

**Agenda Item No:** 5  
**Report To:** AUDIT COMMITTEE  
**Date:** 30 JUNE 2015  
**Report Title:** INTERNAL AUDIT ANNUAL REPORT 2014/15  
**Report Author:** Rich Clarke



<b>Summary:</b>	The report presents the 2014/15 Head of Audit Opinion and supporting work behind that opinion. The report also provides a more wide-ranging update on the audit service.
-----------------	--

**Key Decision:** No

**Affected Wards:** All

**Recommendations:** **1. The Audit Committee notes the Head of Audit opinion and supporting work and that the opinion will inform the Council's Annual Governance Statement.**

**Policy Overview:** Not Applicable

**Financial Implications:** Not Applicable

**Risk Assessment** No

**Equalities Impact Assessment** No

**Other Implications:** Not Applicable

**Exemptions :**

**Background Papers:** Internal Audit Annual Report 2014/15

**Contacts:** rich.clarke@midkent.gov.uk – Tel: (01233) 330442



## **Report Title: Internal Audit Annual Report 2014/15**

### **Purpose of the Report**

1. To give the Annual Head of Audit Opinion as required by Public Sector Internal Audit Standards (the Standards) and set out the work that underpins that conclusion. The report also updates Members more generally on the progress of the audit service.

### **Background**

2. Internal Audit is a required service under the Accounts & Audit Regulations 2011. The principal objective of Internal Audit is to examine and evaluate the adequacy of the Council's systems of internal control, risk management and corporate governance.
3. As those charged with overseeing Governance, the Audit Committee is the appropriate Member body to receive regular updates on the performance and effectiveness of the internal audit service. Ashford BC's audit service is provided by Mid Kent Audit as a partnership between Swale, Maidstone, Ashford and Tunbridge Wells Borough Councils. The four way partnership has operated since April 2010.
4. The overall scope of the Council's audit service is set out in advance within the annual internal audit plan. The Committee agreed the 2014/15 audit plan at its meeting in March 2014, and received an interim report on progress to date in December 2014.
5. We have completed the work set out in that plan, subject to modifications in year in response to prevailing risks and needs of the Council, in accordance with the Standards. Where there is any work outstanding at this time of writing this report the work is sufficiently advanced that the Head of Audit Partnership is satisfied its conclusions will not materially affect the Head of Audit Opinion. The final conclusions of any work outstanding will be reported to the Committee verbally during the meeting (where available) or as part of the first scheduled 2015/16 update.

### **Risk Assessment**

6. Not applicable.

### **Equalities Impact Assessment**

7. There are no proposals made in the report that require an equalities impact assessment.



## **Other Options Considered**

8. The Standards demand that the Head of Audit present an annual opinion on internal control, corporate governance and risk management and detail the work underpinning that opinion to the organisation's audit committee (or equivalent). No other alternative action is possible while maintaining conformance with required Standards.

## **Consultation**

9. The audit work detailed in the report has been the subject of ongoing consultation with audit sponsors and the Deputy Chief Executive across the course of the year. Members received a specific mid year update in December 2014.

## **Implications Assessment**

10. Not Applicable

## **Handling**

11. Not Applicable

## **Conclusion**

12. The report presents the Head of Audit Opinion for 2014/15 and conclusions of work undertaken during the year.

## **Portfolio Holder's Views**

13. Not Applicable

**Contact:** Rich Clarke Tel: (01233) 330442

**Email:** [richard.clarke@ashford.gov.uk](mailto:richard.clarke@ashford.gov.uk) or [rich.clarke@midkent.gov.uk](mailto:rich.clarke@midkent.gov.uk)



**MID KENT AUDIT**

**Annual  
Internal Audit  
Report**

**April 2014 – March 2015**

**Ashford Borough  
Council**



**ASHFORD**  
BOROUGH COUNCIL



## Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.
2. Authority for Internal Audit is within the Accounts and Audit Regulations 2011 that require the Council to undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS).
3. As required by these standards the Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
  - Internal Controls: Including financial and non-financial controls.
  - Corporate governance: Including effectiveness of measures to counter fraud and corruption.
  - Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. In addition, the Head of Audit Partnership must confirm to the Audit Committee at least annually, the organisational independence of internal audit activity.

## Independence:

5. Mid Kent Audit is provided through a shared service partnership together with Ashford, Maidstone, Swale and Tunbridge Wells.
6. At Ashford Borough Council, the Head of Audit Partnership has direct and unrestricted access to the Chief Executive, senior management and the Chair of the Audit. This right of access is contained within and reinforced by the Audit Charter, as approved by Management and the Audit Committee
7. Organisationally the Head of Audit Partnership reports to the Director of Mid Kent Services and, through the Shared Service Board, to the Deputy Chief Executive who is a member of the Council's senior management team. On no occasion has the Director of Mid Kent Services, the Deputy Chief Executive or any of the senior management team sought to restrict the scope of audit work or to change any report prepared by the Head of Audit Partnership.
8. We are satisfied that Internal Audit is organisationally independent and fully meets the necessary standard for independence and objectivity.

