to the proper discharge of Internal Audit functions, the Audit, Risk and Anti-Fraud Manager has direct access to elected Members of Sevenoaks District Council and in particular, those who serve on the committee charged with governance (Audit Committee).

4.3.5 Accountability for response to Internal Audit’s advice lies with management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of Internal Audit to review the policies, procedures and operations at a later date.

4.3.6 The Audit, Risk and Anti-Fraud Manager must be satisfied that management accepts accountability for, and provides an adequate response to issues raised through Internal Audit’s work. When the ARAFM is not satisfied, the matter will be escalated to the relevant Chief Officer, Chief Executive and/or the Audit Committee.

4.4 Scope

4.4.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council’s governance, risk management and internal control processes in

relation to the Council's defined goals and objectives. Internal control objectives considered by Internal Audit include, but are not limited to:

- Consistency of operations or programs with established objectives, policies, goals and performance targets
- Effectiveness and efficiency of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Safeguarding of assets from Fraud, Irregularity and Mismanagement.
- Work in collaboration with the Council's partners and other bodies in protecting the Council's interest in delivering shared objectives

4.4.2 Review the effectiveness of the Council's risk management framework and compliance with its core principles; in particular, resources will be devoted to any aspects effecting material changes to the Council's risk profile, governance or internal control processes.

4.4.3 Internal Audit will liaise and co-operate with other bodies to manage the risk of Fraud and Irregularities

4.4.4 Internal Audit is responsible for evaluating all processes within the 'audit universe' of the Council, including governance processes, management information and risk management processes.

4.4.5 Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified during audit work to the Audit Committee and to Management, including fraud risks, governance issues and other matters needed, or requested by the Audit Committee.

4.5 Key Responsibilities

4.5.1 Chief Officers are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of the Council's objectives within their respective remits.

4.5.2 The Audit, Risk and Anti-Fraud Manger is responsible for the management of professional Internal Audit service, which follows the Public Sector Internal Audit Standards and relevant professional guidance in providing support and guidance to Senior Management in the effective discharge of their responsibilities.

4.6 Independence

4.6.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional

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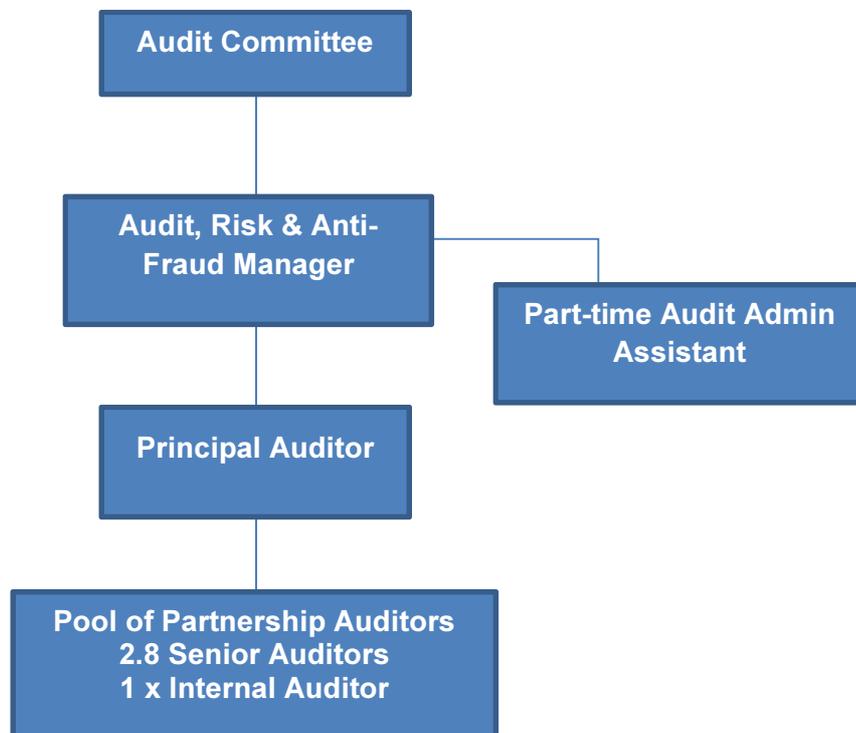
judgements and advice. In practice, independence will be achieved through Internal Audit:

- having no executive or operational responsibilities;
- operating in a framework that allows unrestricted access to Members and senior management;
- reporting in its own name;
- rotating responsibilities for audit assignments within the Internal Audit team;
- completing individual interest declarations confirming compliance with rules on independence, conflicts of interest or acceptance of inducements; and
- ensuring the planning process recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles

4.7 Internal Audit Resources

4.7.1 The Internal Audit service is an in-house service, which currently incorporates and combines staffing resources from Dartford Borough Council and Sevenoaks District Council to provide a shared audit service. This arrangement enables the Councils to maximise resilience and efficiency in providing an effective Internal Audit service.

Internal Audit Governance Structure



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- 4.7.2 The above diagram depicts the Internal Audit staffing resources and governance and underscores its independence.
- 4.7.3 The Audit, Risk and Anti-Fraud Manager will be professionally qualified (CCAB/ CMIIA or equivalent) and have wide Internal Audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.
- 4.7.4 The Chief Finance Officer will provide the ARAFM with the resources necessary to fulfil the duties and responsibilities of the Internal Audit function, in meeting the Council's requirements and expectations towards delivering an effective Internal Audit service.
- 4.7.5 The ARAFM will appoint staff with the range of knowledge, skills, qualifications and experience required to deliver the audit Strategy to the standards laid down in the PSIAS and guidance issued by CIPFA.
- 4.7.6 Where appropriate, the ARAFM will engage agency staff to provide specialist Internal Audit reviews, for e.g. IT or specialist computer auditor, to provide an appropriate level of assurance.
- 4.7.7 If the ARAFM, Audit Committee or Members of the Strategic Management Team consider that the scope or coverage of Internal Audit is limited in any way, or the ability of Internal Audit to deliver a service consistent with the professional standards (PSIAS/CIPFA Guidance) is prejudiced, they will advise the Chief Finance Officer, accordingly regarding their views on the robustness and scope of the Internal Audit opinion.
- 4.8 Rights of Access
- 4.8.1 In carrying out their duties, Internal Audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council, or its key delivery partner organisations for the purposes of carrying out an audit review or special investigation.
- 4.8.2 Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. In conducting routine work from the annual plan, Internal Audit will give prior notification to ensure that the appropriate access can be obtained and availability of relevant documentation or source data.
- 4.8.3 For special investigations, such access shall be granted on demand and not subject to prior notice.
- 4.9 Due Professional Care
- 4.9.1 Internal Auditors will perform work with due professional care, competence and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity, but their work would be designed to enable them to

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provide reasonable assurance regarding the controls examined within the scope of their review.

