Agenda Item No:	5	
Report To:	Audit Committee	
Date:	30 June 2016	
Report Title:	Annual Internal Audit Report and Opinion 2015/16	
Report Author:	Rich Clarke – Head of Audit Partnership	

Summary:	The report gives the 2015/16 Head of Audit Opinion on the Council's internal control, governance and risk management, with supporting work completed during the year.

Key Decision:	NO
Affected Wards:	All
Recommendations:	1. The Committee **notes** the Head of Audit Opinion for 2015/16 that it can place reliance on the overall adequacy of the Council's internal control, governance and risk management.
	2. The Committee **notes** the work underlying the Opinion and the Head of Audit's view the service has upheld proper independence and conformance with Public Sector Internal Audit Standards.
Policy Overview:	N/A
Finance:	N/A
Risk Assessment	NO
EIA	NO
Other Matters:	N/A
Exemption Clauses:	N/A
Background Papers:	Annual Internal Audit Report and Opinion 2015/16
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Report Title: Annual Internal Audit Report and Opinion 2015/16

Purpose of the Report

1.   This report meets the Head of Internal Audit reporting standards as directed by the Public Sector Internal Audit Standards (PSIAS). The report includes the Head of Audit Partnership's opinion on the overall adequacy of the organisation's governance, risk management and control. The Council can use this opinion within its Annual Governance Statement for 2015/16.

2.   PSIAS, in particular Standard 2450: Overall Opinions, direct the annual report must incorporate:

- The annual audit opinion,
- A summary of the work completed that supports the opinion, and
- A statement on conformance with PSIAS.

Issue to be Decided

3.   Audit work completed during 2015/16 satisfies the Head of Audit Partnership the Council can place assurance on controls in place during 2015/16. Also audit work provides assurance the Council's corporate governance complies in all material respects with guidance issued by CIPFA/SOLACE. Finally, audit work provides assurance the Council's risk management is effective. We ask the Audit Committee to note these opinions.

4.   Please see the appendix for the full Annual Report for 2015/16 which includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.

Background

5.   Internal audit is a compulsory service under Regulation 5 of the Accounts and Audit Regulations 2015. The principle objective of internal audit is to:

> *"… undertake [audit work] to evaluation the effectiveness of […] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance."*

6.   The Audit Committee's Terms of Reference say it must:

> *"[review] The Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity…"*

7.   The Council's audit service runs as a four-way partnership with Maidstone, Swale and Tunbridge Wells Borough Councils. The Audit Charter and Annual Plan agreed by this Committee in March 2015 detail the service's scope and

aims. This Committee also received an interim update on progress so far in December 2015.

8. We have completed the work set out in the plan subject to adjustments, as described following PSIAS. Work outstanding has made enough progress to satisfy the Head of Audit Partnership its conclusions will not materially affect the Opinion. We will report verbally the final conclusions of any work finished ahead of the meeting and include within the first interim update of 2016/17.

Risk Assessment

9. N/A

Equalities Impact Assessment

10. N/A

Other Options Considered

11. The role of the Audit Committee includes considering the Annual Report of internal audit as a mandated part of its purpose. We recommend no alternative course of action.

Consultation

12. We agree all findings and recommendations identified within reviews with our audit sponsor (usually the Head of Service). We also agree with management action plans to fulfil recommendations. We have discussed the report's key findings with the Head of Finance across the year and to the Council's Policy Team to help with preparing the Annual Governance Statement. We have adapted the attached report for comments received.

Implications Assessment

13. N/A

Handling

14. N/A

Conclusion

15. We completed work as set out in the plan following PSIAS that satisfies the Head of Audit Partnership the Council's internal control, governance and risk management runs effectively.

Portfolio Holder's Views

16. N/A

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Annual Internal Audit Report and Opinion

2015/16

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.

2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:

    "[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

3. The currently operating standards are the *Public Sector Internal Audit Standards* published by HM Government for effect from April 2013 across the UK public sector.

4. In addition, all internal audit services in whatever sector must also abide by the *Code of Ethics* and International Professional Practices Framework. .

5. 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. This considers:

    *   Internal Controls: Including financial and non-financial controls.
    *   Corporate governance: Including effectiveness of measures to counter fraud, and
    *   Risk Management: Principally, effectiveness of the risk management framework.

