

30 June 2016 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks
Despatched: 22.06.16



Audit Committee

Membership:

Chairman, Cllr. Grint; Vice-Chairman, Cllr. Brookbank
Cllrs. Clack, Dyball, Edwards-Winsler, 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 15 March 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)	(Pages 7 - 8)	
4. Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)		
5. Anti-Fraud Team Report 2015/16	(Pages 9 - 16)	Glen Moore Tel: 01322 343240
6. Statement of Accounts 2015/16 - Establishment of Member Working Group	(Pages 17 - 18)	Adrian Rowbotham Tel: 01732 227153
7. External Audit - Annual Audit Plan and Update	(Pages 19 - 44)	Adrian Rowbotham Tel: 01732 227153
8. Annual Internal Audit Plan 2016/17	(Pages 45 - 68)	Bami Cole Tel: 01732 227236
9. Internal Audit Strategy 2016/17	(Pages 69 - 94)	Bami Cole Tel: 01732 227236
10. Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2015/16	(Pages 95 - 104)	Bami Cole Tel: 01732 227236

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| 11. Annual Self-Assessment Review of the Effectiveness of Internal Audit Service 2015/16 | (Pages 105 - 142) | Bami Cole
Tel: 01732 227236 |
| 12. Internal Audit Annual Report 2015/16 | (Pages 143 - 162) | Bami Cole
Tel: 01732 227236 |
| 13. Annual Governance Statement 2015/16 | (Pages 163 - 174) | Adrian Rowbotham
Tel: 01732 227153 |
| 14. Audit Committee Member Training
A discussion on training needs. | | |
| 15. Work Plan | (Pages 175 - 176) | |

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 15 March 2016 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Brookbank (Vice Chairman)

Cllrs. Clack, Dyball, Edwards-Winsor, Layland, McArthur and Purves

An apology for absence was received from Cllr. Reay

38. Minutes

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

39. Declarations of Interest

There were no additional declarations of interest.

40. Actions from Previous Meeting

There were none.

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

There were none.

42. Internal Audit 2015/16 - 3rd Progress Report

The Chief Finance Officer 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 January 2016. Of the two final reports issued since the last meeting, one had a Satisfactory opinion for its framework and Good for its controls and the other had Good opinions for both aspects.

Members discussed the role of the Committee in considering Internal Audit reports. Officers confirmed that full reports were available upon request. Members requested copies of the most recent reports to become familiar with the approach taken by Officers. The Chairman explained that Members were not expected to be familiar with the Council's internal procedures, but had to be satisfied with the Council's overall control framework. The quality of the Internal Audit Team was assessed by an external review of their processes.

Agenda Item 1

Audit Committee - 15 March 2016

Action 1: The Audit, Risk & Anti-Fraud Manager to circulate the final audit reports on Organisational Effectiveness & HR Strategy 2015/16 and Payroll 2015/16 to Members of the Committee.

In response to a question, the Chief Finance Officer advised that amendments proposed to the Opinions and Priority Ranking of recommendations would make the highest levels of opinion more achievable.

Noting that the Audit, Risk & Anti-Fraud Manager had been unable to attend the meeting, the Committee requested that further details be provided regarding the summaries of the Internal Audit reports.

Action 2: The Audit, Risk & Anti-Fraud Manager to provide further details concerning the staff survey and key HR policies referred to in the summaries of the Internal Audit reports.

Public Sector Equality Duty

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

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

43. Annual Internal Audit Plan 2016/17

The Chief Finance Officer presented the report which incorporated the Annual Internal Audit Plan and Programmed Reviews for 2016/17. The objective of the plan was to ensure that Internal Audit delivered reasonable assurance to the Council regarding the effectiveness of internal control, governance and risk management processes, in fulfilment of the Council's statutory responsibilities. The plan had been prepared in accordance with professional guidance, including the new Public Sector Internal Audit Standards 2013 and regulatory requirements, in particular the Accounts and Audit Regulations 2015. The Committee was required by its terms of reference, to approve the Annual Internal Audit Plan prior to its implementation.

The Committee agreed that the proposed audit of Planning Applications and Appeals was of high importance and should be prioritised earlier in the year, because of the implications on future planning matters.

In response to a question, the Chief Finance Officer clarified that the proposed reviews all related to medium or high risk areas as these were prioritised within the Team's resources. All Chief Officers had been asked to contribute to identify the areas of greatest risk.

The Committee agreed that further questions needed to be directed to the Audit, Risk & Anti-Fraud Manager who had been unable to attend the meeting and so a report on the Plan should also be considered at the next meeting of the Committee.

Public Sector Equality Duty

Audit Committee - 15 March 2016

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

Resolved: That

- a) the Draft Internal Audit Plan for 2016/17 be approved; and
- b) a further report on the Annual Internal Audit Plan 2016/17 be brought to the meeting of the Committee on 30 July 2016.

44. Internal Audit Strategy 2016/17

The Chief Finance Officer presented the report which explained that the Internal Audit Strategy was a high level document which set out how internal audit resources would be allocated to deliver stakeholder expectations and regulatory assurance. The existing strategy was last approved in 2006 and was no longer fit for purpose. The new strategy had been developed to address changing needs of the organisation and would facilitate greater engagement with key stakeholders in delivering added value assurance for the Council. The Strategy would also provide a simplified opinions framework.

The Chief Finance Officer explained that the Public Sector Internal Audit Standards (PSIAS) review noted the document had not been recently revised. The Committee agreed that further questions needed to be directed to the Audit, Risk & Anti-Fraud Manager before the item could be considered further.

Members indicated that a glossary would be helpful within the Strategy.

Public Sector Equality Duty

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

Resolved: That consideration of the report and of the Internal Audit Strategy 2016/17 be deferred to a future meeting of the Committee, with a preference for 30 June 2016.

45. External Review of Internal Audit - Update

The Chief Finance Officer presented a report which explained that the PSIASs provided a comprehensive and consistent framework for internal audit across the UK public sector. The standards required an external quality assessment at least every 5 years. A review of the Council's Internal Audit Team was carried out in 2015 by PwC. The purpose of the review was to ensure the Team was compliant with the standards, was effective at strengthening internal control, risk management and governance processes within the Council and made appropriate recommendations. The Action Plan highlighted that significant progress had been made to date but that some actions would take time to embed before they made a significant difference to the quality of the service provided by the Team.

He explained that key developments within the Team since the external review had been appointments to the vacant posts and that a Development Workshop for the Team had

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Audit Committee - 15 March 2016

been held in December 2015 which focussed of new ways of working to deliver added value.

Public Sector Equality Duty

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

Resolved: That Members note the progress made against the Action Plan and continue to receive updates at future meetings.

46. External Auditor Relationship and Future Appointments

The Chief Finance Officer presented a report which explained that at its last meeting the Committee requested that the Council's relationship with its external auditors, Grant Thornton, be considered. The report explained that Grant Thornton were appointed as the Council's external auditors from 1 November 2012 and would carry out an audit of the accounts, a Value for Money assessment, the Whole of Government Accounts and certification of the Housing Benefit Grant claim. Officers met Grant Thornton regularly to plan work and discuss issues. A good relationship had been built over the 3 years.

The report also provided information on the future appointment of the Council's next external auditors. The contract would come to an end on 31 March 2018 from when the Council could appoint a new external auditor. Under the Local Audit and Accountability Act 2014 the Council could make a stand-alone appointment through an Auditor Panel, set up a Joint Auditor Panel or opt into a Sector Led Body (SLB), which could negotiate a contract. The Local Government Association had asked for expressions of interest by 30 April 2016 in establishing a SLB but this would not be binding.

In response to questions, the Chief Finance Officer explained that Auditor Panels would likely be more expensive than current appointment processes. The Local Government Association may arrange appointments on a regional basis. Further information would be provided to the Committee once available.

Members discussed the Council's relationship with Grant Thornton. The Chief Finance Officer explained that the Council's fees were among the lowest as fees were set on the level of work historically required. The relationship with the auditors had been a significant issue and although Andy Mack, the Engagement Lead, was leaving Sarah Ironmonger would replace him. The Chairman considered the relationship with Grant Thornton to be strong and healthy and hoped that would continue for the next 2 years.

Public Sector Equality Duty

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

Resolved: That

- a) Members note the future implications for external audit procurement arrangements; and

Audit Committee - 15 March 2016

- b) Officers express interest in working with the Local Government Association as a Sector Led Body for the future appointment of external auditors.

47. Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2015/16

The Chief Finance Officer presented a report which put forward proposals for assessing the achievements for the Audit Committee for the year 2015/16, its third full year of operation. It explained that governance arrangements for Councils issued by CIPFA in compliance with the Accounts and Audit Regulations 2015 required that the Committee be assessed annually to determine its effectiveness and identify areas for further development. The process incorporated the recommended self-assessment checklist taken from the CIPFA guide "Audit Committees – Practical Guidance for Local Authorities" and had been amended where necessary to reflect local needs or customs. To facilitate and expedite the process, the checklist had been completed as far as possible drawing from the work of the Committee, in relation to its terms of reference, using the evidence available from the work of the Committee during 2015/16.

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

Members discussed whether additional training for the Committee would have been helpful, particularly before the first meeting of the Committee. They noted the Committee did not consider the same items at each meeting and that they felt unable to contribute so much at earlier meetings.

The Chairman considered that the issues raised in the report required further discussion when the Audit, Risk & Anti-Fraud Manager was present.

Public Sector Equality Duty

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

Resolved: That

- a) The Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2015/16 be noted;
- b) Approval be deferred until a future meeting of the Committee when the Audit, Risk & Anti-Fraud Manager is present.

48. Draft Audit Committee Annual Report 2015/16

The Committee considered the Chairman's annual report for consideration at the Council meeting on 26 April 2016.

Resolved: That the report be commended to Council.

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49. Work Plan

It was noted that items on the Internal Audit Strategy 2016/17 and Annual Self-Assessment Review of the Effectiveness of the Audit Committee 2015/16 were to be deferred and would likely be considered on 30 June 2016.

At the request of the Committee, Officers would consider other training opportunities for the next municipal year.

THE MEETING WAS CONCLUDED AT 8.35 PM

CHAIRMAN

ACTIONS FROM THE MEETING HELD ON 15.03.2016

Action	Description	Status and last updated	Contact Officer
ACTION 1	The Audit, Risk & Anti-Fraud Manager to circulate the final audit reports on Organisational Effectiveness & HR Strategy 2015/16 and Payroll 2015/16 to Members of the Committee.	Emailed to Members of the Committee on 15.04.2016.	Bami Cole Ext. 3023
ACTION 2	The Audit, Risk & Anti-Fraud Manager to provide further details concerning the staff survey and key HR policies referred to in the summaries of the Internal Audit reports.	The information requested for this action was included in the reports circulated for Action 1.	Bami Cole Ext. 3023

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ANTI-FRAUD TEAM REPORT 2015/16

Audit Committee - 30 June 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.7174, Glen Moore Ext. 7471.