- 4.9.2 Internal Auditors will have a continuing duty to develop and maintain their professional skills, competencies, knowledge and judgement based on appropriate training, ability, integrity, objectivity, respect and effective communication.
- 4.9.3 Internal Auditors will apprise themselves of the Public Sector Internal Audit Standards and the Professional Guidance by CIPFA and; will work in accordance with such guidance.
- 4.9.4 Internal Auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the ARAFM in accordance with the Council's laid down procedures.
- 4.9.5 Internal Auditors will treat the information they receive in carrying out their duties confidentially. The ARAFM is responsible for determining an Access Policy to outline the parameters for authorised disclosure of audit information, files and records. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of Internal Audit work will not be used to affect personal gain or for any other purpose, other than that required to fulfil the Internal Audit engagement activity.
- 4.10 Reporting to Third Parties
 - 4.10.1 Subject to the prior approval of the Chief Finance Officer the ARAFM may agree to provide an opinion to a third party on an internal control, risk management and governance e.g. partner organisations.
- 4.11 Relationships
 - 4.11.1 Internal Audit recognises that good working relationships and effective communication are key to the delivery of its work in a productive and efficient manner. As such, Internal Audit will seek to work and co-operate with both internal and external partners, including management, Members, external auditors and inspectorates.
 - 4.11.2 The Audit, Risk and Anti-Fraud Manager will consult with senior management during audit planning, and be available at the request of the Chair of the Audit Committee. He will present progress reports to regular meetings of the Audit Committee and assist the Chair and Committee Members in fulfilling their governance role and terms of reference.
 - 4.11.3 The Audit, Risk and Ant-Fraud Manager will discuss and agree a communications protocol with the District Auditor, or appropriate representative, which will facilitate co-operation between Internal and

External Audit, in order to minimise duplication of audit effort and to improve understanding of the risks faced by the organisation. Where appropriate, Internal Audit will place reliance on work carried out by external audit (and other external review agencies) as part of the assurance framework

4.11.4 With regard to other regulators and inspectors, the Audit, Risk and Anti-Fraud Manager will seek to establish a dialogue with such agencies with a view to improving understanding and exchanging of relevant information, in consultation with the Section 151 officer.

4.11.5 The Audit, Risk and Ant-Fraud Manager and other team members will also maintain dialogue and networking with other professionals both within Kent and relevant professional bodies.

4.12 Ownership of Documentation

4.12.1 Internal Audit files and working papers, which demonstrate compliance with professional standards, are the property of the Council.

4.12.2 Internal Audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed.

4.13 Implementation of the Strategy

4.13.1 Mission Statement: the mission of the Internal Audit service is:

“To support the Council's key objectives in delivering its High Level priorities and Operational Services, by providing an independent and objective evaluation of the Council's ability to accomplish its Corporate Plan and Business Unit objectives, and suggests constructive added value proposals to facilitate their effective delivery, through a risk based review framework”

4.13.2 The ARAFM will produce an audit Strategy for the Council, detailing how the Internal Audit service will be delivered and developed in accordance with these terms of reference and how it links to the Council's objectives and priorities. The Strategy will be approved (but not directed by) the Audit Committee and will be reviewed annually.

4.13.3 The Strategy will be implemented through the determination and delivery of risk-based annual Internal Audit plan, developed in consultation with the Chief Finance Officer, approved by Strategic Management Team and the Sevenoaks Audit Committee.

4.13.4 The key driver for assurance will be the risk based Annual Internal Audit Plan which will be designed to enable the ARAFM to deliver annually, an

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Independent and objective opinion on internal control, risk management and governance, by measuring and evaluating their effectiveness in supporting or delivering the Council's stated objectives.

- 4.13.5 The annual operational plan will be subject to ongoing review and adjustment during the course of the year, to ensure it remains aligned with the Council's key objectives, and risks and will be responsive to the priorities and concerns of the Strategic Management Team and the control environment.
- 4.13.6 Where appropriate, reviews of key systems will receive a reduced scope review, where recent Internal Audit evidence shows consistency in risk management, governance and internal control processes, as reflected in recent Internal Audit opinions.
- 4.13.7 In the conduct of its responsibilities, Internal Audit will operate in accordance with the Public Sector Internal Audit Standards and guided by professional guidance issued by CIPFA and the Institute of Risk Management.
- 4.14 Review of the Internal Audit Terms of Reference
- 4.14.1 These Terms of reference will be reviewed annually and the ARAFM will advise the Audit Committee on their content and the need for any subsequent amendment

5. Internal Audit Services

- 5.1 The full range of Internal Audit services are set out below. The approach to be adopted when conducting an Internal Audit engagement will be determined by the ARAFM and will be dependent upon, the circumstances; in particular, the degree of assurance required, the significance of the objectives under review towards delivering the Council's priorities, inherent risks, the level of existing controls and available resources.

The range of services includes the following:

- 5.2 Risk Based System Reviews - in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks will be assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach. 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

5.3 Compliance Audits - Examination of financial records for compliance with agreed policy, regulations, and procedures.

5.4 Systems-based Audit - Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial, operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of system weaknesses and to assist in the improving the effectiveness of controls.

5.4.1 Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

5.4.2 Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the External Auditors.

5.5 Contract Audit - 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 significant 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.

5.6 Fraud and Corruption - When a loss or potential fraud is brought to our attention or discovered during an audit, we would undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we would make recommendations to improve controls within the system affected by the loss or allegation.

5.6.1 We would review fraud controls and detection processes to ascertain their effectiveness

5.6.2 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

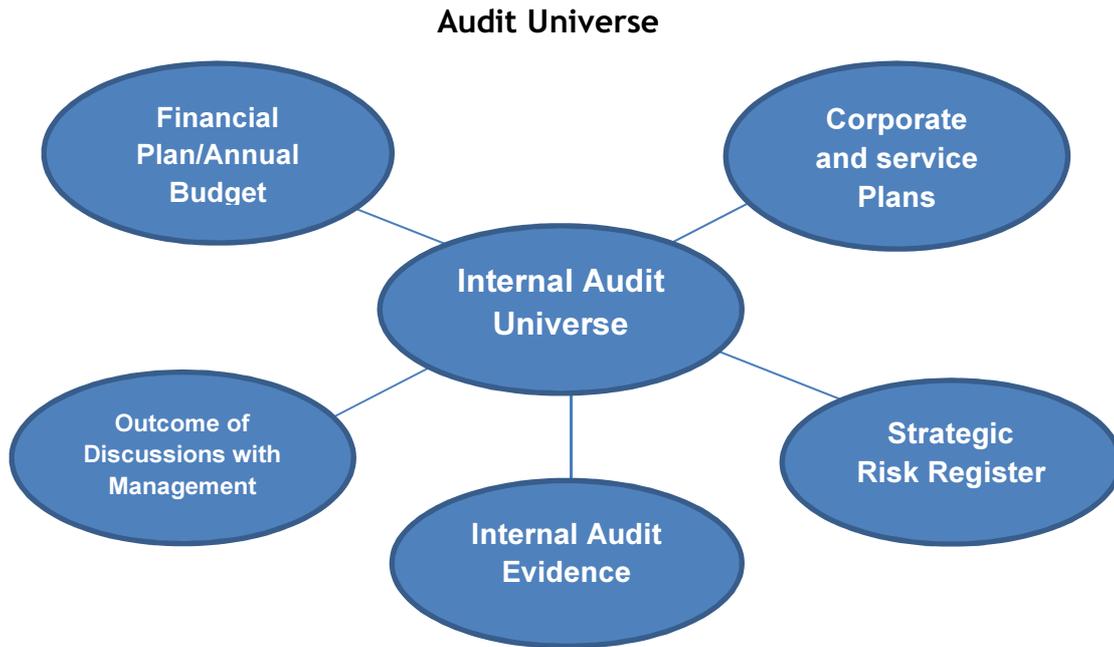
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into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

- 5.7 Following up Previous Year's Audits - 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.
- 5.8 Advisory Services - We offer advice, information and assistance to all levels of management on internal control, governance and risk management either through formal review and reporting or more informally through discussion or briefing, on framework of internal control, risk management, governance and the Annual Governance Statement process. However, would not be appropriate for auditors to become involved in establishing or implementing controls or to assume operational responsibilities. Advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work. In addition Internal Audit may undertake consultancy in accordance with the terms set out in the Internal Audit Charter.
- 5.9 IT Audit - IT audit is a specialist area and in previous years the work has been undertaken by external consultants working under local management.
- 5.10 VFM Audit - Value for money considerations will be factored into our approach where relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities and resources available to them for obtaining good value for money.

