

13 June 2017 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks  
Despatched: 05.06.17



# Audit Committee

## Membership:

Chairman, Cllr. Grint; Vice-Chairman, Cllr. Reay  
Cllrs. Ball, Clack, Halford, Layland, McArthur, Purves and Searles

## Agenda

There are no fire drills planned. If the fire alarm is activated, which is a continuous siren with a flashing red light, please leave the building immediately, following the fire exit signs.

	Pages	Contact
Apologies for Absence		
1. <b>Minutes</b>	(Pages 1 - 6)	
To agree the Minutes of the meeting of the Audit Committee held on 18 April 2017, as a correct record.		
2. <b>Declarations of Interest</b>		
Any declarations of interest not already registered.		
3. <b>Actions from Previous Meeting</b>	(Pages 7 - 8)	
4. <b>Responses of the Council, Cabinet or Council Committees to the Committee's reports or recommendations (if any)</b>		
5. <b>External Audit - Statement of Accounts training (20 mins)</b>	(Pages 9 - 10)	Adrian Rowbotham Tel: 01732 227153
6. <b>Statement of Accounts 2016/17 - Establishment of Member Working Group</b>	(Pages 11 - 12)	Adrian Rowbotham, Helen Martin Tel: 01732 227153, Tel: 01732 227483
7. <b>External Audit - Annual Audit Plan</b>	(Pages 13 - 34)	Adrian Rowbotham Tel: 01732 227153
8. <b>Counter-Fraud &amp; Compliance Report 2016/17</b>	(Pages 35 - 40)	Glen Moore Tel: 01322343240
9. <b>Internal Review of Effectiveness of Internal Audit 2016/17</b>	(Pages 41 - 50)	Adrian Rowbotham, Lisa Nyon Tel: 01732 227153, Tel: 01322

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|-----|---|----------------------|---|
| 10. | <b>Internal Audit Annual Report 2016/17</b>           | (Pages 51 - 70)      | Adrian Rowbotham,<br>Lisa Nyon Tel: 01732<br>227153, Tel: 01322<br>343434 |
| 11. | <b>Annual Governance Statement 2016/17</b>            | (Pages 71 - 82)      | Adrian Rowbotham<br>Tel: 01732 227153                                     |
| 12. | <b>Internal Audit Strategy 2017/18</b>                | (Pages 83 - 108)     | Lisa Nyon, Adrian<br>Rowbotham Tel:<br>01322 343434, Tel:<br>01732 227153 |
| 13. | <b>Audit Committee Training 05/06/17 - Discussion</b> | (Pages 109 -<br>110) | Adrian Rowbotham<br>Tel: 01732 227153                                     |
| 14. | <b>Work Plan</b>                                      | (Pages 111 -<br>112) |   |

#### 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 227000 or [democratic.services@sevenoaks.gov.uk](mailto:democratic.services@sevenoaks.gov.uk).

**AUDIT COMMITTEE**

Minutes of the meeting held on 18 April 2017 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllrs. Clack, Halford, McArthur, Purves, Reay and Searles

Apologies for absence were received from Cllrs. Edwards-Winser and Layland

Cllr. Scholey was also present.

38. Minutes

Resolved: That the minutes of the Committee held on 10 January 2017 be agreed and signed as a correct record.

39. Declarations of Interest

There were none.

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 2016/17 - 3rd Progress report

The Principal Auditor presented a report which set out progress of the Internal Audit Team in delivering the Annual Audit Plan 2016/17 and outcomes of final Internal Audit reports issued since the meeting of the Committee in January 2017. Since the report was published two further reviews had been finalised bringing the total to 18, with a further three audits at the feedback stage. Eight audits had been removed and four of these reviews would be carried forward to the 2017/18 plan. Members were also advised that since the publication of the agenda a further two audit reports had been issued bringing the total to 11.

Members discussed each of the summaries of the findings of the final reports and recommendations agreed with service management. It was questioned whether there was a procurement policy to encourage smaller businesses and local suppliers and if help was provided for the completion of the documents.

*Action 1: Chief Officer Environmental and Operational Services to circulate information regarding procurement in particular regarding the approach to local suppliers.*

The Committee expressed their thanks to the Audit team for the progress made. It was requested that a letter be sent to the Chief Executive from the Chairman of the Audit Committee expressing thanks for the work of Officers.

Public Sector Equality Duty

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

Resolved: That

- a) the report and progress made by the Internal Audit Team in delivering the 2016/17 Annual Internal Audit Plan be noted; and
- b) the Chairman of Audit Committee write to the Chief Executive expressing thanks for the work of Officers.

43. Report on Internal Audit recommendations outstanding

The Principal Auditor presented a report which updated Members on progress of the implementation of Internal Audit Recommendations agreed with management and to report on the outstanding recommendations due for implementation by 31 January 2017. Members were advised that the Council Tax Support recommendation was now complete and remaining feedback would be reported to the Committee in June 2017. Members were advised that as there was a new person in post for Emergency planning, an update on the recommendation made from this review would also be reported to the Committee in June 2017.

Public Sector Equality Duty

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

Resolved: That

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

44. Internal Audit Plan 2017/18

The Principal Auditor presented the report which incorporated the Annual Internal Audit Plan and Programmed Reviews for 2017/18. The objective of the plan was to ensure that Internal Audit resources were 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.

The methodology for addressing the Council's key risks was set out in the Annual Audit Plan. Members' attention was brought to the proposed audit plan which gave a brief description of what the audit would cover. Consultation with management with regard to the detailed scope of the audit would take place before any audit fieldwork commenced. Identified risks on the Strategic Risk register or operational risk register were also included.

#### Public Sector Equality Duty

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

Resolved: That the approach and the Internal Audit Plan for 2017/18 be approved.

#### 45. Review of the Effectiveness of the Audit Committee

The Principal Auditor presented a report which put forward a proposal for assessing the achievements for the Audit Committee for the year 2016/17. The process incorporated the recommended self-assessment checklist 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 2016/17.

The self-assessment showed that the Audit Committee was effective with a tick in the yes box for each criteria. The Chief Finance Officer summarised the responses from the Questionnaire from the Members of the Audit Committee, including two additional responses which were received once the agenda had been published.

Members were advised that the full internal audit reports were only for Members and there was no government guidance for the full reports to be published. Members discussed the implications of the Freedom of Information Act and what other authorities practices were.

*Action 2: Chief Finance Officer to provide information on other local authorities best practice and the implications under the Freedom of Information Act.*

#### Public Sector Equality Duty

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

Resolved: That the Annual Self-Assessment review of the Effectiveness of the Audit Committee 2016/17 be noted.

46. Whistle Blowing Policy

The Principal Auditor presented the report which proposed amendments to the Council's Whistle Blowing Policy, which incorporated the requirement of the Statutory Code of Practice, recommended by the Whistle Blowing Commission in 2013. Members were advised that only minor changes had been made where appropriate to reflect the Code of Practice including; references made with regard to contacting the Anti-Fraud Team about a Whistle Blowing concern had been replaced with the Internal Audit Team and revision of the Whistle Blowing hotline and email address.

Members discussed the policy and requested that the number of reported Whistle Blowing cases and the result be added to the annual report in June.

Public Sector Equality Duty

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

Resolved: That

- a) the proposed amendments to the Council's Whistle Blowing Policy be approved; and
- b) details of the number of Whistle Blowing cases and details of the result be added to the annual report for the meeting of the Committee on 13 June 2017.

47. Anti-Fraud and Corruption Strategy

The Principal Auditor presented a report which explained that the purpose of the Anti-Fraud and Corruption Strategy was to set out the council's commitment towards the prevention of fraud and corruption from both internal and external sources. Section 5 of the Strategy stated that the document was subject to review on an annual basis. The existing Anti-Fraud and Corruption Strategy was consistent with good practise and only minor changes had been made where appropriate. The changes made were: the removal of reference to Dartford Borough Council as it was no longer a joint policy; references to the Anti-Fraud Team had been replaced with Counter Fraud Team and reference was made to the Local Taxation/Council Tax Support Fraud and Compliance Strategy which was a document produced by the Counter Fraud Team.

Public Sector Equality Duty

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

Resolved: That the proposed amendments to the Anti-Fraud and Corruption Strategy as set out in Appendix A to the report be approved.

48. Draft Audit Committee Annual Report to Council

The Committee considered the Chairman's annual report for consideration at the Council meeting on 25 April 2017.

Resolved: That the report be commended to Council.