Recommendation to Audit Committee:

That Members note the work of the Anti-Fraud Team carried out during the year ended 31 March 2016 and the details of the new Counter Fraud & Compliance Team created on 1 February 2016 following the transfer of benefit fraud work to the Single Fraud Investigation Service (S-FIS) within the Department for Work & Pensions.

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

Introduction and Background

1. This report sets out details of the activities of the Anti-Fraud Team during 2015/16, including the transfer of all benefit fraud work to the S-FIS in January 2016 and confirms the arrangements for a new Counter Fraud & Compliance Team within Sevenoaks District Council on 1 February 2016.
2. This is the fifth report of the Anti-Fraud Team to the Audit Committee. The Anti-Fraud Team was part of the Audit, Risk and Anti-Fraud shared services working jointly with Dartford Borough Council. The team was responsible for carrying out benefit fraud investigations and assisting both Councils in highlighting instances of fraud which adversely affected the level of taxes/income the Councils collected/received.

Summary of Key Issues in the Report

3. Details of the activities of the team during the year 2015/16 are attached as Appendix A to this report. With effect from 1 February 2016 responsibility for investigating Housing Benefit fraud passed to the Department for Work and Pensions (DWP) Single Fraud Investigation Service. Sevenoaks District Council continues to process and administer claims for Housing Benefit and

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therefore retains residual responsibilities in relation to the provision of Housing Benefit information in respect of investigations undertaken by S-FIS and the processing of referrals received from various national anti-fraud initiatives.

4. The Anti-Fraud Team continued to investigate instances of alleged Housing Benefit fraud until the end of 2015 when enquiries were wound down and preparations made for the transfer of all live investigations to the Single Fraud Investigation Service.
5. A key highlight for the year is the successful transfer of all benefit fraud work to the Single Fraud Investigation Service in January 2016 and the creation of a new Counter Fraud & Compliance Team based in the shared service Revenues & Benefits Department which will assist in creating a robust fraud and error compliance strategy protecting the Council's Local Taxation income base.

Key Implications

Financial

6. The cost of the new team has been met from the budget of the old fraud team and from funding from the major preceptors. Although it is anticipated that the team will generate additional council tax and business rates income, a large proportion of this additional income will be passed to the major preceptors. As the income cannot be guaranteed or predicted with any certainty, it has not been built into the budget.

Legal Implications and Risk Assessment Statement.

7. The Council is required to have effective anti-fraud arrangements in place in order to safeguard public funds and prevent the pursuance of crime. The new Counter Fraud & Compliance Team will contribute towards the council's fraud prevention initiatives.

Equality Assessment

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

Conclusions

9. This report sets out the achievements of a successful year for the Anti-Fraud Team during 2015/16 and outlines details of a new Counter Fraud & Compliance Team. Members are requested to note the report and the details of the new Counter Fraud & Compliance Team.

Appendices

Appendix A - Anti-Fraud Team End of Year Report 2015/16.

Background Papers: None.

Adrian Rowbotham
Chief Finance Officer

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Anti-Fraud Team 2015/16 – End of Year Report**1. Introduction**

This report is to update the Audit Committee on the work undertaken by the Anti-Fraud Team for the year ending 31 March 2016 and confirms the creation of a new Counter Fraud & Compliance Team following the transfer of benefit fraud work to the Department for Work & Pensions Single Fraud Investigation Service on 1 February 2016.

2. Background

The Anti-Fraud Team was established on 1 September 2010 combining the Benefit Fraud Investigations Teams from Sevenoaks District Council and Dartford Borough Council as part of a wider partnership arrangement joining the two Councils' Audit, Fraud, Revenues and Benefits services together.

Based within the shared Audit, Risk & Fraud Team, the team predominately investigated allegations of benefit fraud on behalf of the two local authorities with any residual resources being dedicated to assisting with issues of Council Tax fraud.

In December 2013 the Chancellor of the Exchequer announced the creation of the Single Fraud Investigation Service (SFIS) within the Department for Work & Pensions to investigate all welfare benefit fraud under a single remit. The transfer of local authority investigation staff to S-FIS commenced in October 2014 (and was completed in March 2016), with Sevenoaks District Council passing responsibility for the investigation of Housing Benefit fraud to the Single Fraud Investigation Service on 1 February 2016.

Sevenoaks District Council is committed to providing an effective anti-fraud service which is supported by efficient policies and sanctions for those that offend. Counter fraud is the responsibility of everyone in the council and by ensuring that effective measures are in place to prevent, detect, investigate and report that public money is spent where it should be, on services for the community.

Failure to investigate fraud will see money leaving the Council by way of fraud or error and failure to tackle this effectively could lead to loss of revenue for the council and loss of reputation. Sevenoaks District Council has taken the opportunity to retain some of the specialist investigative resources from the Anti-Fraud Team, which were due to transfer to S-FIS and created a new Counter Fraud & Compliance Team. More detail can be found in section 4 of this report.

3. Performance**Benefit Fraud**

Housing Benefit overpayments identified by fraud investigations during the period 1 April 2015 to 31 December 2015 amounted to £330,608 and £105,733 has been recovered.

Council Tax Benefit overpayments identified by fraud investigations during the period 1 April 2015 to 31 December 2015 amounted to £21,025 and £10,312 has been recovered.

Eight benefit fraud offenders were successfully prosecuted and a further three claimants were issued with formal cautions.

Additional revenue of £22,192 has also been generated as a result of Administrative Penalties accepted by customers following fraud investigations.

Council Tax Fraud

Council Tax Support overpayments identified by fraud investigations during the period 1 April 2015 to 31 March 2016 amounted to £36,264 and £20,873 has been recovered.

Pro-active initiatives in relation to Council Tax discounts yielded additional revenue of £9,231.

Cost Benefit Analysis 2015/16

	Total £	SDC Anti- Fraud £	
Expenditure:			
Partnership with DBC	196,209	98,105	Costs of the Anti-Fraud Team are split 50:50 with Dartford BC.
Income:			
HB Admin Grant & LCTS grant	(453,900)	(34,542)	DWP's proposed HB Admin Grant reduction due to SFIS. Used as a proxy for the proportion
Fraud discovered:			
Housing Benefit (HB)	(330,608)	(132,243)	SDC receive additional subsidy of 40% of overpayments discovered
Council Tax Benefit (CTB)	(21,025)	(8,410)	SDC receive additional subsidy of 40% of overpayments discovered
Council Tax Support (CTS)	(36,264)	(4,352)	SDC receive 12%
Deterrent Factor		(72,503)	Assume 50% of HB, CTB & CTS fraud. See (a) below.
Uncollected Estimate		65,252	Assume 30%. See (b) below.
CT Discounts	(9,231)	(1,108)	SDC receive 12%
Uncollected estimate		8	Assume 0.7% as Council Tax collection rate is 99.3%

Net Position		(89,792)	

- (a) We can assume an additional 50% deterrent factor. Probably 95% of current fraud is a failure to report a change in circumstances. £330,608 of overpaid HB was discovered by the Fraud Team during 2015/16. SDC actually raised some £1,511,909 in recorded HB overpayments during 2015/16 (figures obtained from HBRF returns). SDC has an approx. HB caseload of 5,000 cases. If we have conducted 100 investigations for the last 10 years then 1/5 of claimants have had some direct contact with the Fraud Team and have hopefully been educated in the art of promptly reporting changes. Therefore you could assume that the Fraud Team had a direct impact on generating the £330,608, but also 50% extra indirectly on people reporting changes to the local authority.
- (b) The DWP rate of recovery is approximately £10 per week. So any overpayments over £5,000 would take 10 years to recover and therefore it is unlikely that it will all be paid. In 2015/16 the Fraud Team discovered 54 cases of overpaid benefit. 16 of these were over the £5,000 mark (30%), but some will be recovered quickly (for example capital cases) and so a 30% uncollected estimate has been assumed. Of the £387,897 raised in HB, CTB and CTS overpayments during 2015/16 some £136,918 has already been recovered.

4. The Counter Fraud & Compliance Team

In March 2016 The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Local Government Counter Fraud and Corruption Strategy 2016 - 2019, a follow-up to the Fighting Fraud Locally Strategy published in 2011. CIPFA warned that the £2.1 billion annual loss to local government fraud could be a gross under estimation and areas such as Council Tax fraud and Tenancy fraud were singled out as areas of concern.

Key messages highlighted within the report were:

- Local authorities should adopt an ‘invest to save’ approach in respect of their counter fraud resources.
- Councils need to look in the right areas, by taking a risk based approach to identify fraud.
- Councils should keep ahead of fraudsters by utilising innovation and implementing robust systems to prevent fraud entering the system in the first place.

One FTE investigator from the shared service Anti-Fraud Team transferred to S-FIS on 1 February 2016, leaving 1 FTE Counter Fraud Manager and 2 FTE Counter Fraud Officers to create the new shared service Counter Fraud & Compliance Team.

Drawing upon the results of successful Council Tax fraud initiatives in the past it was decided to locate the new team within the shared service Revenues & Benefits Department to assist in creating a robust fraud & error compliance strategy which protects the Council's Local Taxation income base. The team will deal with all aspects of external fraud such as Council Tax discount & exemption fraud and Business Rates relief fraud. All internal fraud matters will continue to be dealt with by officers from the shared service Audit Department.

The Council Tax major preceptors have been extremely supportive of this change providing funding and support in relation to this work with talks continuing to seek further investment in sustainable systems to tackle fraud and corruption which will allow resources to remain in areas supporting people who desperately need them.

STATEMENT OF ACCOUNTS 2015/16 - ESTABLISHMENT OF MEMBER WORKING GROUP

Audit Committee - 30 June 2016

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That a Member Working Group be set up to review the 2015/16 Draft Statement of Accounts.

Introduction

- 1 Until 2009/10 it was a requirement of The Accounts and Audit Regulations 2003 that Members' approve the Draft Statutory Statement of Accounts by 30 June following the financial year end and that the Audited Statutory Statement of Accounts be approved by Members by 30 September.
- 2 In 2010/11 these requirements changed and now only the Audited Statutory Statement of Accounts have to be approved by Members by 30 September.
- 3 As the Statement of Accounts are very detailed, the Chairman has suggested that a small working group should be established to review the draft during July.
- 4 The working group should have the authority to recommend changes to the Statement of Accounts ensuring that they still adhere to the statutory regulations, and would report to the September Audit Committee.
- 5 A working group was established last year to review the 2014/15 Draft Statement of Accounts and recommended that the foreword be amended which was incorporated in the Accounts. Members of last years working group were Cllrs. Grint, Layland, and Reay. The Portfolio Holder for Finance, Cllr. Searles, was invited to attend their meetings.

