Internal Audit Annual Report

2012/13

Sevenoaks
DISTRICT COUNCIL

SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2012/13

Contents

SEVENOAKS DISTRICT COUNCIL
INTERNAL AUDIT REPORT 2012/13

Background

1. This report deals with the outcome of the work undertaken by the Audit and Risk and Anti-Fraud Team for the period 2012/13. The report also contains the overall Assurance Opinion of the Internal Audit Manager regarding the effectiveness of the systems of internal controls within the Council for the period 2012/13; and a summary of the reviews carried out, including outturn performance indicators for the period.

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

2. The Accounts and Audit Regulations 2011, require local Councils to comply with proper practices regarding their arrangements for internal audit and internal control. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) details guidance regarding proper practice in relation to internal audit. This report is therefore prepared in compliance with the CIPFA Code of Practice (CoP).

Introduction

3   This report sets out the following details relating to the team's service plan objectives for 2012/13:

    *   Provides an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2012/13
    *   Summarises the outcome of the team's work during 2012/13 with respect to:
        *   The Annual Internal Audit Plan for 2012/13
        *   Risk Management
        *   Annual Governance Statement
    *   Assesses Internal Audit performance against a range of performance measures
    *   Summarises the result of 2012/13 audit reviews. (Annex 1)
    *   Summaries of outcome of the findings and recommendations of reports issued since the last meeting of the committee are attached in Annex 2

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

    The Internal Audit Manager's opinion on the Council's system of internal control environment is based on the work of the Audit, Risk and Anti-Fraud team during 2012/13, details of which can be found in Annex 1 of this report.

4.1. **Overall Assurance Opinion**

> **Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; in my opinion as Internal Audit Manager, Sevenoaks District Council's system of internal control 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 2012-13 and giving regard to the work of the External Auditors.

Whilst it was identified that management had, in the main, established effective internal controls within the areas reviewed by internal audit during 2012-13, there were areas which presented opportunities for further improvement in internal control, or where compliance with existing controls could be enhanced, to reduce the financial or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.

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

Activities During The Year - Internal Audit

5.   The key responsibility of the team is to provide an in-house internal audit service on behalf of the Council.

6.   Internal Audit is defined by the CIPFA CoP as; "an assurance function that provides an independent and objective opinion to the organisation on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

7.   The audit plan for 2012/13 contained 25 reviews for 2012/13. During the year the plan was revised to reflect available resources and to take account of risk and materiality in delivering the assurance requirements for 2012/13. Two reviews were deferred; one of which has been included in the annual audit plan for 2013/14. The other was no longer considered necessary for assurance purposes. The remaining reviews (except one which is still in progress) have all been completed at least to draft report stage. A summary of the results is attached as Annex 1 to this report.

8.   The key aspects of our internal control responsibilities are aimed at achieving the following:

- to ensure adherence to Council policies and directives in order to achieve the organisation's objectives

- to safeguard assets

- to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and

- to ensure compliance with statutory requirements.

9.   An additional responsibility is that the Council's external auditors place reliance on our audit reviews in order to minimise the work they undertake regarding systems testing. This reduces the Council's total audit costs and keeps duplication between external and internal audit work to a minimum. In order to meet relevant assurance requirements, we aim to test the key controls operating in all major financial system each year

10.   Annex 1 shows a summary of the findings and opinions on individual reviews conducted during the year. Given that some of the audit work was carried out over a year ago, where appropriate, an updated opinion is given to reflect changes over the period and the position as at 28 May 2013.

11.   There were no significant issues arising from the work done with regard to the audit plan. We received a good response to our recommendations to improve control across the organisation. To date departments have implemented 16 (35%) (25, 51% in 2011/12) of our recommendations immediately following the audit, with action in progress, or planned to implement the remainder within a reasonable timescale.

Prepare the Internal Audit Plan for 2013/14

12.   The audit plan for 2013/14 was completed in March 2013 and agreed by Performance & Governance Committee on 17 April 2013. The plan is risk based, and reflects the Council's risk profile. At the time of audit planning risk registers were being prepared for operational risks and the strategic risk framework was under review. Thus the plan would be revised as necessary to reflect changes in the risk profiles of the Council. Any revisions will be taken to the next meeting of the Audit Committee for approval.

Risk Management

13.   The risk management framework of the Council has been under review during 2012/13 and has been implemented for operational risks, incorporating the service plans for 2013/14. The process is still on-going for strategic risk. A separate report on risk management is included with the papers for the June Audit Board.

Annual Governance Statement (AGS)

14.   Regulation 4 of the Accounts and Audit Regulations 2011 requires the Council to carry out an annual review of its system of internal control; risk management processes and governance arrangements. The outcome of these reviews should be included in an Annual Governance Statement (AGS). The team co-ordinated the information gathering process which fed into the production of the AGS and offered advice and information to Management in order to facilitate the effective completion of the process. A report on the Annual Governance Statement is being prepared and will accompany the Accounts to the September meeting of te Audit Committee.