Independence

6. Mid Kent Audit is a shared service partnership involving Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils working to a collaboration agreement refreshed in July 2014. As a service, we report to the Mid Kent Services Director and the MKIP Board.

7. Within Ashford BC, the Head of Audit Partnership has direct and unrestricted access to the Chief Executive, senior management and Members, including the Chairman of the Audit Committee. This right of access is contained within and reinforced by the Audit Charter agreed by management and Audit Committee in March 2015.

8. On no occasion have Senior Officers or Members sought to inappropriately restrict the scope of audit work or change any report prepared by or for the Head of Audit Partnership.

9. We are satisfied that Internal Audit is organisationally independent and fully meets the necessary standards for independence and objectivity.

Head of Audit Partnership Annual Opinion

10. I provide this opinion statement for Ashford Borough Council (the Council) to inform its Annual Governance Statement which is published alongside the Statement of Accounts for the year ended 31 March 2016.

Scope of responsibility

11. The Council is responsible for ensuring its activities are conducted in accordance with the law and proper practices and that its resources are 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.

12. In discharging this responsibility the Council must also ensure it operates a sound system of internal control which allows for effective exercise of the Council's functions and arrangements for risk management.

The purpose of the system of internal control

13. The system of internal control is designed to manage risk to an acceptable level rather than eliminate entirely the risk of failing to achieve 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 objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and manage them efficiently, effectively and economically.

14. The Public Sector Internal Audit Standards (the 'Standards') state 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.

15. 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 internal control.

Basis of assurance

16. Mid Kent Audit has conducted its work both in accordance with the Standards and good practice as represented in our internal quality assurance system, which include operating to an agreed audit manual with adequate supervision and review.

17. My opinion is limited to the work carried out by Mid Kent Audit during the year on the effectiveness of the management of those risks identified within the Council's assurance framework that are covered within the audit programme or associated sources of assurance. Where risks are identified within the Council's assurance framework that do not fall within the scope of audit's coverage or associated sources of assurance I am satisfied that an assurance framework is in place that provides reasonable assurance that these risks are being managed effectively.

18. Our work for the year to 31 March 2016 and up to the date of this opinion was completed in line with the operational plan approved by the Audit Committee in March 2015.

Internal Control

19. From the internal control work undertaken in relation to 2015/16 it is my opinion that I can provide assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2016 accords with proper practice. This assurance extends to both financial and non-financial systems of the Council insofar as they have been subject to audit review or associated sources of assurance.

Corporate Governance

20. In my opinion the corporate governance framework operating at the Council for the year ended 31 March 2016 complies in all significant respects with the guidance on corporate governance issued by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in 2006 and updated in 2012.

Risk Management

21. I am satisfied that the risk management processes operating at the Council for the year ended 31 March 2016 are effective and provide reasonable assurance to officers and Members.

22. I have based these opinions on the work outlined in the detail of this report.

Internal Control

23. The system of internal control is the 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.

24. 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 2015.

Summary of Audit Plan Work in Swale Ashford /16

25. Our plan presented in March 2015 moved away from a fixed number of audit projects and instead towards a total number of productive days per year. This has considerable advantages in providing a flexible basis to keep our plans up to date and respond appropriately to the Council's developing risks and priorities.

26. Up to the date of this report, our outturn days against each type of work separately identified in the plan is as set out below:

Type of work	Plan Days	Outturn days	Difference
Planned 2015/16 assurance projects	284	217	-67
Risk Management and Counter Fraud work	28	31	+3
Recommendation follow ups	40	39	-1
Other audit work[1]	18	48	+30
Concluding 14/15 plan projects[2]	0	25	+25
Total	370	360	-10

27. There are still a few days to be accounted as the remaining 2015/16 projects reach conclusion, but up to the date of this report we have delivered 97% of the planned audit days. The variation above, and detailed in the tables to follow, also indicates the advantages to the flexibility and responsiveness of our audit planning.

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[1] Includes unplanned reviews, Audit Committee training, preparation and attendance and various ad hoc assurance and advice provided to Ashford BC during 2015/16.
[2] Only including those projects which were not complete at the time of the 2014/15 annual report presented to Audit Committee in June 2015.