49. Work Plan

Members were advised of the following additions to the work plan:

13/06/17 - Internal Audit Strategy 2017/18  
External Audit - Statement of Accounts training (20 mins)  
Annual Governance Statement 2016/17

26/09/17 - Internal Audit 2017/18 - 1<sup>st</sup> Progress Report  
Statement of Accounts 2016/17

09/01/18 - Internal Audit 2017/18 - 2<sup>nd</sup> Progress Report  
Report on Internal Audit Recommendations Outstanding  
External Audit - Housing Benefit Subsidy 2016/17  
External Audit - Annual Audit Letter

Members were informed that the training discussed at the meeting on 10 January 2017, would be provided by CIPFA on Monday 5 June at 6.30pm for 3 hours at the Council. Dartford Borough Council Members would also be present.

THE MEETING WAS CONCLUDED AT 8.03 PM

CHAIRMAN

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ACTIONS FROM THE MEETING HELD ON 18.04.2017			
Action	Description	Status and last updated	Contact Officer
ACTION 1	Chief Officer Environmental and Operational Services to circulate information regarding procurement in particular regarding the approach to local suppliers.	The Principal Auditor emailed the Procurement Strategy on 10 May 2017.	Richard Wilson Ext. 7067
ACTION 2	Chief Finance Officer to provide information on other local authorities best practice and the implications under the Freedom of Information Act.	<p>Email response sent out 11/05/17</p> <p>‘No other Kent authorities make their internal audit reports public and it is thought that it would not be good practice to make them publicly available. Research has also been carried out to see if they are made publicly available by local authorities elsewhere else in the country and none have been found</p> <p>If an internal audit report was requested as part of a Freedom of Information Request it would depend on the individual circumstances whether it would be disclosed or not as there are exemptions that apply to FOI’s.’</p>	Adrian Rowbotham Ext. 7153

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## EXTERNAL AUDIT - STATEMENT OF ACCOUNTS TRAINING

**Audit Committee - 13 June 2017**

Report of Chief Finance Officer

Status For Consideration

Key Decision No

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**Portfolio Holder** Cllr. John Scholey

**Contact Officer(s)** Adrian Rowbotham, Ext. 7153

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**Recommendation to Audit Committee:** Members decide if they require anything further following the training.

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### Introduction and Background

- 1 Grant Thornton have agreed to provide a 20-minute training session on the Statement of Accounts for Members of the Audit Committee.
- 2 The purpose of the training is to increase Members understanding of the Statement of Accounts and to prepare those Members who become part of the Working Group looking at the Statement of Accounts 2016/17.

### Key Implications

Financial  
None

Legal Implications and Risk Assessment Statement.  
There are no 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.

**Appendices** None

**Background Papers** None

**Adrian Rowbotham**  
**Chief Finance Officer**

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## STATEMENT OF ACCOUNTS 2016/17 - ESTABLISHMENT OF MEMBER WORKING GROUP

### Audit Committee - 13 June 2017

Report of Chief Finance Officer

Status For Decision

Key Decision No

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Portfolio Holder Cllr. John Scholey

Contact Officer(s) Adrian Rowbotham, Ext. 7153

Helen Martin, Ext. 7483

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**Recommendation to Audit Committee:** That a Member Working group be set up to review the 2016/17 Draft Statement of Accounts

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### Introduction and Background

- 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 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 2015/16 Draft Statement of Accounts. Members of last years working group were Cllrs. Dyball, Grint, Layland, and McArthur with the Portfolio Holder for Finance, Cllr. Searles.

### Key Implications

#### Financial

None directly arising from this report.

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### 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.

<b>Appendices</b>	None
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<b>Background Papers</b>	None
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**Adrian Rowbotham**  
**Chief Finance Officer**

## EXTERNAL AUDIT - ANNUAL AUDIT PLAN

### Audit Committee - 13 June 2017

Report of Chief Finance Officer

Status For Information

Key Decision No

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Portfolio Holder Cllr. John Scholey

Contact Officer(s) Adrian Rowbotham, Ext. 7153

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**Recommendation to Audit Committee:** That the report be noted.

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#### Introduction

- 1 Sarah Ironmonger from Grant Thornton would like to present the Audit Plan 2016/17.

#### 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 A - 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 ended 31 March 2017**

13 June 2017

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Sevenoaks District Council  
Council Offices, Argyle Road  
Sevenoaks, Kent  
TN13 1HG

13 June 2017

Dear Members of the Audit Committee

### **Audit Plan for Sevenoaks District Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Sevenoaks District 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 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 which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

**Sarah Ironmonger**

Engagement Lead

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#### **Chartered Accountants**

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# Understanding your business and key developments

Developments

**Delivering Good Governance**

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability and the need to focus on the longer term, including the potential impact on future generations. Local authorities will need to review their existing governance arrangements, develop and maintain a local code of governance, and report publicly on compliance with their own code on an annual basis.

**Investment Plans**

The Council continues to drive forward on a range of property investments as part of its 10-year budget strategy to deliver self sufficiency and further enhance services provided. In year, the decision was taken to set aside a further £25 million for future acquisitions.

The schemes will require a considerable level of capital investment and the Council will need to ensure that sufficient resources are available to deliver these schemes..

Key challenges




**Funding Challenges**

Sevenoaks District Council is facing a complete loss of Revenue Support Grant (RSG) for the 2017/18 year and have been impacted by revised rules for the New Homes Bonus Grant, leading to a reduction in the amount received. 10 year budget gap to 2026/27 of £4.64 million will be funded from stabilisation reserve.

**Revenue budget**

The Council is just behind target to achieve its financial targets and deliver a balanced budget for 2016/17 however officers expect the final position will be favourable.

Key performance indicators

Measure	Value	Trend
Projected Outturn (31-3-17)	£36k deficit	
Savings plans (10 year plan)	£4.64m	
Total Useable Reserves	£24.61m	

Financial reporting changes

**CIPFA Code of Practice 2016/17 (the Code)**

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced .The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

**Earlier closedown**

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

We are working with you to further identify measures for to streamline the account and audit process in 2016/17. We will continue to share wit you good practice identified within the sector.

**Other requirements**

Other requirements include submitting a Whole of Government accounts pack on which we provide an audit opinion and completing a housing benefit subsidy grant claim and return on which audit certification is required.

We are working with officers to ensure the audits are completed within the set deadlines.

Our response

- We aim to complete all our substantive audit work of your financial statements by 30 July and issue the opinion by 30 September 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will consider the council's investment plans as part of our risk assessment for VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# 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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,043k (being 2% of gross expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

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 £52k.

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 not identified any separate materiality levels.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• The culture and ethical frameworks of local authorities, including Sevenoaks District Council, mean that all forms of fraud are seen as unacceptable.</li></ul> <p>Therefore do not consider this to be a significant risk for Sevenoaks District Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation (months 1 – 9 completed as part of early testing)</li><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Review of unusual significant transactions.</li></ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Walkthrough of the controls in the operating expenses system</li> <li>• Sample testing of operating expenditure</li> <li>• Review of control account reconciliations</li> <li>• Testing of the year end payables</li> <li>• Testing for unrecorded liabilities.</li> </ul>
Employee remuneration (Payroll)	Employee remuneration accruals are understated	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Walkthrough of the controls in the payroll system</li> <li>• Sample testing of payroll expenditure to payslips and HR contract of employment</li> <li>• Review of monthly reconciliations of the payroll to the general ledger</li> <li>• Directional analytical review using trend analysis.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>



## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and controls for the valuation of Property, Plant and Equipment</li> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>

# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## 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 sections but will include:

- Heritage assets
- Assets held for sale (if any)
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Benefit expenditure
- Collection Fund and associated notes

# 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 National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The 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 opposite:

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

# Value for Money (continued)

## Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, 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 if any.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have not identified any significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and summarised in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

## Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

# 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
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work to date 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>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review to date of internal audit work has not identified any weaknesses which impact on our audit approach. We will continue to monitor this during the course of our audit and will update the Committee if any further issues are identified.</p>
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices.</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
<b>Walkthrough testing</b>	<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>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Journal entry controls</b>	<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>	<p>Our work has not identified any weaknesses in the Council's journal control environment.</p> <p>We will complete our detailed testing of journal transactions for the final two months of the year during our final accounts audit.</p>
<b>Follow up of prior year findings</b>	We will follow up the three medium priority recommendations from our 2015/16 Audit Findings Report.	<p>Management have made progress in implementing the recommendations. Our year end substantive testing will provide assurance on the actions taken.</p> <p>We will provide an update in our Findings Report.</p>

# The audit cycle

## The audit timeline

### Key dates:

Year end:  
31 Mar 2017

Close out:  
31 July 2017

Audit committee:  
26 Sept 2017

Sign off:  
By 30 Sept 2017

### Audit phases:

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Planning  
Nov - Feb 2017

Interim  
Feb - Apr 2017

Final  
June - July 2017

Completion  
September 2017

Debrief  
Oct 2017

### Key elements

- Planning meeting with management to inform audit planning and agree audit timetable
- Document design effectiveness of key accounting systems and processes

### Key elements

- Early substantive audit testing
- Review of Value for Money arrangements
- Issue audit working paper requirements to management
- Issue and discuss draft Audit Plan with management
- Discussions with those charged with governance and internal audit to inform audit planning

### Key elements

- Issue the Audit Plan to the Audit Committee
- Audit teams onsite to complete detailed audit testing
- Update review of Value for Money arrangements
- Complete WGA assurance Statement
- Complete reviews of AGS and the Narrative Report
- Issue draft Audit Findings Report to management
- Meeting with management to discuss Audit Findings Report

### Key elements

- Complete closing procedures including review of post balance sheet events
- Issue draft Audit Findings Report to Audit Committee
- Audit Findings presentation to Audit Committee
- Finalise approval and signing of financial statements and audit report
- Issue Annual Audit Letter (Oct 2017)



# Audit Fees

## Fees

	£
Council audit	43,156
Grant Certification	13,854
<b>Total audit fees (excluding VAT)</b>	<b>57,010</b>

## 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

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

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Periodic issue Progress Reports to Audit Committee.