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Other Activities

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

- Liaise with the Council's new External Auditors and agree a communications protocol to enhance closer co-operation and minimise duplication is delivering the assurance requirements for the Council
- Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives
- Participated in other Council initiatives, for example, supporting the 2012 Olympics as stewards, taking part in the customer services NVQ initiative by the Council, supporting the Council's successful application for the IIP Gold Award etc.
- The Audit Manager also attended regular finance managers' meetings and quarterly Corporate Resources Senior Managers Group meetings

Audit Approach

16.   The following set out our approach in carrying out our audit responsibilities during 2012/13:

Risk Based System Reviews

17.   When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:

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

Contract Audit

18.   As well as reviewing the Council's Contracts Register, we advise on tendering procedures and compliance with legislation and regulations. We also follow

the progress of the contract throughout its life where appropriate and confirm the final accounts have been checked to ensure these are in accordance with the contract and any variation orders. In accordance with guidance from CIPFA, we do not audit final accounts, as we place reliance on the technical staff responsible for managing and monitoring the contracts in compliance with Council procedures..

Fraud and Corruption

19.   When a loss or potential fraud is brought to our attention or discovered during an audit, we undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we make recommendations to improve controls within the system affected by the loss or allegation. During the year 2012/13 there was no reported cases of irregularity.

20.   We work closely with the Audit Commission's National Fraud Initiative (NFI) who provides us with 'fraud warnings' and relevant fraud data throughout the year. Where appropriate, we investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council, as part of the fraud risk management process. During the year we carried out investigations into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

Following up Previous Year's Audits

21.   Follow-up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management to address identified weaknesses in internal controls. When we carry out an audit, we follow up on any previous audit recommendations as part of our review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is unsatisfactory, follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

22.   Internal Audit's performance over the past year is analysed over a number of factors in order to facilitate continuous monitoring of inputs, outputs and quality, and to maintain high standards. Outturn data for performance measures are highlighted below (see pages 7 to 11 below).

Quality Measures

23.   *External Audit assessment* – Grant Thornton became the new external auditors in 2012/13. During the year we worked closely with the District Auditor and his staff to meet the assurance requirements.

24. The reliance placed on our work by the external auditors reduces both the duplication of audit effort and the total cost to the Council of work done by the external auditors. We will continue to work in co-operation with the external auditors in 2013 to ensure an integrated audit approach.

25. The team is ISO9001 accredited and had a successful review following the last assessment by BSI in July 2012.

26. *Audit satisfaction questionnaires* – As part of our overall approach to quality, we send a customer questionnaire to all recipients of our reports, who are asked to comment on their satisfaction with the audit process. The survey results received so far are summarised in the table below:

Responses to Questionnaires: –

	Question	Yes	%	No	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued	12	100%		
2	Appropriate staff were interviewed	12	100%		
3	Audit objectives covered all the relevant issues	12	100%		
4	I am confident with the accuracy of the audit findings	12	100%		
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback	12	100%		
5b	and my views were adequately reflected in the final report	12	100%		
6a	The final audit report was timely	12	100%		
6b	and clear and understandable	12	100%		
7a	The audit recommendations in the final report were relevant,	10*	100%		
7b	practical,	10*	100%		
7c	realistic	10*	100%		

| 8 | This audit has added value and/or assurance of adequacy (or not) of internal controls | 12 | 100% | | |
| 9 | Did this audit identify any unknown issues | 1 | 8% | 11 | 92% |

*Questions 7a, 7b & 7c didn't apply to 2 questionnaires as there were no recommendations made in the audits

Implementation of Recommendations

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

Analysis of progress sheets

Recommendations	2012/13		2011/12	
	number	%	number	%
accepted	46	100	51	100
Rejected	0	0	0	0
recommendation implemented	16	35	25	51
implementation in progress				
implementation planned	30	65	26	39
no action recorded				

28. In total, we have agreed 46 recommendations to date in 2012/13. Some reports did not receive a recommendation, where the controls were found to be sufficiently strong and where it was felt that additional strengthening may not be cost effective (see Appendix A - Annex 1)

29. The above shows that departments are taking action on 100% of our recommendations.

Input Resources

30. *Staffing* – The team has the full complement of staff agreed in the shared services agreement between Sevenoaks and Dartford Councils.

31. *Sickness levels* – Total sick days for the year for the team was 38 days in 2012/13, averaging approximately 12.6 days (8 days in 2011/12). During the year there was one long term sickness, which affected the figures. Excluding the long term sickness, the average would have been 4.2 days.

32. *Training* – Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep

abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:

- IT security
- Agresso, Cedar Simon & TASK systems training
- Ivy soft (In-house on-line training on a range of subjects, including Health and Safety)
- Professional briefings and workshops run by the Institute of Internal Auditors
- Data Protection, Freedom of Information and Environmental Information Regulations
- Benefit fraud hotline
- IIA Heads of Internal Audit Workshops
- Procurement contracts requirements
- Kent Audit Group conference
- IRM Conference
- Future of Local Government Audit conference
- National Anti-Fraud Network Conference.