Audit Review Findings to Date

28. The table below summarises audit project findings and outturn up to the date of this report. Where there are material matters concluded between report issue and committee meeting we will provide a verbal update. We are satisfied that sufficient work has been completed, and the risk of adverse findings in the remainder sufficiently low, that we can offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2014/15 Plan Projects Concluded After 2014/15 Annual Report Issued							
I	Service	Housing Maintenance	n/a	9	Jul-15	STRONG	Also reported to Members in our interim report Dec-15
II	Finance	Housing Rents	n/a	16	Aug-15	SOUND	Also reported to Members in our interim report Dec-15
Planned 2015/16 assurance projects completed							
III	Governance	Safeguarding	15	25	Dec-15	WEAK	Reported in full to Members in Dec-15. Moved to SOUND after follow-up in Jun-16
IV	Service	Parking Enforcement	12	12	Feb-16	STRONG	
V	Governance	Data Protection	15	21	Feb-16	WEAK	Reported in full to Members in Mar-16
VI	Finance	Feeder Systems	12	15	Mar-16	STRONG	
VII	Finance	Income System	15	11	Mar-16	SOUND	Scope amended from plan to focus on new payments system
VIII	Service	Training & Development	15	21	May-16	STRONG	
IX	Service	ICT Service Desk	15	15	May-16	SOUND	
X	Governance	Corporate Projects Review	10	9	Jun-16	N/A	Conducted as advisory review as ABC is changing its approach in this area
Unplanned/additional projects 2015/16							
XI	Service	Homelessness	n/a	20	Jan-16	STRONG	Brought forward from 2016/17 at request of service
	Service	Building Control	n/a	3			Planning stage

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
Planned 2015/16 assurance projects underway							
	Finance	Procurement	12	16	Draft Report Stage. Note that budget increased post plan widen scope of the review.		
	Service	Tourism	12	20	Draft Report Stage. Note that budget increased post plan to focus on economic contribution of tourism.		
	Service	Member Training & Induction	15	14	Draft Report Stage		
	Governance	Good Governance Framework	5	6	Draft Report Stage		
Planned 2015/16 assurance projects not completed							
	Finance	General Ledger	15	0	Scope merged into work on feeder systems		
	Finance	Payroll	10	2	Deferred to 16/17 following discussion with officers (note that 14/15 work delivered positive assurance)		
	Finance	Business Rates	10	0	14/15 work completed late in year delivered strong assurance. Risk downgraded to biennial review.		
	Governance	Freedom of Information	15	2	Deferred to 17/18 following discussions with officers on potential changes to process.		
	Service	Property Management	15	0	14/15 work completed late in year delivered positive assurance. Deferred to 16/17 plan.		
	Service	Sports Development	12	1	Tourism review prioritised for 15/16 following discussion with officers.		
	Service	Street Cleansing	15	2	Deferred to 16/17 following discussion with officers and currently underway.		
	Service	Elections & Registration	15	1	Deferred to 16/17 over capacity issues with team having to process new registrations and dealing with multiple elections		
	Service	Section 106 Payments	12	0	Removed from plan to make way for Building Control.		
	Service	Conservation Management	12	0	Deferred to 16/17 plan and then removed as the area is de-prioritised by the authority.		
		Totals	**284**	**217**			

I: Housing Maintenance

29.   We conclude based on our audit work that the service has **STRONG** controls to manage its responsive repairs service and mitigate risk.

30.   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 (approximately 1/1000 orders) and the high levels of customer satisfaction (97% satisfaction for 2013/14)

II: Housing Rents

31.   We conclude based on our audit work that the service has **SOUND** controls for the collection and accounting of housing rents.

32.   The Council has in place appropriately designed procedures and controls to accurately receive and account for income from housing rents. This includes suitable reconciliation processes which are effective in ensuring the financial integrity of the housing rents system. We found that the different strands of property type managed by the service are accurately classified within the Housing Management system.

33.   Our work reflects positive results from a wide range of testing against the processes and procedures in place.

III: Safeguarding

34.   We conclude based on our audit work that the Safeguarding function has **WEAK** controls to control its risks and support its objectives.