6. **Developing and Delivering the Annual Internal Audit Plan**

- 6.1 The Audit. Risk and Anti-Fraud Manager will define the audit universe from the Council's key priorities and delivery framework (Corporate/Service Plans, Strategic Risk Register etc.), ensuring that it contains the key activities and service business units, key processes, projects, performance and compliance issues significant to the Council's strategic direction, high level priorities and goals. Definition of the audit universe will enable Internal Audit to prioritise its workload to facilitate reliable and effective provision of the annual audit opinion and demonstrate support for the annual governance statement process.

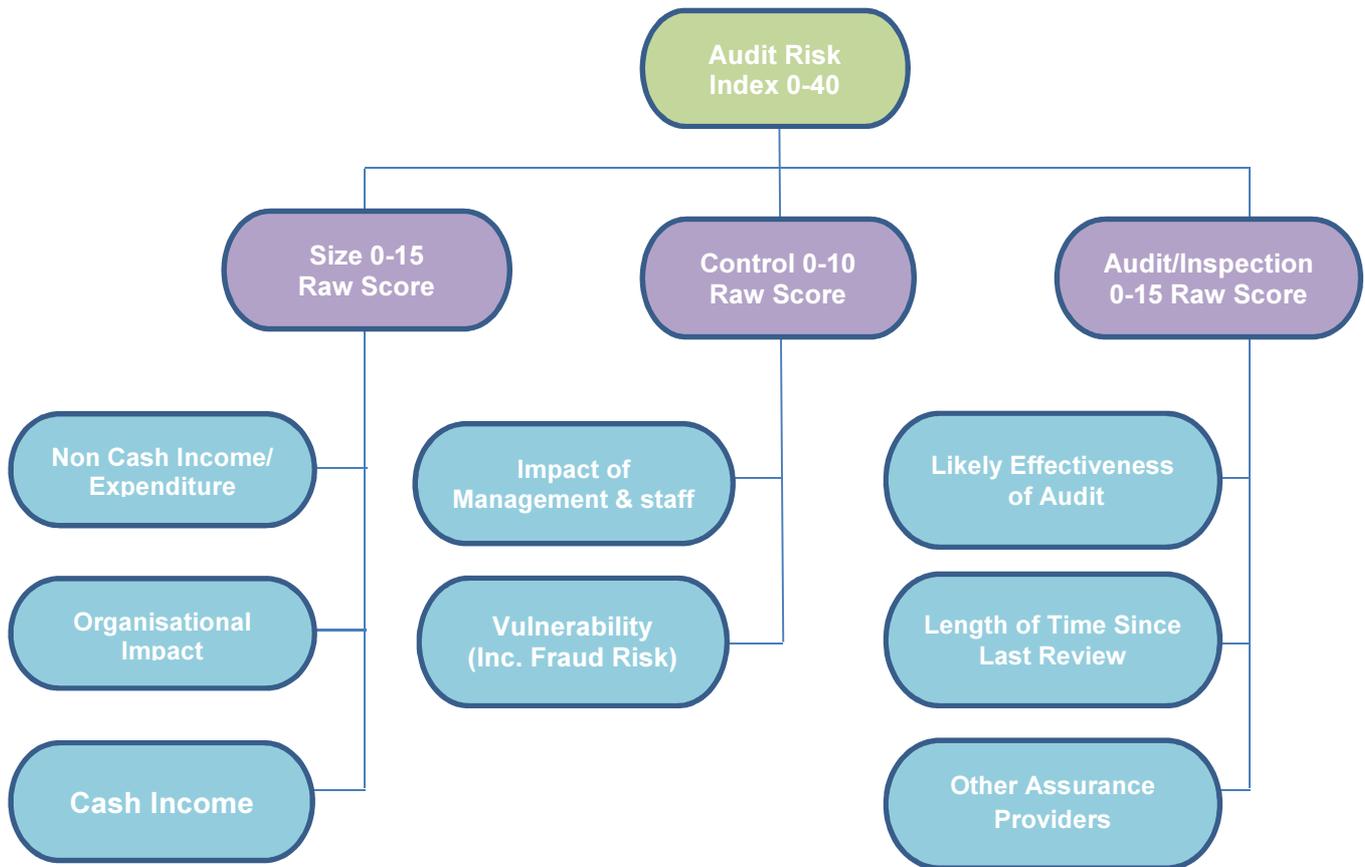


The above diagram depicts input into the Audit Universe

- 6.2 The PSIAS requires that a risk-based plan is used to determine the priorities of the Internal Audit activity, consistent with the organisation's goals.
- 6.3 The ARAFMs will develop a risk-based annual Internal Audit plan, which is informed by the audit universe and which will take into account the Council's risk management framework, including risk appetite levels set by senior management for the different activities, or parts of the organisation.
- 6.4 Where gaps exist within the Council's risk assessment process, the ARAFMs will use his own judgment of risks after consideration of input from senior management and the Audit Committee.
- 6.5 The audit universe will be subject to ongoing review and adjustment, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the Strategic Management Team. Amendments will be identified through Internal Audit's ongoing contact and liaison with senior management and those charged with governance of the Council.
- 6.6 Identifying Audit Needs

A structured risk indexed based as depicted on the diagram below, will be used to compile an audit risk assessment, which will inform the annual Internal Audit plan.

Audit Risk Index



6.7 Rationale for Annual Audit Plan

6.7.1 Given the risk maturity of the Council and in view of the dynamic nature of the environment within which local government operates, it is not proposed to have a three year rolling strategic plan, as the resources required to facilitate this will not be justified by the uncertainties posed by the speed and volatility of changes within the environment.

6.7.2 Resources will be more effectively deployed by utilising the key advantages of a risk based annual planning approach, which will focus on the key risk areas in order to provide assurance to reflect the existing risk profiles on an annual basis and subject to in-year review, to reflect material changes and assurance needs, as necessary.

6.8 Producing the Annual Plan

6.8.1 The annual assurance plan will be derived from the audit needs assessment, based on the level of assessed risks in relation to the Council’s risk appetite matrix. Inclusion in the annual Internal Audit plan will be based on risk prioritisation in line with the audit risk index and available resources.

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- All High risks processes or systems will be automatically included within the annual Internal Audit plan.
- Medium risks systems, or processes will be included within the plan, subject to available resources and senior management priorities.
- Low risk processes will only be considered for inclusion in the annual audit plan, if resources permit and subject to senior management priorities.