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

- Kent Audit Group meetings – Heads of Audit

Output Measures

Completion of the audit programme:

34.   Twenty two reviews out of twenty three within the revised internal audit plan for 2012/13 have been completed to at least to draft stage The original plan consisted of 25 reviews. However, for operational reasons the plan was revised in January 2012. Two reviews were deferred and approved by the Performance and Governance Committee.

Performance measures

35.   In 2012/13, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2011/12.

	Measure	*Target*	*Actual 2012/13*	*Actual 2011/12*
1	*Percentage of internal audit time spent on direct activity*	*80% of available time.*	*82.59%*	*79.18%*

2	*Efficiency of the audit service*	*95% of draft reports issued within 15 working days of completion of the audit fieldwork.*	*95 %*	*65%*
3	*Efficiency of the audit service*	*95% of audits achieved in allocated days (+10%)*	*90%*	*100%*
4	*Client satisfaction with audits carried out*	*92% client satisfaction as indicated by the responses to the post audit questionnaires.*	*100%*	*99%*

36. The team meet or exceeded its four performance indicators. Demonstrating an effective delivery of the assurance requirements.

Appendix A - Annex 1

Audit title	Opinion
Main Accounting System	Good/Good
Budgetary Control	Good/Good
Cash & Bank Reconciliations	Good/Good
Treasury Management	Good/Good
Payroll	Good
Purchasing & Creditors	Good/Satisfactory
Council Tax & Housing Benefits	Good
Car Parking Income	Satisfactory
Contract Management Arrangements	Satisfactory
Environmental Health	Good/Good
Savings Forecast	Good
Paralympics	Good
Impact of Budget Constraints on Services	Satisfactory
Data Quality/Accuracy	Satisfactory/Good
Information Management	Adequate
Sundry Debtors	Good/Good
Council Tax/NNDR	Good/Good
Dunbrik	Satisfactory/Satisfactory
Project Delivery Arrangements	TBC
IT Implementation	Satisfactory/Unsatisfactory
Procurement	Adequate
Risk Management	Not Applicable
Annual Government Statement	Not Applicable
Overall Opinion	**See opinion on Para 4.1**

Note: during January to date, the team piloted a new opinion framework, incorporating Frameworks and Implementation. See annex 4 below for definitions of the new opinions.

Review of Budgetary Control   **Issued: 17 April 2013**

Opinion: Control Framework – Good
                   Compliance with Framework - Good

The purpose of this review was to provide assurance on the effectiveness of the budget preparation and control processes. This was a reduced scope audit which focused on areas not previously covered in the most recent review, or areas which were of some concerns at the last review. This included profiling and monitoring arrangements, including action to identify and prevent significant variances.

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

1)   The Council may not comply with relevant legislation, policies or good practice.
2)   The budget setting and profiling process may not be effective or timely.
3)   There may be ineffective arrangements for monitoring and reporting budgetary activity.
4)   Corrective and timely action to identify and manage variances may not be taken
5)   Risk that fraud and corruption may be undetected.
6)   Risk that opportunities to demonstrate efficiency or value for money may not be realised.
7)   Risk that risk assessments are not adequately undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in all aspects examined. Therefore no recommendations were made.

The audit opinion was 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

Review of SDC Cash and Bank Reconciliations   **Issued: 4ᵗʰ March 2013**

Opinion: Control Framework – Good
                   Compliance with Framework – Good

The purpose of this review was to provide assurance on the effectiveness of the reconciliation process, which ensures the accuracy of the Council's accounting records as required by statute. This included timeliness and the promptness of

actions taken to address unexplained variances, as these are key elements of the effectiveness of a reconciliation control.

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

1) Risk that the Council may not comply with relevant legislation, organisational policy (for example the Treasury Management Policy) and good practice
2) Risk that appropriate records are not kept to support the reconciliation process
3) Risk that reconciliations between the Council's bank statement and financial systems may not be accurate, independent, upto-date or reviewed by a senior officer
4) Risk that reconciliations may not be completed on a timely basis
5) Risk that the Council may not have an accurate view of its cash flow or financial position
6) Risk that fraud and corruption may be undetected
7) Risk that opportunities to demonstrate efficiency or value for money may not be realised
8) Risk that risk assessments are not adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in all eight of the aspects examined. The audit opinion for both the control framework and compliance was 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

It was identified that further controls would be uneconomic to implement. Therefore no recommendations were made.

Review of SDC Treasury Management   **Issued: 17 April 2013**

Opinion: Control Framework – Good
              Compliance with Framework – Good

The purpose of the review was to provide assurance to Management regarding the effectiveness of the Council's treasury management system in meetings its service objectives. The Treasury Management system is a key financial system, and therefore it is reviewed annually.