---

<sup>1</sup> This is the definition of internal audit included within the Public Sector Internal Audit Standards



# Head of Audit Partnership Annual Opinion

9. This opinion statement is provided for Ashford Borough Council (the Council) in support of its Annual Governance Statement 2015, which is published alongside the statement of accounts for the year ended 31 March 2015.

## Scope of responsibility

10. The Council is responsible for ensuring its business is conducted in accordance with the law and proper practices and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
11. In discharging this responsibility the Council is also responsible for ensuring that there exists a sound system of internal control with allows for effective exercise of the Council's functions and arrangements for the management of risk.

## The purpose of the system of internal control

12. The system of internal control is designed to manage risk to a reasonable level rather than eliminate risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

## The control environment

13. The Public Sector Internal Audit Standards (the 'Standards') states that the control environment includes the following elements:
  - Integrity and ethical values.
  - Management's philosophy and operating style.
  - Organisational structure.
  - Assignment of authority and responsibility.
  - Human resource policies and practices.
  - Competence of personnel.
14. In examining the control environment, I have had regard to these elements and how they support the Council's framework of governance, risk management and control.



## **Basis of assurance**

15. Mid Kent Audit has conducted audits both in accordance with the mandatory standards and good practice contained within the Standards and additionally from our own internal quality assurance systems, which include operating to an agreed audit manual with adequate supervision and review.
16. My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the Council's assurance framework, that are covered by Internal Audit's programme. Where principal risks are identified within the Council's framework that do not fall under Internal Audit's coverage or that are not included in Internal Audit's coverage, I am satisfied that an assurance framework is in place that provides reasonable assurance that these risks are being managed effectively.
17. Our work for the year to 31 March 2015 was completed in line with the operational plan approved by the Audit Committee on 18 March 2014.

## **Internal control**

18. From the Internal Audit work undertaken in relation to 2014/15 it is my opinion that I can provide assurance that the system of internal control that has been in place at Ashford Borough Council (the Council) for the year ended 31 March 2015 accords with proper practice. This assurance extends to both the financial and non-financial systems of the Council insofar as they have been subject to audit review.

## **Corporate governance**

19. In my opinion the corporate governance framework complies in all significant respects with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

## **Risk management**

20. I am satisfied that the risk management processes are effective and provide regular information on key risks and issues to the Council's management team and through to Members.
21. I have based these opinions on the work outlined in the detail of this report.



## Internal Control

22. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
23. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2014.

## Summary of Audit Work – Ashford BC 2014/15

24. The table below sets out the internal audit projects undertaken during the year, including progression of work currently in the process of being finalised. Since the plan was agreed in March 2014 there have been a number of revisions to the scheduling of audit projects over the year, therefore a list of changes to the plan is also included as part of the table:

No.	Audit Project	Brief Agreed	Fieldwork	Draft Report	Final Report	Assurance Rating
	<b>Audit Assurance Projects</b>					
1	ICT Disaster Recovery	◆	◆	◆	◆	WEAK
2	Licensing	◆	◆	◆	◆	STRONG
3	Cemetery	◆	◆	◆	◆	SOUND
4	Members' & Officers' Declarations of Interest	◆	◆	◆	◆	SOUND
5	Housing Maintenance Contracts	◆	◆	◆	◆	STRONG
6	Housing Benefit System	◆	◆	◆	◆	STRONG
7	Project Office	◆	◆	◆	◆	SOUND
8	Business Rates System	◆	◆	◆	◆	STRONG
9	Graphical Information System (GIS)	◆	◆	◆	◆	STRONG
10	Council Tax System	◆	◆	◆	◆	STRONG
11	Housing Rents	◆	◆			
	<b>Other Projects</b>					
12	Greenov (two stage claim)	◆	◆	◆	◆	COMPLETE
13	National Fraud Initiative	◆	◆			PHASE 1
14	Farrow Court (project overview)	◆	◆	n/a	n/a	N/A

25. The team have completed 10 projects; of which 9 include a full assessment and assurance rating. We currently have 1 project in progress at the time of drafting this report. We expect IT to have reached draft reporting stage at least by the time of the Audit Committee meeting so will provide a verbal update.
26. Where work is incomplete at the time of preparing this report, we are satisfied that the work is sufficiently progressed to provide assurance that there are no matters arising that materially affect the Head of Audit Opinion. We will report the final conclusions of any work



outstanding to the Committee verbally during the meeting (where available) or as part of the first scheduled 2015/16 update.

27. We include a summary of each completed review below.

## CHANGES TO THE PLAN

28. The audit plan must be flexible and reactive, capable of adaptation to the changing risks and needs of the Council. As in previous years this has resulted in a number of changes to the original plan; ten alterations in 2014/15. Of these ten, two have had their objectives met by other work completed in year, six are delayed as the projects they were to examine were delayed or modified and two have been delayed to allow completion alongside similar work elsewhere.