6.8.2 Whilst the core audit work will be devoted to high risk systems and processes, some contingencies allocation will be set aside to facilitate unforeseen circumstances or developments during the year.

6.8.3 Other review work, based on criteria other than risk, may also be built into the Plan. These may include grant certification work or other mandatory audits. They may also include audits or reviews requested by management or the Audit Committee, but will not include the direct delivery of executive responsibilities or functions.

6.8.4 A contingency allocation will also be built into the plan for investigations, reactive counter fraud work and other unplanned enquiries. Any commissioned review work must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance. Any displacement of a previously planned review by unplanned work will be clearly justified and approved by senior management; and reported to the Audit Committee.

6.8.5 The annual Internal Audit plan will be subjected to approval by senior management and the Audit Committee prior to implementation.

6.9 Delivering the Audit Plan

6.9.1 The work of Internal Audit and its approach regarding how it will conduct engagement activities in order to provide assurance will be governed and informed by this Strategy, the Internal Audit Charter and the Audit Manual, for its day to day activities.

6.9.2 The individual audit reviews set out in the annual plan will be apportioned to respective Internal Auditors, based on their relative skill, experience and qualifications; and shared in such a way as to ensure delivery of the approved annual plan by the end of the financial year.

6.10 Individual Audit Assignments

- Planning The Assignment - Prior to the commencement of an audit, Internal Audit will advise the appropriate Chief Officer, Head of Service and Service Manager on the forthcoming review.
- A scoping meeting will be held between the client and the responsible Internal Auditor to discuss the purpose, objectives, risks, scope and expected timings of the work. These details will be confirmed with the

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- appropriate Chief Officer and Service Manager in the Audit Brief. In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of an appropriate Chief Officer may be obtained.
- Auditors will be required to remain within the department or section during field work. During fieldwork, Internal Auditors will consult orally and/or in writing with relevant management to:
 - ensure that information gathered is accurate and properly interpreted;
 - ensure that management are able to provide sufficient information and explanations in order to assist in the formation of a balanced judgement;
 - keep management informed of the progress of the audit;
 - ensure recommendations are cost effective, practicable and agreed with management.
 - where disagreements exist with management regarding audit evidence or findings, these will be recorded and included in the feedback form and the report.
 - Auditors are required to complete all reviews within planned timescales to ensure completion of the audit plan.

6.11 Evidence

- All audit findings, conclusions and recommendations will be evidenced on either an electronic or paper file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the relevant Internal Audit section. Audit working papers contain the principal evidence to support the Internal Audit report and they provide the basis for review of Internal Audit work. The Internal Auditors employ an audit methodology which requires the production of working papers which document the following:
 - the audit procedures followed in examining the adequacy and effectiveness of internal controls within the system;
 - the information obtained from these examinations;
 - an evaluation of the information obtained and the conclusions reached;
 - A signed feedback sheet, documenting all recommendations and comments from the auditee;
 - a report detailing the audit findings, audit opinions and audit recommendations;
 - the client management response to the audit report.
- At the end of the fieldwork, a closing or exit meeting will be held with Head of Service or Service Manager to discuss and agree the findings,

conclusions and recommendations prior to being included in a formal report.

- Lead Auditors are responsible for liaising with management to agree the content of the report and collate management responses to audit recommendations made.

6.12 Supervision and Review Management Review

All files are subject to review by either, the Principal Auditor or the Audit, Risk and Anti-Fraud Manager before feedback is provided to the Auditee. This review ensures that the work undertaken complies with the standards defined in the Audit Manual and the Professional Guidance issued by CIPFA. A Supervisory Review Form is used to document this process and show any required amendments. Any temporary contract auditors will be closely supervised by the Principal Auditor or Audit Manager. All Audit Files will be required to be signed off by the Audit, Risk and Anti-Fraud Manager, to demonstrate compliance with Internal Audit quality standards.

6.13 Audit Feedback and Reporting

- Formal feedback will be provided to the relevant Auditee following completion of the audit fieldwork. Once feedback, or the draft report, including actions to address recommendations is agreed, a draft or final report will be electronically issued within 15 working days to the appropriate Head of Service and Chief Officer.
- Audit reports are designed to be clear, objective, balanced and timely. They are to be constructed in a standardised format which includes:
 - An executive summary;
 - the background of the area subject to audit review;
 - the Auditors Opinion; including an evaluation of the controls in place
 - Detailed findings;
 - A Management Action Plan, detailing all recommendations and priority rankings;
 - Definition of opinions; (See below for details)
 - Definition of risk rankings (see below for details)
- All reports will be reviewed by the Audit, Risk and Anti-Fraud Manager before issue. The draft report will be issued within 15 working days of the feedback meeting. All audits will be followed up 3 to 6 months after completion, depending on the assurance level provided.

6.14 Internal Audit Reporting

The following matrices will be used in Internal Audit reports to record, the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance.

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Opinions and Priority Ranking of Recommendations

Opinion Formation - Definition of Audit Opinions Levels of Assurance

Opinion	Definitions
Full Assurance (Implies no High or Medium Risk Recommendations)	<p>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.</p> <p>No specific follow-up review will be undertaken; follow-up will be undertaken as part of the next planned review of the system.</p>
Substantial Assurance (Implies no High Risk Recommendations)	<p>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.</p> <p>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.</p>
Limited Assurance	<p>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.</p> <p>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.</p>
No Assurance	<p>Absent or non-existent evidence of framework; fundamental weaknesses identified within design; operation of key controls have resulted in failure, or could result in failure to achieve the Council's or service objectives in the areas reviewed.</p> <p>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.</p>

Risk Ranking of Recommendations and Definitions

High	<p>Significant risks exists of any of the following:</p> <ul style="list-style-type: none"> • Failure to achieve objectives • Fraud or irregularities • System breakdown • Material loss of assets • Qualification of the Council's accounts • Significant reputational damage • Failure of Legal compliance <p>Immediate implementation of agreed recommendations is essential in order to provide satisfactory control of serious risk exposures.</p>
Medium	<p>A serious, but not immediate, or significant risk of failure to achieve objectives, system breakdown, or loss etc.</p>

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	Implementation of agreed recommendations within 3 to 6 months is important to provide satisfactory control of risk exposures.
Low	<p>Minor weakness which has no major or serious impact on the achievement of objectives, but where management will benefit from improved risk management, or which presents the opportunity for greater efficiency, or effectiveness.</p> <p>Implementation of the agreed recommendation is desirable, as it will improve overall control, efficiency or value for money.</p>

6.15 Follow up Reporting on Recommendations

- It is the responsibility of the Lead Auditor to ensure that agreed actions arising from an audit report are implemented in accordance with the agreed timetable. Where material weaknesses are identified through audit work which have not been actioned, procedures allow for escalation to Management Team or the relevant committee.
- The implementation of audit recommendations will be further monitored via a Recommendations Action Plan and reported to the Audit Committee.

6.16 Annual Audit Opinion

6.16.1 An Annual Audit Report will be produced by the Audit, Risk and Anti-Fraud Manager which will incorporate an Annual Audit Opinion. The report will be subject to approval by the sec 151 Officer and presented to the Audit Committee. The report will contain details of the work done and any other sources of assurance from which the opinion is derived. It will also be used to support the Annual Governance Statement process.