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

1) Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
2) There may be insufficient documentary evidence to support transactions

3) The organisation's financial and cash flow position may not be regularly assessed or monitored

4) The Council may make investments above its risk appetite or with unapproved investment instruments

5) Surplus funds may not be invested promptly

6) Investment transactions may not be appropriate, legitimate, or correctly authorised

7) Fraud and/or corruption may be undetected

8) Opportunities to achieve or demonstrate efficiency or value for money may not be maximised.

9) Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in eight of the aspects examined, whilst one was partially met (Risk 9). The audit opinion was 'good'. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks. One recommendation was agreed with Management to address the area where controls were partially met. This relates to risk 9.

- The next risk register should ensure that all Treasury controls relating to staff absence are fully documented.

Members will be advised of the progress in implementing this recommendation in

Review of SDC Purchasing & Creditors   **Issued: 14 May 2013**

Purchasing Opinion: Control Framework – Good
                       Compliance with Framework – Good
Creditors Opinion: Control Framework – Good
                       Compliance with Framework – Satisfactory

The purpose of this review was to provide assurance regarding the effectiveness of the controls established over the purchasing and creditors systems. This included the process for the purchasing and receipt of goods and services and determining whether the system is operating in accordance with financial regulations and relevant Councils policies and procedures.

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

1. Risk that the Council's financial regulations, policies and procedures are not being followed
2. Payments may be made for goods/services either not received; or not of the required quality, or for the benefit of the Council

3. There may not be sufficient documentation to support the purchasing of goods and services and for the receipting of goods and services.
4. Invoices may not be processed and paid in accordance with payment terms
5. Fraud and/or corruption may occur if purchases and payments are not transparent
6. Purchases and payments may be made that do not provide value for money to the Council.
7. Risk of failure to complete an appropriate annual risk assessment for the service area

Audit testing results indicated that controls were fully met in five of the aspects examined, whilst two were partially met (Risks 1&7).

As two separate systems made up this review, this year there is an opinion for purchasing and another for creditors (payments)

The opinion of the auditor was that Purchasing framework of controls in place to ensure achievement of service objectives was **good.**   Additionally, the implementation of the current purchasing framework was **satisfactory**. With regards to creditors (payments system) the opinion of the auditor is that framework of controls in place to ensure achievement of service objectives was **good.** Additionally, the implementation of the current framework was **good** (see annex 4 for opinion descriptions)

Three recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 1&7.

- The Finance Manager needs to ensure that all officers responsible for processing invoices are aware of the new directive. This should be done by
    - Sending an email to all staff to raise awareness
    - Information to be available on the intranet (Simon) which should answer all queries

- Officer awareness needs to be raised regarding the advantages of raising purchase orders. These include improved expenditure monitoring and efficient payment authorisation which will assist with compliance with the new Late Payments Directive and Council Regulations.

- The 2013 operational risk register must be updated to include new risks in relation to the new late payments legislation. These risks could be:-
    - Possible fines due to late payment of invoices
    - Insufficient process to evidence receipt of an invoice

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

Review of SDC Procurement   **Issued: 22 May 2013**

Opinion: Adequate

The purpose of the review was to provide assurance to Management regarding the fitness for purpose and effectiveness of the Council's procurement policies and procedures, including their compliance with EU and UK regulation.

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

1)   Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
2)   The Council may not be aware of, or comply with, all EU requirements
3)   Policies may not be current, appropriate, or include the relevant provisions
4)   Policies and procedures may not be available to, or understood by, all officers
5)   Officers may not implement full compliance with the Council's policy
6)   Fraud and/or corruption may be undetected
7)   Opportunities to achieve or demonstrate efficiency or value for money may not be maximised
8)   Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in three of the aspects examined, whilst five were partially met (Risks 3, 4, 5, 7 and 8).

The audit opinion was 'adequate'. This meant that controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the service exposed to risks. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure for the Council.

 Nine recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 3, 4, 5, 7 and 8.

- The Sustainable Procurement Strategy and Contracts Procedure Rules should be updated to include the strategic role of the Council's Procurement Group, and the current procurement governance structure.
- The Procurement Strategy should be reviewed annually and responsibility should be allocated to either a named accountable officer or to the Procurement Group.
- Training sessions or refreshers, covering full procurement procedures, should be run for appropriate officers, to address existing procurement knowledge gaps.
- Management should review the expenditure for agency and temporary staff and consider adopting the framework agreement, already in place across the Council for general, non-specialised staff.

- Departments with specialist agency needs should tender for a call off contract for the supply of their agency staff. The tender should be designed to consider not only the best price but also the quality of service and minimum knowledge requirements for their field of expertise.

- The Councils Purchasing Guide should either be made available to staff through the Procurement pages on Simon, or references to it should be removed from the Contracts Procedure rules and the waiver circumstances made available separately on the Procurement web page.

- Waiver forms should be made available to staff via the procurement page on SiMON. Organised training should cover the proper application of waivers.