No.	Audit Project	Comments
1	Elections	As reported in December 2014
2	Courtside	As reported in December 2014
3	GM Project Board	Held back to allow completion of the project to be examined.
4	Waste Management	Assurance gained through follow up of 2013/14 waste management audit, removing the necessity of a separate review.
5	Homelessness/Hostel	Held back to be completed alongside equivalent work at other authorities
6	Economic Development	Held back to allow completion of the project to be examined.
7	Income Management (New System)	Held back to allow completion of the project to be examined.
8	Accounts Payable	Deferred to 2015/16 to be completed alongside review of new income management system.
9	Asset Management: Investment Properties	Held back to be completed alongside equivalent work at other authorities
10	Strategic Risk	Specific review replaced by ongoing support to the Council as it develops its approach to risk management.



## Assurance Ratings Guide

Full Definition	Short Description
<b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.	Service/system is performing well
<b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.	Service/system is operating effectively
<b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.	Service/system requires support to consistently operate effectively
<b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.	Service/system is not operating effectively



## Audit Review Findings

29. We have completed 10 projects relevant to the Council that included an assessment and assurance rating. We include below an extract from each report supporting the conclusion of the audit. We are pleased to report that management accepted our audit findings, and set target dates for implementing the recommendations. We will follow up that implementation as the recommendations fall due over the coming months.

No.	Audit Project	Assurance
1	ICT Disaster Recovery	WEAK
2	Licensing	STRONG
3	Cemetery	SOUND
4	Members' & Officers' Declarations of Interest	SOUND
5	Housing Maintenance Contracts	STRONG
6	Housing Benefit System	STRONG
7	Project Office	SOUND
8	Business Rates System	STRONG
9	Graphical Information System (GIS)	STRONG
10	Council Tax System	STRONG

### (1) ICT Disaster Recovery (previously reported at interim in December 2014)

30. We conclude based on our audit work that there are **WEAK** controls in place for the Council's IT Disaster Recovery arrangements.
31. The Council's current IT disaster recovery arrangements have several strengths, including clear integration with wider business continuity plans. Later in 2014 the Council is changing its back up arrangements, which will bring a number of benefits including better geographical separation of facilities. However the effectiveness of these arrangements is unproven as there has been no recent testing. Further, the arrangements are not clearly set out in a single place but rather spread among other documents which limit clarity.
32. Since we issued our report the Council has moved its IT arrangements to a new provider, as planned, and made the adjustments in documentation recommended by our audit. The service has agreed to undergo a test of the new arrangements in time to implement our principal recommendation by 30 June 2015 and we will follow up the results of that test in July 2015.

### (2) Licensing (previously reported at interim in December 2014)

33. We conclude based on our audit work that the Licensing Service has **STRONG** controls in place to support its objectives.



34. The Licensing Service effectively administers the processing of licence applications. We found that the Service maintains accurate and complete records of licence applications and maintains a good record of compliance with applicable legislation and regulation. The service collects fees in advance of licences issue, bringing benefits to the Council's cash flow. The service also keeps fees up to date and under review to ensure consistency with legislation, the Council's financial requirements and its policy aims.

### **(3) Cemetery**

35. We conclude based on our audit work that the Cemeteries Service has **SOUND** controls to control its risks and support its objectives.
36. We found that the Service has taken appropriate actions to address the findings of an external review conducted in February 2014. These actions include introducing new registers and administrative processes which assist the Service in maintaining accurate and complete records, but there remain some minor issues for the service to address to achieve full compliance. More generally, we found sound processes in place for setting and collecting fees as well as for maintaining cemeteries but again identified some minor issues to resolve such as clarifying VAT arrangements and strengthening risk assessment.

### **(4) Members' And Officers' Declarations of Interest**

37. We conclude based on our audit work that there are **SOUND** controls in place to achieve compliance with the Council's Codes of Conduct (for officers and members) with regards to declarations of interest.
38. We assessed how the Council collects, records and reports declarations made by elected members and officers. We are satisfied that the Council's systems for managing Members' and officers' interests are sound in both design and operation to ensure statutory and policy compliance. We identified one weakness in the officer process where human error had led to gaps in the data set but the service has already moved to rectify the gap.
39. To further assess the process' effectiveness in practice we undertook a data matching exercise between Member and Officer declarations and information held by Companies House. We identified 4 Member matches and 11 Officer matches that had not been declared. We have provided those details to the Monitoring Officer and Head of Personnel & Development for further review, although it is important to note that there are legitimate circumstances that could make such an interest non-declarable. We had no prima facie concerns around the matches identified, but will follow up this review once the service has completed its own enquiries.



## **(5) Housing Maintenance Contracts**

- 40. We conclude based on our audit work that the service has **STRONG** controls to manage its responsive repairs service and mitigate risk.
- 41. Our work found that the procedures for order raising and payment of works are well established and properly observed by staff. The service appropriately defines and applies both pre and post inspection arrangements. Our work covering aspects of contract monitoring confirmed compliance with contractual provisions. We also note the low number of defaults issued under the contracts in place and the high levels of customer satisfaction.

## **(6) Housing Benefit System**

- 42. We conclude based on our audit work that **STRONG** controls exist over the design and operation of the Housing Benefit system.
- 43. Our testing confirmed the effectiveness of key controls operating within the housing benefit system as well as the management of risks and associated process. Controls are in place to focus more detailed verification on types of claims more prone to fraud and error as consistent with the DWP's risk based verification framework. Management controls exist and operate effectively for checking validity and integrity of information held on the system ensuring the correct assessment, calculation and payment of housing benefit. Our testing found no areas of concern.