6.16.2 The basis of the opinion will be based on the outcome of the work completed by Internal Audit during the year, annual internal quality assessments, any external quality review, as well as other sources of assurance (for e.g. external auditor's reports).

6.17 Performance Monitoring

Internal Audit monitors its performance using a series of Key Performance Indicators (PI's). These PI's have been agreed with senior management and the Audit Committee.

6.18 Training and Continuous Professional Development

6.18.1 The Audit, Risk and Anti-Fraud Manger will ensure that appropriate provision is made to facilitate the continuing development of Internal Audit staff in order to maintain professional competence and respond to the developments within the audit profession and senior management expectations.

6.18.2 Professional competence is dependent on a range of skills, attitudes and behaviours, as well as qualifications. A Learning and development plan will be

SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

produced for the team annually, which will be informed by the appraisal process and organisational needs.

- 6.18.3 As a minimum, staff will be encouraged to acquire relevant professional qualifications, either CCAB or CMIIA and to keep abreast of developments within local government, Internal Audit and risk management. Also staff will be expected to participate in the development of the following soft skills, , interviewing skills, negotiating skills, time management, investigations skills and report writing skills.

7. Quality Assurance

7.1 Internal Quality Review

In compliance with the PSIAS the Audit, Risk and Anti-Fraud Manager will undertake an annual self-assessment of the Internal Audit team using the standard template issued by CIPFA guidance. Any areas for improvement identified will be set out in an action plan. The self-assessment will be presented for Senior Management for approval and to the Audit committee.

7.2 External Quality Review

In addition to the above, an external quality review will be undertaken every five years by an independent firm. The outcome of this review will also be presented to Senior Management and the Audit Committee. Areas for further development identified will form the basis of a quality improvement plan.

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EXTERNAL REVIEW OF INTERNAL AUDIT - UPDATE

Audit Committee - 15 March 2016

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

Executive Summary: The outcome of the PwC external review of Internal Audit was presented to the Audit Committee on 23 June 2015. Members approved the Action Plan included in the report and requested that they receive updates at future meetings.

This report contains the progress made against the action plan.

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

Portfolio Holder Cllr. Searles

Contact Officer Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That Members note the progress made against the Action Plan and continue to 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 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.

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- 4 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.

Scope of the Review

- 5 The scope of the review included evaluating the compliance of Internal Audit against the PSIAS criteria and evaluating the effectiveness of Internal Audit by focussing on the following areas:
 - Organisation.
 - Independence.
 - Audit team.
 - Quality assurance.
 - Managing the work (including adding value to the council).

Outcome of the Review

- 6 The Executive Summary and Summary of Recommendations produced by PwC were included in the report to the Audit Committee on 23 June 2015.
- 7 The outcome of the review showed that the PSIAS were largely complied with and suggested ways for the service to move forward.
- 8 The Action Plan was 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.

Progress since the Review

- 9 The action plan including progress made on each item is attached in Appendix A.
- 10 The action plan highlights that progress to date has been positive with a large number of the actions already implemented or in the process of being implemented. It should be recognised that some of these actions will take time to bed in before they make a real difference to the quality of the service provided by the Internal Audit Team.
- 11 The Principal Auditor is now in post and will be key to supporting the Audit, Risk and Anti-Fraud Manager in driving forward a number of the proposed improvements to the Internal Audit Service and will also supervise the auditors in the delivery of the Annual Internal Audit Plan.

- 12 The Auditor post is also now filled which has brought the team back to full establishment so there is no longer a need to employ temporary staff.
- 13 The PwC report recognised that the relationship between Internal Auditors and managers needed to be strengthened. Meetings have been held with managers and actions are being put in place that should strengthen the relationship going forward.
- 14 A Development Workshop was held for the team on 18 December 2015 which provided an opportunity to re-energise the team and re-focus on new ways of working which in turn will facilitate the delivery of expectations and added value; as well as ensuring that the team are fully compliant with the PSIAS.

Next Steps

- 15 It is planned that PwC will carry out a follow-up review during 2016 to give assurance that the Internal Audit Team is providing, or in the process of providing, the service that the council requires going forward.
- 16 Further updates will be provided to the Audit Committee.

Key Implications

Financial

The cost of the follow-up review will be 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 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 being taken and planned should ensure that the Internal Audit Team is able to add more value and contribute to the future success of the Council.

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Appendices

Appendix A - Action Plan (Update as at February 2016)

Background Papers:

[External Review of Internal Audit - Audit Committee 23 June 2015](#)

[External Review of Internal Audit - Audit Committee 13 January 2015](#)

[Report on the Public Sector Internal Audit Standards - Audit Committee 10 June 2014](#)

Adrian Rowbotham
Chief Finance Officer

ACTION PLAN (Update as at Feb 2016)

Issues	Proposed Action	Imp. Date	Update
<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) N/A as a Dartford BC specific action.</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>Completed</p> <p>Completed</p> <p>March 2016</p>	<p>a) N/A</p> <p>b) This has now been completed and was presented to the January Audit Board and Audit Committee.</p> <p>c) Now agreed</p> <p>d) Both will be taken to Audit Board and Audit Committee for approval in March</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</p>	<p>a) Senior management to approve recruitment to fill existing vacancies of Principal Auditor and Auditor Role, in line with the organisation chart.</p> <p>b) Responsibilities of the ARAFM and PA to be clearly defined (see organisational chart)</p>	<p>Completed</p> <p>Completed, but - ARAFM to provide ongoing support for PA in the</p>	<p>a) The Principal Auditor and Auditor have both now started in post and are settling well into the team.</p> <p>b) These responsibilities have been defined and a JD has been agreed for the Principal post. The roles have also been discussed as part of a team meeting. Need to be sure that both the ARAFM and PA</p>

ACTION PLAN (Update as at Feb 2016)

<p>Page 74</p>	<p>which are important to the organisation and is instinctively sensitive and responsive to senior management expectations, whilst delivering constructive and objective assurance.</p>	<p>c) ARAFM to undertake a skills gap analysis of staff and identify relevant training needs, including delivery methods.</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>short term</p> <p>Initial assessment completed, to be updated at year end appraisal.</p> <p>Completed - will be reviewed in the light of 2016/17 plan.</p> <p>Completed</p>	<p>are clear as to their separate responsibilities.</p> <p>c) Training needs of staff have been discussed as part of the appraisal process. A team meeting has been held to discuss these further. Relevant training for the two new staff has been booked, to be delivered by CIPFA in May. Also training in time management and report writing skills is currently being investigated. Training is also required for audit testing.</p> <p>d) Objectives were discussed as part of appraisals. PIs have now been set up within Covalent. Initial objectives now need to be set for the two new officers. All to be reviewed in March 2016.</p> <p>e) A successful development day took place on 18 December and an action plan arising from the day has been sent to senior management for comments. This will be shared with senior managers at both Councils shortly.</p>
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ACTION PLAN (Update as at Feb 2016)