- A waiver of the Contract Procedure Rules should be requested by the Benefits Manager to the Director of Corporate Resources. The application should be completed in the correct format and the special circumstances documented.

- The next review of the Strategic Risk Register should consider the risks relating to the Council's corporate procurement processes.

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

AUDIT OPINIONS - Definitions

Good   *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*

Satisfactory *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and protect against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.*

Adequate *Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council exposed to some minor risks. There is therefore, a need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council.*

Unsatisfactory *Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*

Unacceptable *Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

Audit Opinions

Since January 2013 a trial of two audit opinions have been given for each audit review.

Framework. – the systems in place and controls within it.

The first opinion refers to the framework of controls in place to manage the risks. An audit will examine all the controls in place to manage the risks which could prevent the achievement of service objectives. It will identify areas where there are control gaps or a need to enhance existing controls. It will then make recommendations for additional or improved controls.

Effectiveness – the effectiveness of the controls in place.

This opinion refers to the effectiveness of existing controls. An audit will test the controls in place to ensure that they are effectively implemented and are complied with. Testing will identify where controls are not achieving the required outcomes or where they are not being followed. Recommendations will then be made to either strengthen or enforce compliance with existing controls.
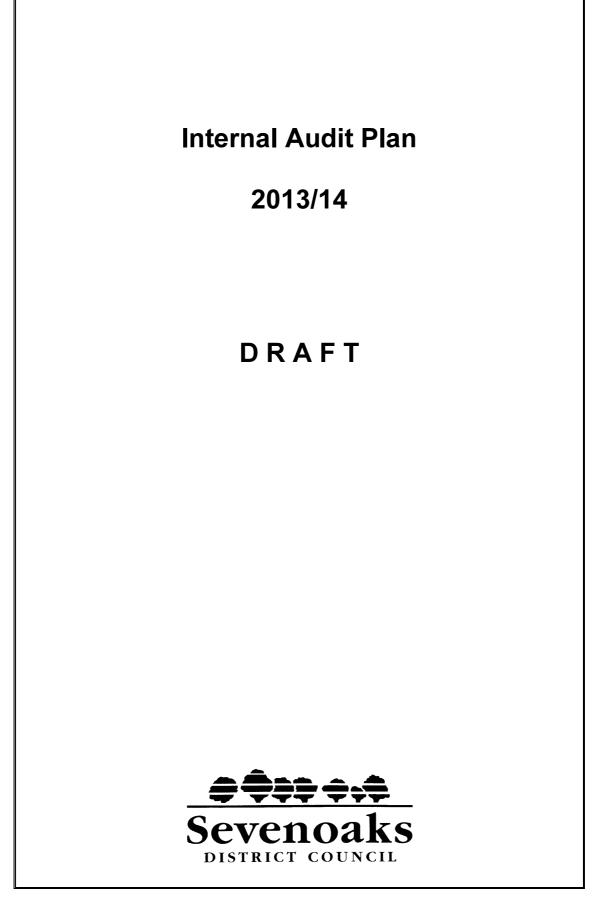
No compliance testing will be undertaken where no framework exists. However, weakness or threat testing may be undertaken in order to establish the extent of the risk or the potential loss to the Council.

Additionally, to support this new approach, the opinions have been redefined and the revised definitions are below.

Opinion	Framework	Effectiveness(Implementation)
Excellent	… innovative controls are in place, which demonstrate efficiencies and excellent value for money, whilst ensuring the achievement of service objectives, good corporate governance and high level of protection for the council against foreseeable risks.	… there is full compliance with the framework of controls and the risk management process is considered to be fully effective. There is evidence of notable practice and no areas of concern were identified.
Minimum requirement	All controls are in place	All controls are fully implemented
Good	… a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.	… the framework of controls is substantially being complied with and risk management process is considered to be good. Only minor errors or omissions identified

Minimum requirement	All controls are in place	51% or above of testing results are low and the remainder are medium. Limited room for further development
Satisfactory	… controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks.	… occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.
Minimum requirement	Control requirements are substantially met	Up to 50% of testing results are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration
Unsatisfactory	… limited controls are in place but there are gaps in the process, which leave the service exposed to foreseeable risks. Hence further development in framework is needed to make the system effective.	... there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.
Minimum requirement	Control requirements are patchy and unreliable	Testing results identified one or more high risk
Unacceptable	… controls are considered to be inadequate or non-existent with the absence of at least one critical control mechanism. An urgent need exists to introduce appropriate level of controls without delay.	… failure to urgently improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.
		Note: compliance testing in this circumstance may not add value. However, there would be some value in conducting weakness testing in some circumstances to determine the level of "threat" or "loss" to the Council. Hence an opinion for compliance may not be given where the framework is "unacceptable"
Minimum requirement	No evidence of control exits	Testing results identified one or more very high risk

22

Appendix B

Internal Audit Plan

2013/14

D R A F T

Sevenoaks
DISTRICT COUNCIL

SEVENOAKS DISTRICT COUNCIL
INTERNAL AUDIT REPORT 2012/13

Background

1. The Accounts and Audit Regulations 2011 requires the Council to have an effective internal audit which would provide an opinion on the adequacy and effectiveness of financial control, as well as to provide reasonable assurance on the Council's overall governance and internal control processes. This includes the arrangements for the Annual Governance Statement, the review of the effectiveness of internal audit and the management of business risks.