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Sevenoaks District Council. No audit related or non-audit services were identified for the Council for 2016/17 (£11,160 for 2015/16).

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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 (<http://www.psaa.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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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	✓	✓

Agenda Item 7



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## COUNTER FRAUD & COMPLIANCE TEAM REPORT 2016/17

### Audit Committee - 13 June 2017

Report of                      Chief Finance Officer

Status:                        For Consideration

Key Decision:                No

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

**Portfolio Holder**        Cllr. Scholey

**Contact Officer(s)**    Adrian Rowbotham, Ext.7153, Glen Moore Ext. 7471.

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**Recommendation to Audit Committee:** That Members note the work of the Counter Fraud & Compliance Team carried out during the year ended 31 March 2017.

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**Reason for recommendation:** The Audit Committee is required to review the work of the Counter Fraud & Compliance Team.

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### Introduction and Background

- 1        Local authority fraud investigation has seen radical changes over the last few years. Under the Welfare Reform Act 2012 the Government proposed the creation of a new single integrated fraud investigation service with statutory powers to investigate all welfare benefit related offences, including Housing Benefit.
- 2        The Department for Work and Pensions' Single Fraud Investigation Service (S-FIS) commenced in October 2014 followed by a national roll-out. Sevenoaks District Council's jurisdiction over the investigation of Housing Benefit fraud passed to the Department for Work and Pensions in February 2016. S-FIS did not take up responsibility for the investigation of Council Tax fraud, Council Tax Reduction fraud or local housing related fraud issues. Sevenoaks District Council has seized this opportunity to re-model it's fraud investigation resources to protect funds which go to support vital local services.
- 3        On 1<sup>st</sup> February 2016 a new local authority fraud team was created, The Counter Fraud & Compliance Team, based within the Revenues & Benefits Service at Argyle Road. This report details the work of the new team during it's first full year of operation including the new policies/strategies created to protect the public purse.

### Summary of Key Issues in the Report

- 4 An introduction to the new counter fraud & compliance procedures which have been introduced to protect both the Council Tax and Business Rates income bases within the Revenues & Benefits Department.
- 5 A breakdown of the successes achieved by the new Counter Fraud & Compliance Team during the period April 2016 to March 2017.
- 6 An explanation of how the authority continues to fulfil it's duties in relation to highlighting Housing Benefit fraud and supporting the Single Fraud Investigation Service in the investigation and prosecution of benefit fraud offences.
- 7 A summary of plans for 2017-18.

### Key Implications

#### Financial

- 8 Not applicable.

#### Legal Implications and Risk Assessment Statement.

- 9 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

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

### Conclusions

- 11 This report sets out the work conducted by the new Counter Fraud & Compliance Team during 2016/17. Members are requested to note the report and the plans for the future.

### Appendices

Appendix A - Counter Fraud & Compliance Team  
End of Year Report 2016/17.

### Background Papers:

None.

Adrian Rowbotham  
Chief Finance Officer

## Counter Fraud & Compliance Team 2016/17 - End of Year Report

### 1. Introduction

This report is to update the Audit Committee on the work undertaken by the Counter Fraud & Compliance Team for the year ending 31 March 2017.

### 2. Background

Local authorities administer the Council Tax and Business Rates local taxation schemes which part fund the services provided by local government. Local authorities also administer the Housing Benefit and Council Tax Reduction schemes which support and protect the most vulnerable groups in our society. It is imperative that these schemes are fair and transparent and appropriate action is taken against participants which do not abide by the rules and obtain reliefs and allowances which they are not entitled to.

Last year Sevenoaks District Council awarded a total of £6,056,914 in Council Tax Single Person discounts and processed Council Tax Reduction claims amounting to £5,502,214.

Sevenoaks District Council has a zero tolerance to all forms of fraud and corruption. The creation of the new Counter Fraud & Compliance Team and re-locating it to the Revenues & Benefits Service has been seen as a huge success as strategies and procedures which protect the public purse have been thoroughly reviewed and assurance in the validity of claims and allowances much improved.

The next section outlines some of the changes employed in the last financial year which go to protect valuable public funds.

### 3. Assurance

A new risk-based verification (RBV) process has been implemented within the Benefits Service, with new claims and reported changes which have been deemed of a higher risk of containing irregularities, being vetted by specialist investigation staff to highlight discrepancies and potential fraud.

Counter Fraud & Compliance staff are on hand to offer face-to-face support and advice to all Revenues & Benefit staff in relation to suspicious new benefit and Council Tax discounts and exemption claims.

Sevenoaks District Council has taken advantage of financial support from the Council Tax major preceptors by investing in the latest credit reference technology which allows us to vet all of our discounts, exemptions and allowances data on a regular basis for fraud and irregularities. In addition to this Sevenoaks District Council has signed up to a Kent-wide data matching initiative which allows for data-matching across districts to highlight cross-borough fraud and irregularities.

Review strategies have been tightened and amended to identify a higher level of incorrect claim or allowance both in the Benefits and Revenues Teams.

A penalty and sanction regime has been developed and introduced which penalises claimants and tax payers which have been proven to have abused the schemes which are there to protect the vulnerable groups within our society.

#### 4. Successes

Pro-active work conducted by the Fraud & Compliance Team and a robust review strategy have successfully adjusted 147 Council Tax Single Person discounts, 36 Council Tax Reduction claims and 6 Council Tax exemptions. The table below shows both the actual loss (which has to be repaid by taxpayers) as well as a projection of future losses (which would have been incurred if the irregularity was not discovered):

	Actual Loss (being repaid by taxpayers)	Projected Additional Loss (if the irregularity had not been discovered)					
		1 Month	2 months	3 months	6 months	12 months	24 months
Council Tax Single Person Discounts/ Council Tax Reduction Claims	£102,683	£7,584	£15,168	£22,752	£45,504	£91,008	£182,016
Council Tax Exemptions	£11,838	£608	£1216	£1,824	£3,648	£7,296	£14,592
Totals	£114,521	£8,192	£16,384	£24,576	£49,152	£98,304	£196,608

For example, if it were not for the pro-active action by the Fraud & Compliance Team and the effects of the review strategy the £114,521 loss would have escalated to a total loss of £163,673 after 6 months.

The review strategy has a knock-on effect to related Housing Benefit claims, the value of Housing Benefit payments reduced is outlined below:

	Value of Adjustment
£ of HB claims Removed after review	£95,613



## 5. Cost Benefit Analysis 2016/17

	Total £	SDC Counter Fraud & Compliance £	
Expenditure:			
Gross Expenditure - Partnership with DBC	<b>201,918</b>	<b>100,959</b>	Costs of the Counter Fraud & Compliance Team are split 50:50 with Dartford BC.
External contributions from Major Preceptors	<b>(124,332)</b>	<b>(62,166)</b>	From Kent CC, Kent Fire & Rescue as they are major beneficiaries
Net Expenditure - Partnership with DBC	<b>77,586</b>	<b>38,793</b>	
Fraud discovered:			
Council Tax Discounts/Council Tax Reductions	<b>(102,683)</b>	<b>(12,322)</b>	SDC receive 12%
Council Tax Exemptions	<b>(11,838)</b>	<b>(1,421)</b>	SDC receive 12%
Housing Benefit Overpayments	<b>(95,613)</b>	<b>(38,245)</b>	SDC receive additional subsidy of 40% of overpayments discovered
Future savings/Deterrent Factor		<b>(5,898)</b>	Assume a 26 week future benefit element of which SDC receives 12 %. See (a) below.
Uncollected Estimate (HB)		<b>11,474</b>	Assume 30%. See (b) below.
Uncollected estimate (Council Tax)		<b>96</b>	Assume 0.7% as Council Tax collection rate is 99.3%
Net Position		<b>(7,703)</b>	

- (a) External funding organisations allow us to record a 26 week future benefit element. This is an assumption that the fraud/error would have continued for an average of 26 weeks after the intervention of the Fraud & Compliance Team. See first table in section 4 of this report.
- (b) We are assuming a non recovery rate of 30% in HB overpayments and 0.7% in Council Tax related savings.