## **(7) Project Office**

- 44. We conclude based on our audit work that the Project Office has **SOUND** controls to manage its project delivery risks.
- 45. Our work has confirmed the Project Office adheres to the Council's Contract Procedure rules for the areas tested. We found the standard of contract administration is generally good for ensuring delivery of works and payments in accordance with contract terms.
- 46. We identified a small selection of areas the service could address to improve, including formalising contract certificates (currently agreed only by email correspondence) and creation of a consistent documentation file structure. In addition we make a further small selection of recommendations related to management of the specific projects in our review.



## **(8) Business Rates System**

- 47. We conclude based on our audit work that the **STRONG** controls exist over the design and operation of the Business Rates system.
- 48. Our testing confirmed the effectiveness of key controls operating within the business rates system as well as the management of risks and associated processes. Controls are in place to fulfil the roles and responsibilities of the service level agreement with Canterbury City Council. Management controls exist to monitor the delivery of the agreement. Our testing found no areas of concern.

## **(9) Graphical Information System (GIS)**

- 49. We conclude based on our audit work that there are **STRONG** controls in operation surrounding the management of the Caps Esri GIS system.
- 50. The service has controls that are well designed and operate effectively. The process is well controlled and mitigates against the risk of incomplete or inaccurate data arising or remaining in the system. Our testing identified high levels of user satisfaction with the system, but also a view that users would benefit further from additional training. Management have already responded by arranging drop in training sessions.

## **(10) Council Tax System**

- 51. We conclude based on our audit work that **STRONG** controls exist within the Council Tax system.
- 52. Our testing confirmed the effectiveness of key controls within the council tax system in both their design and operation as well as the management of risks and associated processes. Management controls are in place to check the validity and integrity of information held on the system. Our testing found no areas of concern, or notable areas where the service might reasonably look to improve its operation.



## Follow-up of Internal Audit Recommendations

53. In June 2014 we advised the Audit Committee of our revised process for following up agreed audit recommendations. We undertook work throughout the year to systematically follow-up on all agreed audit recommendations as they fell due. We have reported progress each quarter to senior managers.
54. We are pleased to report that our new approach has been received positively and already developing case studies to demonstrate how an increased and systemic focus on recommendations has assisted management in making the changes agreed as arising from audit work. The table below sets out in more detail progress against specific reports with respect to recommendations falling due for implementation on or before 31 March 2015.

Project	Assurance Rating <sup>2</sup>	Agreed Actions	Actions Completed	Actions past due date	Actions Not Yet Due
Debtors	Substantial	3	3	0	0
Pest Control	Substantial	6	6	0	0
Car Parking	Substantial	3	3	0	0
Rechargeable Works	Limited	4	4	0	0
NNDR – Valuation, Liability & Billing	Substantial	9	9	0	0
Council Tax – Recovery & Write Off	Substantial	4	4	0	0
Housing Allocations	Substantial	3	3	0	0
Waste Management	Limited	18	18	0	0
General Ledger	Substantial	2	2	0	0
Housing Benefit & Council Tax Overpayments	High	3	3	0	0
VAT	Limited	16	15	0	1
Car Leasing & Cash Alternatives	Substantial	4	3	0	1
Business Continuity Planning	Limited	9	7	0	2
Banking Arrangements	Limited	5	2	0	3
Creditors	Substantial	3	2	0	1
Health & Safety	Substantial	9	3	0	6

<sup>2</sup> As originally issued. Where an audit project was finalised in 2013/14 or earlier it is shown with the then-current assurance rating on a scale (starting with the highest) of High/Substantial/Limited/Minimal. Where a project was finalised in 2014/15 it is shown with our current assurance rating, as described on page 6.



Project	Assurance Rating <sup>2</sup>	Agreed Actions	Actions Completed	Actions past due date	Actions Not Yet Due
Planning Enforcement	Substantial	4	1	0	3
ICT Disaster Recovery	Weak	2	1	0	1
Cemeteries	Sound	5	0	0	5
Member & Officer Declarations of Interest	Sound	2	1	0	1
<b>TOTAL</b>		<b>114</b>	<b>90</b>	<b>0</b>	<b>24</b>
			79% of agreed (100% of due)		21% of agreed

## Summary of Findings

55. Of the 20 audit projects followed-up in 2014/15 five – **Rechargeable Works, Waste Management, VAT, Business Continuity Planning and Banking Arrangements** – originally received an assurance rating of **limited**. Each service area has worked hard to address the issues raised by our audits, and to implement recommendations. We re-tested the controls as part of the follow up and conclude in each case (with one exception) the controls now provides a **substantial** level of assurance. As the review was conducted using the 2013/14 assurance ratings, we have for consistency, employed the same rating system for the re-assessment.
56. The **Banking Arrangements** review remains assessed as **limited** principally because three two most significant of our five recommendations (those rated high priority) have not yet fallen due for implementation. Once they do fall due later in 2015, we will test the controls and re-assess the level of assurance. Members will receive further updates through 2015/16.
57. One further projects – **ICT Disaster Recovery**– received **weak** assurance rating but only one of its recommendations fell due for implementation on or before 31 March 2015. As noted above, we will examine these recommendations when they are due and potentially reassess the assurance rating, reporting our revised findings to the Committee in due course.
58. Overall, we are very pleased with the performance of management in addressing recommendations, demonstrating audit and services working closely together to help improve how the Council operates. We would like to draw particular attention to the assistance we have received from Senior Management in supporting the process. This approach represented a significant change from our previous practice and can only be effective where management are dedicated to taking appropriate action in response to our findings.