2. This requires an annual internal audit plan which:

   - Draws on effective co-operation with External Auditors and other external review agencies, from which the public may gain assurance regarding the effectiveness of the Council's system of internal control.

   - Provides Councillors, the Chief Executive, the Chief Executive Designate, and other senior managers with an overall opinion on the status of the Council's governance arrangements, including internal control and risk management.

   - Supports the Chief Executive Designate in fulfilling his obligations under Section 151 of the 1972 Local Government Act and the Accounts and Audit Regulations 2011, to ensure the Council operates safe and efficient financial and management information systems.

   - Enables the Council to place assurance on the work of Internal Audit in fulfilling its obligations under the Accounts and Audit Regulations 2011, Regulation 4, to establish proper practices for the publication of an Annual Governance Statement; and Regulation 6 to review the effectiveness of the internal audit function.

   - Conducts audit reviews of the Council's risk management, internal control, and governance arrangements in a way that takes full account of the Council's objectives and risks.

   - Aims to improve the Council's risk management, internal control, and governance arrangements by providing line management with practical recommendations arising from audit work; including consultancy and advice and information as necessary or on request.

   - Delivers an audit service that meets standards of performance and quality as laid down in the CIPFA Code of Practice for Internal Audit in Local Government.

Internal Audit's objectives

3. The internal audit function is provided through a shared services arrangement with Dartford Council which came into force in April 2011. Consequently the objective of the team is to provide relevant services for both Councils. However, this plan deals with the teams work for Sevenoaks District Council only, regarding the provision of Internal Audit Services, in fulfilment of the Council's section 151 responsibilities and its obligations under the Accounts and Audit Regulations 2011. To this effect, the objective of the team's work in this area is

to give an assurance to the Council on the effectiveness of the overall governance, risk management and internal control processes of the Council.

4. In recognition of the statutory requirement, it is the responsibility of Internal Audit to review, appraise and report upon:

    - The soundness, adequacy, and application of financial and other management controls.

    - The extent of compliance with, and the relevant and financial effect on established policies, plans and procedures.

    - The extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:

        o Fraud, bribery, corruption and other offences

        o waste, extravagance, and inefficient administration, poor value for money and other causes.

    - The suitability and reliability of financial and other management data developed within the organisation.

    - The effectiveness of the Council's risk management framework

Proposed Audit Techniques

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

Risk-based audit

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

Systems-based audit

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

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

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

Financial/Probity Reviews

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

Investigation of Irregularities

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

Advice and Information

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

IT audit

IT audit is a specialist area and in previous years the work has been undertaken by external consultants working under local management. In 2012/13 we carried out work in this area using internal resources. We hope to continue to do so in 2013/14.

VFM audit

Value for money considerations will be factored into our approach were 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.

Audit Approach

6. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas is considered based on a risk assessment, which evaluates:

   - materiality

   - the inherent risk associated with the activity (high risk activities are those which involve access to cash or complex activities where errors, loss or fraud could arise)

   - the controls in place to prevent and detect losses and errors

   - knowledge from previous audit reviews

   - Legal or regulatory compliance

7. This risk assessment is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.

8. In compiling the Plan for 2013/14 we have taken into account:

   - The internal audit strategy

   - the financial risk assessment of the Council's activities

   - strategic and operational risks assessments

   - shared services and partnership arrangements

   - discussions with senior officers

   - brought forward work from 2012/13

- the incidence of irregularities over the past year

- resources available

- significant changes arising from external and internal pressures

- organisational changes within the last 12 months

- the results of external audit work, or external regulatory assessments from other review agencies

- professional guidance were applicable

9.   **The Plan for 2013/14**

The table below lists the audits we would undertake during 2013/14 and a summary of the scope of each review. As part of the process we carry out an annual review of key financial systems. These are usually systems with high inherent risks, usually areas of major income and expenditure where a failure to manage risks effectively might result in material financial loss, or significant damage to the Council's reputation. The reviews are intended to ascertain the arrangements management have in place to manage operational or business risks and to give an assurance regarding their effectiveness. Where the audit opinion has remained "Good" over the last two years, it is proposed to carry out a scaled down review, which would incorporate only key controls; aspects not covered in previous reviews, or areas which may have given rise to concerns since the previous audit review. This approach is consistent with the risk based audit approach inherent in the Council's internal audit strategy.