35.   The audit focussed on the Council's management of the risks associated with operation of the Safeguarding function. We examined similar areas to the statutory assessment tool's 8 standards and aimed to assess the effectiveness of the arrangements for safeguarding children. Our findings are consistent with a 2014 peer assessment undertaken by the Kent Children's Safeguarding Board against the Council's statutory responsibilities under Section 11 of the Children Act 2004. Most (6 of 8) areas in that assessment were graded as "partially met" at best because of out of date policies and procedures and limited training rollout. We also note that the peer assessment differed considerably from the Council's own assessment recording all standards as 'met'.

36. The Council established a working group in response to the peer review, aimed at implementing improvements ahead of a 2016 further review. While the Council has made some progress, overall advances are limited especially considering revised processed will need to be demonstrably embedded by the time of re-assessment.

37. We also examined governance arrangements, training, recruitment aspects, and referrals. We found that the current Council policy and procedures are untested since Housing staff are routinely using external protocols rather than Council procedures. This means that, although statutory requirements are met, the Council is not itself tracking or gathering information on referrals efficiently or comprehensively.

38. Since we completed the review the Council has acted on our recommendations, as we reported separately to Members in June 2016. Given progress made we updated the assurance rating to **SOUND**.

IV: Parking Enforcement

39. We conclude based on our audit work that Parking Services has **STRONG** controls in place to manage its risks and support its objectives.

40. The Council has a comprehensive and current Parking Enforcement Policy which our testing found is followed by Enforcement Operatives, ensuring compliance with the Traffic Management Act 2004. This includes appropriate issue of Parking Control Notices, and reasonable and documented use of the grounds for discretion described in the policy where a motorist appeals a penalty. The risks associated with the day to day activities of a Civil Enforcement Officer have been considered and formally documented in a risk register. Our review identified that risk register currently focusses on health and safety aspects of the role rather than, in addition, considering wider risks to the service. The financial and operational risks that could impact on the budget have been considered as part of the Medium Term Financial Plan, and documented in a risk matrix. We are aware the Council is developing its service risk management approach more generally at present and so have included no recommendations specifically for the Parking service on risk review.

41. At request of the service, we also reviewed controls over the enforcement of overnight HGV parking to ensure that Penalty Charge Notices are issued and recovered abroad. We found that sound controls exist but the procedure for officers to take payments and the paying in of any money received require clarification.

V: Data Protection

42.   We conclude based on our audit work that Data Protection has **WEAK** controls to control its risks and support its objectives. We provide the definitions of our assurance ratings at appendix II.

43.   The council has documented policies and procedures, also allocated roles and responsibilities, however there are weaknesses as policies are not operated (the monitoring checks) as described and there are no deputy arrangements to provide formal cover in the Data Protection Officer's absence. The Data Protection function is currently subject to staff changes and consideration of future service delivery and resource arrangements.

44.   The Data Protection Policy makes clear commitments on training provision and we found that guidance was available to staff, however training and awareness arrangements are less well established. There is no mandatory post induction refresher requirement, no formal records to evidence training for key staff (such as the Data Protection Officer) and only 58 staff evidenced as having completed the E Learning package.

45.   Compliance with Data Protection requirements is not monitored by the council (the review processes noted in policy and job descriptions) as provided for in key documents. Interviews with various services identified some services with better understanding and application of data protection requirements (such as the Monitoring Centre and Fraud Investigations). We found that the Council's Members Allowance IT Scheme required recipients to register, however only 5/23 were registered. We found that there were no central logs to record statistics and facilitate reporting (Subject Access Requests and Breach Notifications or near misses).

46.   Staff advised that no breaches had been reported to the Information Commissioner. Arising from the absence of an incident / referral log it was not possible to assess the number or nature of any internal referrals made. In addition, the access capability to records is limited to the Data Protection Officer as material is held in E records (personal email and e filing) rather than generic E records to enable authorised deputy access.

47.   Since finalising this review the Council has been working to implement recommendations. However, most are yet to fall due and so have not yet been followed up by audit. We will provide an update report to Members in September 2016.

VI: Feeder Systems

48.   We conclude based on our audit work that **STRONG** controls exist within the system interfaces feeding into the General Ledger (eFinancials).