Key Implications

Financial

None directly arising from this report.

EXTERNAL AUDIT - ANNUAL AUDIT PLAN AND UPDATE

Audit Committee - 30 June 2016

Report of Chief Finance Officer

Status: For Information

Key Decision: No

Portfolio Holder Cllr. Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the report be noted

Introduction

- 1 Sarah Ironmonger and Geoffrey Banister from Grant Thornton would like to present the Audit Plan 2015/16 and update for Sevenoaks District Council to Members.

Key Implications

Financial

None directly arising from this report.

Legal Implications and Risk Assessment Statement.

None directly arising from this report.

Equality Assessment

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

Appendices Appendix - Grant Thornton: The Audit Plan for Sevenoaks District Council

Background Papers: None

Adrian Rowbotham
Chief Finance Officer

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The Audit Plan for Sevenoaks District Council

Year ending 31 March 2016

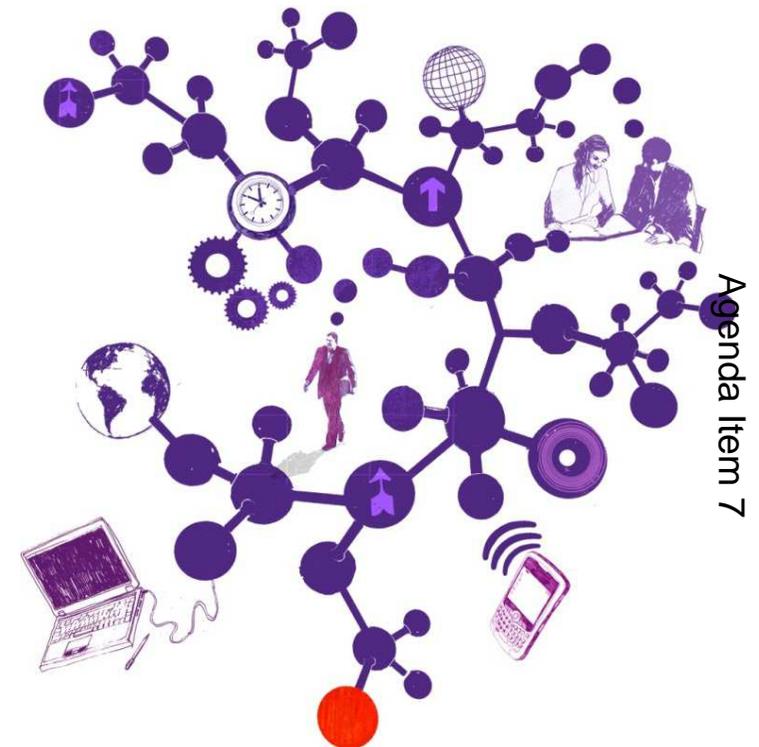
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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June 2016

Dear Members of the Audit Committee

Audit Plan for Sevenoaks District Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Sevenoaks Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Sarah Ironmonger
Engagement Lead

Chartered Accountants

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Understanding your business

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

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- The Council has set a budget for the coming financial year which will see the authority become financially self-sufficient amid further reductions in funding from Government

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- Other councils in Kent are in talks to work closer together or merge.

3. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

- We will consider your plans for addressing your financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.

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Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Joint arrangements

- Local authorities are increasingly involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Sevenoaks has created a Local Authority Trading Company, Quercus 7 Ltd.



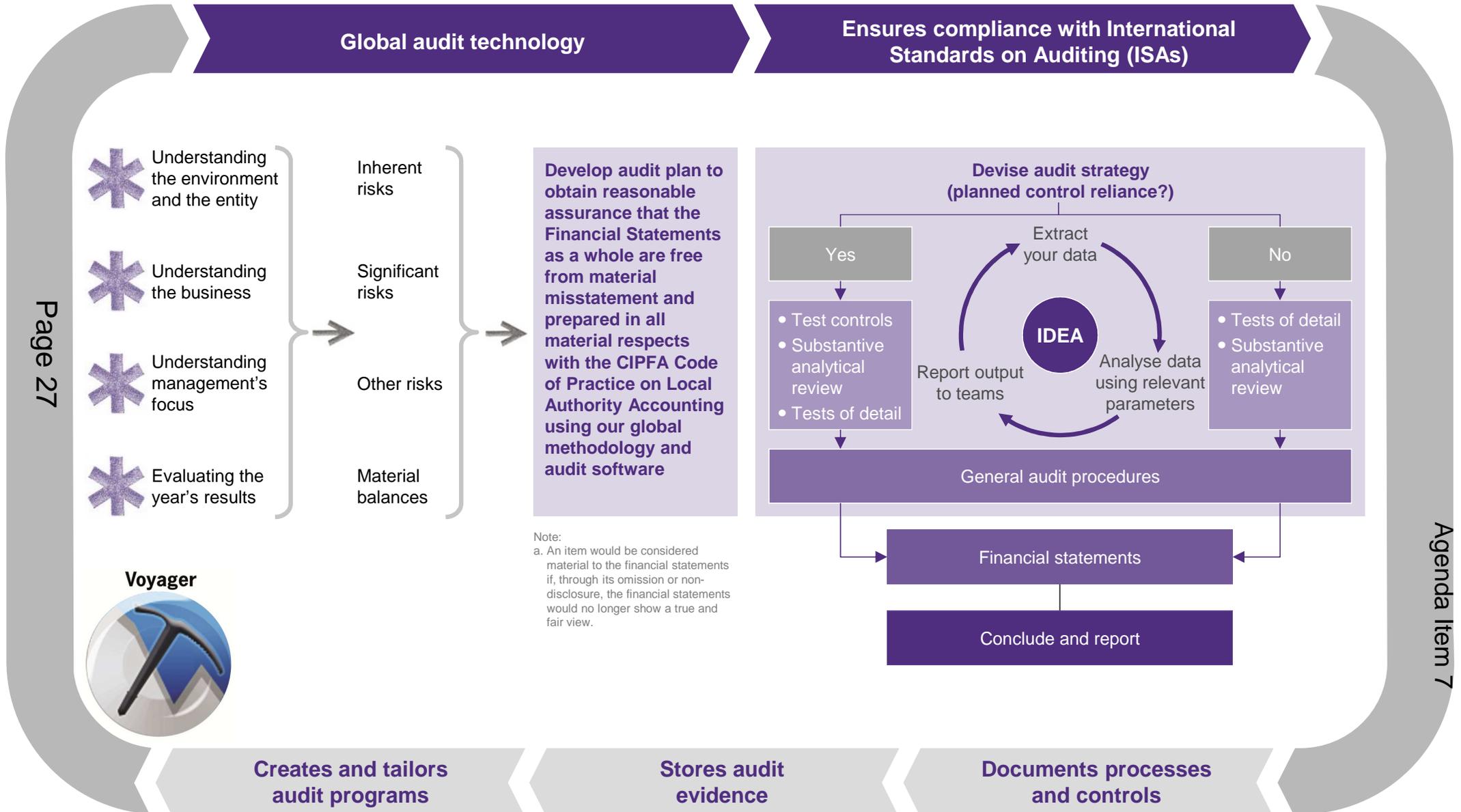
Our response

- We will keep you informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,117k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £56k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k for Exit Packages and bandings of senior employee remuneration

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Sevenoaks District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Assessment of internal controls in place relating to the posting of journal entries • Testing of journal entries for periods 1-9 (April – December 2015) <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of any subsequent accounting estimates, judgments and decisions made by management • Testing of journal entries for periods 10 onwards • Review of unusual significant transactions

Other risks identified

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

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

Other risks	Description	Audit approach
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of the council's processes and controls over this area to gain an understanding of these. <p>Further work planned:</p> <ul style="list-style-type: none"> Detailed substantive testing will be performed over the operating expenditure incurred by the Council, during the year, including payments made post-period end Trend analysis of the month-on-month spend on Operating Expenses will be performed to identify any months where amounts have been potentially omitted, and explanations will be obtained for these. Testing will also be performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of the council's processes and controls over this area to gain an understanding of these. Testing of a sample of employees for periods 1 to 9 to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year. <p>Further work planned:</p> <ul style="list-style-type: none"> Trend analysis on the Council's Monthly Payroll Figures to identify any months where there are outliers present which may indicate issues with the completeness of the figures included within the GL from the Payroll System. Testing of a sample of employees for periods 10 to 12 to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Investments (long term and short term)
- Cash and cash equivalents
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Property, plant and equipment
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table on the right:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered:

- our cumulative knowledge of the Foundation Trust, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we have identified one significant risks and this is summarised below. A significant risk is defined as an issue, decision or area of activity which relates to the overall VfM criterion, is important enough to be of clear interest to the public and other stakeholders and about which we do not already have sufficient information on which to base a conclusion on the relevant arrangements. Included below are details of the work we plan to carry out to address these risks in fulfilling our duties in respect of the 2015/16 VfM conclusion. We will also consider the Trust's other risks related to the NAO's VfM criteria and will report back any findings to the Audit Committee.

Significant risk identified	Sub-criterion	Planned response
<p>The Council is continuing to push forward with its aim of becoming financially self-sufficient from direct Government support, having identified some time ago that with reducing government support and the need to keep council tax rises to a minimum, a new financial model was needed. As part of this the Council has invested £8m of savings to acquire a number of income earning properties, with further acquisitions are planned. This is a new strategy for the Council, significant amounts are being invested, with the need to build up experience and expertise.</p>	<p>Sustainable resource deployment</p>	<p>We propose to:</p> <ul style="list-style-type: none"> • review the Council's Investment strategy and the reports to members • review the Investment outturn position for 2015/16 and the Investment budget plans for 2016/17 and 2017/18 • meet with key officers to discuss key Investment strategic challenges and the Council's proposed response

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

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

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

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Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding</p>	Our work has not identified any material weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	Controls over the authorisation and retrospective review of journals have improved, however journals with a value less than £10k are not reviewed before or after being posted.
Early substantive testing	We have tested payroll transactions for the first nine months.	We have not identified any material issues with the sample for period 1-9.