# Corporate Governance

- 59. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
- 60. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or officers through whistleblowing and the Council's counter fraud and corruption arrangements.
- 61. Members will recall in June 2014 we reported a response on the Council's behalf to a CLG consultation on secondary legislation following on from the Local Audit and Accountability Act 2014. The Government has since published its response and laid the final regulations before Parliament, confirming arrangements for collective procurement of external audit services via a 'specified person' and bringing forward the accounts publication date from 30 September to 31 July by 2018.

## Counter Fraud & Corruption

- 62. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking distinct activities to assess and support the Council's arrangements.

## Whistleblowing

- 63. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
- 64. We received no disclosures in 2014/15 raised through the whistleblowing policy.

## National Fraud Initiative

- 65. We have continued to co-ordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data, securely, to the Cabinet Office (who have taken on responsibility for managing NFI following the demise of the Audit Commission).
- 66. The 2014/15 NFI exercise included the following services included datasets across creditors, payroll, housing benefits, licensing, parking, housing tenants and insurance.



67. The NFI team then analyse this data and release it back to authorities in the form of 'matches' – items identified by the analysis as potentially indicative of fraud or error. These might include, for example, the same national insurance number appearing as receiving a significant amount of salary from authority A yet making a benefit claim in authority B. Another example might be repeated payments to the same supplier at the same value, potentially indicating erroneous (or even fraudulent) duplicate payments.
68. The NFI team released the data in two tranches, January and March 2015, for investigation by authorities. The matches are generally flagged as 'high priority' where, based on the NFI team's experience, there is more chance of the match having identified a fraud rather than a simple error or quirk in the data. The NFI team recommend that councils should seek to follow up, in the first instance, all high priority matches by September 2015. Progress to date is summarised in the table below:

Data Set	Number of Matches (High Priority)	Investigated / In Progress	Outcomes
Housing Benefits	937 (196)	47	£11,803.30
Creditors	439 (59)	0	-
Housing Tenants	36 (15)	17	£0
Payroll	9 (1)	8	-
Licensing	0	-	-
Parking	0	-	-
Insurance	4 (4)	1	-
<b>TOTAL</b>	<b>1,425 (275)</b>	<b>73</b>	<b>£11,803.30</b>

69. The £11,803.30 in outcomes relates to a single case where a fraud or error arose from examining a match between the Council's benefit claimant data and student loan records. One further fraud or error was noted in the Housing Tenant data set but did not result in a financial outcome.



# Risk Management

70. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
71. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
72. The Council's Strategic Risk Register outlines eleven risk scenarios:
  - Economic growth
  - Right mix of quality housing
  - Volatile income streams
  - Community demands
  - Consequences of welfare reform
  - Opportunities for localism
  - Workforce planning
  - Members – skills, capacity & experience
  - Business planning
  - Housing
  - Infrastructure
73. The Council plans to revisit and update its strategic risks in 2015/16, to align with its corporate priorities.
74. We are currently working across the partnership to help authorities improve the risk management process and clarify the role of the audit service in assisting risk management. As we progress we will be working closely with officers to ensure that approaches and information developed and identified are made available across the partnership.
75. We will update the Committee as this work progresses through 2015/16.