49.   The review specifically examined information originating from the following feeder systems:

- AIM Sundry (cash management)

- Housing Benefits (including refunds)
- Council Tax (including refunds)
- Business Rates (including refunds)
- Housing Repairs
- Payroll

50. Our work identified that the Council has in place well-designed controls to ensure the validity and accuracy of financial information as it transfers between its financial systems and into its General Ledger. Our testing confirmed those controls operate in practice and serve to control related risks.

VII: Income System

51. We conclude based on our audit work that there are **SOUND** controls in place over the Council's new income system to manage the associated risks and to support individual service areas and the Council in the delivery of its objectives.

52. Our work found that the Council undertook comprehensive testing of the system and provided adequate training to all key staff. Although, inevitably, there were some teething problems on implementation the Council, building on its substantial preparatory work, has been able to achieve prompt resolution.

53. The next stage building on this strong initial implementation is to embed the system within the Council's processes. This will mean translating emerging good practice and standards into procedure notes and firming up mechanisms to obtain and respond to staff and customer feedback.

VIII: Training & Development

54. We conclude based on our audit work that there are **STRONG** controls in place to deliver staff training and development to support the Council in achieving its objectives.

55. We found sound and comprehensive processes in place, efficiently identifying both corporate and personal training needs. The service also makes effective use of information gathered to develop the annual Corporate Training Programme.

56. The service has processes to ensure effective delivery of its programme through a mix of internal and external trainers as well as other resources such as e-learning. The service has sound controls over its expenditure to ensure training is delivered within the allocated budget.

IX: ICT Service Desk

57.   We conclude based on our audit work that the Service has **SOUND** controls to control its risks and support its objectives around the operation of the Service Desk function.

58.   The ICT Service Desk achieves positive user satisfaction levels and our own testing on a sample of recorded cases confirmed requests are resolved effectively and in good time.

59.   The Service uses the Track-IT system to log user requests, which we concluded is a suitable and comprehensive solution. However, we found that the system is not fully utilised, potentially limiting the efficiency and effectiveness of the service. For example not all reported incidents are being logged with some requests being logged retrospectively. The monitoring capabilities of the Track IT system are also not being exploited to monitor the performance of the service, which makes firm judgements on value for money difficult to establish.

60.   We also found the IT support arrangement with Ashford Leisure Trust is suitably formalised and payments under the arrangement were up to date.

X: Corporate Projects Review

61.   The Council is currently reviewing and amending its project management (PM) arrangements. To reflect that transition this review does not include an assurance rating but instead provides an overview of the current PM practices to help inform development of the new arrangements.

62.   We found in our work some examples of good PM principles but this is not consistent across the projects tested. Particular good practice we observed included individual project monitoring and identifying and procuring external advice.

63.   We found some good examples within services of sharing lessons and good practice to improve future projects. However, we found limited evidence of sharing this knowledge across the Council and no clear mechanism by which it could be collated and distributed.

64.   Each project considered outcomes and costs are considered as part of its opening agreement but without documenting those aspects in a formal Project Initiation Documentation (PID) was used. The lack of a PID has led to inconsistent approaches resulting in a poor understanding of the wider resourcing implications of undertaking a project.

65.   Looking at project plans, only one of four was detailed to the level of individual tasks with specific responsibilities assigned and monitored. Similarly when considering risk assessments, only this project displayed a clear understanding of risk and how it should be scored and managed, with other projects considering risk in only broad or headline terms.

XI: Homelessness

66. We conclude based on our audit work that the service has **STRONG** controls to control its risks and support delivery of objectives.

67. The Homelessness Strategy had recently been refreshed at the time of our work and was in draft for consultation. We found the draft strategy, a requirement under the Homelessness Act 2002, to suitably identify the actions and risks to the achievement of the services objectives.

68. The Council complies with its statutory duty to provide interim and temporary accommodation with appropriate arrangements to manage allocation. Suitable controls are in place to ensure periods of accommodation are checked and confirmed prior to payment.

69. We found the operational management of the Christchurch House temporary accommodation facility to be good and our work confirmed that the arrangements in place meet the objectives of the business case.

Follow-up of Internal Audit Recommendations

70. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finalise our reporting. We report progress on implementation to Senior Management Team each quarter, including noting where we have had reason to revisit an assurance rating (typically when a service has successfully implemented key recommendations) and raising any matters of ongoing concern.

