

# **Internal Audit Progress Report**

**October 2018**

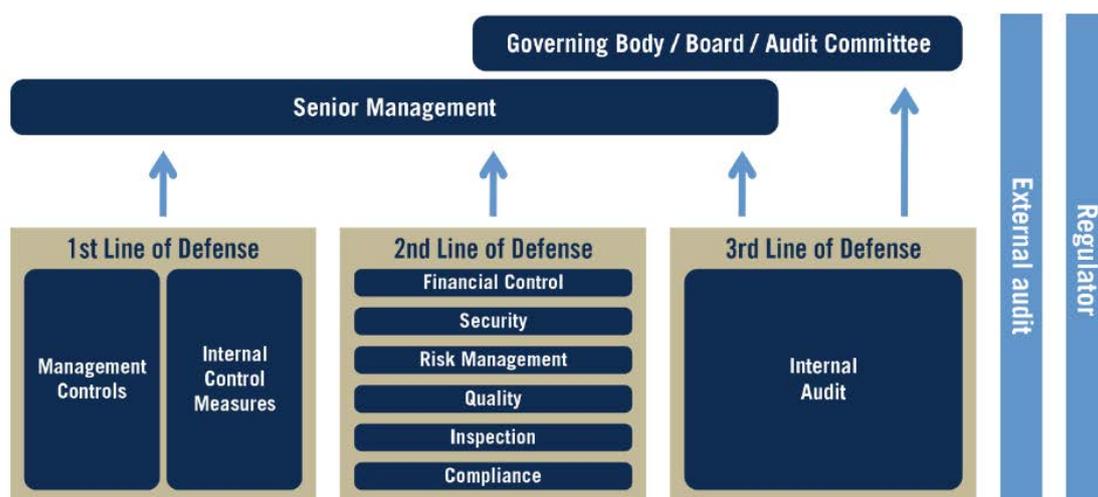


## Introduction

1. All local authorities must make proper provision for internal audit in line with the [Local Audit and Accountability Act 2014](#) and the [Accounts and Audit Regulations 2015](#) (regulation 5). The latter requires authorities to:

*“...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.”*

2. The Regulations state that services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. These ‘Standards’ mandate the mission of internal audit: **to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight**
3. Internal audit is an objective and independent assurance and consulting service designed to enhance and protect the Council’s values and priorities. It helps the Council by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
4. The Standards demand an annual opinion from the Chief Audit Executive (the Audit Manager fulfils this role for the Council). The Opinion considers **internal control, corporate governance and risk management**. It is a key part of the overall assurance Members and Officers of the Council draw on when evaluating governance. The diagram below<sup>1</sup> shows internal audit’s position alongside other sources of assurance:



5. This report updates Members on progress and findings so far as we complete the Audit Plan approved by this Committee in [April 2018](#).

<sup>1</sup> Taken from the Institute of Internal Audit’s Professional Practices Framework (US illustration includes US spelling)

## Internal Control

6. Internal control is how the Council ensures achievement of its objectives. In particular, internal control achieves and displays effectiveness and efficiency, reliable financial reporting and compliance with law, rules and policies. It incorporates both financial and non-financial aspects.
7. We gather evidence to support this part of the Opinion principally through completing the reviews set out in our **audit plan**. As we deliver this work we assess and conclude on the overall level of assurance offered by the controls in accordance with the agreed definitions (see appendix I)

## Audit Plan Progress

8. This Committee approved our Audit Plan 2018/19 in April 2018. The plan set out, a summary of the audit projects to be delivered, along with a resource plan showing the total number of days allocated to the plan.
9. We began work on the plan in May 2018, following completion of the remaining 2017/18 audit work.
10. We use a time recording system called Teammate to log all time spent, each day, on the different audit related tasks. This system enables us to capture time spent delivering different activities and individual audit projects. Reporting from this system, the table below shows progress in the total number of days delivered against the plan up to 30/09/18:

Category	2018/19 Plan Days	Outturn to September 2018	Days Remaining
2017/18 Assurance Projects	0	8	N/A
2018/19 Assurance Projects	256	134	122
Contingency and Consultancy Reported as: <i>General administration/Committee reporting/service development/Audit Planning/risk management/joint working</i>	156	88	68
<b>Totals (18/19 Work Only)</b>	<b>412</b>	<b>222</b>	<b>190</b>

11. Based on the figures above, we have used just over 50% of the days towards the 18/19 audit plan at the half yearly position.
12. There is increased time spent to the contingency codes (which at the time of planning were collated to include all general admin as well as any consultancy time). We will be undertaking some work over the next few months to better understand this time, and will be in a position to report in more detail at our next progress update.