<p>3</p>	<p>Quality Assurance & Audit Management</p> <p>The key issue is to ensure a quality assurance process which facilitates or enables 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 ARAFMs 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 this year, generating a small financial saving and much greater savings in staff time</p>	<p>Completed</p> <p>In progress</p> <p>Completed</p> <p>Completed</p> <p>Started May</p>	<p>a) The process started in December and will be completed by Mid-February to inform the 2016/17 IA Plan.</p> <p>b) A workshop has been held to discuss reports to the Audit Committee. The team have held a meeting to discuss internal report templates and examples of best practice are being reviewed. This will be pushed further now that the Principal Auditor is in post. Audit scope meetings are now being held for all audits.</p> <p>c) The new Principal Auditor is now in post and has been formally introduced to senior managers individually by the ARAFMs.</p> <p>d) The ISO accreditation has now been discontinued.</p>
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ACTION PLAN (Update as at Feb 2016)

		e) The ARAFM to undertake the SDC Leadership Programme by attending the Masterclasses.	2015 spread over 18 mths	e) The ARAFM is attending this programme and is finding the sessions very informative. The ARAFM has already substantially completed the entire programme.
4	<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 SMT 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>In progress</p> <p>In progress - all to be reviewed by March 16</p> <p>In progress</p>	<p>a) This will be addressed as part of the Audit Universe - low priority.</p> <p>b) Report templates have been discussed and examples of best practice shared. Amendments to templates are being phased. This will be progressed more rapidly now that the Principal Auditor is in post.</p> <p>c) Annual Report recommendations were actioned in June; Summary report: PIs have been reviewed and will be reported to SMT and Audit Committee; Audit Recommendations - these are now being followed up more rigorously. Sample checks will now be done to ensure they have had the desired impact.</p>

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ACTION PLAN (Update as at Feb 2016)

5	<p>Quality, Tools and Performance Management</p> <p>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.</p>	<p>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.</p> <p>b) Management to support more stringent action where there are notable failures to delivery on required performance level (quality or quantity).</p> <p>c) To implement new electronic audit management tool to facilitate a more efficient audit process, including developing the use of IDEA.</p> <p>d) The ARAFM to define more precisely, monitoring responsibilities for himself and PA and also agree with SMT what indicators they would find useful, for regular reporting.</p> <p>e) The customer questionnaire to be amended to indicate whether management</p>	<p>Completed</p> <p>ongoing</p> <p>In progress</p> <p>In progress</p> <p>Complete</p>	<p>a) The PIs are now on Covalent and are being monitored. To be reviewed for 2016/17 audit programme.</p> <p>b) The Principal Auditor is now in post. She is aware of the issues and will be taking action to address</p> <p>c) Following the Team Mate demonstration in September the team unanimously decided that this was the most beneficial software. The procurement process for the software is currently underway. Bami is following up on the use of IDEA</p> <p>d) PIs are to be monitored closely in one: one meetings with the ARAFM.</p> <p>e) The customer questionnaire has been amended to reflect this.</p>
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ACTION PLAN (Update as at Feb 2016)

		expectations have been effectively delivered for each activity.		
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EXTERNAL AUDITOR RELATIONSHIP AND FUTURE APPOINTMENTS

Audit Committee - 15 March 2016

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

Executive Summary: The Audit Committee has requested the opportunity to discuss the relationship with Grant Thornton, the council's external auditors, prior to a decision being made on future external auditor appointments.

This report also summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Committee and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

Portfolio Holder Cllr. Searles

Contact Officer Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That Members note the future implications for external audit procurement arrangements.

External Auditor Relationship

- 1 Grant Thornton were appointed as the Council's external auditors to replace the Audit Commission with effect from 1 November 2012. This followed a procurement exercise to outsource the work of the Commission's in-house audit practice into five regional contracts.
- 2 The work Grant Thornton carry out each year consists of:
 - Audit of the accounts (financial statements).
 - Value for Money
 - Whole of Government Accounts
 - Certification of housing benefit grant claim.
- 3 Officers from Grant Thornton attend the Audit Committee to present the findings from their work.
- 4 The Chief Finance Officer, Head of Finance and the Audit, Risk & Anti-Fraud Manager meet Grant Thornton on a regular basis to plan work and discuss

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any relevant issues. This works well as good relationships have been built over the past three years. It has recently been announced that Andy Mack, the Engagement Lead from Grant Thornton is changing roles and will be replaced by Sarah Ironmonger. It is hoped that Sarah will be introduced to the Audit Committee at the June meeting.

- 5 In the 'Review of the Effectiveness of the Audit Committee' report to this Committee, Members responses to the questionnaire are included which may contain comments on Grant Thornton.

Future Appointments

Introduction and Background

- 6 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 7 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following the closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State. Over recent years there have been a significant reduction in audit fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally and savings from the closure of the Audit Commission. The Council's planned external audit fees for 2015/16 are £43,156 (excluding grant certification work).
- 8 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 9 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including

our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

Options for local appointment of External Auditors

- 10 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 - Make a stand-alone appointment

- 11 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.
- 12 This option does result in local input to the decision. However, this route would be a costly exercise in terms of recruitment of independent members and maintaining the panel. The Council would also not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

Option 2 - Set up a Joint Auditor Panel

- 13 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement.
- 14 This option has the advantage of spreading the cost across a number of local authorities (e.g. a joint procurement across Kent). There would also be a greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value. The disadvantages of this option are that the decision making body will be further removed from local input with potentially no input from elected members and it could be further complicated where individual councils have independence issues.

Option 3 - Opt-in to a sector led body

- 15 In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

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- 16 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. However, elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

The way forward

- 17 The Council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 18 The LGA are working on developing a Sector Led Body as greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. When more details are known regarding the Sector Led Body option, a further report will be presented to the Audit Committee in order for a recommendation to be made to Council as to the most appropriate way forward.

Key Implications

Financial

Current external fees levels may increase when the current contract end in 2018. Options 2 and 3 would allow the Council to take advantage of economies of scale through a larger joint procurement exercise.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above are not known at this stage but are likely to include recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

Legal Implications and Risk Assessment Statement

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;

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ANNUAL SELF-ASSESSMENT REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2015/16

Audit Committee - 15 March 2015

Report of the: Chief Finance Officer

Status: For Consideration

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

Recommendation to Audit Committee: That Members approve the Annual Self-assessment Review of the Effectiveness of the Audit Committee 2015/16.

Reason for Recommendation: An effective Audit Committee contributes to robust governance and overall effectiveness of the Council. The self-assessment indicates that the Committee has conducted itself in compliance with good practice and therefore effective in delivering its terms of reference remit.

Introduction and Background

- 1 It is considered good governance practice to have a process for evaluating a committee's performance. Members of this committee have accepted the underlying principals requiring the Audit Committee to measure the robustness of its own performance, not least, because of its oversight role for Internal Audit, Risk Management, Governance and Internal Control. Current governance arrangements for Local Councils issued by CIPFA in compliance with the Accounts and Regulations 2015 require that the Audit Committee be assessed annually, in order to determine its effectiveness and identify areas for further development.
- 2 This report puts forward proposals for assessing the achievements for the Audit Committee for the year 2015/16, its second full year of operation. The reasons for measuring the Committee's achievements and details of how this can be done are set out below.