Key dates



Date	Activity
February 2016	Planning
March 2016	Interim site visit
30 June 2016	Presentation of audit plan to Audit Committee
August / September 2016	Year end fieldwork
September 2016	Audit findings clearance meeting with Director of Finance
27/09/2016	Report audit findings to those charged with governance (Audit Committee)
By 30/09/2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	43,156
Grant certification (estimated)	14,250
Total audit fees (excluding VAT)	57,406

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

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

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<https://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

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Appendices

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Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

2014/15 Recommendation

Re c No.	Recommendation	Priority	Management response	Implementation date & responsibility	Current position
1	Ensure all journals are approved electronically by an officer that has not been involved in the preparation process.	High	<p>The risk of mis-appropriation of funds within codes is small due to the following processes already in place.</p> <ol style="list-style-type: none"> 1. Journals requested by non-Finance staff are agreed by Finance. 2. End of year accruals are authorised by the relevant Chief Officer before being agreed by Finance. 3. The budget monitoring reports require comments for any variances over £10,000 and are analysed on a line-by-line basis by the Finance Team. <p>Random checks will now be carried out to reduce the opportunity to misappropriate funds within codes. This will involve the Chief Finance Officer and Head of Finance completing monthly checks. This will ensure that journals completed by each member of the Finance Team are checked on a regular basis.</p>	<p>15/09/15</p> <p>Head of Finance</p>	<ol style="list-style-type: none"> 1. Control in place 2. To confirm at year end audit 3. Control in place
2	Improve the timeliness of the financial statements preparation process. This will be particularly important given the Department for Communities and Local Government's proposals to move the sign off deadline to 31 July by 2018.	High	<p>It is intended to bring the 2015/16 annual accounts process forward by a further week as we move towards the earlier deadline.</p>	<p>31/01/16</p> <p>Head of Finance</p>	<p>To confirm at year end audit</p>

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility	Current position
3	As recommended for the last two years the Council should build into the financial statements preparation process a more thorough comprehensive quality assurance review to identify errors.	High	A review of the resources and skills required will be carried out to identify the current gaps to reduce the chances of issues arising in future years. Changes will be in place for the 2015/16 annual accounts.	31/12/15 Head of Finance	CIPFA to assist in June in the preparation and checking of the final accounts prior to publication.
4	Improve the accuracy, completeness and disclosures of the notes to the financial statements.	High	As 3 above.	31/12/15 Head of Finance	As 3 above.

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ANNUAL INTERNAL AUDIT PLAN 2016/17

Audit Committee - 30 June 2016

Report of Chief Finance Officer

Status: For Consideration (deferred from 15 March 2016)

Key Decision: No

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

Portfolio Holder Cllr. Searles

Contact Officer Bami Cole Ext.7236

Recommendation to Audit Committee: That the draft Internal Audit Plan for 2016/17 be approved

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.

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ANNUAL AUDIT PLAN 2016/17

Special investigations	To carry out investigations into suspected frauds, losses etc in accordance with the Fraud Response Plan.
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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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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

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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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SEVENBOAKS 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 60	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 effectiveness in delivering service objectives.	H	5
18		Business Continuity	To review the Council's arrangements for the continuation of	H	5

			Council business, in the event of a disaster, in order to provide assurance regarding it's effectiveness to facilitate continuity of council business and to enable a swift return to normality.		
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 te 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
Page 63		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	Proposed
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				Ranking	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
Page 64		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 fitness for purpose, support for the Annual Governance Statement process and the Audit Universe methodology. Robust risk management underpins other key aspects of the	M	10

			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
30		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 - 30 June 2016

Report of Chief Finance Officer

Status: For Consideration (deferred from 15 March 2016)

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.

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 9
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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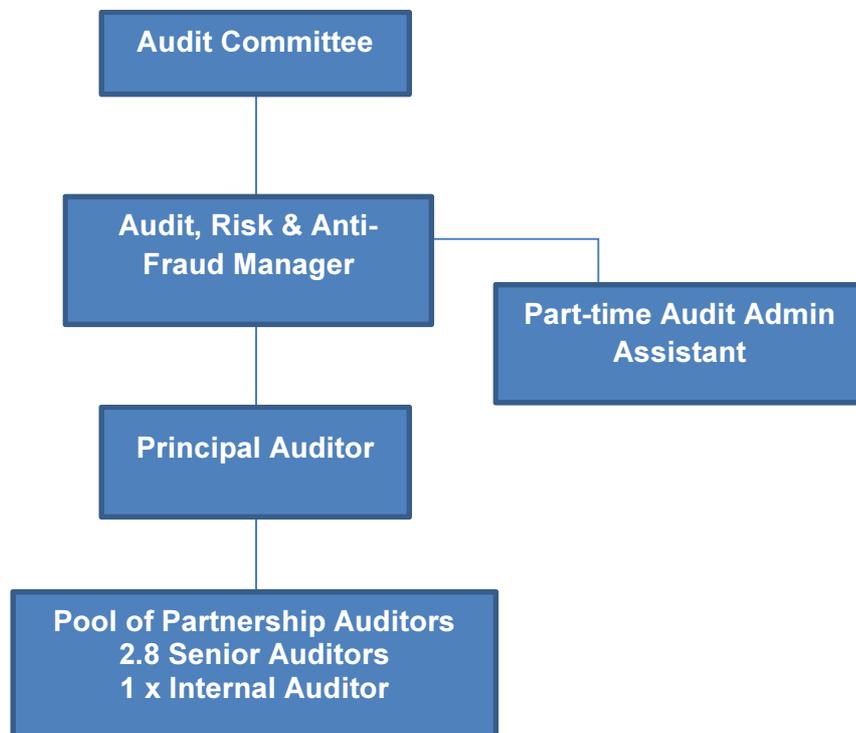
judgements and advice. In practice, independence will be achieved through Internal Audit:

- 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

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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 ARAFMs 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 ARAFMs 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 ARAFMs 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 ARAFMs 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

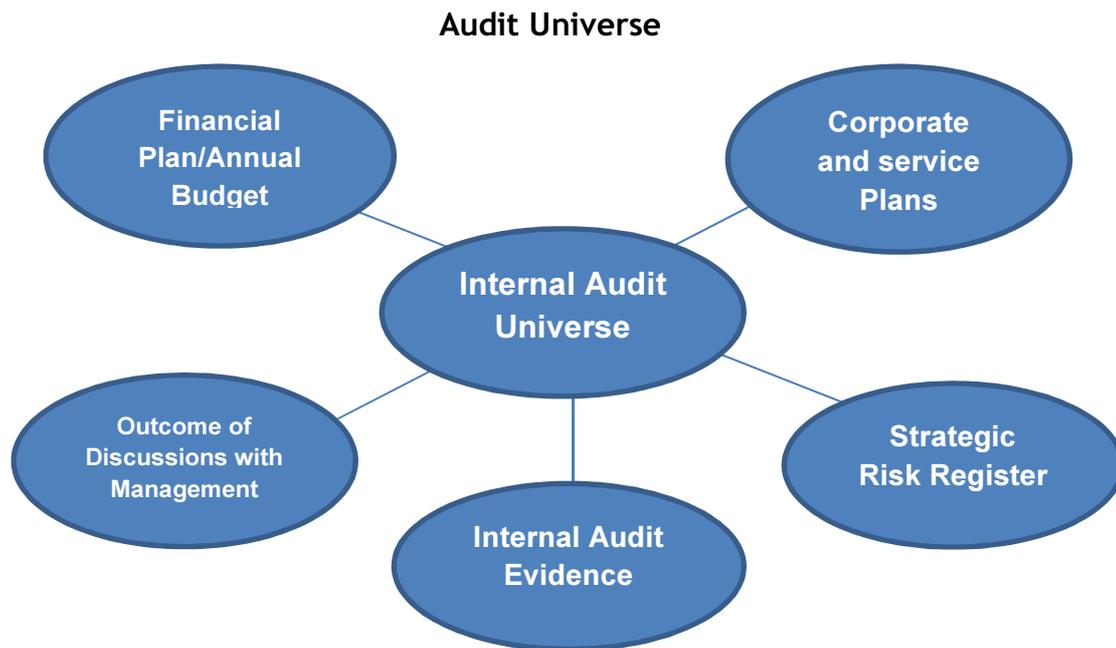
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into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

- 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.

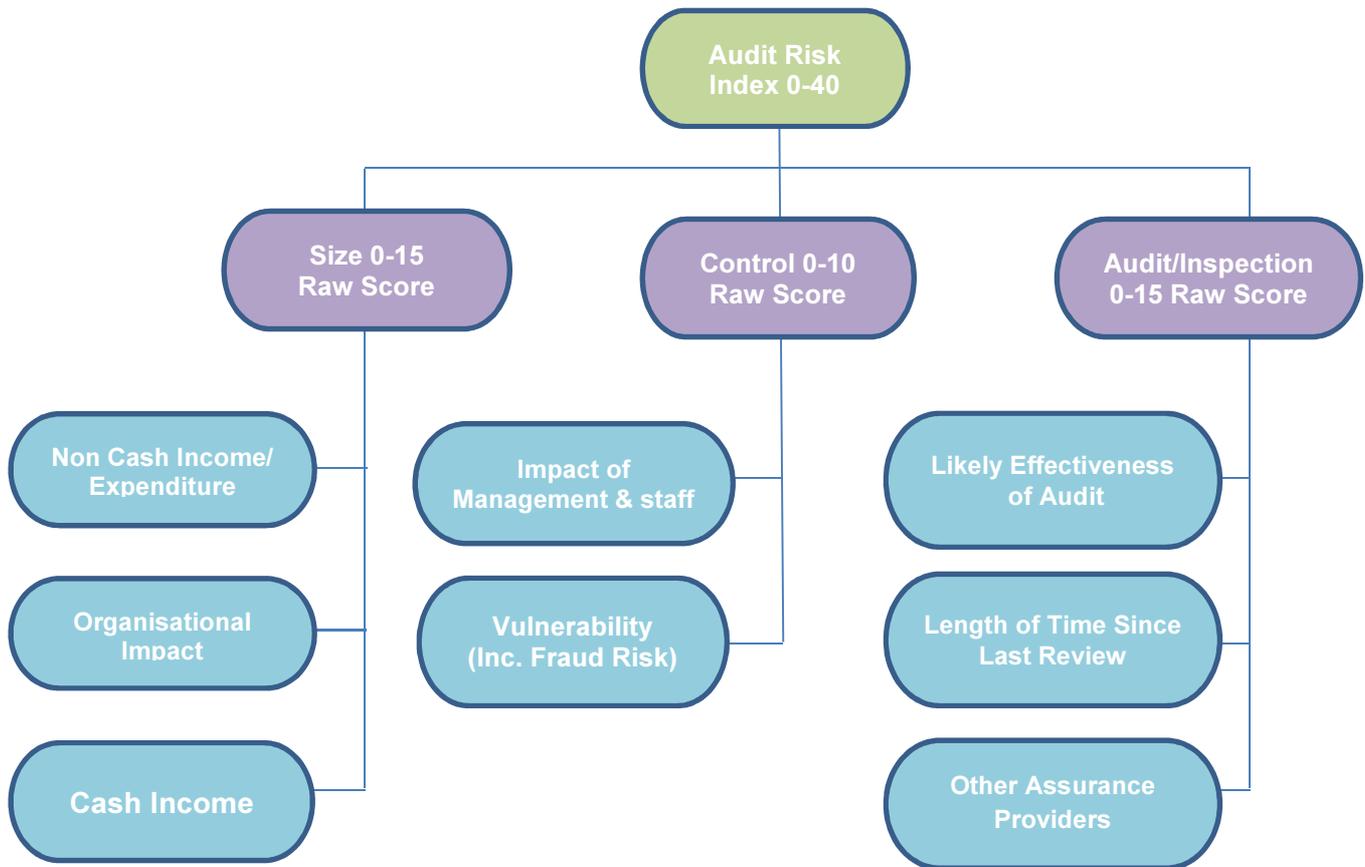


The above diagram depicts input into the Audit Universe

- 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	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. Implementation of the agreed recommendation is desirable, as it will improve overall control, efficiency or value for money.