## Audit Work

13. The table below shows delivery of the audit plan up to the end of September 2018. For completeness, we also include projects that were in progress at the end of 17/18 (which would not have been reported in full as part of our previous update in July 2018):

### Audit projects completed

Sevenoaks Audit Plan 2018/19				
No	Title	Budget	Date Issued	Conclusion
<b>2017/18 Audit Work Completed after March 2018</b>				
	Key Financial Systems 2017/18	-	April 18	Limited
	Vehicle Procurement 2017/18	-	April 18	Full
	The Print Studio 2017/18	-	April 18	Limited
	Corporate Health & Safety 2017/18	-	April 18	Full
	Quercus 7 2017/18	-	May 18	Substantial
	Environmental Health Project 2017/18	-	May 18	n/a
<b>2018/19 Audit Work Completed so far</b>				
1	SDC7-18/19 Health	10	July 18	Full
2	<b>ADDED</b> Housing Register	5	August 18	n/a
3	SDC9-18/19 Fly-Tipping	5	September	Full
4	SDC11 - Environmental Health (Food Safety) <b>SHARED</b>	10*	AB	Draft Reporting
5	SDC8-18/19 Community Safety	5	PA	Draft Reporting

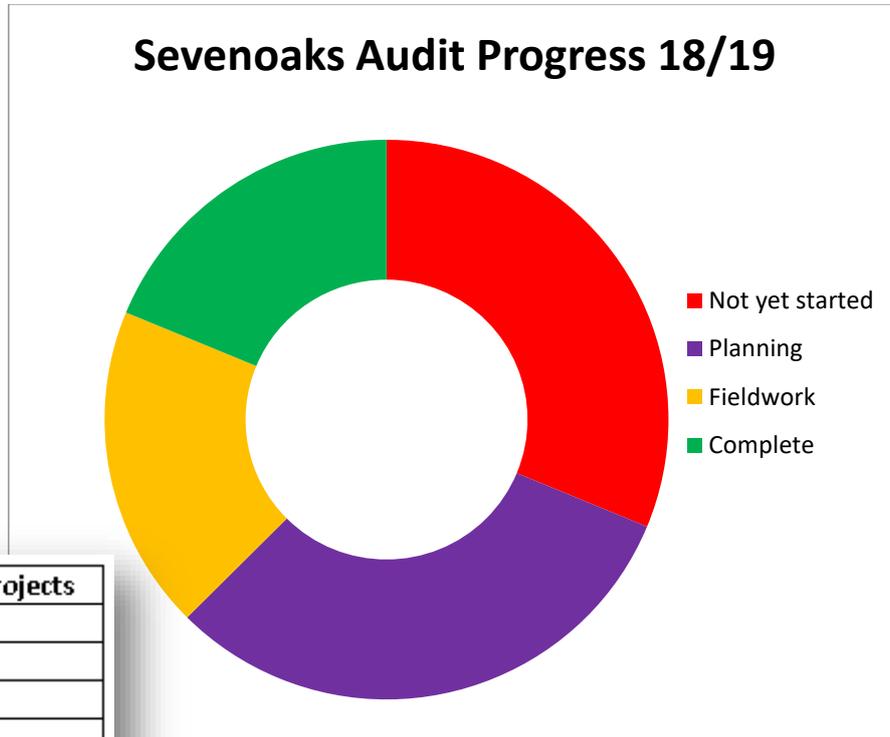
\*Days shared with Dartford

### Audit projects awaiting completion

Sevenoaks Audit Plan 2018/19				
No	Title	Budget	Expected	Progress
6	SDC1-18/19 Community Infrastructure Levy	5	October 18	Fieldwork
7	SDC5-DBC4-18/19 Revs & Bens Risk Based Verification <b>SHARED</b>	10*	Q3	Planning
8	SDC6-DBC5-18/19 Revs and Bens - Recovery <b>SHARED</b>	10*	Q3	Planning
9	SDC10-18/19 Markets	10	Q3	Planning
10	SDC13-18/19 Payroll	10	Q3	Planning
11	SDC3-18/19 Homelessness Reduction Act	10	Q4	Planning
12	SDC2-18/19 Private Sector Letting Scheme	10	Q4	Not yet started
13	SDC4-18/19 Key Financial Systems	15	Q4	Not yet started
14	SDC15-18/19 IT Security	10	Q4	Not yet started
15	SDC12-18/19 Business Continuity	10	Q4	Not yet started
16	SDC14-18/19 GDPR	15	Q4	Not yet started