## **6. Housing Benefit Fraud**

The jurisdiction for the investigation and prosecution of Housing Benefit fraud cases passed from Sevenoaks District Council to the Department for Work & Pensions in February 2016.

Sevenoaks District Council still administers Housing Benefit claims on behalf of the Department for Work & Pensions and as such has an important role in keeping fraud & error losses within Housing Benefit cases to a minimum and supporting the Single Fraud Investigation Service by providing documentation and information held on Housing Benefit claims.

During 2016/17 the Fraud and Compliance Team dealt with 92 requests from local DWP investigators well within the specified timeframes set by the service level agreement and successfully answered all follow-up enquiries.

## **7. Future Developments**

The Counter Fraud & Compliance Team's first year based within the Revenues & Benefits Service has been very successful. In the coming years we will continue to forge an even closer relationship with Revenues & Benefit colleagues and to evolve the anti-fraud strategies first established in February 2016. The team is constantly reviewing and developing the information it receives from the credit reference technology purchased in October 2016.

The team continues to provide help and advice to all departments within Sevenoaks District Council in relation to fraud related issues and more specifically in relation to criminal investigations and the legislation behind them.

**ANNUAL SELF-ASSESSMENT REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT SERVICE 2016/17**

**Audit Committee - 13 June 2017**

Report of: Chief Finance Officer

Status: For Consideration

Key Decision: No

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

**Portfolio Holder** Cllr. Scholey

**Contact Officer(s)** Lisa Nyon 01322 343434

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**Recommendation to Audit Committee:** That Members note the conclusion of the Annual Self-assessment Review of the Effectiveness of Internal Audit Service 2016/17, 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 2016 an annual review of the effectiveness of the Internal Audit function is carried out, using standard guidance and a template obtained from the Institute of Internal Auditors. 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.

**Summary of Issues Raised Within the Report**

- 2 Appendix A sets out a summary of the self-assessment. The process involved the completion of the self-assessment checklist by the Principal Auditor, in order to assess compliance with the Public Sector Internal Audit Standards 2016. It is to note that the Internal Audit Team are "Generally Compliant" with 82% of the standard. An action plan has been devised which highlights the areas for improvement.

### Results of the Self-assessment of Internal Audit

- 3 Following the assessment, the Principal Auditor's opinion, is that the Council's arrangements in place for Internal Audit in 2016/17 were substantially compliant with the 2016 PSIAS. Audit Management are aware of any deficiencies and areas identified for improvement will be addressed as part of the Internal Audit Service Development Plan for 2017/18.

### Key Implications

#### Financial

This report has no financial implications.

#### Legal Implications and Risk Assessment Statement

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.

#### 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.

### Conclusion

The Principal Auditor's opinion therefore is that the Council's arrangements in place for Internal Audit, in 2016/17 were substantially compliant with the 2016 PSIAS.

### Appendices

Appendix A - Summary Self-Assessment Checklist

### Background Papers:

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

[Public Sector Internal Audit Standards.](#)

Self-Assessment Checklist

Adrian Rowbotham  
Chief Finance Officer

## Sevenoaks District Council

## Internal Audit Standards Self - Assessment Compliance Checklist

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

## Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
	<b>Definition of Internal Auditing</b>			
<b>Reference</b>	<b>Code of Ethics</b>			
1	Integrity	√		
2	Objectivity		√	
3	Confidentiality	√		
4	Competence	√		
<b>Reference</b>	<b>Attribute Standards</b>			
1000	Purpose, Authority and Responsibility	√		
1010	Recognising Mandatory Guidance in the Internal Audit Charter	√		
1100	Independence and Objectivity	√		
1110	Organisational Independence	√		
1111	Direct Interaction with the Board	√		
1112	Chief Audit Executive Roles Beyond Internal Auditing	√		
1120	Individual Objectivity		√	

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## Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
1130	Impairments to Independence or Objectivity	√		
1200	Proficiency and Due Professional Care (The sum of <i>Standards</i> 1210-1230)	√		
1210	Proficiency		√	
1220	Due Professional Care		√	
1230	Continuing Professional Development	√		
1300	Quality Assurance and Improvement Programme (The sum of <i>Standards</i> 1310-1320)		√	
1310	Requirements of the Quality Assurance and Improvement Programme	√		
1311	Internal Assessments	√		
1312	External Assessments	√		
1320	Reporting on the Quality Assurance and Improvement Programme		√	
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	√		
1322	Disclosure of Non-conformance	√		
<b>Reference</b>	<b>Performance Standards</b>			
2000	Managing the Internal Audit Activity (Sum total of <i>Standards</i> 2010 – 2060)	√		

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## Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2010	Planning	√		
2020	Communication and Approval	√		
2030	Resource Management	√		
2040	Policies and Procedures		√	
2050	Coordination and Reliance	√		
2060	Reporting to Senior Management and the Board	√		
2070	External Service Provider and Organisational Responsibility for Internal Audit	N/A		
2100	Nature of Work (Sum of <i>Standards</i> 2110 – 2130)	√		
2110	Governance	√		
2120	Risk Management		√	
2130	Control	√		
2200	Engagement Planning (Sum of <i>Standards</i> 2201-2240)	√		
2201	Planning Considerations	√		
2210	Engagement Objectives	√		

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## Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2220	Engagement Scope	√		
2230	Engagement Resource Allocation	√		
2240	Engagement Work Programme	√		
2300	Performing the Engagement (The sum of <i>Standards</i> 2300-2340)	√		
2310	Identifying Information	√		
2320	Analysis and Evaluation	√		
2330	Documenting Information	√		
2340	Engagement Supervision	√		
2400	Communicating Results (Sum of <i>Standards</i> 2410-2440)	√		
2410	Criteria for Communicating	√		
2420	Quality of Communications	√		
2421	Errors and Omissions	√		
2431	Engagement Disclosure of Non-conformance	√		
2440	Disseminating Results	√		

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## Internal Audit Standards Self - Assessment Compliance Checklist

		Generally Conforms	Partially Conforms	Does Not Conform
2450	Overall Opinions	√		
2500	Monitoring Progress		√	
2600	Resolution of Senior Management's Acceptance of Risks		√	
<b>Totals</b>		<b>45</b>	<b>10</b>	<b>0</b>

**Our Audit Service Generally Conforms to 82% of the Standard. Audit Management are aware of the areas for improvement in the 'Partially Conforms' section and are working towards correcting these deficiencies. There are no items that fall into the Does Not Conform Category.**

Reference	Standard	Comment	Improvement Action
2000	Objectivity	Currently no safeguards in place within charter that refer to procurement activity	If procurement operational activity is to involve IA then this must be included in our charter
1120	Individual Objectivity	During the year an audit team member who is involved in procurement audited this area	Alternative member of the team to audit procurement areas in the future
1210	Proficiency	Lack of recent update of job descriptions/job descriptions in need of revision	To review and update job descriptions as appropriate
1220	Due Professional Care	Internal Audit Manual needs to be updated to reflect current working practices	To review and update IA manual to reflect current working practises
1300	Quality Assurance and Improvement Programme	Lack of update on the action plan and reporting of progress against the PWC External Quality Assessment	To report progress made to the Audit Committee
1320	Reporting on the Quality Assurance and Improvement Programme	Recent progress made on action plan has not been reported to Audit Committee	To report progress made to the Audit Committee
2040	Policies and Procedures	Some policies and procedures are out of date, these need to be updated to reflect the introduction of TeamMate, audit software	To review and update policies and procedures to include Teammate.
2120	Risk Management	Over the past year, internal audit has not been represented on the Risk Management Group for the Council. This has been attended by the Chief Finance Officer	From May 2017 the Principal Auditor will be attending meetings of the Risk Management Group
2500	Monitoring Progress	Currently lack of follow up meetings/ documented	Time has been allocated for specific audit

## Internal Audit Standards Self - Assessment Compliance Checklist

		evidence that recommendations have been implemented	follow up during 2017/18.
2600	Resolution of Senior Management s Acceptance of Risks.	Lack of internal audit involvement in the discussion of risks that affect the Council, however the Chief Finance Officer attends the Risk Management Group.	As above in 2120, from May 2017 the Principal Auditor will be attending meetings of the Risk Management Group

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## **INTERNAL AUDIT ANNUAL REPORT 2016/17**

### **Audit Committee - 13 June 2017**

Report of the: Chief Finance Officer

Status: For Consideration

Key Decision: No

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

**Portfolio Holder** Cllr. Scholey

**Contact Officer(s)** Lisa Nyon 01322 343434

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**Recommendation to Audit Committee:** That Members:

- a) note the work of the Internal Audit Team for 2016/17; and
  - b) support the Principal Auditors 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 2016 to March 2017. This is in compliance with the Audit Committee's terms of reference, 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 2017.