71. Our most recent round of reports covered recommendations due for implementation on or before 31 March 2016 and consequently represents the full year outturn for 2015/16. We are pleased to note those reports confirm there are no recommendations outstanding for action beyond their agreed implementation date. This includes a few instances where, after request from the service and having considered the residual risk of delay posed to the Council, we have revised implementation date.

72. In the table below project titles shown in **bold type** are those that originally received an assurance rating of **weak** (no projects were rated **poor**).

Project	Agreed Actions	Falling due on or before 31/3/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Projects with actions brought forward from 2014/15 and completed during 2015/16					
Business Continuity Planning	9	9	9	0	0
Health & Safety	11	11	11	0	0
Declarations of Interest	2	2	2	0	0
VAT	16	16	16	0	0
Planning Enforcement	3	3	3	0	0
ICT Disaster Recovery	2	2	2	0	0
Waste Management	18	18	18	0	0
Car Leasing	3	3	3	0	0
Projects with actions issued during 2015/16 and completed during 2015/16					
Project Office	5	5	5	0	0
Parking Enforcement	1	1	1	0	0
Projects with actions to carry forward into 2016/17					
Cemeteries	5	4	4	0	1
Housing Rents	1	0	0	0	1
Safeguarding	23	19	19	0	4
Banking Arrangements	3	2	2	0	1
Creditors	3	2	2	0	1
Income System	2	0	0	0	2
Data Protection	9	0	0	0	9
TOTAL	116	97	97	0	19
		84%	84%	0%	16%

73. Note that the above list excludes projects where we raised no recommendations for action.

74. We note considerable progress made by managers in addressing the issues identified by our reports. With all 45 due recommendations implemented as agreed, the Council is 74% of the way to full implementation – exactly on track for delivery.

75. Of the 17 audit projects followed up, 6 originally received an assurance rating of **weak**. We have previously advised Members in our 2014/15 annual report that 4 of these (Business Continuity, VAT, ICT Disaster Recovery and Waste Management) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **SOUND**.

76. We also advised Members in our separate report in June 2016 that the Council made sufficient progress in implementing recommendations arising from our review of Safeguarding that we have since also revised the assurance rating of that review to **SOUND**.

77. Consequently only one review – Data Protection – remains assessed as **weak**. The recommendations for this review start to fall due in the coming months and we have a scheduled update report due to this Committee in September 2016.

Corporate Governance

78. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

79. 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 staff through whistleblowing and the Council's counter fraud and corruption arrangements.

80. We attend the Council's Management Team and retain various advisory roles with respect to matters such as risk management and procurement.

81. During the year we also undertook a specific review examining the Council's readiness for compliance with the revised Code of Corporate Governance published by CIPFA/SOLACE in April 2016.

Counter Fraud & Corruption

82. 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.

Investigations

83. During 2015/16 there were no matters raised with us that required investigation.

Whistle-blowing

84. 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. During 2015/16 we have received no such declarations that prompted investigations.

Risk Management

85. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

86. 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.

87. During 2016/17, with support from Mid Kent Audit, the Council undertook a significant revision of its risk management arrangement. Officers presented the revised framework to this Committee in September 2015.

88. Following production of a revised framework officers, again with audit support, held a series of workshops with senior management to identify and consider the major risks to the Council achieving its objectives. The preliminary output from this review was reported to this Committee in March 2016 and included those below as the major risk themes.

      • Workforce skills and capacity,

      • Housing and infrastructure,

      • Failure of key projects,

      • Resource limitations and,

      • Partnership failure.

89. The next steps for the Council will be gathering information to create and manage an overview of risk at individual service level. Mid Kent Audit will continue to support this process, using the additional flexibility for providing second line of defence services set out in the revised 2016/17 *Audit Charter* agreed by this Committee in March 2016.

90. We will continue to report outcomes and progress to the Audit Committee through the year.

Mid Kent Audit Service Update

Team Update

91. During 2015/16 following the departure of a long-serving manager, absences for maternity leave and a pair of recruitment exercises, the audit service averaged a vacancy rate of 2.5 FTE, around 20% of establishment. However, due to a variety of factors including around 1xFTE of short term contractor support, efficiencies arising from our mid-year restructure and resilience of working in a shared service across four authorities we have been able to complete the work set out in this report which supports a definitive Head of Audit Opinion.