\*Days shared with Dartford

14. The chart below shows a summary of the audit plan based on current progress (with fieldwork including any work not yet reported as final):



Stage	Projects
Not yet started	5
Planning	5
Fieldwork	3
Complete	3
<b>Progress</b>	<b>69%</b>

## Audit Work Summaries

15. An executive summary (of all the work completed in the table above) is included below.

### Key Financial Systems – Issued in April 2018

16. The purpose of this review was to provide an assurance regarding the effectiveness of the Council's Key Financial Systems with regard to the accuracy and completeness of transactions and compliance with Council policy and to ensure that these arrangements are fit for purpose to deliver service objectives and comply with Council procedures.
17. The opinion of the auditor was that there is **Limited Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This meant there were weaknesses identified within the framework and there existed evidence of non-compliance with Council procedures or good practice, which put the achievement of the Council's or service objectives, in many of the areas reviewed, at risk.
18. Audit recommendations were made to improve the following areas where our testing identified issues:
1. Non-compliance with the Financial Procedure Rules
  2. Potential lack of separation of duties
  3. The maximisation of opportunities to achieve or demonstrate efficiency or value for money
  4. The compliance of creditor and credit card transactions with Financial Procedure Rules and good practice. It was also noted that the corporate credit card procedures were not included in the Financial Procedure Rules.

Priority Ranking	Number of recommendations
Very High	0
High	1
Medium	1
Low	3
<b>Total</b>	<b>5</b>

### Vehicle Procurement – Issued in April 2018

19. The purpose of this review was to provide an assurance regarding the effectiveness of the processes and the financial strategy used to procure vehicles for the Depot to ensure adequacy and fitness for purpose to deliver service objectives and comply with council procedures.
20. The opinion of the auditor was that there is **Full Assurance** in place to ensure achievement of service objectives pertaining to the audited system. 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.
21. There were no recommendations arising from this review.

### Print Studio – Issued in April 2018

22. The purpose of this audit was to look at the processes in place for income collection from internal and external customers to ensure they are fit for purpose and follow Council procedures.
23. The opinion of the auditor is that there is **Limited Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This means there are weaknesses identified within the framework and there exists 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.
24. Audit recommendations were made to improve the following areas where our testing identified issues:
1. Raising of invoices for ad-hoc work requested by members of staff
  2. Raising of sales orders/ invoices to external customers
  3. Invoice generation/costing process
  4. Purchased of a piece of software that is not being used that could help the print studio to become more efficient

Priority Ranking	Number of recommendations
Very High	0
High	1
Medium	2
Low	0
<b>Total</b>	<b>4</b>

### Corporate Health & Safety – Issued in April 2018

25. The purpose of this audit was to provide reasonable assurance regarding the effectiveness of the arrangements in place for Corporate Health and Safety in order to ascertain compliance with Council policy and Health and Safety legislation, regulation and guidance.
26. The opinion of the auditor was that there is **Full Assurance** in place to ensure achievement of service objectives. We found that the Council has sound corporate arrangements in place to support the Council's compliance with legislation and regulations. The main control is the establishment of the corporate H&S group, who's terms of reference include the review of H&S related policies and procedures; review trends in types of accidents/incidents with designed strategies to reduce the seriousness and impact of these instances in the future. This group is an invaluable resource that supports services in their own H&S risk assessment. Members of the group participate in other Kent wide network, which has resulted in shared experiences/knowledge and lesson learnt to inform the Council's own H&S processes. The use of a standard approach for service H&S risk assessment facilitates a consistent approach across the Council.
27. There were no recommendations arising from this review.