### **Summary of Issues Raised Within the Report**

- 3 Details of the activities of the team during the year 2016/17 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 2016/17 and Annex 2 lists the outcome of each review.

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- 4 In 2016/17, the team completed 21 reviews. This is equivalent to 100% of the revised internal audit plan. The original plan consisted of 29 reviews. This was later revised to 21 reviews to reflect changes in staffing resources. This was approved by Members at the Audit Committee meeting in January 2016. Paragraph 36 of the attached Appendix sets out the summary of the team's performance indicators for 2016/17.
- 5 Based on the work completed in 2016/17 and other sources of assurance available to the team, the Principal Auditor'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 7 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 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**

- 7 The audit team operates as a 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

This report has no financial implications.

#### Legal Implications and Risk Assessment Statement

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's view that the relevant risks are effectively being managed.

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

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 report sets out the achievements of the Internal Audit Team for the period 2016/17, and concludes that the Council's arrangement for internal control, risk management 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 2016/17

## Background Papers:

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

[Public Sector Internal Audit Standards](#)

[Annual Internal Audit Plan 2016/17](#)

**Adrian Rowbotham**  
**Chief Finance Officer**

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Appendix A

# Annual Internal Audit Report & Audit Opinion

2016/17



**SEVENOAKS DISTRICT COUNCIL  
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## **Background**

1. This report deals with the outcome of the work undertaken by the Internal Audit Team, for the period 2016/17. The report also contains the overall Assurance Opinion of the Principal Auditor (Acting as Audit Manager) regarding the effectiveness of the systems of the control environment within the Council for the period 2016/17; and a summary of the reviews carried out, including outturn performance indicators for the period. For the purposes of this report, control environment means, the system of internal control, risk management and governance process across the Council.
2. The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for an Internal Audit service.
3. Financial Management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-
  - Responsibility for Internal Control
  - Accounting records and control systems
  - Internal Audit
  - Review of the Internal Control System.
4. Internal Audit is governed by the Public Sector Internal Audit Standards 2016. This requires compliance with these standards and therefore this report is prepared in compliance with relevant professional standards and the practice guidance notes issued by CIPFA.

## **Introduction**

5. This report sets out the following details relating to the team's service plan objectives for 2016/17:
  - To provide an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2016/17
  - Summarises the outcome of the team's work during 2016/17 with respect to:
    - The Annual Internal Audit Plan for 2016/17
    - Risk Management
    - Annual Governance Statement
  - Assesses Internal Audit performance against a range of performance measures
  - Summarises the results of 2016/17 audit reviews.

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**Basis of the opinion on the Council's Control Environment**

6. The Principal Auditor's (Acting as Audit Manager) opinion on the Council's system of internal control environment is substantially based on the work of the Audit Team during 2016/17. In addition other sources of assurance, including the work of the external auditors are also taken into consideration in the overall opinion where appropriate.

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

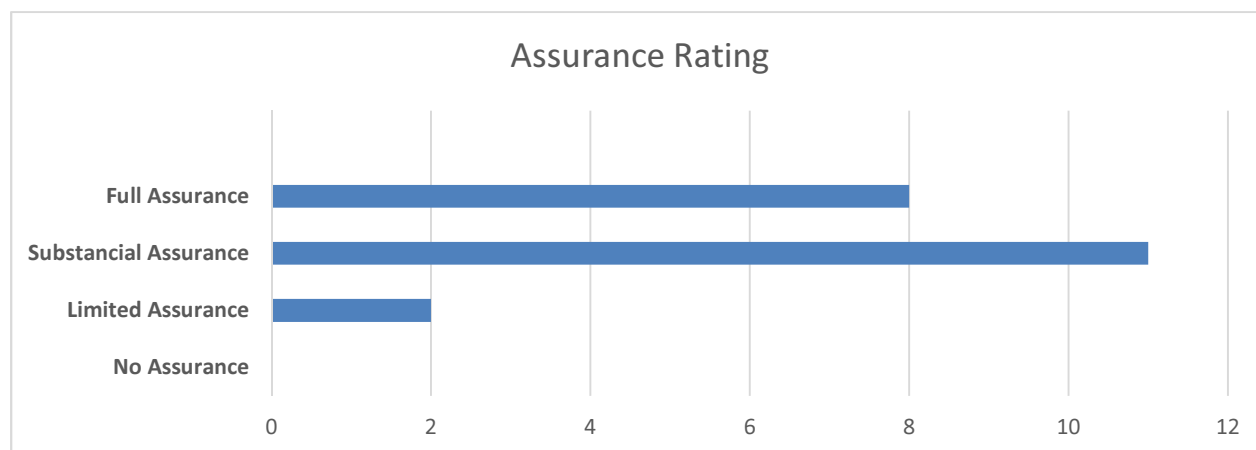
7. Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; **in my opinion as Principal Auditor, (Acting as Audit Manager) Sevenoaks District Council's Control Environment, 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 2016-17 and giving regard to the work of the External Auditors and other sources of assurance. Control environment means, the entire system that contributes towards, identifying and delivering organisational objectives (In particular, internal control processes, risk management and governance)
8. Whilst it was identified that management had, in the main, established an effective control environment within the areas reviewed by internal audit during 2016-17, there were areas which presented opportunities for further improvement within the control environment, or where compliance with existing controls could be enhanced, to reduce the financial, legal or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.
9. The control environment is designed to manage risks to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

**Activity During The Year**

10. The key responsibility of the team is to provide an in-house internal audit service for Sevenoaks District Council as part of a shared service agreement with Dartford Borough Council.
11. Internal Audit is defined by the Public Sector Internal Audit Standards 2016, 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".

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12. The original audit plan for 2016/17 contained 29 reviews. However during the year a member of staff resigned and the Audit Risk & Anti-Fraud Manager has been absent for a significant part of the year. This has impacted on the audit teams staffing resource to deliver the original plan. As a result, eight reviews were cancelled from the original plan however four of these reviews were deferred to 2017/18.
13. Despite staffing issues the team delivered twenty-one reviews, which is an increase of two on the previous (2015/16) year. A summary of the opinions given for each review is contained in Appendix A - Annex 2 of this report.
14. The key aspects of internal audit assurance responsibilities are aimed at achieving the following:
  - to facilitate adherence to Council policies, strategies and directives, including the Council's risk management framework and its Constitution, in order to achieve the organisation's objectives;
  - to safeguard assets from mismanagement, fraud and prevention of bribery and corruption;
  - to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and
  - to ensure compliance with statutory requirements.
15. An additional responsibility is that internal audit works closely with the Council's external auditors in order to minimise duplication and disruption to service. We also share our findings, which contribute towards strengthening of the control environment and assurance.
16. The table below shows a summary of the opinions for individual reviews conducted during the year. It is to note that 38% (8) reviews had an opinion of 'Full Assurance', 52% (11) reviews 'Substantial Assurance' and 10% (2) reviews 'Limited Assurance'. The definitions of audit opinions are given in Appendix A Annex 3 at the end of this report.



17. There were no significant issues arising from audit work completed. We received a good response to our recommendations to improve control across the organisation. To date, departments have fully implemented 29 (58%) (8, 18.6% in 2015/16) of agreed recommendations, with a further 16 (32%) in progress of implementation and the remainder are due for implementation over the coming months.

#### **Internal Audit Plan for 2017/18**

18. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas, is considered based on an audit needs analysis, which evaluates the audit universe used on a scoring system. In order to ensure that the Audit Plan for 2017/18 addressed the Council's key risks and adds value, we have identified and prioritised the areas for coverage by:-
- Reviewing the Council's Risk Registers and Corporate Plan;
  - Identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review.
  - Analysing coverage of Internal Audit reviews over the last three years and the assurance opinions provided following each review, to identify any gaps or areas where follow up work would be of value.
  - Identifying any areas of the Audit Universe, which have not been subject to an Internal Audit review for during the past three years.
  - Meetings with Senior Management to discuss key risks and emerging risk areas for the year ahead.
19. The audit plan for 2017/18 contains 24 reviews and was approved at the Audit Committee in April 2017. 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. If there are any revisions to the audit plan, these will be presented to the Audit Committee for approval.

#### **Risk Management**

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

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**Annual Governance Statement (AGS)**

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

**Other Activities**

22. A summary of the non-core activities undertaken by the team is as follows:
- Liaison with the Council's External Auditors to facilitate closer co-operation and minimise duplication, where appropriate in delivering the assurance requirements for the Council and to strengthen internal control.
  - Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives.
  - Provide ad hoc advice and guidance to management.
  - The Principal Auditor also attended regular finance managers' meetings and Strategic Management Team meetings.