Details of the Process

- 3 The process incorporates the recommended self-assessment checklist taken from the CIPFA guide "Audit Committees - Practical Guidance for Local Authorities"

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- 4 The self-assessment checklist (attached as an Appendix to this report) has been amended where necessary to reflect local needs or customs. To facilitate and expedite the process, the checklist has 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 2015/16. The checklist incorporates the following eight key issues that the Committee is required to measure its achievements against.
- **Terms of Reference** - Does it comply with best practice?
 - **Internal Audit Process** - Is there sufficient oversight by the Committee?
 - **External Audit Process** - Is there sufficient involvement?
 - **Membership** - Does it comply with good practice requirements?
 - **Meetings** - Frequency and robustness
 - **Training** - Is it fit for purpose?
 - **Administration** - Is the Committee supported by relevant officers?
 - **Compliance** - With Public Sector Internal Audit Standards (PSIAS)

Questionnaire for Members of the Audit Committee

- 5 In addition to the above, a separate questionnaire has been sent to each member of the Committee in order to obtain their individual views on the workings of the Committee and their own personal contribution to the work of the Committee. The responses to the questionnaire will be used to improve relevant aspects of the workings of the Committee where appropriate. The responses to the questionnaire can be found in Appendix B.

Next Steps

- 6 The Committee is requested to go through the checklist as a group during the meeting and consider the details set out in it and make any additional comments or changes it deems necessary.
- 7 On completion of the checklist, areas for further development could be transferred into an action plan identifying the key areas for further development and relevant timescales. The action plan would then be taken to Council for agreement.

Key Implications

Financial

This report has no financial implications.

Legal Implications and Risk Assessment Statement

This report has no additional legal implications.

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.

Value for Money and Asset Management

An effective Audit Committee will contribute towards the overall management of the Council and would help to improve good value for money in service provision.

Conclusions

The outcome of the review indicates that the Audit Committee substantially meets the requirements of existing CIPFA code and therefore is making a valuable contribution towards effective governance, good internal controls and the management of business risk within the Council.

Appendices

Appendix A - Self-Assessment Checklist

Appendix B - Results of questionnaire response from Members

Background Papers:

CIPFA guide “Audit Committees - Practical Guidance for Local Authorities” (Dec 2005)

<http://moderngovwebpublic.bromsgrove.gov.uk/documents/s956/Appendix%20A%20CIPFA%20Audit%20Committee%20Guide.pdf>

The Accounts and Audit (England) Regulations 2015:
http://www.legislation.gov.uk/uksi/2015/234/pdfs/ukxi_20150234_en.pdf

[Public Sector Internal Audit Standards.](#)

Adrian Rowbotham
Chief Finance Officer

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**Self-assessment Checklist – Assessing the Effectiveness of the Audit Committee
2015/16**

ISSUE	YES	NO	N/A	COMMENT
1. Terms of Reference				
1.1 Have the Committee's terms of reference been approved by full Council?	✓			
1.2 Do the terms of reference follow the CIPFA model	✓			
2. Internal Audit Process				
2.1 Does the Committee approve the strategic audit approach and annual programme?	✓			
2.2 Is the work of Internal Audit reviewed regularly?	✓			
2.3 Are summaries of quality questionnaires from managers reviewed?	✓			These are currently reviewed annually in the Annual Internal Audit Report.
2.4 Is the Annual Audit Report, from the Head of Audit, presented to the Committee?	✓			
3. External Audit Process				
3.1 Are reports on the work of External Audit and other inspection agencies presented to the Committee?	✓			
3.2 Does the Committee input into the external audit programme?	✓			The Committee has opportunities to influence the external audit programme through attendance of the external auditor at its meetings.
3.3 Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓			
3.4 Does the Committee take a role in overseeing:				These are part of the Committee's standard terms of Reference
• Risk Management strategies	✓			
• Annual Governance Statement	✓			
• Anti-fraud arrangements	✓			
• Whistle-blowing strategies	✓			

ISSUE	YES	NO	N/A	COMMENT
4. Membership				
4.1 Has the membership of the Committee been formally agreed and a quorum set?	✓			
4.2 Is the Chair free of executive or scrutiny functions?	✓			
4.3 Are members sufficiently independent of the other key Committees of the Council?	✓			
4.4 Have all members' skills and experiences been assessed and training given for identified gaps?	✓			Members were sent a questionnaire to enable them to assess their training needs. The result of this questionnaire was used to identify training priorities for the Cohort.
4.5 Can the Committee access other committees as necessary?	✓			
5. Meetings				
5.1 Does the Committee meet regularly?	✓			At least 4 times a year
5.2 Are separate, private meetings held with the external auditor and the internal auditor?	✓			There are arrangements in place to facilitate a meeting with the External Auditor if necessary. A separate meeting with the Audit Manager is held as necessary. The Chairman also routinely meets jointly with the Audit Manager and the Chief Finance Officer.
5.3 Are meetings free and open without political influences being displayed?	✓			
5.4 Are decisions reached promptly?	✓			
5.5 Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✓			

ISSUE	YES	NO	N/A	COMMENT
5.6 Does the Committee have the benefit of attendance of appropriate officers at its meetings?	✓			Other officers attend as and when necessary, or on request of the Chairman
6. Training				
6.1 Is induction training provided to members?	✓			Yes, the Council provides induction training for all members. Additionally, the first meeting of the new Audit Committee received a briefing on their role; and also the different roles of Internal and External Audit.
6.2 Is more advanced training available as required?	✓			Training needs assessment has been undertaken and a delivery method agreed. Some training such as risk management, are delivered as part of the meeting agenda
7. Administration				
7.1 Does the authority's S151 Officer or deputy attend all meetings?	✓			The Chief finance Officer (deputy section 151) attends all meetings.
7.2 Are the key officers available to support the Committee?	✓			
8. PSIAS				
8.1 Has the Committee been advised of the requirements of the New Mandatory Internal Audit Standards?	✓			
8.2 Have proposals for compliance with the new standards been considered by the Committee?	✓			

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Questionnaire for the Members of the Audit Committee - Responses

Question	Response	
1	<p>How do you think the Audit Committee has performed over the course of the year?</p>	<p>a. I think we have done a very good job. b. As effectively as any other committee. c. Seemed good to me. d. Being new to the committee I have no way to measure the performance. e. I think it has performed well. The work plan is balanced and seems to be running along nicely.</p>
2	<p>Do you think the Audit Committee has addressed the correct subjects? If not, what subjects would you like to see included in its agenda?</p>	<p>a. Yes. b. I would like to see it looking at “procedures” as well as cash flows. We might not have to comply with ISO9000 requirements, but there must be written procedures that have to be adhered to. c. I think so - but need to attend a few more meetings to get a feel for it. d. Yes. e. Yes, I think it has.</p>
3	<p>What is your view on the quality of the reports received?</p>	<p>a. I have been pleased with the quality b. Good, although it takes a while to get my head round some of them as I am not an accountant. c. What I saw seemed good. d. Good. e. Good comprehensive reports. I find the reports and in particular the presentations from the ARAFMs very useful.</p>
4	<p>Is the level of detail correct?</p>	<p>a. I think so. b. Seems fine to me, but then I’m not a trained accountant. c. Seems ok - but wouldn’t say firmly one way or other until I have attended more meetings. d. Yes. e. I do believe so. I think the correct level of detail gives me the necessary information without “overload”.</p>
5	<p>What improvements would you like to see in reports?</p>	<p>a. I can’t think of any. b. As Q2. c. Again seems ok but need to understand the topic better. d. Fine as they are. e. Sometimes more visual displays of data, i.e. pie or bar charts make it easier to relate to the information.</p>
6	<p>Is it helpful to have Grant</p>	<p>a. Yes. b. Probably - who would carry out explaining</p>