### Quercus 7 – Issued in May 2018

28. The purpose of this review was to provide assurance on the relationship between Quercus 7 Limited (Q7) and Sevenoaks District Council (SDC), with particular focus on potential conflicts of interest between the two entities and the use of Council resources to support Council initiatives. This review was also to ensure that arrangements are fit for purpose to deliver service objectives and compliance with Council procedures.
29. The opinion of the auditor was that there is **Substantial Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This meant there is generally a sound framework of control in place designed to meet the Council has 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.

Priority Ranking	Number of recommendations
Very High	0
High	0
Medium	1
Low	2
<b>Total</b>	<b>3</b>

### Health – Issued in July 2018

30. The purpose of the review was to evaluate the Council's contribution to the One You Kent programme funded by Kent County Council (KCC), which aims to support the health and wellbeing of residents in the County and how we tailor our services to support needs within our district.
31. The opinion of the auditor is that there is **Full Assurance** in place to ensure achievement of service objectives pertaining to the audited system. This means 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.
32. There were no recommendations arising from this review. We have set aside 2 days to review the delivery of outcomes towards the end of the year.

### Fly-tipping – Issued in September 2018

33. The purpose of this audit review was to provide assurance over the effectiveness of the processes in place to report and investigate instances of fly tipping in the Sevenoaks District.
34. It is our opinion, based on the results of our work, that there is **Full Assurance** in place to ensure achievement of service objectives and management of key risks. This means there is a sound framework of control is in place that meets the Council aims and or service objectives. All expected controls tested are in place and are operating effectively.

Priority Ranking	Number of recommendations
Very High	0
High	0
Medium	0
Low	2
<b>Total</b>	<b>2</b>

## **Additional Work (not rated)**

### **Housing Register – Issued in august 2018**

35. The purpose of this review is to assess the possibility of maintaining the Housing Register arrangements in house using existing Sevenoaks District Council (SDC) resources. Currently SDC pay £50,000 per annum plus a further £30,000 from Section 106 funds to West Kent Housing Association (WKHA) for maintaining the SDC Housing Register and providing administration of the Choice Based Letting Scheme. This current arrangement is for a 3-year period and is due to end in March 2019.

## Follow-up of Audit Recommendations

36. The Internal Audit process can be summarised into 5 key steps:



Figure a: Internal Audit Process

37. We raise recommendations to assist management in addressing control failings, or to suggest service improvements following the results of our testing. All audit recommendations are tracked and followed up during key points during the year (usually each quarter). This enables us to monitor and report progress towards implementation. If the actions have not been fully implemented then we will review dates, and where appropriate, agree to defer and follow-up at a later date.
38. The audit plan cycles spans the entire year, and so inevitably we will always end up with live recommendations being tracked and carried into the next audit plan year. At the end of 2017/18 we had 13 live recommendations being tracked into 2018/19. Following review up to the end of September 2018, 3 have now been closed as being fully implemented. The table below shows, in summary, the 10 recommendations brought forward from 2017/18:

	Total	High Priority	Medium Priority	Low Priority
<b>Recommendations brought forward into 2018/19</b>	13	2	4	7
Implemented since 01/04/18	3	0	0	3
Not Yet Due	5	2	2	1
Delayed Implementation but no additional risk	5	0	2	3
<b>Remaining recommendations live</b>	<b>10</b>	<b>2</b>	<b>4</b>	<b>4</b>

39. The table below shows in more detail the projects where recommendations are still in progress / are due at a later date:

Project	Report Issue Date & Rating	Recs Agreed	Delayed	Agreed Deferrals	Not due	Completed	Full Completion date
Repair & Maintenance Arrangements 2014/15	5/5/15 Satisfactory/Satisfactory	13	0	1 (Low)	0	12	
IT Acquisitions 2017/18	28/6/17 Substantial Assurance	2	0	1 (Low)	0	1	
Discretionary Housing Payments 2017/18	5/7/17 Full Assurance	2	0	0	0	2	25/9/18
Housing Benefits & Council Tax Support 2017/18	4/12/17 Full Assurance	1	0	0	0	1	25/9/18
NDR 2017/18	5/12/17 Full Assurance	1	0	0	0	1	25/9/18
Tree Application – Decision Making 2017/18	15/12/17 Limited Assurance	3	0	0	1 (Low)	2	
Members' Expenses 2017/18	13/3/18 Substantial Assurance	1	0	0	1 (Medium)	0	
Key Financial Systems 2017/18	9/4/18 Limited Assurance	5	0	0	2 (Medium & High)	3	
Print Studio 2017/18	13/4/18 Limited Assurance	3	0	3 (2 Medium)	1 (High)	0	
Quercus 7 2017/18	8/5/18 Substantial Assurance	2	0	1 (Low)	0	1	
<b>TOTAL</b>		<b>33</b>		<b>5</b>	<b>5</b>	<b>23</b>	