Key Financial Systems and other Financial Systems

Audit area	*Review objectives*
1. Main accounting system • Agresso based system • TASK based system	To give assurance on: • the controls over entries to the main accounting system; and that data is processed completely; accurately and authenticated.
2. Budget Preparation & Control	To give assurance on: • the robustness of the budget preparation process, including profiles • budgetary control process and monitoring arrangements, including action to identify and prevent significant variances
3. Cash and Bank Reconciliations • Main SDC account • Tax and Benefit account	To give assurance on: • the reconciliations process, including timelines and the promptness of action taken to address unexplained variances,
4. Treasury Management	To give assurance on:

	• the effectiveness of the treasury management system in meeting its service objectives. This would be a light touch review covering areas key controls and compliance arrangements.
5. Payroll	• to give an assurance regarding the accuracy, completeness and authenticity of payroll transactions, including overtime payments.
6. Creditors • Agresso and TASK based systems	To give assurance on: • the creditors system regarding fitness for purpose and compliance with Council procedures.
7. Debtors • Agresso based system • TASK based system	To give assurance on: • the promptness with which debtors accounts are identified and accurately processed for payment, including where appropriate, the taking of recovery action
8. Council Tax /NNDR	To give assurance on: • the effectiveness of the service in delivering its service objectives and the implementation of shared services arrangements. Key areas to be examined would include any areas of concerns raised in previous internal and external audit reports; in addition to the arrangements for implementing the requirements of new legislation and statutory requirements.
9. Council Tax and Housing Benefits	To give assurance on: • the effectiveness of the service in delivering service objectives and the shared services arrangements. Including any areas of previous internal or external audit concerns; including the arrangements for implementing the requirements of new legislation and statutory requirements
10. Review of Housing	• this audit would review the new structure within housing to assess its fitness for purpose in delivering Council policy and statutory requirements. Including an assessment of the HERO Scheme and arrangements to deal with the implications of the single room allowance. In view of the scale of proposed regulatory changes, the precise scope of this review would be discussed and agreed with management prior to commencing the work.
11. Car Parking Income	To give assurance on: • the effectiveness of the service regarding the security and prompt banking of income collected

	and the recovery process.
12. Contract Management Arrangements	To give assurance on: • the review will focus on a selection of contacts entered into over the last 12 to 18 months; as well as proposed, to give an assurance that they complied with Council policies and procedures, including statutory requirements. Also that there are robust arrangements in place to manage performance and delivery.
13. Review of Shared Services Recharges	To give assurance regarding: • the reliability and accuracy of the processes in place to identify and allocate relevant shared service costs and the allocation of all such costs in accordance with existing agreements.
14. Review of Section 106 Agreements	To give assurance regarding: • the effectiveness of the arrangements in place for implementation of Section 106 agreements.
15. Annual Governance Statement	To give assurance regarding: The process in place for delivering the Annual Governance Statement and to co-ordinate the production of the statement, ensuring compliance with Statutory requirements and professional guidance.
16. Review of Information Management Council-wide	This review will examine the Council's strategic arrangements for information security and management of information resources including its implications for statutory compliance and regulatory requirements. The audit will also consider retention arrangements and information sharing with internal as well as external partners.
17. Review of IT	This review will examine the arrangements within IT to deliver its service remit, including capacity issues in relation to skills, manpower, hardware, software and other relevant resources required to deliver a quality, reliable and resilient service. In addition, the implementation of recommendations from Penetration Testing Report and other external responses will be examined.
18. Dunbrik Depot	This review will seek to give an assurance regarding the effectiveness of systems within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies; including Health and Safety Arrangements. The exact allocation of this time and systems chosen would be informed by the outcome of the updated operational risk registers. However, it is likely that the time would be spent looking at two or three key areas of depot activities which have not been reviewed by

	internal audit over the last few years
19. Review of Corporate Health and Safety arrangements	This review will examine the Council's arrangements for Health and Safety in order to give an assurance regarding fitness for purpose and compliance with statutory requirements.

Audit area	Review objectives
20. Review of Safeguarding	This review will examine the Council's arrangements for "safeguarding" in order to give an assurance regarding fitness for purpose and statutory compliance.
21. Review of Planning/Development Control	The review will examine the Council's arrangements for delivering its statutory responsibilities and council policy regarding planning and development control. This will include arrangements for implementing changes in recent statutory requirements. This review will be carried out in the later part of the year, in view of propose organisational changes.
22. Repair and Maintenance Arrangements	This review will examine the Council's arrangements for repairs and the maintenance of Council property and assets, in order to give an assurance regarding fitness for purpose and compliance with Council policy. This area has not be examined by internal audit recently. Thus the scope of the review will include both property and value for money considerations.

Arrangements to prevent fraud and corruption

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

Follow up of recommendations made in previous audit reports

Audit reports	To follow up recommendations made in previous reports, to confirm that agreed action has been implemented effectively within the agreed time scales.

