

Internal Audit Update Report

22 September 2022



Introduction

1. Internal Audit is an independent and objective assurance and consulting function. The shared team undertake reviews over the course of the year that are designed to evaluate and improve the Council's internal control, governance and risk management processes. Each individual review contributes towards the Chief Audit Executive's overall opinion on systems of risk management, governance and control provided at the end of the year.
2. This report provides Members with an update on internal audit activity, and, most importantly, its outcomes, against the Plan that was agreed by Members of this Committee in March 2022.
3. It also seeks to enable the Committee to discharge its responsibility to provide oversight of the quality and effectiveness of the Internal Audit Partnership. The Key Performance Indicators for Quarter 2 are provided in **Annex A**.

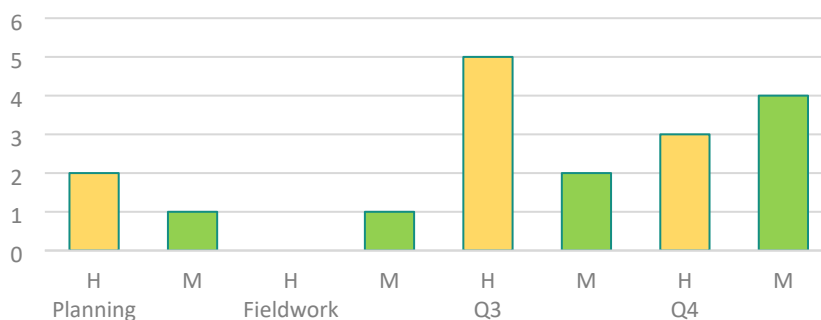
Internal Audit Progress Update

4. The approved 2022/23 Internal Audit Plan is divided into two priority levels according to their risk to the organisation. The high priority list contains the audits that are priorities for completion and we committed to undertake all of these audits. The medium priority list contains additional audits that we will select as the risk profile dictates throughout the year. We committed to delivering 11 of these audits in the audit plan.
5. As a result of a change in Audit Manager and an Auditor vacancy and other staff absences during the year, we were unable to complete the 2021/22 audit plan in time for the Audit Manager's annual opinion which was delivered in July. There were 7 audits left outstanding and our progress to date has been towards completing those projects. The table below details the progress made since the annual report:

Audit Title	Current Status	Assurance
Property Investment Strategy	Complete	Reasonable
Corporate Landlord Liabilities	Complete	Limited
Emergency Planning	Complete	Substantial
IT Governance	Draft Report	
Temporary Accommodation	Draft Report	
Companies - Quercus	Review	
Staff Wellbeing	Review	

6. In the previous update report which was delivered in March 2022, we reported that we were fully staffed and should be able to complete the plan as expected. Unfortunately, we have lost 2 Auditors and our Audit Support Officer since that report. This has also significantly contributed to the delivery of the 2021/22 audit plan and the start of the 2022/23 plan.
7. We ran a recruitment exercise in May to recruit to one of the Auditor vacancies and unfortunately that was unsuccessful. I am therefore working with Senior Management and HR to find the best way to resource the team and hope that should be successful in the coming months. However, that currently leaves us with a significant gap in resources, some of which I plan to fill using contracted audit services. Due to costs, I will not be able to match bought in services to the level of resource lost however, and so I am proposing a reduction in the number of medium priority audits we deliver for 2022/23.
8. We have reviewed the current Audit Plan in light of changes described above, I believe we need to reduce the number of medium priority audits we deliver to 8 from the 11 previously proposed. The high priority audits remain appropriate for the risks the Council is facing and so I do not propose any changes to that list. We therefore ask that Members approve the reduction in the audit plan.
9. I have reviewed the 2022/23 audit plan and summarise our progress in the chart below. The issues raised above have meant that our focus in the first part of this audit year has unfortunately needed to be on completing 2021/22 work which explains our slow progress towards 2022/23 work. As part of the chart below, you will see when we plan to complete the remainder of the plan.

2022/23 audit plan completion



Internal Audit Outcomes

10. Since the annual report, we have completed 3 audits and have a further 2 at draft report stage. I provide the summaries of the completed audits below along with their associated assurance ratings (definitions found at **Annex B**):

Property Investment Strategy – Issued July 2022

Reasonable

The purpose of this review was to establish if the Council procured assets in line with the criteria set of its Property Investment Strategy and assess if the financial model used is sufficient and a good working example, and that income from investments is meeting expectations.

Strengths

- The Council has a Property Investment Strategy, which is reviewed annually, and clearly sets out the council's criteria to be met for asset purchases.
- There is regular reporting on each investment property showing whether the income derived from it is meeting expectations.
- There has been an improvement in the style of the investment proposal reports which clearly show the financial aspects and potential issues and steps which could be taken.