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

Audit Committee - 30 June 2015

Report of the: Chief Finance Officer

Status: For Consideration (deferred from 15 March 2016)

Key Decision: No

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

Portfolio Holder Cllr. Searles

Contact Officer 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/uksi_20150234_en.pdf

Public Sector Internal Audit Standards:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207064/public_sector_internal_audit_standards_december2012.pdf

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 How do you think the Audit Committee has performed over the course of the year?	<ul style="list-style-type: none"> 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.
2 Do you think the Audit Committee has addressed the correct subjects? If not, what subjects would you like to see included in its agenda?	<ul style="list-style-type: none"> 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.
3 What is your view on the quality of the reports received?	<ul style="list-style-type: none"> 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.
4 Is the level of detail correct?	<ul style="list-style-type: none"> 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”.
5 What improvements would you like to see in reports?	<ul style="list-style-type: none"> 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.
6 Is it helpful to have Grant	<ul style="list-style-type: none"> a. Yes. b. Probably - who would carry out explaining

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>

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

Audit Committee - 30 June 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. 7174

Recommendation to Audit Committee: That Members note the conclusion of the Annual Self-assessment Review of the Effectiveness of Internal Audit Service 2015/16, that the Council had an adequate and effective Internal Audit service which contributes towards the proper, economic and effective use of resources in achieving its objective.

Introduction & Background

- 1 In compliance with Regulation 6.1 of the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards 2013 an annual review of the effectiveness of the Internal Audit function is carried out, using standard guidance and templates to facilitate the process, in accordance with proper practice for Internal Audit. This report sets out the outcome of the process and the conclusions drawn from it. The results from this process also feed into the Internal Audit Manager's Annual Report and the Council's Annual Governance Statement. The outcome of this review was sent to the Council's Strategic Management Team for consideration and approval on.

Summary of Issues Raised Within the Report

- 2 Appendix A sets out the details of the self-assessment. The process involved the completion of the self-assessment checklist by the Audit, Risk and Anti-Fraud Manager, in order to assess compliance with the Public Sector Internal Audit Standards 2013 and the result was sent to senior management for their consideration and approval, prior to presenting it to the Audit Committee.

Results of the Self-assessment of Internal Audit

- 3 Following the assessment, the Audit Risk and Anti-Fraud Manager's opinion, is that the Council's arrangements in place for Internal Audit in 2015/16 were substantially compliant with the 2013 PSIAS. There were no material

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omissions. Areas for improvements identified will be addressed as part of the Internal Audit Service Development Plan in 2016/17. However, the 2013 standards have now been replaced with the updated standards which came into effect in 1 April 2016. Hence it is the requirements of these new standards which the service will be judged against going forwards.

Key Implications

Financial

4 This report has no financial implications.

Legal Implications and Risk Assessment Statement

5 The review of the effectiveness of the Internal Audit function is a regulatory requirement designed to ensure that the service is effective in carrying out its statutory duties aimed at strengthening internal control, risk management and governance processes within the Council, including the minimisation of fraud risks. The outcome of the self-assessment indicates that the service is substantially compliant and that areas for further development are being addressed. However, the 2013 standards have now been replaced by update standards which came into effect on 1 April 2016. Hence it is the requirements of these new standards which the service will be measured against going forward. Hence an initial assessment against the new standards will be completed and reported to the next Audit Committee.

Equality Assessment

6 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.

7 Conclusion

8 The Audit Manager's opinion therefore is that the Council's arrangements in place for Internal Audit, in 2015/16 were substantially compliant with the 2013 PSIAS. New assessments will need to be completed in accordance with the new 2016 standards and reported to the next Audit Committee in September 2016.

Appendices

Appendix A - Self-Assessment Checklist

Background Papers:

[The Accounts and Audit \(England\) Regulations 2015](#)

[Public Sector Internal Audit Standards.](#)

Adrian Rowbotham
Chief Finance Officer

APPENDIX A - CHECKLIST - COMPLIANCE WITH THE PSIAS

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

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

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

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

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

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

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

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

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

Appendix A

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

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

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

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

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

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

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

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>1130.C2 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.</p> <p>Public sector requirement: Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.</p>				<p>Proposals regarding protocol for consulting to be agreed with management, and will be included in the revised Audit Charter.</p> <p>Included under the 'Independence' section of the Internal Audit Charter template.</p>
1200	Proficiency and Due Professional Care				
	Engagements must be performed with proficiency and due professional care.		P		<p>There is an effective framework in place to facilitate this, but in practice limitations are imposed by individual auditor qualification, knowledge, experience and capabilities. Also, new staff within local government or internal audit need training and development to facilitate their effectiveness. A successful development day was held in December 2015. Relevant action plan is being progressed to facilitate necessary improvements.</p>
1210	Proficiency				
	Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.		P		<p>See above. Also, the team is now at full establishment. Hence better placed to develop a wider range of expertise. But this will need time to embed before it becomes fully effective.</p>

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>Interpretation: Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.</p> <p>Public sector requirement: The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.</p>		P		<p>Some key staff lack adequate professional qualifications, but appropriate training has been identified to address this and relevant training plans are being implemented. Where appropriate, professional qualification training is also being offered.</p> <p>ARAFM is a graduate and CMIIA qualified, with over 20 year's relevant experience.</p>
	<p>1210.A1 The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.</p>		P		<p>Where necessary this is addressed by use of agency staff, but is subjected to budget constraints.</p>
	<p>1210.A2 Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.</p>		P		<p>The risk of fraud is a key consideration as part of the audit process. However the effectiveness of how this is dealt with during an engagement is limited by the individual auditor's capabilities. Appropriate training is planned for all auditors.</p>
	<p>1210.A3 Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all</p>		P		<p>Where appropriate temporary technical support is obtained from recruitment agencies. Also the ARAFM runs periodic technical</p>

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.				meetings, as part of the on-going development and quality improvements programme for auditors.
	1210.C1 The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.				Consulting engagements will not be accepted without an assessment of relevant competencies and approval by the Audit Committee/ Board (see Audit Charter). Protocol for consulting to be agreed with senior management.
1220	Due Professional Care				
	Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.		P		Due professional care and skill is subject to individual auditor capability. As already cited above, there is room for improvement.
	1220.A1 Internal auditors must exercise due professional care by considering the: <ul style="list-style-type: none"> • Extent of work needed to achieve the engagement’s objectives; • Relative complexity, materiality or significance of matters to which assurance procedures are applied; • Adequacy and effectiveness of governance, risk management and control processes; • Probability of significant errors, fraud, or non-compliance; and • Cost of assurance in relation to potential benefits. 		P		This is an area for further development, as cited above

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Appendix A

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	1220.A2 In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.		P		Use is made of existing technology and techniques. Additionally we have now obtained Teammate and are in the process of developing functionality and migration. We are also looking to activate the use of IDEA to facilitate more effective interrogation and analysis, both of which will contribute towards more efficiency and improve quality of the audit product.
	1220.A3 Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.	Y			The audit process makes provision for this, but again is limited by individual auditor capabilities.
	1220.C1 Internal auditors must exercise due professional care during a consulting engagement by considering the: <ul style="list-style-type: none"> Needs and expectations of clients, including the nature, timing and communication of engagement results; Relative complexity and extent of work needed to achieve the engagement's objectives; and Cost of the consulting engagement in relation to potential benefits. 	Y			This is part of the standard audit process.
1230	Continuing Professional Development				
	Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.	Y			Auditors attend the Kent Audit Group (KAG) conference which covers current key audit issues, and also relevant training is identified during appraisal and a training and

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					development plan agreed with staff.
1300	Quality Assurance and Improvement Programme				
	The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.	Y			There is an annual internal quality review process and a recent external review was undertaken. Relevant action plans have substantially been delivered. There is also a process in place for continuing improvements.
	<p>Interpretation:</p> <p>A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.</p>				This is set out in the Internal Audit Charter.
1310	Requirements of the Quality Assurance and Improvement Programme				
	The quality assurance and improvement programme must include both internal and external assessments.	Y			As already stated above
1311	Internal Assessments				
	<p>Internal assessments must include:</p> <ul style="list-style-type: none"> On-going monitoring of the performance of the internal audit activity; and Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. 	Y			The self-assessment process is detailed and comprehensive. The results are considered by suitably qualified and experienced senior management
	Interpretation:				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>On-going monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. On-going monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.</p>				
1312	External Assessments				
	<p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> • The form of external assessments; • The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and • The need for more frequent external assessments. 		P		EQA was recently completed by a qualified and experienced assessor (PWC). Relevant proposals and action plan have been agreed by senior management and is substantially implemented with satisfactory progress being made
	<p>Interpretation: External assessments can be in the form of a full external assessment, or a self-assessment with independent validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience</p>				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.</p> <p>An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.</p> <p>Public sector requirement: The chief audit executive must agree the scope of external assessments with an appropriate sponsor (e.g. the Accounting/Accountable Officer or chair of the audit committee) as well as with the external assessor or assessment team.</p>	Y			Process was carried out by an independent assessor.
1320	Reporting on the Quality Assurance and Improvement Programme				
	The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.	Y			As already stated above
	<p>Interpretation: The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon</p>				Included under the 'Reporting' section of the Internal Audit Charter. Also included in the annual report. (Also see section 10 of Quality Manual).