10. Audit Programme and Resource Plan for 2013/14

Areas to be audited	Planned days 13/14	Actual days 12/13
1. Main Accounting System	5	10
2. Budgetary Control	5	5
3. Cash and Bank Reconciliations	5	5
4. Treasury Management	5	5
5. Payroll	5	5
6. Creditors	5	10
7. Debtors	5	5
8. Council Tax/NNDR	10	15
9. Council tax Housing Benefits	10	15
10. Review of Housing *(B/F from 2012/13)*	20	0
11. Car Parking Income	10	10
12. Contract Management Arrangements	10	15
13. Shared Services Recharges	15	0
14. Review of Section 106 Agreements	15	0
15. Annual Governance Statement	10	15
16. Information Management Council-wide	20	10
17. Review of IT	15	15
18. Dunbrik	20	20
19. Review of Corporate H&S Arrangements	20	0
20. Review of Safeguarding Arrangements	10	0
21. Review of Planning/Development Control	20	0
22. Repair and Maintenance Arrangements	15	0
Sub-Total	**255**	**160**

Areas to be audited	Planned days 13/14	Actual days 12/13
Brought forward total	**255**	**180**
Arrangements to prevent and detect fraud and corruption	Planned days 13/14	Actual days 12/13
Contracts – payments	10	10
Housing Benefits/ Participation in the National Fraud Initiative (NFI)	*10*	*10*
Sub Total	*20*	*20*
Other Activities for 2013/14	**Planned days 13/14**	**Actual days 12/13**
Follow up of actions agreed in previous reports	20	*25*
Advice, information and guidance	30	*20*
Contingencies	35	*30*
Sub Total	**85**	**75**
Total Direct Days	**360**	**255**
Audit Planning and Monitoring etc.	**20**	**25**
Grand Total resources Required	**380**	***N/A**

*Note: Seven reviews are planned for 2013/14 which were not carried out in 2012/13. These amounted to a total of **115 days** and are shown as zero, under 2012/13. Hence the total days available for both years are not directly comparable.

Available Resources

11.   Total staff resources available for direct work is estimated at 415 days, plus 25 days for planning and monitoring. This is equivalent to 50% of total resource available for internal audit within the joint shared services team.

Internal Audit Performance

12.   During 2013/14, the team will continue to work in compliance with the CIPFA Code of Practice for Internal Audit in Local Government, and will measure itself against the performance indicators detailed below. It will also take into consideration of the new Public Sector Internal Audit Standards once they are adopted.

13.   The following seven performance indicators relating to the delivery of the audit plan are proposed and are consistent with current professional benchmarks:

	Measure	*Target 2013/14*
1	*Percentage of internal audit time spent on direct activity*	*80% of available time.*
2	*Percentage of Final Reports issued within 15 working days of completing field work*	*95 % following feedback meeting*
3	*Percentage of audits completed within allocated time.*	*90% of audits achieved within allocated time.*
4	*Percentage of audit briefs issued within 10 days of audit start date.*	*90% of audits*
5	*Client satisfaction with audits carried out*	*90% client satisfaction as indicated by the responses to the post audit questionnaires.*
6	*Value to the Council – Percentage of audit recommendations agreed and implemented by management*	*95% of audit recommendations accepted and completed within the agreed timescale.*
7	*Ability to delivery effective assurance*	*95% of planned work to be completed by 31 March 2012*

Reporting Protocol

14.   Internal audit work undertaken is reported to clients (service managers, heads of services and directors), the culmination of the year's work being an annual report to Council Members. Our reports provide an overall audit opinion as to the adequacy of the control environment within the area examined. The annual report will contain an overall opinion on the adequacy of internal control, governance and risk management within the Council.

Audit Opinion

15.   The audit opinion is formed following discussions with offices/management, observation of working practices, and the testing of systems. This is to ascertain whether key controls are in place and whether they are being complied with, or whether there are compensating controls, which provide the same level of overall control and protection against identified risks. Definitions of the five levels of opinions, as previously agreed by members are:

Good *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*

Satisfactory *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and Protect the Council against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to protect the service against potential risks.*

Adequate *Controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the Council exposed to some minor risks. There is, therefore, a need to introduce additional controls and improve compliance with existing ones, to reduce the risk to the Council.*

Unsatisfactory *Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*

Unacceptable *Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

16. We aim to involve auditees at key stages of the audit process and to ensure their agreement to audit findings and recommendations. The table below sets out how auditees will be involved in the audit process this year. There are no changes to the process from last year.

Audit stage	Involvement
Agreement of brief at the start of the audit	Head of Service
Feedback and discussion of main findings arising from an audit	Service Manager/Head of Service
Agreed report	Chief Executive Chief Financial Officer

	Director as appropriate Head of Service Service Manager
Audit satisfaction questionnaire completion	Head of Service/Service Manager as appropriate
Half yearly progress reports	Management Team and Performance & Governance Committee
Annual Report Annual Plan	Management Team and Performance & Governance Committee Committee

Audit Recommendations

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

High – Fundamental weaknesses in the system or process under review

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

Low – Desirable but non-threatening improvements