92. The whole management team of Mid Kent Audit convey their public thanks to the team for their hard work and dedication through 2015/16.

93. We have continued through the year to support our staff in their professional development. During 2015/16 the audit team has added the following skills and qualifications to help support our partner authorities:

- Frankie Smith (Audit Manager, Swale & Tunbridge Wells) achieved Chartered status with the Institute of Internal Auditors (IIA) (CMIIA designation)

- Jo Herrington (Senior Auditor) achieved the practitioners' diploma from the IIA (PIIA designation)

- Helen Pike (Trainee Auditor) achieved the IIA's Certificate in Internal Audit and Business Risk (IACert designation)

- Russell Heppleston (Deputy Head of Audit Partnership) achieved the International Certificate in Risk Management from the Institute of Risk Management.

- Alison Blake (Audit Manager, Ashford & Maidstone) achieved the International Certificate in Risk Management from the IRM (CIRM designation)

- Rich Clarke (Head of Audit Partnership) achieved the Chartered Institute of Public Finance & Accountancy (CIPFA) professional qualification as an Accredited Counter Fraud Specialist (ACFS designation)

- Mark Goodwin (Senior Auditor) achieved CIPFA's professional qualification as an Accredited Counter Fraud Technician (ACFT designation)

94. We congratulate all in the team on these achievements during 2015/16 and anticipate further exam success in 2016/17.

Quality and Improvement

95. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members. At least every five years that assessment must be external and independent.

96. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the remainder. In 2015, following action to implement the IIA's recommendations, we were re-assessed as being in full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.

97. In 2016 we have undertaken a self assessment against the Standards and confirm to Members we remain in full conformance.

98. Beyond simple conformance, as reported to Members in our interim report, we go further and comply with the requirements of the IIA's revised International Professional Practices Framework (IPPF) unveiled in July 2015 but not mandatory for local government internal audit until 2016/17. We are assisted in remaining at the leading edge of developing standards by the presence of the Head of Audit Partnership as the English Local Government representative on the Internal Audit Standards Advisory Board (IASAB), as well as roles as Chairman of Kent Audit Group and on the Executive Board of the London Audit Group.

99. During 2016/17 we hope to capitalise on this position by beginning to offer Quality Assessments against the Standards either in our own right or in partnership with a national body. Aside from the benefits of sharing good practice, we hope that this route will provide income to the authorities. We will keep Members updated on progress in this regard through our update reports.

Performance

100. 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 Audit Board (with Paul Naylor as Ashford's representative during the year and now Ben Lockwood) considers these measures at each of its quarterly meetings.

101. 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	2014/15 Outturn	2015/16 Target	2015/16 Outturn
Cost per audit day	Met target	Meet target	Met target
% projects completed within budgeted number of days	47%	60%	60%
% of chargeable days	75%	68%	63%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within agreed deadlines	41%	60%	76%
% draft reports within ten days of fieldwork concluding	56%	70%	68%
Satisfaction with assurance	100%	100%	100%
Final reports presented within 5 days of closing meeting	89%	90%	92%
Respondents satisfied with auditor conduct	100%	100%	100%
Recommendations implemented as agreed	95%	95%	98%
Exam success	100%	75%	100%
Respondents satisfied with auditor skill	100%	100%	100%

102. Of particular note in the figures above is the continuing improvement in completing projects within the scheduled budgeted days. This has shown steady improvement as the year progressed and our refreshed audit methodologies became more established, with a 78% outturn in quarter 4. This bodes well for meeting the stretched 2016/17 target of 75%.

103. We also note the continued strong performance in customer satisfaction. This has remained at a high level even as, with the help of the audit team's new administrative assistant, we have increased response rate more than fivefold.

104. A note too on chargeable days (which is the percentage of audit time spent directly progressing the audit plan as opposed to, for example, training, administration, personnel management and so on). This was affected during the year by the departure of one of our trainees during his probationary period meaning lost time both in the new recruitment and supporting integration of his replacement. However, as noted earlier, by using additional contractor support, resilience in the team, and efficiencies introduced in our restructure this did not impair our ability to substantially complete the audit plan.

Acknowledgements:

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

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2015/16

Full Definition	Short Description
Strong – 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
Sound – 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
Weak – 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
Poor – 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

Recommendation Ratings 2015/16

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.