**Risk Based System Reviews**

23. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:
- up-to-date procedure notes, so that staff are aware of the procedures they should be following
  - separation of duties and third party checks, so that staff act as checks on each other's actions
  - effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
  - reconciliations between financial records and other records held, to confirm the accuracy of the financial records
  - access to records is limited to those who are authorised to use it for pursuance of Council business
  - effective review of exception reports and other management information

### **Fraud and Corruption**

24. It is not the primary role of Internal Audit to detect fraud, however we have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. We consider fraud and corruption risks in all of our audit projects. Both the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy have been recently updated by Internal Audit and were approved by the Audit Committee in April 2017.

### **Whistleblowing Policy**

25. The Whistleblowing Policy states that Internal Audit is one route where concerns can be raised with regard to inappropriate or criminal behaviour. During the 2016/17 year there have been no whistleblowing concerns raised with Internal Audit.

### **Following up Previous Year's Audit Recommendations**

26. Follow-up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management which address identified weaknesses in internal controls. Whilst carrying out an audit, we follow up any previous audit recommendations as part of the review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is "Limited Assurance or No Assurance", follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

### **Internal Audit Section Performance**

27. Internal Audit's performance over the past year is analysed over a number of factors in order to facilitate continuous monitoring of inputs, outputs and quality, and to maintain high professional standards. Outturn data for performance measures are highlighted below (see pages 10 to 13).

### **Quality Measures**

28. During the year we worked closely with the Council's External Auditors Grant Thornton to facilitate the assurance requirements.
29. The Public Sector Internal Audit Standards require the Internal Audit Service to carry out an annual self-assessment of compliance with the standards, and an external review by an independent firm every five years. The Self-Assessment is to be presented to the Audit Committee in June 2017. An external review was carried out in 2014 and an action plan produced to



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address areas identified for further improvements. Substantial progress has been made in delivering the action plan.

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

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**Responses to Questionnaires:**

	Question	Yes	%	No	%	N/A	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued.	18	90%	2	10%	0	0%
2	Appropriate staff were interviewed.	20	100%	0	0%	0	0%
3	Audit objectives covered all the relevant issues.	20	100%	0	0%	0	0%
4	I am confident with the accuracy of the audit findings	19	95%	1	5%	0	0%
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback,	20	100%	0	0%	0	0%
5b	and my views were adequately reflected in the final report.	20	100%	0	0%	0	0%
6a	The final audit report was timely,	17	85%	3	15%	0	0%
6b	and clear and understandable.	19	95%	1	5%	0	0%
7a	The audit recommendations in the final report were relevant,	17	85%	1	5%	2	10%
7b	practical,	16	80%	2	10%	2	10%
7c	realistic,	16	80%	2	10%	2	10%
8a	Has this audit added value.	18	90%	2	10%	0	0%
8b	Given assurance of adequacy (or not) of internal controls.	20	100%	0	0%	0	0%
9	Did the audit identify any unknown issues?	4	20%	16	80%	0	0%

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### Implementation of Recommendations

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

### Analysis of progress sheets

Recommendations	2016/17		2015/16	
	number	%	number	%
accepted	50	100	43	100
Rejected	-	-	-	-
recommendation implemented	37	74	8	21
implementation in progress	8	16	20	53
implementation planned (Not yet due)	5	10	15	26
no action recorded	-	-	-	-

31. In total, we have agreed 50 recommendations to date in 2016/17. The majority of which, are in the process of being implemented.
32. The above shows that services are taking action on 100% of our recommendations.

### Input Resources

#### Staffing

33. During the year the audit trainee resigned and the Audit Risk and Anti-Fraud Manager has been absent for a significant amount of time. The Principal Auditor had stepped up to the Audit Manager's role to ensure continuity of the audit service. As a result current staffing resource for the audit partnership with Dartford Borough Council, consists of a Principal Auditor (Acting as Audit Manager) and 3.8 FTE Senior Auditors and an Administration Assistant (0.54 FTE). A temporary Senior Auditor was used to cover the audit assignments allocated to the audit trainee.

#### Training

34. Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:

- Team Mate (Internal Audit Software) Training

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- Local Authority Accounts Workshop
- Secondment to the Revenues and Benefits Service
- Personal Best
- Insights into Internal Audit Standards (CIPFA Professional Standards and CIPFA Introduction to Internal Audit)
- Ivy soft (In-house on-line training on a range of subjects)

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

#### **Performance measures**

36. In 2016/17, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2015/16 and 2016/17.

	<i>Measure</i>	<i>Target</i>	<i>Actual 2016/17</i>	<i>Actual 2015/16</i>
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>	86.43%	89.20%
2	<i>Efficiency of the audit service</i>	<i>95% of draft reports issued within 15 working days of completion of the audit fieldwork.</i>	100%	78%
3	<i>Efficiency of the audit service</i>	<i>95% of audits achieved in allocated days (+10%)</i>	82.35%	50%
4	<i>Client satisfaction with audits carried out</i>	<i>92% client satisfaction as indicated by the responses to the post audit questionnaires.</i>	94%	99%
5	<i>Completion of the revised Internal Audit Plan</i>	95 %	100%	100%

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Appendix A - Annex 1 - Progress Against 2016-17 Internal Audit Plan

<b>PROGRESS AGAINST 2016/17 INTERNAL AUDIT PLAN</b>					<b>Status at 30/05/2017</b>		
		<b>Final report issued</b>	<b>Draft report issued</b>	<b>Feedback process in progress</b>	<b>Fieldwork in progress</b>	<b>Brief issued</b>	<b>Removed from 16/17 plan</b>
1	Community Infrastructure Levy						x
2	Procurement & Contracting	x					
3	Environmental Health Services						x
4	Agency Staff, Contracting & Consulting	x					
5	Economic Development						x
6	Key Financial System	x					
7	Income Generation Activities	x					
8	Council Tax and Benefits	x					
9	Payroll	x					
10	Treasury Management	x					
11	Business Rates (Revs)						x
12	Anti-Fraud Arrangements	x					
13	Grant Income	x					
14	Repair & Maintenance	x					
15	Parking	x					
16	Direct Services	x					
17	Licensing						x
18	Business Continuity	x					
19	Emergency Planning	x					
20	Asset Management	x					
21	IT Strategy/Acquisitions						x
22	Planning Applications & Appeals	x					
23	Due Diligence (Organisational Changes)	x					
24	Corporate Governance	x					
25	Risk Management						x
26	Transparency Code	x					
27	Audit Universe						x
28	Data Protection & Freedom of Information	x					
29	Cash Income	x					
	<b>Total</b>	<b>21</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>
	<b>COMPARATIVE POSITION June 2016</b>	<b>15</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>

**SEVENOAKS DISTRICT COUNCIL  
ANNUAL INTERNAL AUDIT REPORT 2016/17**

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**Appendix A - Annex 2 PROGRAMMED AUDIT WORK COMPLETED DURING 2016-17**

<b>Audit title</b>	<b>Opinion:</b>
Council Tax 2016/17	Substantial Assurance
Key Financial Systems 2016/17	Substantial Assurance
Treasury Management 2016/17	Full Assurance
Procurement & Contracting 2016/17	Substantial Assurance
Direct Services (Fuel & Stock) 2016/17	Full Assurance
Due Diligence (Organisational Changes) 2016/17	Full Assurance
FOI & Data Protection 2016/17	Substantial Assurance
Agency Staff and Contracting 2016/17	Full Assurance
Payroll 2016/17	Full Assurance
Repair & Maintenance Arrangements 2016/17	Limited Assurance
Grant Income 2016/17	Full Assurance
Planning Applications & Appeals 2016/17	Full Assurance
Income Generation 2016/17	Substantial Assurance
Emergency Planning 2016/17	Substantial Assurance
Business Continuity 2016/17	Substantial Assurance
Transparency Code 2016/17	Limited Assurance
Anti-Fraud Arrangements 2016/17	Substantial Assurance
Parking Income 2016/17	Full Assurance
Asset Management 2016/17	Substantial Assurance
Cash Income 2016/17	Substantial Assurance
Corporate Governance 2016/17	Substantial Assurance
<b>Overall Opinion</b>	See opinion on Paragraph 7

**SEVENOAKS DISTRICT COUNCIL  
ANNUAL INTERNAL AUDIT REPORT 2016/17**

Note: See annex 3 below for definitions of audit opinions.  
**Appendix A - Annex 3 - DEFINITIONS of AUDIT OPINIONS**

<b>OPINION</b>	<b>DEFINITIONS</b>
<b>Full Assurance (no High or Medium Risk Recommendations)</b>	<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>
<b>Substantial Assurance (no High Risk Recommendations)</b>	<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>
<b>Limited Assurance</b>	<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>
<b>No Assurance</b>	<p>Absent or non-existent evidence of framework; fundamental weaknesses identified within design; operation of key controls has resulted in failure, or could result in failure to achieve the Council's or service objectives in the areas reviewed.</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>

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## ANNUAL GOVERNANCE STATEMENT 2016/17

### Audit Committee - 13 June 2017

Report of                      Chief Finance Officer

Status                         For Consideration

Key Decision                No

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

**Portfolio Holder**        Cllr. John Scholey

**Contact Officer(s)**    Adrian Rowbotham, Ext. 7153

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**Recommendation to Audit Committee:** It be resolved that the Annual Governance Statement 2016/17, which accompanies the Council's Accounts be agreed for signature by the Leader of the Council.