Areas for development

- There is reliance on staff experience and expertise to identify and follow through on an investment as there is currently no written guidance as to the steps to be taken for investments in relation to capital projects.

Priority Ranking	Number of audit actions	Actions agreed
Critical	0	NA
High	0	NA
Medium	1	1
Low	0	NA
Advisory	0	NA
Total	1	1

Corporate Landlord Liabilities – Issued July 2022

Limited

The aim of the audit was to review the effectiveness of the controls over the Council's compliance to its statutory responsibilities as corporate landlord. The service would like it noted that they recently introduced the current approach as there were limited arrangements in place previously.

The controls over statutory compliance and the associated budgets require improvement. Although suggestions for planned maintenance for the coming year are listed in the annual plan for each property, we could not ascertain whether works had been completed from either the planned property maintenance (PPM) spreadsheet, or from conversations with officers.

Compliance reviews are undertaken to ascertain non-compliance to statutory requirements relating to tenanted properties. However, this is administered via a rolling spreadsheet that is continually updated, which increases the risk of manual errors and could lead to compliance inspections not being undertaken when due.

Our testing found compliance certificates are not consistently attached to the compliance confirmation form completed by tenants to confirm that inspections have been carried out in accordance with the lease. This poses a risk should the necessary inspections not have been carried out, and a formal escalation process is yet to be agreed.

The service is currently in the process of implementing the Uniform and Idox system to support the statutory compliance function, but it remains unclear if this system is indeed appropriate. We understand implementing the system will address some of the control weaknesses identified. Introductory training has been completed by the service and they anticipate the system to be operational by March 2023. Ongoing training will be required.

Priority Ranking	Number of audit actions	Actions agreed
High	1	1
Medium	1	1
Low	2	2
Advisory	2	2
Total	6	6

Emergency Planning – Issued September 2022

Substantial

The objective of the audit was to review the effectiveness of controls over the Sevenoaks District Council's (Council) emergency planning arrangements.

Based on our audit work, we conclude that the controls over budget setting and long-term financial planning provide **SUBSTANTIAL** assurance on SDC's emergency planning arrangements.

The Council's emergency response role sits within a larger framework of responders, coordinated through the Kent Resilience Forum. Within the Council, Emergency Planning arrangements are overseen by the Head of Direct Services, alongside the CCTV Partnership & Emergency Civil Protection Manager. We focused our review on plans underpinning the MEP and how the Council liaises with the Kent Resilience Forum and other agencies to communicate with external stakeholders, test emergency plans and report on major incidents.

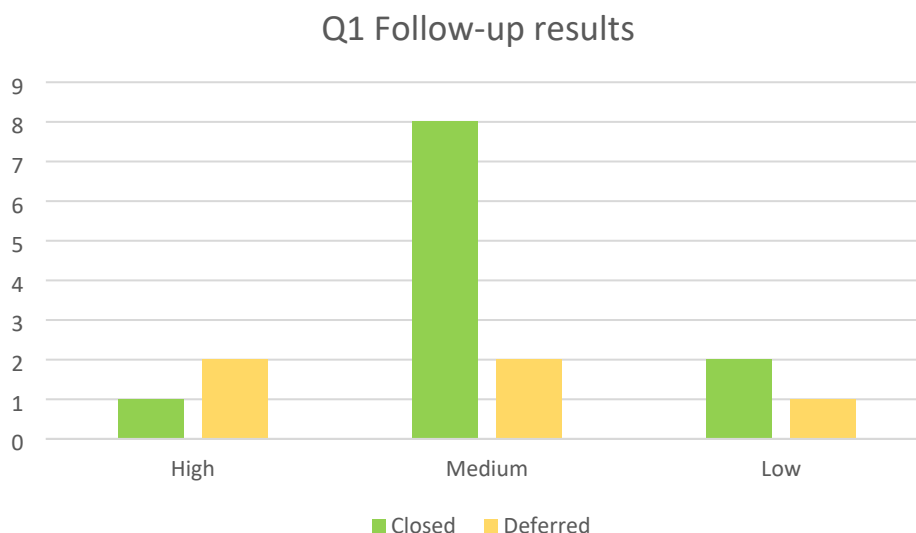
We noted the following areas of key strengths:

- The Council's major emergency plan was reviewed, updated, and approved in January 2022. This was done with support from an external consultant.
- The position of the Sevenoaks major emergency plan concerning County and Kent Resilience Forum (KRF) plans are laid out. The responsibilities of all parties are clearly outlined and documented.
- Training is provided to employees on the KRF and handling major emergencies.

We have raised no recommendations resulting from our testing and so we consider this audit complete.