Questionnaire for the Members of the Audit Committee - Responses

	<p>Thornton present at 3 meetings?</p>	<p>the Q&A's if they were not there. c. Might be one too many. d. As long as there are no extra costs for their attendance. e. As a new member of the committee I have found it helpful to have Grant Thornton present. Perhaps going forward their presence could be reduced.</p>
<p>7</p>	<p>a) Do you think your personal contribution has been effective?</p> <p>b) What steps do you think could be taken to improve your personal contribution further?</p>	<p>a. As a new member of the committee it is hard to be truly effective without the background that other members may enjoy. b. I would hope so, but that's for others to judge. c. Not particularly so far. d. Ok so far. e. I hope so although it has taken a while to understand the framework and terms of reference.</p> <p>a. Experience and the inevitable increase in knowledge that it brings will improve my ability to contribute. b. That would be up to the Chairman to point out my shortcomings. c. Finding the time to sit with the CFO and ARAF, and they also being able to spend time with me, so they can tell me any problems they come across, things to look out for, things that have been found in the past here or other councils, suggested possible answers to problems. The difficulty is I don't always know what I don't know and therefore can't ask the right questions. d. None at this stage. e. Possibly a sort, committee-specific induction session in May or June might have been useful prior to the first meeting.</p>
<p>8</p>	<p>Any other comments</p>	<p>a. I'm not encouraging more meetings, but as they are so far apart, I need to find a way of being able to easily remind myself of what's going on - rather than having to trawl all through agenda's from time to time.</p>

DRAFT AUDIT COMMITTEE ANNUAL REPORT 2015/16

Audit Committee - 15 March 2016

Report of Cllr Grint, Chairman of the Audit Committee

Status: For Consideration

Introduction and Background

- 1 This is my report to the Council on the work of the Audit Committee during the year 2015/16.
- 2 The Audit Committee is responsible for discharging the functions conferred by the Accounts and Audit Regulations 2011. The Committee met four times during the year. The key responsibilities include approving the Council's Annual Statement of Accounts, approving the Annual Governance Statement, approving the Annual Internal Audit Plan and monitoring and reviewing the work of Internal Audit, and reviewing the arrangements for the management of business risks.
- 3 In line with its Terms of Reference, the Audit Committee has met regularly during the course of the year. As Chair of the Committee, I have held regular briefings with Officers. Details of the range of issues considered by the Committee over the course of the year are set out below:

Internal Audit

- | | |
|----------------|--|
| June 2015 | <ul style="list-style-type: none">• The role of Internal Audit• Internal Review of Effectiveness of Internal Audit• External Review of Internal Audit• Internal Audit Annual Report 2014/15 |
| September 2015 | <ul style="list-style-type: none">• Internal Audit 2015/16 - 1st Progress Report• Internal Audit Recommendations Outstanding |
| January 2016 | <ul style="list-style-type: none">• Internal Audit 2015/16 - 2nd Progress Report• Internal Audit Recommendations Outstanding• Internal Audit Charter |
| March 2016 | <ul style="list-style-type: none">• Internal Audit 2015/16 - 3rd Progress Report• Internal Audit Recommendations Outstanding• Internal Audit Plan 2016/17 |

Agenda Item 11

- Internal Audit Strategy
- External Review of Internal Audit - Update
- Review of the Effectiveness of the Audit Committee

Governance, Risk & Anti-Fraud

- | | |
|----------------|---|
| June 2015 | <ul style="list-style-type: none">• Anti-Fraud Team Annual Report 2014/15• Annual Governance Statement 2014/15 |
| September 2015 | <ul style="list-style-type: none">• Risk Management Training• Draft Strategic Risk Register• Members' Allowance Scheme - Monitoring |
| January 2016 | <ul style="list-style-type: none">• Anti-Fraud Team Update |

Accounts and External Audit

- | | |
|----------------|--|
| June 2015 | <ul style="list-style-type: none">• External Audit - Annual Audit Plan and Update• Statement of Accounts 2014/15 - Member Working Group |
| September 2015 | <ul style="list-style-type: none">• Statement of Accounts 2014/15 |
| January 2016 | <ul style="list-style-type: none">• External Audit - Housing Benefit Subsidy 2014/15• External Audit - Annual Audit Letter 2014/15• Statement of Accounts 2015/16 - Preparation Update |
| March 2016 | <ul style="list-style-type: none">• External Auditor Relationship and Future Appointments |

- 4 At the June meeting an Overview of the Audit Committee was also provided to give new members of the Committee a greater understanding of the purpose and terms of reference of the Committee.
- 5 In addition to the core work of the Committee, a Member Working Group was also set up in June 2015 to review the draft Statement of Accounts. Its findings were reported back to the full Audit Committee at its meeting in September. The external auditors commented favourably on Members' involvement in the Annual Accounts process.
- 6 Training of Audit Committee Members is important to ensure that they can add value to the discussions at the Committee and Members are asked for their views on training requirements. Members received training on Risk Management during the course of the year.

- 7 The Audit Committee maintains a constructive dialogue and effective working relationship with the Council's external auditors, Grant Thornton. The audit partner and audit manager from Grant Thornton have attended 3 of the 4 Audit Committee meetings during the year.
- 8 The External Review of Internal Audit carried out by PwC in early 2015 made several recommendations to improve overall effectiveness. The Audit Committee has been kept abreast of the actions taken by the Council in regard to the PwC recommendations, and is happy that the recommendations are being satisfactorily addressed, including in particular strengthening the composition of the Internal Audit team through new appointments.
- 9 It is my opinion that the work of the Committee has had a positive impact on the overall control environment within the Council, with recommendations made and adopted which led to amendments to the draft statement of accounts and enhancements to the Internal Audit Plan. The Committee has developed good working relationships with Officers and External Audit, and has offered constructive comments on a range of issues. The Committee continues to develop and improve its understanding of the many technical issues presented to it.
- 10 I should like to thank all members of the Audit Committee for their personal contribution to the work of the Committee over the past year. I should also like to thank Officers, in particular Adrian Rowbotham and Bami Cole, for the help and support they have given the Committee throughout the year.

Cllr John Grint
Chairman, Audit Committee

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Audit Committee 2015/16 -Work Plan (as at 3/3/16)

	15 March 2016	30 June 2016	27 September 2016	10 January 2016
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Internal Audit 2015/16 - 3 rd Progress Report Report on Internal Audit recommendations outstanding Internal Audit Plan 2016/17 Internal Audit Strategy External Review of Internal Audit - Update	Internal Review of Effectiveness of Internal Audit Report on Internal Audit recommendations outstanding Internal Audit Annual Report	Internal Audit 2016/17 - 1 st Progress Report Report on Internal Audit recommendations outstanding	Internal Audit 2017/17 - 2 nd Progress Report Report on Internal Audit recommendations outstanding
Risk Management		Risk Management Strategy		
Accounts and External Audit	External Auditor Relationship and Future Appointments	External Audit - Annual Audit Plan and Update Statement of Accounts 2015/16 - Establishment of Member Working Group Annual Governance Statement 2015/16	Statement of Accounts 2015/16	External Audit - Annual Audit Letter

	15 March 2016	30 June 2016	27 September 2016	10 January 2016
Other	Review of the Effectiveness of the Audit Committee Annual Report to Council	Anti-Fraud Team Report 2015/16		