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**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 annually by an appropriate body of the Council. This report sets out the governance arrangement and the system of internal control that operated during 2016/17 and up to the time of the review.

### Ownership of the Annual Governance Statement (AGS)

- 2        The Annual Governance Statement is a corporate document that 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:

## Agenda Item 11

“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 Acting 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 24 May 2017. Additionally, the AGS is required to be certified by 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 concerning 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  
2016/17

### Background Papers

[The Accounts and Audit regulations 2015](#)

[Internal Audit Annual Report 2016/17 \(separate report to this meeting\).](#)

**Adrian Rowbotham**  
**Chief Finance Officer**

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## ANNUAL GOVERNANCE STATEMENT 2016/17

### 1. Background

1.1 Further to the Accounts and Audit (England) Regulations 2015, 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 Finance Officer 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 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 2015 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 Council 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 2017 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 Council's governance framework:

- The Council's vision and promises for the period ending in March 2017 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 2016 to 2019. 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 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 2016-17, the Council's internal audit team worked to an approved annual audit plan and undertook the work in accordance with the Public Sector Internal Audit Standards (PSIAS) 2016

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 2016/17 and it was concluded that the Council had an adequate and effective Internal Audit service that 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 2015-16.

#### c) Financial Management

The Section 151 Officer is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves. Assurance on these factors is included in the Annual Budget Report to Council.



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 and 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 Heads of Service and Managers where performance is behind target. Strategic information is regularly reported to the Strategic Management Team, Cabinet, Scrutiny Committee 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, Internal Audit, Environmental Health and Building Control.

f) Risk Management

The Council's risk management processes are reviewed by the Officers Risk Management Group and reported to the Audit Committee as appropriate.

Strategic risk is aligned to corporate priorities and reports are produced for Strategic Management Team and the Audit Committee.

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 bespoke training courses. Firstly the Leadership Masterclass, a programme for Managers of all levels within the organisation. The programme consisted of 38 modules delivered covering key aspects of modern day management, empowering managers to manage, support and develop their staff to the best of their ability. Secondly, Personal Best which is available to all staff and aims to help them identify and achieve personal breakthrough goals.

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.

j) Anti-Fraud and Corruption

The Council has an Anti-Fraud and Corruption Strategy and a Whistle Blowing Policy. The Council also has a Counter Fraud Team and a '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. The risks of fraud and corruption are assessed within the strategic risk register and appropriate measures put in place to mitigate these risks.

## **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 Finance Officer during 2016/17.

5.2 CIPFA has issued a Statement on the Role of the Chief Financial 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 2016/17, 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 2015/16, 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 Principal Auditor acting as Audit Manager's overall opinion on the Council's internal control, risk management and governance arrangement. The opinion for 2016/17 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 were no significant governance issues raised in last year's AGS.

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

Date:

Date:

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## INTERNAL AUDIT STRATEGY 2017/18

### Audit Committee - 13 June 2017

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

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Portfolio Holder Cllr. Scholey

Contact Officer Lisa Nyon 01322 343434

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**Recommendation to Audit Committee:** That Members consider the contents of the report and approve the Internal Audit Strategy 2017/18.

---

**Reason for recommendation:** The Internal Strategy is subject to annual review and 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 Audit Committee in March 2016 and since this date, there have been no fundamental changes made. 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.

### **Conclusion**

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:**

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

[Public Sector Internal Audit Standards.](#)

**Adrian Rowbotham**  
**Chief Finance Officer**

# **Sevenoaks District Council**

## **Internal Audit Strategy**

### **2017/18**



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## 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 2017/2018 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.

#### Internal Audit Strategy



## SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

- 3.3 The key elements considered when developing the Strategy are depicted in the above diagram.
- 3.4 The Strategy sets out how the Council's Internal Audit Service will be managed, delivered and developed in 2017/18 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.
- 3.5 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.
- 3.6 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.

## 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.
- 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

## SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

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

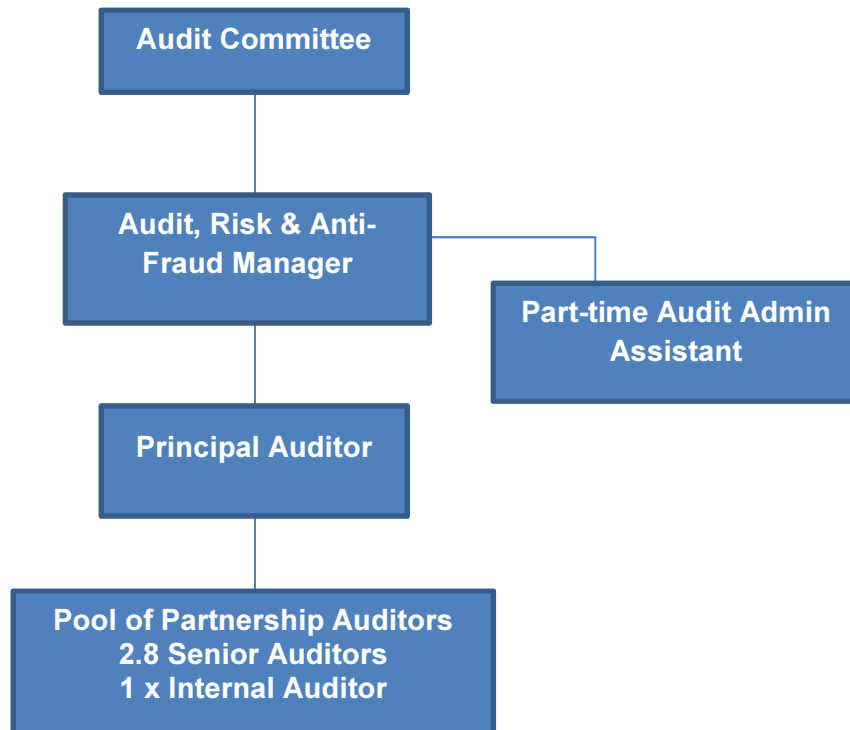
## SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

- 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



- 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



## SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

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 Anti-Fraud Manager will discuss and agree a communications protocol with the District Auditor, or appropriate representative, which will facilitate co-operation between Internal and External Audit, in order to minimise duplication of audit effort and to improve understanding of the risks faced by the organisation. Where appropriate, Internal Audit will place reliance on work carried out by external audit (and other external review agencies) as part of the assurance framework
- 4.11.4 With regard to other regulators and inspectors, the Audit, Risk and Anti-Fraud Manager will seek to establish a dialogue with such agencies with a view to improving understanding and exchanging of relevant information, in consultation with the Section 151 officer.
- 4.11.5 The Audit, Risk and Anti-Fraud Manager and other team members will also maintain dialogue and networking with other professionals both within Kent and relevant professional bodies.
- 4.12 Ownership of Documentation
- 4.12.1 Internal Audit files and working papers, which demonstrate compliance with professional standards, are the property of the Council.
- 4.12.2 Internal Audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed.
- 4.13 Implementation of the Strategy
- 4.13.1 Mission Statement: the mission of the Internal Audit service is:
- “To support the Council's key objectives in delivering its High Level priorities and Operational Services, by providing an independent and objective evaluation of the Council's ability to accomplish its Corporate Plan and Business Unit objectives, and suggests constructive added value proposals to facilitate their effective delivery, through a risk based review framework”
- 4.13.2 The ARAFM will produce an audit Strategy for the Council, detailing how the Internal Audit service will be delivered and developed in accordance with these terms of reference and how it links to the Council's objectives and priorities. The Strategy will be approved (but not directed by) the Audit Committee and will be reviewed annually.
- 4.13.3 The Strategy will be implemented through the determination and delivery of risk-based annual Internal Audit plan, developed in consultation with the

Chief Finance Officer, approved by Strategic Management Team and the Sevenoaks Audit Committee.