Follow Up

11. Internal Audit follows up all Critical, High, Medium and Low priority findings as they fall due. The below table shows the results of our follow up process for actions due in Quarter 1 this financial year. All deferrals have been agreed by the Chief Officer – Finance and Trading or the actions have made significant progress and we are expecting them to be fully implemented shortly.



Internal Audit Performance

12. Audit Committee has an important role to play in overseeing and ensuring the quality and effectiveness of Internal Audit, in order to assure themselves that Internal Audit makes a robust contribution to governance and that reliance can be placed on its conclusions. This oversight is facilitated through the Quality Assurance and Improvement Programme, which includes an action plan and performance indicators. The Quality Assurance and Improvement Plan was last presented in July 2022 and is due to be reported next in January 2023.

13. **Annex A** contains the results of our Key Performance Indicators (KPIs) for Quarter 1 (April - July). Our KPIs indicate a drop in performance which while concerning, is to be expected given the staffing issues described above. The main area for action remains the timeliness of audit delivery; the KPI shows that no audit reports are issued by the date given on the audit brief. I believe we now understand the root cause of this issue and have put actions in place to address it meaning that there should be an increase in performance reported in January.

Conclusion

14. We are looking to complete our work on the 2021/22 Internal Audit Plan shortly and have started making some progress towards the 2022/23 audit plan. Our resourcing issues mean that we will not be able to deliver the full audit plan as expected in March 2022 but

the adjustments suggested above should be achievable. Managers have agreed the recommendations for all issues raised and consequently there are no risks identified that will not be sufficiently mitigated once these are implemented.

15. We would like to thank Officers, Managers and Members for their ongoing support and co-operation to enable us to deliver our work.

Jennifer Warrillow

Audit Manager

Annex A – Key Performance Indicators for Q1 (April – June 2022)

Finance: Associated performance indicators	Q1 (April-June)
<p>F1: Percentage of budgeted days taken to complete projects – <i>Target 100%</i> Reported on a cumulative basis</p> <p>Indicator measures any variance between the days agreed on the final brief vs. the actual time coded</p>	177%
<p>F2: Chargeable days – <i>Target 75%</i> Reported on a quarterly basis</p> <p>Indicator measures the actual chargeable activities against the assumptions made in the audit plan</p>	Average 71%
<p>F3: PSIAS conformance – <i>Target ‘Generally Conforms’ (IIA definition)</i> Reported annually</p> <p>Indicator measures effectiveness of the Quality Assurance & Improvement Programme (QAIP) to ensure compliance with professional Standards.</p>	To be reported at the end of 2022/23
Client satisfaction: Associated performance indicators	Q1 (April-June)
<p>C1: Respondents satisfied with the overall audit experience – <i>Target 90%</i> Reported on a project by project basis</p> <p>Indicator measures Client satisfaction with how we undertook the work, and takes into account our professionalism, approach and competence</p>	1/1 63%
<p>C2: Respondents agreement with the audit actions – <i>Target 90%</i> Reported on a project by project basis</p> <p>Indicator measures Client agreement to the audit findings and resulting actions from our audit work</p>	18/18 100%

Internal processes: Associated performance indicators	Q1 (April-June)
<p>I1: Percentage of draft audit briefs issued at least 10 working days before the start of fieldwork. - <i>Target 90%</i> Reported on a project by project basis</p> <p>Indicator measures the effectiveness of our project planning and communications with the client</p>	2/3 67%
<p>I2: Percentage of draft audit reports issued by the date given on the final audit brief - <i>Target 70%</i> Reported on a project by project basis</p> <p>Indicator measures the efficiency of our audit work, currency of our audit finding and effective engagement between Auditors and Clients</p>	0/9 0%
<p>I3: Time taken between issue of the DRAFT report and FINAL report – <i>Target 15 working days</i> Reported on a project by project basis</p> <p>Indicator measures the effectiveness of our process to finalise audit reports and issue the report in a timely manner</p>	4/8 50%
Learning & Development: Associated performance indicators	Q1 (April-June)
<p>L1: Audit actions fully implemented within agreed timescales – <i>Target 80%</i> Reported on a monthly basis</p> <p>Indicator measures the successful implementation of audit actions and the effectiveness of our follow-up process</p>	9/25 36%
<p>L2: Training & development days - Reported annually</p> <p>Indicator measures our investment and time spent on training and development against the assumptions made in the audit plan</p>	14.89 Days (annual budget of 29 days)

Annex B - Definitions of Assurance ratings:

OPINION	DEFINITIONS
<p>Substantial Assurance</p>	<p>A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p>
<p>Reasonable Assurance</p>	<p>There is a generally sound system of governance, risk management and control in place.</p> <p>Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p>
<p>Limited Assurance</p>	<p>Significant gaps, weaknesses or non-compliance were identified.</p> <p>Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>
<p>No Assurance</p>	<p>Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified.</p> <p>The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.</p>