# Mid Kent Audit Service Update

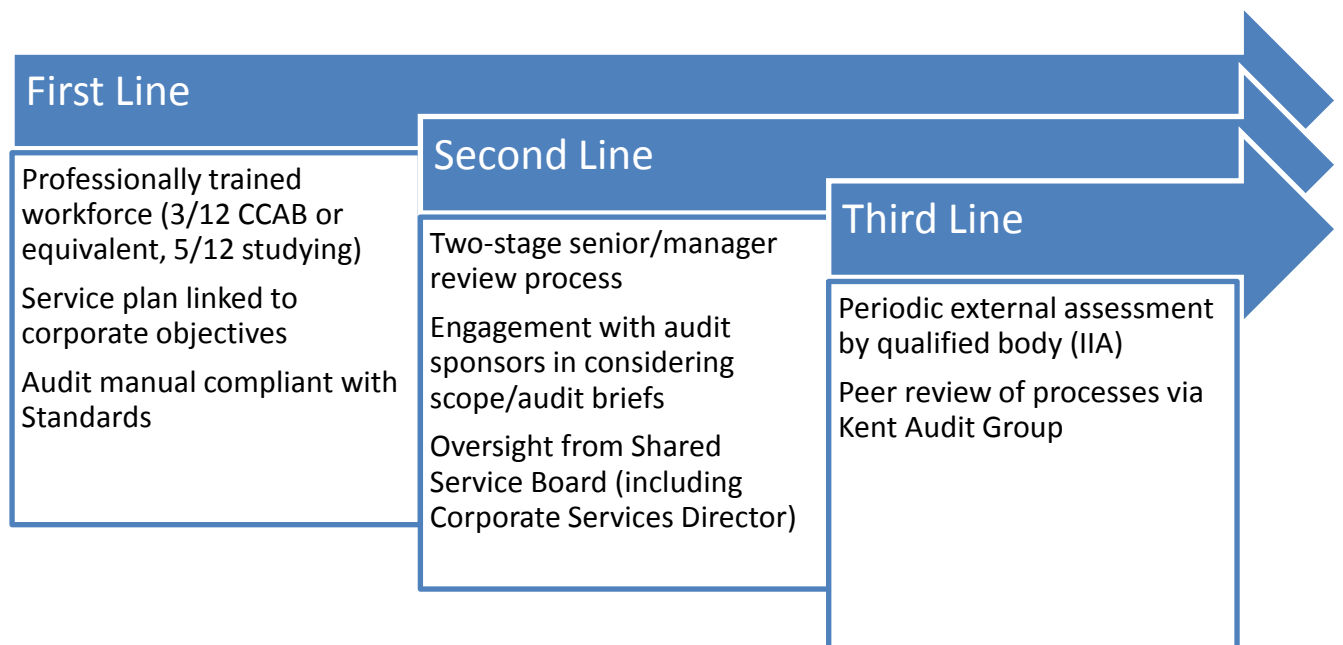
## Quality Assurance and Improvement Programme: Public Sector Internal Audit Standards

76. The Public Sector Audit Standards (the 'Standards') demand that we include for Members a report on how we have assured the quality of our work and plans for maintaining and improving that quality.
77. A key means of quality assurance included within the Standards is the requirement for every internal audit service to receive external assessment against the Standards at least every five years. We commissioned the Institute of Internal Audit (IIA) to undertake an external quality assessment of Mid Kent Audit and we reported the outcome of that review to Members in March 2014, concluding we were fully conforming to 50 of the standards and partially conforming to the remaining 6.
78. During 2014/15 we worked to implement the recommendations left by the IIA, some of which we could only address in early 2015 as they related to the process for compiling our annual audit plan. In April 2015 we invited the IIA back to re-evaluate the audit service based on our progress and we are very pleased to report their assessment that we are now **fully conforming** to the Standards. A copy of the IIA follow up report is included in Annex A.
79. Also during 2014/15 the Head of Audit Partnership was successful in an application to join the **Internal Audit Standards Advisory Board (IASAB)** as its Local Government practitioner representative. The IASAB is responsible for monitoring use and overall adherence to the Standards, including making recommendations for their development. The Head of Audit's presence on the IASAB will give us early insight into developing issues around audit quality as well as access to leading and best practice from across the public and private sectors; other members including representatives from the major audit firms, accountancy bodies, NHS auditors, the London Stock Exchange, HM Treasury and each of the devolved parliaments.

## Quality Assurance and Improvement Programme: Ongoing monitoring

80. However, quality assurance is not simply something to be assessed periodically and externally; it is central to all of our work. The chart below sets out, very briefly, some of the core practices and processes we employ to assure the quality of our work.





#### Quality Assurance and Improvement Programme: Developments Planned for 2015/16

81. We continue to examine and review our processes, drawing on feedback from Members and officers as well as best practice from across public and private sector audit. For 2015/16 we intend a number of developments to our service to further improve, including:
- Increased standardisation of our work around the three core elements of the opinion (internal controls, core finance and corporate governance) while retaining clear mandate to vary the scope according to identified risk,
  - Examining the structure of our audit team with a view to making more use of knowledge gained across the partnership to inform best practice both in our work and that of the partner authorities, and
  - Continuing to work with partner authorities to develop their risk management processes, including a clear channel into risk management to both record audit findings and use identified risks to drive audit planning.
82. It would be remiss at this point though not to acknowledge the exceptional efforts and talents of our audit team in both enabling us to be recognised by the IIA as full conforming – still a rare distinction – as well as allowing us to continue positive developments within the service. Both the Head of the Partnership and the Audit Manager are grateful for the continuing skill, hard work and dedication of our auditors.