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

## **5. Internal Audit Services**

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

The range of services includes the following:

- 5.2 Risk Based System Reviews - in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks will be assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach. This allows us to test only a sample of transactions and still draw conclusions about how well procedures

are working in the Council. Examples of the types of controls we expect to see in place are as follows:

- up-to-date procedure notes, so that staff are aware of the procedures they should be following
- separation of duties and third party checks, so that staff act as checks on each other's actions
- 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.

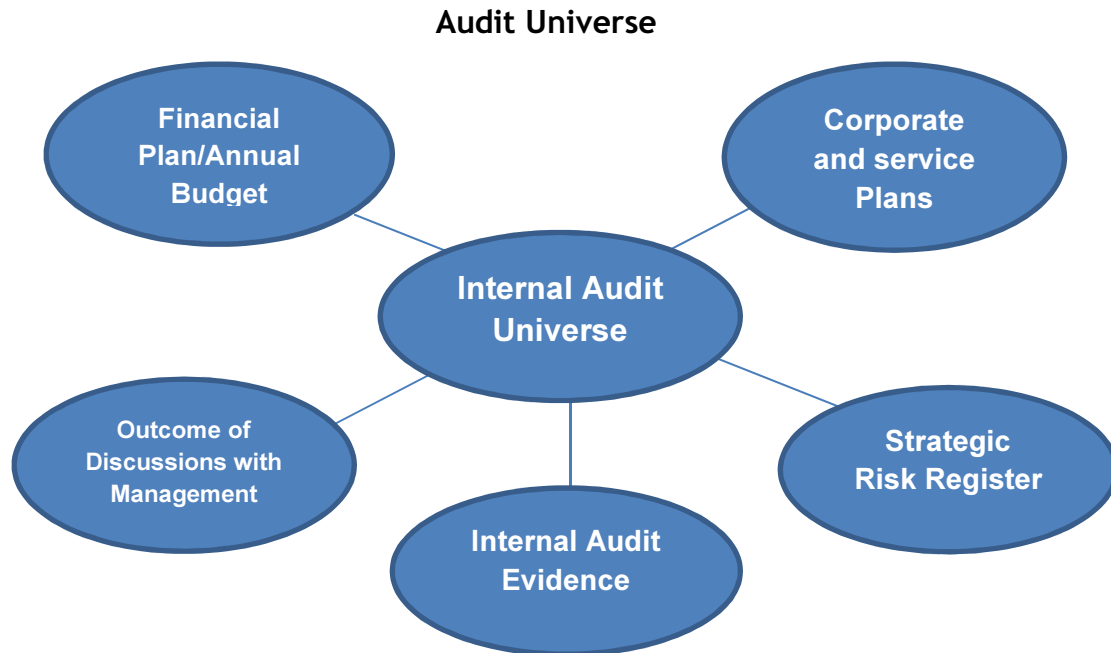
5.6 Fraud and Corruption - When a loss or potential fraud is brought to our attention or discovered during an audit, we would undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we would make recommendations to improve 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 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 ARAFM 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 ARAFM 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 Rationale for Annual Audit Plan

6.6.1 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.

6.6.2 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.

6.7 Producing the Annual Plan

6.7.1 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.

- 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.

6.7.2 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.

6.7.3 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.

6.7.4 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.

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

6.8 Delivering the Audit Plan

6.8.1 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.

6.8.2 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.

6.9 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 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 exists 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.



#### 6.10 Evidence

- All audit findings, conclusions and recommendations will be evidenced on either an electronic using our audit software “Teammate” 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.

#### 6.11 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.

#### 6.12 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 audits will be followed up 3 to 6 months after completion, depending on the assurance level provided.

#### 6.13 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.

### Opinions and Priority Ranking of Recommendations

#### Opinion Formation - Definition of Audit Opinions Levels of Assurance

Opinion	Definitions
<b>Full Assurance (Implies no High or Medium Risk Recommendations)</b>	<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>
<b>Substantial Assurance (Implies no High Risk Recommendations)</b>	<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>
<b>Limited Assurance</b>	<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</p>

# Agenda Item 12

## SEVENOAKS DISTRICT COUNCIL INTERNAL AUDIT STRATEGY

	recommendations will be undertaken as part of the next planned review of the system.
<b>No Assurance</b>	<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

<b>High</b>	<p>Significant risks exists of any of the following:</p> <ul style="list-style-type: none"> <li>• Failure to achieve objectives</li> <li>• Fraud or irregularities</li> <li>• System breakdown</li> <li>• Material loss of assets</li> <li>• Qualification of the Council's accounts</li> <li>• Significant reputational damage</li> <li>• Failure of Legal compliance</li> </ul> <p>Immediate implementation of agreed recommendations is essential in order to provide satisfactory control of serious risk exposures.</p>
<b>Medium</b>	<p>A serious, but not immediate, or significant risk of failure to achieve objectives, system breakdown, or loss etc.</p> <p>Implementation of agreed recommendations within 3 to 6 months is important to provide satisfactory control of risk exposures.</p>
<b>Low</b>	<p>Minor weakness which has no major or serious impact on the achievement of objectives, but where management will benefit from improved risk management, or which presents the opportunity for greater efficiency, or effectiveness.</p> <p>Implementation of the agreed recommendation is desirable, as it will improve overall control, efficiency or value for money.</p>

#### 6.14 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.

6.15 Annual Audit Opinion

- 6.15.1 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.
- 6.15.2 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).

6.16 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.

6.17 Training and Continuous Professional Development

- 6.17.1 The Audit, Risk and Anti-Fraud Manager 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.
- 6.17.2 Professional competence is dependent on a range of skills, attitudes and behaviours, as well as qualifications. A Learning and development plan will be produced for the team annually, which will be informed by the appraisal process and organisational needs.
- 6.17.3 As a minimum, staff will be encouraged to acquire relevant professional qualifications, either CCAB or CMIA 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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## AUDIT COMMITTEE TRAINING 05/06/17 - DISCUSSION

### Audit Committee - 13 June 2017

Report of Chief Finance Officer

Status For comment

Key Decision No

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Portfolio Holder Cllr. John Scholey

Contact Officer(s) Adrian Rowbotham, Ext. 7153

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**Recommendation to Audit Committee:** Members decide if they require anything further following the training.

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### Introduction and Background

- 1 At the Audit Committee on 10 January 2017, it was agreed that external training would be provided to Members of the Audit Committee.
- 2 The training was provided by CIPFA on 5 June 2017 and was jointly held with Dartford Borough Council Audit Board Members.
- 3 The subjects covered in the training were:
  - Case study using a standard internal audit report.
  - Roles and responsibilities.
  - Risk Management.
  - Fraud and Corruption.
- 4 Members are asked for their views on the training, whether further training is required and if there are any changes to the Committee Work Plan following the training.

### Key Implications

#### Financial

The cost of the training will be shared with Dartford BC.

#### Legal Implications and Risk Assessment Statement.

There are no legal implications.

## Agenda Item 13

## 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	None
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Background Papers	None
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**Adrian Rowbotham**  
**Chief Finance Officer**



**Audit Committee 2017/18 - Work Plan (as at 31/5/17)**

	13 June 2017	26 September 2017	9 January 2018	17 April 2018
<b>Internal Audit</b> (Irregularities to be reported confidentially as & when necessary)	Internal Review of Effectiveness of Internal Audit  Internal Audit Annual Report  Internal Audit Strategy 2017/18  Annual Governance Statement 2016/17	Internal Audit 2016/17 - 1 <sup>st</sup> Progress Report Statement of Accounts 2016/17  Report on Internal Audit recommendations outstanding  Internal Audit 2017/18 - 1 <sup>st</sup> Progress Report	Internal Audit 2017/18 - 2 <sup>nd</sup> Progress Report  Report on Internal Audit Recommendations Outstanding	Internal Audit 2017/18 - 3 <sup>rd</sup> Progress Report  Report on Internal Audit recommendations outstanding  Internal Audit Plan 2018/19
<b>Risk Management</b>		Risk Management Report  Draft Strategic Risk Register		

	13 June 2017	26 September 2017	9 January 2018	17 April 2018
<b>Accounts and External Audit</b>	<p>External Audit - Annual Audit Plan and Update</p> <p>Statement of Accounts 2016/17 - Establishment of Member Working Group</p> <p>External Audit - Statement of Accounts training (20 mins)</p>	<p>Statement of Accounts 2015/16</p> <p>Statement of Accounts 2016/17</p>	<p>External Audit - Housing Benefit Subsidy 2016/17</p> <p>External Audit - Annual Audit Letter</p>	
<b>Other</b>	<p>Counter-Fraud &amp; Compliance Report 2016/17</p>	<p>Members' Allowance Scheme Monitoring</p>		<p>Review of the Effectiveness of the Audit Committee</p> <p>Annual Report to Council</p>