40. As outlined in the 'figure a' (above) the internal audit process is a continuous process. The cycles allows for risks to be input directly back into future audit planning. In order to ensure that we are providing valuable assurance we cannot overlook outstanding audit actions, particularly when left outstanding over a long period of time. As such, we will be undertaking a full review of outstanding recommendations as part of the audit planning process this year. We will keep Members informed with the progress of this work are part of our regular reporting.

41. Both high risk recommendations were reported to the Committee in **July 2018** where a deferred date of January 2019 was agreed.

## Audit actions from 2018/19 projects

42. We have issued 2 final reports from the 18/19 audit plan. One of these reports included recommendations. A summary is detailed below:

Project	Report Issue Date & Rating	Recs Agreed	Delayed	Agreed Deferrals	Not due	Completed	Full Completion date
SDC9-18/19 Fly-Tipping	September 2018 <b>FULL</b>	2	0	0	2 (Low)	0	

## Teammate

43. We purchased and implemented new audit management software in 2017/18 called Teammate. Following a period of training, and development, we are now using the system for all audit work undertaken from the 18/19 audit plan. Part of the system is designed specifically to enable the automation of audit recommendations. This includes the facility to send out e-mail notifications, create and sign-off electronic working papers and greatly enhance reporting.
44. We will be undertaking a project within the service this year to track the implementation of actions through the system to realise the benefits and efficiencies offered by the new software.

## Service update

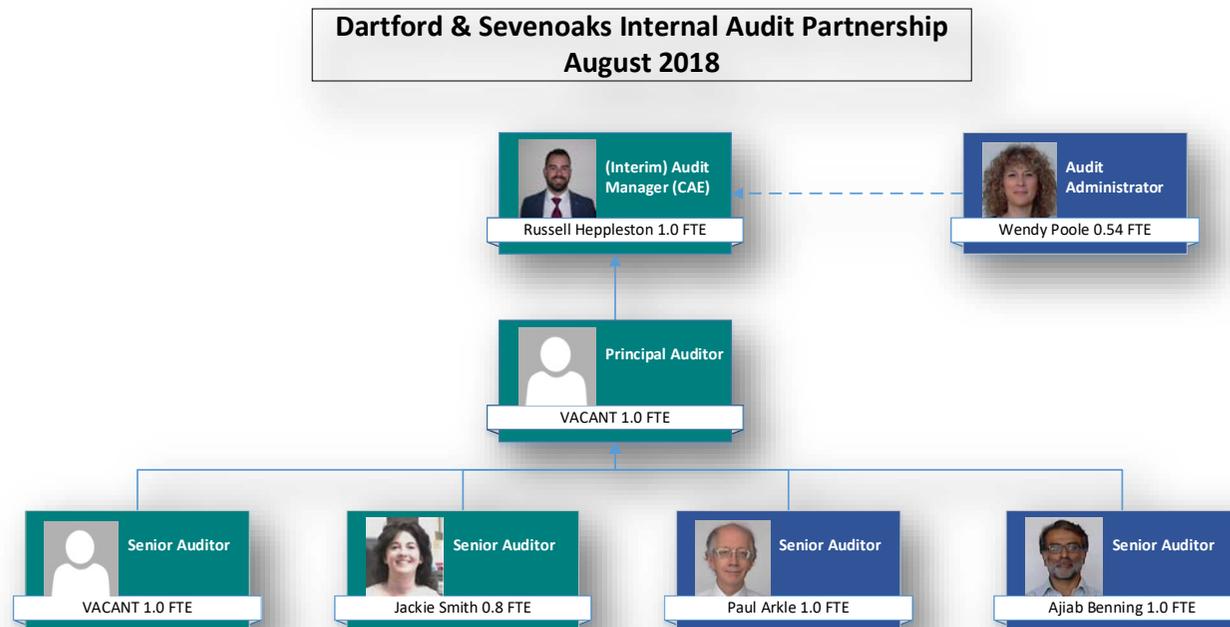
45. Internal Audit services across Kent are delivered mainly through Partnerships or Shared Service working. So, following the departure of the previous Audit Manager in July 2018, the Council approached its neighbours to see whether resource and expertise could be made available, on a short term basis, to help support the Internal Audit service.
46. A number of options were explored (including private firms), and following interviews, a secondment agreement was entered into to cover the period 1 August 2018 to 31 January 2019 with Mid Kent Audit.
47. Using the External Quality Assessment report (most recently reported to this Committee in [July 2018](#)) the following areas have been agreed as the key focus over the secondment period:

Action Area	Description	EQA
<b>Audit Strategy &amp; Operating Models</b>	Draft the Internal Audit Strategy and delivery model options for the longer term operation of the service	<b>EQA 1.1</b>
<b>Audit Charter</b>	Update the Internal Audit Charter to be compliant with the PSIAS, and to better reflect the level of service for each Authority. Charters to also set out the roles of CAE, Board and set out the safeguards to independence	<b>EQA 1.0, 1.2</b>
<b>Internal Audit Process</b>	Undertake an exercise to refresh the audit process to ensure compliance with PSIAS and harmonised where appropriate across both Authorities with the aid of Teammate to provide efficiency and consistent working practices	<b>EQA 3.2, 3.5, 4.1, 4.2, 4.6</b>
<b>Brand &amp; Presentation</b>	Update and refresh key audit documents (audit briefs, reports, follow-ups, and management team / audit committee reports) to include recognised good practice and to meet the needs of each Partner	<b>EQA 4.2</b>
<b>Communication &amp; Engagement</b>	Create a suite of supporting literature for auditee's and the Council to raise awareness of the service and wider profession (providing clarity / education of the internal audit service, process, FAQ's and consultancy & additional services)	<b>EQA 4.1, 4.2, 5.4</b>
<b>Risk Management</b>	Provide updated risk management strategies for each Partner, including recognised good practice updates, and improved risk reporting to Management Teams and Members	

48. Members will continue to receive regular updates on how the above actions are being progressed, and will be a key part of the process for approving any future plans and strategies for the service.
49. In addition to the actions above, the Audit Manager will provide onsite support and direction to the team, and will ensure effective deployment of resources. This includes undertaking a skills assessment to ensure that the necessary expertise is developed and nurtured to enable effective delivery of the audit plan.

## Meet the Team

50. The Partnership is made up of 4 operational auditors, a Principal Auditor (an operational manager post) an Audit Manager (who fulfils the role as Chief Audit Executive) and an Administrator.
51. Although Auditors are employed by different Authorities, they deliver a varied programme of audit projects across both Council sites. Where possible we harmonise the planned work to create efficiencies (through preparation of audit work) and to enhance the value through greater insight. This also creates cross learning, and is something that we are seeking to enhance over the coming months.



52. We are currently holding two vacancies until the outcomes of the future strategy and model of the Partnership have been agreed. However, the funds from these vacancies will be invested into delivering a series of specialist reviews across both sites. Access to specialist audit resource is available, at a reasonable cost, through Mid Kent Audit, Kent County and also London Audit Group. We will continue to keep the Committee up to date with the outcomes of this work, and agree any additional work through the Chairman as per the Audit Charter.

## **Acknowledgements**

53. We would like to take this opportunity to thank Officers, Managers and Members for their ongoing support and assistance in enabling us to undertake our work. Internal Audit is seen as a critical friend within the Council and we are pleased to report that we do not receive any undue pressure or hindrance when undertaking our work. This is both a testament to the auditor's approach and professionalism, and the Council's culture to embrace the findings of each review, and to seek improvement through the audit process.

Appendix I

**Definitions of Assurance ratings:**

OPINION	DEFINITIONS
<p><b>Full Assurance</b> (no High or Medium Risk Recommendations)</p>	<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>
<p><b>Substantial Assurance</b> (no High Risk Recommendations)</p>	<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>
<p><b>Limited Assurance</b></p>	<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>
<p><b>No Assurance</b></p>	<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>