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>completion of such assessments and the results of on-going monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.</p> <p>Public sector requirement: Progress against any improvement plans, agreed following external assessment, must be reported in the annual report.</p>				<p>This will form part of the standard reporting process.</p>
1321	<p>Use of Conforms with the International Standards for the Professional Practice of Internal Auditing</p>				
	<p>The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement programme support this statement.</p>	Y			<p>On the assumption that there is no evidence to the contrary.</p>
	<p>Interpretation: The internal audit activity conforms with the International Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and International Standards.</p> <p>The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.</p>				
1322	<p>Disclosure of Non-Conformance</p>				
	<p>When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.</p>	Y			<p>The ARAFMs will advise senior management of the issues which are required to be raised with the Audit Committee, both separately and as part of the AGS process.</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>Public sector requirement: Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.</p>				<p>See above.</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Performance Standards				
2000	Managing the Internal Audit Activity				
	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.	Y			This is part of the audit process. All internal audit briefs are agreed with senior management. Value for money considerations is also part of the standard audit brief
	<p>Interpretation: The internal audit activity is effectively managed when:</p> <ul style="list-style-type: none"> • The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter; • The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and • The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards. <p>The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.</p>				See above
2010	Planning				
	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.		P		The planning process for 2016/17 used existing information to adopt a risk based approach. However, not all relevant information was readily available to support the process. Hence available information was used to best effect, giving regard to relevant guidance and appropriate

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					<p>professional standards, as necessary. To this effect, an annual plan was prepared, pending a detailed internal audit review into the Audit Universe, which will inform more comprehensive, strategic, tactical and operational planning, in time for the next planning phase in 2017.</p>
	<p>Interpretation: The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.</p> <p>Public sector requirement: The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.</p>				<p>See above and also the Internal Audit Plan.</p>
	<p>2010.A1 The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>				<p>The Audit Plan gives consideration to the Council's strategic risk assessment process. However, also see 2010 above.</p>

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	2010.A2 The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.				This process is facilitated by engagement with senior management
	2010.C1 The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.				This is part of standard audit process.
2020	Communication and Approval				
	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.	Y			This is part of the standard process. Where appropriate additional resources have been obtained through commissioning of agency staff
2030	Resource Management				
	The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.	Y			The team is now at full establishment. However, two new staff are not from a local authority background and one is new to internal audit; and also going through qualification training. Hence training and development is necessary to bring both staff up to the required standard to make them fully effective in their roles. Appropriate training has also been identified to improve the effectiveness of the rest of the team
	Interpretation: Appropriate refers to the mix of knowledge, skills	Y			The team is now at full establishment. Regarding

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.</p> <p>Public sector requirement: The risk-based plan must explain how internal audit's resource requirements have been assessed.</p> <p>Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.</p>				<p>qualifications, the ratio is 50% relevant qualifications, with an additional member of staff actively pursuing qualification training. Opportunities for non-qualified staff to obtain qualification are available and staff are actively encouraged to pursue professional qualifications</p>
2040	Policies and Procedures				
	<p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	Y			<p>The Audit, Risk and Anti-Fraud Manager has established policies and procedures to guide and facilitate the Internal Audit Activity. These are under review to facilitate service improvements and reflect stake holder requirements and expectations, as well as developments in professional guidance.</p>
	<p>Interpretation: The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.</p>				
2050	Coordination				
	<p>The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise</p>	Y			<p>The ARAFMs meets and liaises regularly with the external auditors. (section 11.5 Audit Charter)</p>

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	duplication of efforts.				
	Public sector requirement: The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.				Part of standard assurance process
2060	Reporting to Senior Management and the Board				
	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Y			Part of standard audit process (See Audit Charter para 9 and Quality manual (Para 10.3 to 10.5).
	Interpretation: The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.				
2070	External Service Provider and Organisational Responsibility for Internal Audit				
	When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.				
	Interpretation: This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the Definition of Internal Auditing, the Code of Ethics and the International Standards.				
2100	Nature of Work				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	Y			Part of standard audit process.
2110	Governance				
	The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: <ul style="list-style-type: none"> Promoting appropriate ethics and values within the organisation; Ensuring effective organisational performance management and accountability; Communicating risk and control information to appropriate areas of the organisation; and Coordinating the activities of and communicating information among the board, external and internal auditors and management. 	Y			Part of Audit process as set out in the Audit Charter and the Quality Manual.
	2110.A1 The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.				
	2110.A2 The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.				
2120	Risk Management				
	The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	Y			See above.
	Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that: <ul style="list-style-type: none"> Organisational objectives support and align 				All internal audit briefs have risk management control as a standard control object The risk management

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>with the organisation’s mission;</p> <ul style="list-style-type: none"> • Significant risks are identified and assessed; • Appropriate risk responses are selected that align risks with the organisation’s risk appetite; and • Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities. <p>The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation’s risk management processes and their effectiveness.</p> <p>Risk management processes are monitored through on-going management activities, separate evaluations, or both.</p>				<p>process is reviewed regularly</p> <p>Internal audit co-ordinates risk assessments and risk actions co-ordination and reports to the Audit Committee on progress of risk management.</p> <p>Internal audit is careful not to become too close to risk ownership of operational areas, as this is a management function.</p> <p>Internal audit can offer advice and guidance on control and control requirements.</p>
	<p>2120.A1</p> <p>The internal audit activity must evaluate risk exposures relating to the organisation’s governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> • Achievement of the organisation’s strategic objectives; • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations and programmes; • Safeguarding of assets; and • Compliance with laws, regulations, policies, procedures and contracts. 				<p>See above.</p>
	<p>2120.A2</p> <p>The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.</p>				<p>Part of standard audit process.</p>
	<p>2120.C1</p> <p>During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the</p>				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	existence of other significant risks.				
	2120.C2 Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.				
	2120.C3 When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.				
2130	Control				
	The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.	Y			This is part of the audit process and included in the scope of audit briefs.
	2130.A1 The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the: <ul style="list-style-type: none"> • Achievement of the organisation's strategic objectives; • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations and programmes; • Safeguarding of assets; and • Compliance with laws, regulations, policies, procedures and contracts. 				See above and internal audit files.
	2130.C1 Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes.				Joined up approach is evidenced through technical and quality meetings.
2200	Engagement Planning				

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Appendix A

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
2201	Planning Considerations				
	<p>In planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> • The objectives of the activity being reviewed and the means by which the activity controls its performance; • The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level; • The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and • The opportunities for making significant improvements to the activity's governance, risk management and control processes. 	Y			See above.
	<p>2201.A1 When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.</p>				
	<p>2201.C1 Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.</p>				
2210	Engagement Objectives				
	Objectives must be established for each engagement.	Y			See above.

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	2210.A1 Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.				Internal Audit Planning and Audit Brief
	2210.A2 Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.				Internal Audit Brief and engagement planning meetings
	2210.A3 Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria. Public sector interpretation: In the public sector, criteria are likely to include value for money.				Internal Audit Brief and engagement planning meetings
	2210.C1 Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.				
	2210.C2 Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.				This part of the audit process. Also consulting activities will be designed to met the bespoke requirements of the sponsor
2220	Engagement Scope				
	The established scope must be sufficient to satisfy the objectives of the engagement.	Y			Part of standard audit process. See section 9 Quality Manual. Also

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
					evidenced within audit files.
	2220.A1 The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.				
	2220.A2 If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.				
	2220.C1 In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.				
	2220.C2 During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.				
2230	Engagement Resource Allocation				
	Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
2240	Engagement Work Programme				
	Internal auditors must develop and document work	Y			Part of standard audit

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	programmes that achieve the engagement objectives.				process. See section 9 Quality Manual. Also evidenced within audit files
	2240.A1 Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.				
	2240.C1 Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.				
2300	Performing the Engagement				
	Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
2310	Identifying Information				
	Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files.
	Interpretation: Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.				
2320	Analysis and Evaluation				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
2330	Documenting Information				
	Internal auditors must document relevant information to support the conclusions and engagement results.	Y			Part of standard audit process. See section 9 Quality Manual. Also evidenced within audit files
	2330.A1 The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.				The ARAFM does not release these records without authority except to the External Auditors
	2330.A2 The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.				
	2330.C1 The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.				Will be fully achieved in the revised Quality Manual.
2340	Engagement Supervision				
	Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.	Y			With the Principal Auditor now in place, there is capacity to facilitate proper supervision
	Interpretation: The extent of supervision required will depend on				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.				
2400	Communicating Results				
	Internal auditors must communicate the results of engagements.	Y			Part of standard audit process see section 10 Quality Manual.
2410	Criteria for Communicating				
	Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.	Y			Part of standard audit process (see Quality Manual).
	<p>2410.A1 Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.</p> <p>Interpretation: Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.</p>				
	<p>2410.A2 Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p>				

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	2410.A3 When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.				
	2410.C1 Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.				
2420	Quality of Communications				
	Communications must be accurate, objective, clear, concise, constructive, complete and timely.	Y			Part of standard audit process and quality review system.
	<p>Interpretation:</p> <p>Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.</p>				
2421	Errors and Omissions				

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Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.	Y			See above.
2430	Use of Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing				
	Internal auditors may report that their engagements are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, only if the results of the quality assurance and improvement programme support the statement.	Y			Part of standard quality process. Although we have cancelled the BSi Membership, we still maintain the quality standards.
2431	Engagement Disclosure of Non-conformance				
	When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the engagement results must disclose the: <ul style="list-style-type: none"> • Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved; • Reason(s) for non-conformance; and • Impact of non-conformance on the engagement and the communicated engagement results. 	Y			On the assumption that there is no evidence to the contrary.
2440	Disseminating Results				
	The chief audit executive must communicate results to the appropriate parties.	Y			Standard audit process.
	Interpretation: The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated.				Part of standard audit process.
	2440.A1 The chief audit executive is responsible for communicating the final results to parties who can				See above.

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	ensure that the results are given due consideration.				
	<p>2440.A2</p> <p>If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:</p> <ul style="list-style-type: none"> Assess the potential risk to the organisation; Consult with senior management and/ or legal counsel as appropriate; and Control dissemination by restricting the use of the results. 				
	<p>2440.C1</p> <p>The chief audit executive is responsible for communicating the final results of consulting engagements to clients.</p>				
	<p>2440.C2</p> <p>During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.</p>				
2450	Overall Opinions				
	When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.	Y			Part of standard audit process.
	<p>Interpretation:</p> <p>The communication will identify:</p> <ul style="list-style-type: none"> The scope including the time period to which the opinion pertains. Scope limitations. Consideration of all related projects including the reliance on other assurance providers. The risk or control framework or other criteria used as a basis for the overall opinion. The overall opinion, judgment or conclusion reached. 				