## Performance

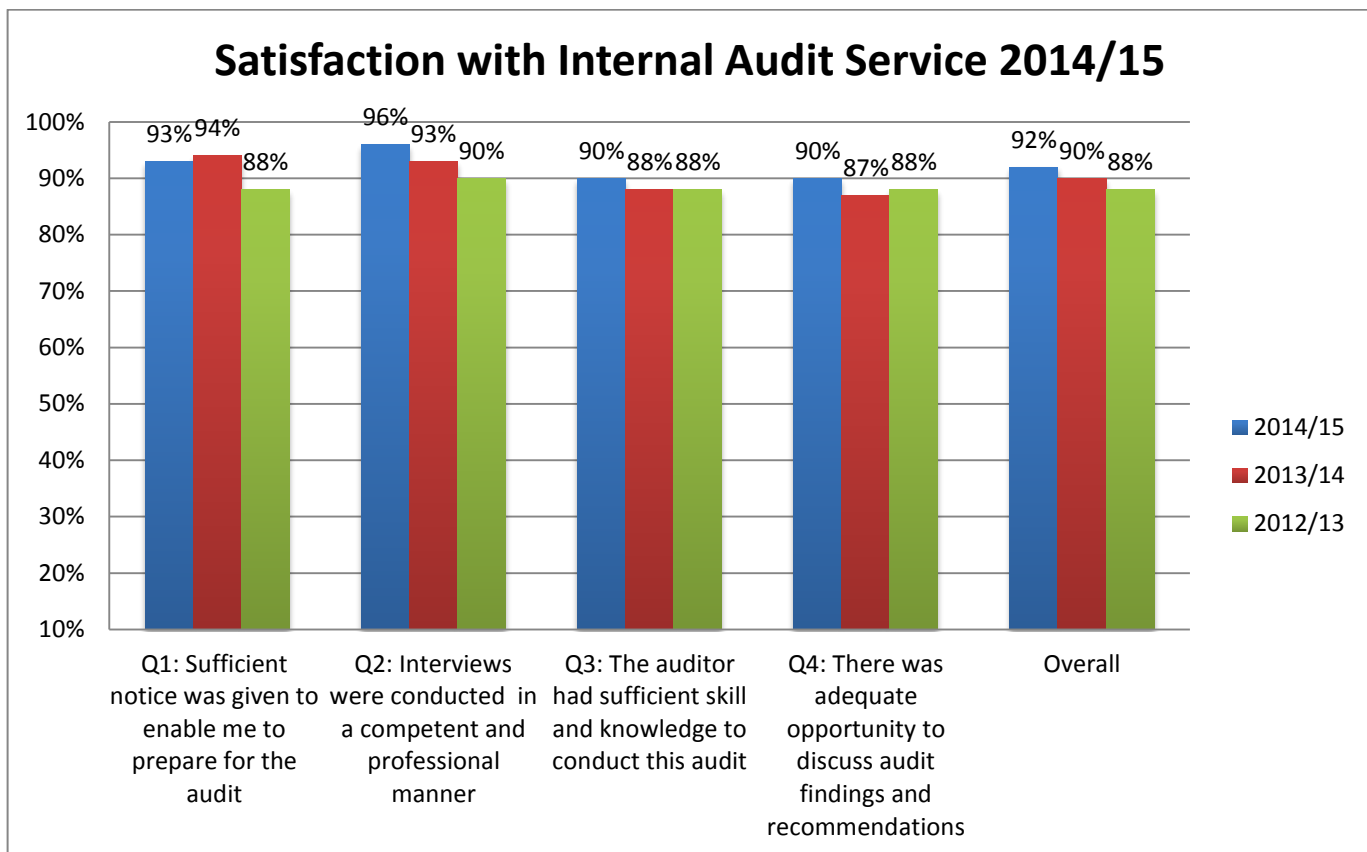
83. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Shared Service Board (with Paul Naylor as Ashford BC's representative) considers these measures at each quarterly meeting.
84. Below is the outturn from the performance report for 14/15, as reported to Shared Service Board on 4 June. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.
85. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	Outturn	Target & Commentary
% projects completed within budgeted number of days	47%	Much improved from 2013/14 performance (18%) and indicative of continued work within the team to shape realistic budgets based on agreed scope. In 2015/16 we will work towards a target of 60% as suggested by trend towards the end of the year.
% of chargeable days	75%	Proportion of available days spent on productive client-focussed work rather than administration, training, general management and so on. General target used by Kent Audit Group members is 70%.
Full PSIAS conformance	56/56	As confirmed by IIA assessment (see annex).
Audit projects completed within agreed deadlines	41%	As with the budgeted number of days indicator, this is developing as we enhance our planning approach (previously we made no specific commitment at all to audit sponsors on when to expect the final report). In 2015/16 we will work towards a target of 60%.
% draft reports presented within ten days of fieldwork concluding	56%	Another new indicator (previously we did not track how promptly reports were delivered) and has led to a streamlining of our review process which has also enabled giving greater responsibility to the role of Senior Auditors. In 2015/16 we will work towards a target of 70%.
Satisfaction with assurance	100%	From satisfaction surveys (see below).
Final reports presented within 5 days of closing meeting	89%	The only occasions where we did not meet this target were where we engaged in ongoing discussion with the service on how best to respond to recommendations. For this reason, we work to a 90% target for this indicator.
Respondents satisfied with auditor conduct	100%	From satisfaction surveys (see below).
Recommendations implemented as agreed	95%	As reported elsewhere in this review.
Exam success	100%	All of our team were successful in professional exams in 2014/15. We generally work towards a target of 75%, slightly ahead the national pass rate of 70%.
Respondents satisfied with auditor skill	100%	From satisfaction surveys (see below).