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>The reasons for an unfavourable overall opinion must be stated.</p> <p>Public sector requirement: The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.</p> <p>The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.</p> <p>The annual report must incorporate:</p> <ul style="list-style-type: none"> • The opinion; • A summary of the work that supports the opinion; and • A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme. 				
2500	Monitoring Progress				
	The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	Y			Part of standard audit process.
	2500.A1 The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.				
	2500.C1 The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.				
2600	Communicating the Acceptance of Risks				
	When the chief audit executive concludes that	Y			

PUBLIC SECTOR INTERNAL AUDIT STANDARDS: Applying the IIA International Standards to the UK Public Sector

Sectn. /Std.	Adherence to the Standard	Y	P	N	Evidence
	<p>management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</p>				
	<p>Interpretation: The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.</p>				

INTERNAL AUDIT ANNUAL REPORT 2015/16

Audit Committee - 30 June 2016

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

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

Portfolio Holder Cllr. Searles

Contact Officer(s) Bami Cole Ext. 7174

Recommendation to Audit Committee: That Members:

- a) note the work of the Internal Audit Team for 2015/16; and
 - b) support the Audit Manager's Annual Assurance opinion that the Council had effective internal controls, risk management and governance arrangements in place for delivering its objectives and the management of its business risks.
-

Introduction & Background

- 1 This report sets out the achievements of the Internal Audit team in delivering the assurance requirements for the period April 2015 to March 2016. This is the fourth report of its kind to the Audit Committee and is in compliance with the committee's terms of reference remit, to review and support the work of Internal Audit in delivering the assurance requirement for the Council.
- 2 The report is prepared in compliance with the Accounts and Audit Regulations 2015, and professional guidance issued by CIPFA. The report also took account of the outcome of the review of the effectiveness of the Internal Audit function which is attached as a separate agenda item for this meeting. Members may note that this report also supports the Council's Annual Governance Statement (AGS) which will also be considered by this committee in June 2016.

Summary of Issues Raised Within the Report

- 3 Details of the activities of the team during the year 2015/16 are attached as an Appendix to this report. Annex 1 to the Appendix sets out details of the work done in completing the Annual Internal Audit Plan for 2015/16 and Annex 2 lists the outcome of each review.

Agenda Item 12

- 4 In 2015/16 the team completed 19 reviews. This is equivalent to 100% of the revised internal audit plan. The original plan consisted of 24 reviews. This was later revised to 19 reviews to reflect changes in assurance requirements. This was approved by Members at the meeting in January 2016. The five reviews deferred were carried forward and included in the Annual Internal Audit Plan for 2016/17. Paragraph 35 of the attached Appendix sets out the summary of the team's performance indicators for 2015/16.
- 5 Based on the work completed in 2015/16 and other sources of assurance available to the team, the Audit Manager's overall annual assurance opinion is that the Council's arrangements for internal control, risk management, governance and anti-fraud during the period is "effective" (see paragraph 4.1 on page 4 of the Appendix) for regulatory purposes. This opinion will be taken into consideration during the preparation of the Annual Governance Statement.
- 6 Details of the activities of the team during the year are included in paragraphs 5 to 22 of the Appendix and outturn data for performance are set out on pages 8 to 14 of the Appendix.
- 7 In summary, the overall impact of the report is that the team has performed well within its available resources and has met the objective of providing an adequate and effective internal audit and control framework for the Council during the year.

Audit Partnership with Dartford Borough Council

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

Key Implications

Financial

9. This report has no financial implications.

Legal Implications and Risk Assessment Statement

10. This report has no additional legal implications other than stated above. The report addresses the risk associated with non-compliance with the Accounts and Audit 2015 and the Public Sector Audit Standards. It is management view that the relevant risks are effectively being managed.
11. A robust internal audit function contributes to the effective management of the Council and would help mitigate against poor value for money in service provision.

Equality Assessment

12. 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

13. The report sets out the achievements of the Internal Audit Team for the period 2015/16, and concludes that the Council's arrangement for internal control, risk management, governance and anti-fraud are effective. This opinion is based on the work completed by Internal Audit during the year and other available sources of assurance. This Committee is requested to approve the report and support the assurance opinion for the year.

Appendices

Appendix A - Internal Audit Annual Report 2015/16

Background Papers:

The Accounts and Audit (England) Regulations 2015

[Public Sector Internal Audit Standards](#)

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

Adrian Rowbotham
Chief Finance Officer

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Internal Audit Annual Report

2015/16



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**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

Background

1. This report deals with the outcome of the work undertaken by the Audit, Risk and Anti-Fraud Team for the period 2015/16. The report also contains the overall Assurance Opinion of the Internal Audit Manager regarding the effectiveness of the systems of the control environment within the Council for the period 2015/16; and a summary of the reviews carried out, including outturn performance indicators for the period. For the purposes of this report, control environment means, the system of internal control, risk management and governance process across the Council.

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

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

Introduction

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

Basis of the opinion on the Council's Control Environment

4. The Internal Audit Manager's opinion on the Council's system of internal control environment is substantially based on the work of the Audit, Risk and Anti-Fraud team during 2015/16, details of which can be found in Annex 1 of this report. In addition other sources of assurance, including the work of the external auditors are also taken into consideration in the overall opinion where appropriate.

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

Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; in my opinion as Internal Audit Manager, Sevenoaks District Council's Control Environment, contributes effectively to the proper, economic, efficient and effective use of resources in achieving the Council's objectives. This opinion is based on the work of the Internal Audit Service during 2015-16 and giving regard to the work of the External Auditors and other sources of assurance. Control environment means, the entire system that contributes towards, identifying and delivering organisational objectives (In particular, internal control processes, risk management and governance)

Whilst it was identified that management had, in the main, established an effective control environment within the areas reviewed by internal audit during 2015-16, there were areas which presented opportunities for further improvement within the control environment, or where compliance with existing controls could be enhanced, to reduce the financial, legal or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.

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

Activities During The Year - Internal Audit

5. The key responsibility of the team is to provide an in-house internal audit service on behalf of the Council.
6. Internal Audit is defined by the new Public Sector Internal Audit Standards 2013, as; "an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes".
7. The original audit plan for 2015/16 contained 24 reviews. During the year the plan was revised to reflect available resources and to take account of risk and materiality in delivering the assurance requirements for 2015/16. Five reviews were deferred which have been included in the annual audit plan for 2016/17 The remaining reviews were completed at least, to draft report stage. A summary of the outcome of reviews is attached as Annex 2 to this report.

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

8. The key aspects of internal audit assurance responsibilities are aimed at achieving the following:
 - to facilitate adherence to Council policies, strategies and directives, including the Council's risk management framework and its Constitution, in order to achieve the organisation's objectives;
 - to safeguard assets from mismanagement, fraud and prevention of bribery and corruption;
 - to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and
 - to ensure compliance with statutory requirements.
9. An additional responsibility is that internal audit works closely with the Council's external auditors in order to minimise duplication and disruption to service. We also share our findings which contribute towards strengthening of the control environment and assurance.
10. Annex 2 shows a summary of the opinions on individual reviews conducted during the year. Given that some of the audit work was carried out over a year ago, where appropriate, an updated opinion is given to reflect changes over the period and the position as at 31 May 2016.
11. There were no significant issues arising from the work done with regard to the audit plan. We received a good response to our recommendations to improve control across the organisation. To date, departments have fully implemented 8 (18.6%) (32, 38% in 2014/15) of agreed recommendations, with a further 20 (47%) in progress of implementation and the remainder is due for implementation over the coming months.

Prepare the Internal Audit Plan for 2016/17

12. The audit plan for 2016/17 was presented to the Audit Committee in March and June 2016. The plan is risk based, and reflects the Council's risk profile. At the time of audit planning, operational risk registers were being updated and the strategic risk register was under review by senior management. The internal audit plan is designed to be flexible to the needs of the Council and would therefore be revised as necessary to reflect any changes in risk profiles, or the Council's priorities. Any revisions to the audit plan will be presented to the next meeting of the Audit Committee for approval.

Risk Management

13. During the year the Audit Risk and Anti-Fraud Manger worked closely with the Council's officers risk management group to co-ordinate the implementation of the Council's risk management framework and in particular, to review the Council's strategic risk register. In addition, ongoing advice and support was provided to mangers across the Council,

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

Annual Governance Statement (AGS)

14. The Accounts and Audit Regulation 2015 requires the Council to carry out an annual review of its system of internal control; risk management processes and governance arrangements. The outcomes of these reviews are required to be included in an Annual Governance Statement (AGS). The internal audit team co-ordinated the information gathering process, which fed into the production of the AGS, and offered advice, guidance and information to Management, in order to facilitate the effective completion of the process. A report on the Annual Governance Statement will be presented to Members by the Chief Finance Officer at the June meeting of the Audit Committee.

Other Activities

15. A summary of the non-core activities undertaken by the team is as follows:
 - Liaise with the Council's External Auditors to facilitate closer co-operation and minimise duplication, where appropriate in delivering the assurance requirements for the Council and to strengthen internal control.
 - Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives
 - Provide ad hoc advice and guidance to management on request in order to further the exigencies of Council business
 - The Audit Manager also attended regular finance managers' meetings and Senior Management Group meetings

Audit Approach

16. The following sets out our approach in carrying out our audit responsibilities during 2015/16:

Risk Based System Reviews

17. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:
 - up-to-date procedure notes, so that staff are aware of the procedures they should be following
 - separation of duties and third party checks, so that staff act as checks on each other's actions

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

- effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
- reconciliations between financial records and other records held, to confirm the accuracy of the financial records
- access to records is limited to those who are authorised to use it for pursuance of Council business
- effective review of exception reports and other management information

Contract Audit

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

Fraud and Corruption

19. When a loss or potential fraud is brought to our attention or discovered during an audit, we undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we make recommendations to improve controls within the system affected by the loss or allegation. During the year 2015/16 one investigation was undertaken. This investigation is still on-going and at a critical stage. Members will be advised further at the appropriate time, following conclusion of the investigation.
20. We work closely with the Audit Commission's National Fraud Initiative (NFI) who provides us with 'fraud warnings' and relevant fraud data throughout the year. Where appropriate, we investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council, as part of the fraud risk management process. During the year we carried out investigations into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

Following up Previous Year's Audits

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

opinion is unsatisfactory, follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

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

Quality Measures

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

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

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**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

Responses to Questionnaires: -

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

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

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

Implementation of Recommendations

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

Analysis of progress sheets

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

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

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

Input Resources

30. *Staffing* - During the year the team had two vacancies, one of which was the Principal Auditor. Temporary agency cover was used for these vacancies for some of the time. The vacancies were filled later in the year. The team has now been fully staffed since November 2015.
31. *Sickness levels* - Total sick days for the year for the team was 18 days in 2015/16, averaging 5.67 days. The average number of sickness days for the Council as a whole for 2015/16 is 9.02 days.
32. *Training* - Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:
- Team Mate Demonstration
 - MKInsight Demonstration
 - Internal Audit Development Day
 - Excel
 - CIPFA - Introduction to Internal Audit
 - Channel General Awareness
 - KAG (Kent Audit Group) Conference
 - CIPFA - Audit Conference
 - Security Training
 - Disability Awareness
 - Customer Care
 - Leadership Master Classes
 - Coaching
 - Personal Best
 - Ivy soft (In-house on-line training on a range of subjects)
33. The section also participated in the following County Wide and professional group meetings where best practice is discussed and disseminated:
- Kent Audit Group meetings - Heads of Audit
 - London Audit Group on selected topics

Output Measures**Completion of the audit programme:**

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

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

Performance measures

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

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

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

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

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ANNUAL INTERNAL AUDIT REPORT 2015/16**

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

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

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

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

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

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

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

Appendix A - Annex 2 - DEFINITIONS of AUDIT OPINIONS

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

**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2015/16**

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

ANNUAL GOVERNANCE STATEMENT 2015/16

Audit Committee - 30 June 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) Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the Annual Governance Statement 2015/16, which accompanies the Council's Accounts be agreed for signature by the Leader of the Council.

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

Introduction and Background

- 1 Sevenoaks District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards, good governance and that public money is safeguarded and properly accounted for. In discharging this overall responsibility, the Council has to ensure that it has sound systems of internal controls and good governance arrangements in place to facilitate the exercise of its duties. Additionally, the Council is required to continuously review these arrangements and to ensure that the arrangements are considered by an appropriate body of the Council annually. This report sets out the governance arrangement and the system of internal control which operated during 2015/16 and up to the time of the review.

Ownership of the Annual Governance Statement (AGS)

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

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“The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s function and which includes arrangements for the management of risk”

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

The Annual Governance Statement Process

- 4 In compiling the Annual Governance Statement a shared approach was adopted, involving Chief Officers, Heads of Service, relevant managers, the Internal Audit Manager, Chief Executive (also as Head of Paid Service) and the Monitoring Officer, prior to consideration and endorsement by Strategic Management Team on 15 June 2016. The AGS was also reviewed by the Officers’ Risk Management Group on 3 June 2016. Additionally, the AGS would be required to be certified by signatories of the Leader of the Council and the Head of Paid Service after approval by the Audit Committee.

Outcome of the Process

- 5 The process confirms that the Council has sound systems of internal control and good governance arrangements in place. No significant governance issues have been raised through the AGS process.

Key Implications

Financial

None directly arising from this report.

Legal Implications and Risk Assessment Statement.

No additional legal implication beyond the Council’s duty to comply with the Accounts and Audit (England) Regulations in regard to the AGS process.

The Council is required to produce an Annual Governance Statement to demonstrate that it has effective internal controls and sound governance arrangements in place throughout the financial year. There is a risk that failure to produce the Annual Governance Statement in accordance with statutory requirements would have negative consequences for the Council. The Statement accompanying this report meets statutory requirements and was produced in

compliance with proper practices, giving regard to relevant professional guidance. Hence relevant risk is effectively being managed.

Equality Assessment

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

Conclusions

The Annual Governance Statement (AGS) was prepared in accordance with relevant professional guidance. It demonstrates that the Council had sound governance arrangements in place during the municipal year 2015/16 and in the period leading up to the preparation of the AGS and the Council's Accounts.

Appendices

Appendix A - Annual Governance Statement
2015/16

Background Papers:

- a) [The Accounts and Audit Regulations 2011](#)
- b) Internal Audit Annual Report 2015/16
(separate report to this meeting)

Adrian Rowbotham
Chief Finance Officer

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ANNUAL GOVERNANCE STATEMENT 2015/16

1. Background

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

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

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

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

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

1.5 Although corporately owned, the AGS requires internal control assessments/assurance statements from individual Heads of Service and relevant

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managers, Chief Officers, the Internal Audit Manager, the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, all of which were obtained as part of this process.

2. Scope of Responsibility

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

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

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

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

3. The Purpose of the Governance Framework

3.1 The governance framework comprises the systems and processes, culture and values, by which the authority informs, directs, manages and monitors its operations, and its activities through which it accounts to, engages with and

empowers the community. It enables the authority to evaluate the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

3.3 The governance framework has been in place at Sevenoaks District Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

4. The Governance Framework

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

- The Council's vision and promises for the period ending in March 2016 were set out in its Corporate Plan, which was revised and updated in November 2013. The Corporate Plan sets out the actions that the Council has committed to undertake to deliver on its promises with progress against these reviewed annually. The Sevenoaks District Community Plan covers the period from 2013-28. Every three years the Community Plan is comprehensively reviewed in consultation with residents and other interested stakeholders. A three year action plan is agreed with partners at each review point, with the action plan covering the period from April 2013 to March 2016. Progress against each of the actions is reviewed quarterly with an Annual Report produced each year.
- Both of the existing plans above are subject to considerable Member review and challenge by Cabinet, or the appropriate Advisory/Scrutiny Committee and ultimately by the full Council. The governance arrangements put in place on 14 May 2013, continue to operate well during the year new and also includes an Audit Committee, whose terms of reference is consistent with CIPFA standards. The promises and priorities within the plans are also cascaded to individuals within the Council through Service Plans and individual action plans via the staff appraisal process.
- Policy and decision-making is facilitated through reports from Officers to Cabinet and Council. Each Cabinet Member has responsibility for a specific

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portfolio and will take decisions on matters relevant to that portfolio. Each portfolio also has an Advisory Committee which will consider officer reports in advance of them being considered by Cabinet and provide their recommendations on the policy direction or decision making of the Cabinet or Council. The Scrutiny Committee has the opportunity to ‘call-in’ the decisions of Cabinet and to recommend changes to decisions or policies.

- The Council’s Constitution specifies the roles and responsibilities of Members and Officers and the financial and procedural rules for the efficient and effective discharge of the Council’s business.
- Implementation of established policies, procedures, laws and regulations and good practice is achieved through:

a) Internal Audit

During 2015-16, the Council’s internal audit team worked to an approved annual audit plan and undertook the work in accordance with the Mandatory Public Sector Internal Audit Standards (PSIAS) 2013.

Individual audit reports are produced for relevant management, with copies distributed to the Chief Executive, Section 151 Officer and the relevant Chief Officers. Internal audit reports on the progress of internal audit in delivering the assurance plan are also distributed to the Audit Committee. Periodic reports highlight the results of individual risk-based audit reviews, while the annual report, which contains the Audit Manager’s overall assurance opinion, evaluates the overall internal control environment as tested through audit work undertaken in the year.

The review of the effectiveness of Internal Audit was assessed in 2015/16 and it was concluded that the Council had an adequate and effective Internal Audit service which contributes towards the proper, economic and effective use of resources in achieving its objective.

b) External Audit

The external audit service is provided by Grant Thornton. The External Auditor’s reports are sent to senior management and Members (via the Audit Committee). Recommendations and comments are considered and discussed with timely actions taken to address agreed recommendations.

Unqualified opinions were issued in relation to both financial statements and value for money for 2014-15.

c) Financial Management

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

d) Performance Management

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

e) Arrangements for Partnerships

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

f) Risk Management

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

g) Relationships and Ethics

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

h) Service Delivery by Trained and Experienced People

The Council has a robust recruitment policy and relevant procedures in place. The Council holds Platinum status in the Investors in People (IiP) scheme, conferred by an external inspection regime in January 2016. The Council was the first local authority nationally to achieve this standard. Staff appraisals take place annually, including an annual review of service and training plans, training evaluation and recruitment and selection procedures. The Council has designed, delivered and developed a Leadership Masterclass, a bespoke training programme for Managers of all levels within the organisation. The programme consists of 38 modules delivered

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covering key aspects of modern day management, empowering managers to manage, support and develop their staff to the best of their ability.

i) Monitoring Officer

The Council's Monitoring Officer oversees compliance with laws and statutory obligations. The Monitoring Officer reports to the Council's Standards Committee. Regular meetings between the two Officers form part of the Council's governance arrangements.

j) Anti-fraud and Corruption

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

The Council's Benefits Fraud investigations function was transferred over to the Department for Works and Pensions (DWP) in February 2016 under the new arrangements introduced by central government. An in-house Counter Fraud Team has been set up which has retained experienced staff.

5. Role of the Section 151 Officer

5.1 Section 151 of the Local Government Act 1972 requires that the Council appoint an individual officer to be responsible and accountable for the administration of its financial affairs. The Scheme of Delegation held within Part 13 of Sevenoaks District Council's Constitution assigned this responsibility to the Chief Executive during 2015/16.

5.2 CIPFA has issued a Statement on the Role of the Section 151 Officer in Local Government. This details the governance arrangements and delegated responsibilities considered necessary to facilitate the role of the Section 151 Officer. The Council has considered this Statement, and believes that, during the financial year 2015/16, it has complied fully with the governance requirements of the Statement. The Council's Financial Procedure Rules, codified within Appendices D and E of the Constitution ensure that all the appropriate responsibilities are delegated and reserved to the Section 151 Officer as the Statement recommends.

6. Review of Effectiveness

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

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

6.3 Internal audit reports are regularly distributed to the Audit Committee and an Annual Internal Audit Report presented to the Council's Audit Committee, which sets out the Audit, Risk and Anti-Fraud Manager's overall opinion on the Council's internal control, risk management and governance arrangement. The opinion for 2015/16 indicates that the Council's control environment is effective.

6.4 The Head of Paid Service and Section 151 Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control and application of the relevant Codes of Conduct.

6.5 There was one significant governance issue raised in last year's AGS which was that the Health and Safety Executive (HSE) had initiated two charges under the Health and safety at Work Act 1974 following an accident on 13 September 2010 where a motorbike rider collided with a Sevenoaks District Council road sweeper lorry. This case has now been concluded and the road where the accident occurred is now the responsibility of Highways England.

6.6 It should be noted that no significant governance issues have been raised through the AGS process and no areas were identified for further enhancement.

Certification

Signed

Signed

Dr. Pav Ramewal

Cllr Peter Fleming

Chief Executive

Leader of the Council

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Audit Committee 2015/16 -Work Plan (as at 7/6/16)

	30 June 2016	27 September 2016	10 January 2016	18 April 2016
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Internal Review of Effectiveness of Internal Audit Internal Audit Annual Report Internal Audit Plan 2016/17 (deferred from 15/03/16) Internal Audit Strategy (deferred from 15/03/16)	Internal Audit 2016/17 - 1 st Progress Report Report on Internal Audit recommendations outstanding	Internal Audit 2016/17 - 2 nd Progress Report Report on Internal Audit recommendations outstanding	Internal Audit 2016/17 - 3 rd Progress Report Report on Internal Audit recommendations outstanding Internal Audit Plan 2017/18
Risk Management		Risk Management Report		
Accounts and External Audit	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	

	30 June 2016	27 September 2016	10 January 2016	18 April 2016
Other	Anti-Fraud Team Report 2015/16 Review of the Effectiveness of the Audit Committee (deferred from 15/03/16) Audit Committee Member Training	Members' Allowance Scheme Monitoring		Review of the Effectiveness of the Audit Committee Annual Report to Council