## Satisfaction with Internal Audit Service – Mid Kent Audit 2014/15

86. At the close of each audit project we issue a satisfaction survey to recipients of our final report, which will include the Audit Sponsor as well as key operational managers engaged in the audit.
87. We ask four questions, designed to measure the overall audit experience:
- Sufficient notice was given to enable me to prepare for the audit.
  - Interviews were conducted in a competent and professional manner.
  - The auditor had sufficient skill and knowledge to conduct this audit.
  - There was adequate opportunity to discuss audit findings and recommendations.
88. Respondents score each question either: Strongly Agree (4), Agree (3), Disagree (2) or Strongly Disagree (1).
89. The level of satisfaction has been calculated by using the total responses received to give an overall level of satisfaction, compared with 12/13 and 13/14 (the percentage indicating proportion of total marks available, i.e. 100% would be each return scoring 'Strongly Agree' (4), 75% if each had reported 'Agree' (3) and so on. We received no responses at the Disagree/Strongly Disagree level in 2014/15):





90. We are encouraged by having maintained consistently high satisfaction ratings during a period in which we have made significant changes to how we complete and report our work.

## **Acknowledgements**

91. We would like to thank Managers, Officers and Members for their continued support, assistance and co-operation as we complete our audit work during the year.



## Annex A: IIA Follow Up Report



Rich Clarke  
Head of Audit Partnership

30 April 2015

Ref:201504Mid-Kentfollow-up

### Mid-Kent Audit Partnership External Quality Assessment (EQA) follow-up

Dear Rich

Following our meeting on Wednesday 15 April 2015, during which we discussed and reviewed implementation of EQA actions points, I am pleased to inform you that sufficient progress has been made to enable the partnership to state that it conforms fully to the International Standards for the Professional Practice of Internal Auditing. Our decision is based upon the examination of evidence that addresses the six areas of partial conformance highlighted in our report in January 2014, as follows:

- 1. Standard 1000 Purpose, Authority and Responsibility** - Review and update of the internal audit charter in March 2015 that has established a specific and tailored charter for each of your clients within partnership. Also the expansion of the charter to include more detailed explanation of internal audit's role in relation to risk management, projects and fraud. We also acknowledge the inclusion of sections that set out how internal audit will manage quality and make decisions on performing consultancy work based upon defined criteria.  
*In July 2015 the Institute will be publishing amendments to the professional practice framework to include a new mission statement and a new set of principles. This may present a timely opportunity to review the charters and your audit manual.*
- 2. Standard 1310 Requirements of the Quality Assurance and Improvement Programme** – Developing a broader range of performance indicators in a balanced scorecard style that was presented to audit committees in March 2015 as an appendix to the 2015/16 audit plans and had been agreed with Management in mid-2014.  
*With the scorecard in place we suggest that a forward looking timetable of quality reviews with scheduled reports could now be prepared and shared with audit committees.*
- 3. Standard 2010 Planning** – The 2015/16 audit plans show a clear link to key governance and strategic risk issues based upon defined categories of risk. The revised methodology also demonstrates an internal audit plan that provides a good balance between high profile objectives and important systems and procedures that are relied upon on a day by day basis.  
*As the organisations within the partnership develop their approach to risk management we anticipate a point where the defined risks and mitigating action can be relied upon as the basis for the internal audit plan and individual audit engagements, making it unnecessary for internal audit to prepare their own*



*assessment of risk. We would also envisage the need to update plans during the year to accommodate emerging risks.*

4. **Standard 2050 Coordination** – Senior managers within the audit partnership are devoting considerable time and effort to developing a coordinated approach to assurance. This began with presentations upon the three lines of defence followed by workshop exercises and surveys to determine who provides assurance and how it is delivered. We appreciate that the next step will be to prepare Assurance Maps showing who is providing assurance against management's mitigation of key risks and to further integrate this information into internal audit plans.

*We foresee a time when internal audit will be working on a joint basis with other assurance providers and relying on the assurance of others to maximise assurance coverage. This particularly applies to the coverage of routine systems and procedures as part of the 4 year strategic audit plan.*

5. **Standard 2120 Risk Management** – Through its consultancy role internal audit is supporting and facilitating the development of risk management within each of the partner organisations, albeit each organisation is at a different stage in its development. For example, we note the progress upon helping authorities to formulate risk appetite statements. At the same time internal audit has begun to conduct health checks and assurance upon risk management.

*Providing assurance upon the maturity and effectiveness of risk management is a key feature of the Standards and of good governance. To achieve this objective internal audit needs to be fully independent from risk management and at some point it will be advantageous for them to stand back from the process. However, for the time being we recognise the value of their risk related work.*

6. **Standard 2210 Engagement Objectives** – An updated approach to audit engagements has introduced a new template to prompt internal auditors to consider and focus upon the key objectives and risks of the service under review. This underlines and delivers upon the risk based approach to planning. We acknowledge that the template has been introduced to the audit manual and is part of an audit methodology that is motivating the team.

Finally I would also like to recognise some of the additional changes you have made that support the requirements of the Standards and demonstrate the commitment to continuous improvement, including:

- Reviewing current skill levels to identify potential gaps and resource needs.
- Training and qualifications programmes to fill gaps and develop competencies
- Time recording to enhance management and delivery of plans.
- Refinement and simplification of audit reporting format.
- Improved follow-up procedures using Teammate.

If I can be of further assistance please do not hesitate to drop me an email at my usual address and in the meantime we wish you every success.

Chris Baker

[signed]

Technical Manager, Chartered Institute of Internal Auditors