

**Agenda Item No:** 7  
**Report To:** Audit Committee  
**Date:** 22 June 2017  
**Report Title:** Annual Internal Audit Report & Opinion 2016/17  
**Report Author:** Rich Clarke – Head of Audit Partnership



<b>Summary:</b>	The annual opinion of the Head of Internal Audit on the effectiveness of the Council's internal control, corporate governance and risk management.
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**Key Decision:** NO

**Affected Wards:** All

- Recommendations:**
1. The Committee **notes** the Head of Audit Partnership opinion. The opinion states that, in the view of internal audit, the Council's system of internal control, corporate governance and risk management arrangements have operated effectively during 2016/17
  2. The Committee **notes** the work underlying the opinion and the Head of Audit's assurance it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards.

**Policy Overview:** N/A

**Finance:** N/A

**Risk Assessment** N/A

**EIA** N/A

**Other Matters:** N/A

**Exemption Clauses:** N/A

**Background Papers:** Annual Internal Audit Report & Opinion 2016/17

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## Report Title: **Good Governance Framework Overview Final Report**

### Purpose of the Report

1. This report meets the Head of Internal Audit annual reporting requirements mandated by the Public Sector Internal Audit Standards (PSIAS). The report includes the Head of Audit Partnership's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control which can be used to inform the Annual Governance Statement for 2016/17.
2. PSIAS, in particular Standard 2450: Overall Opinions, direct that the annual report must incorporate:
  - The annual internal audit opinion (see paragraphs 6 to 15 of the appendix),
  - A summary of the work completed that supports the opinion (paragraphs 16 to 100 of the appendix), and
  - A statement on conformance with PSIAS (paragraphs 107 to 110 of the appendix).

### Background

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

*undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking in account public sector internal auditing standards and guidance.*
4. As those charged with overseeing Governance, the Terms of Reference for this Audit Committee require it to:

*Consider/monitor or advise the Council as appropriate upon:*

  - *the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.*
  - *The summary of internal audit reports issued in the previous period.*
  - *Reports on the management and performance of the Audit Partnership Agreement.*

- *Reports from the Head of Internal Audit on agreed recommendations not implemented within a reasonable timescale.*
5. The overall scope of the Council's audit service – which is delivered as part of a four way partnership with Swale, Maidstone and Tunbridge Wells – is set out in the Audit Charter and Annual Plan. The Charter and Plan for 2016/17 were agreed by this Committee in March 2016. This Committee also received an interim update on progress to date in December 2016.
  6. We have completed the work set out in the plan, subject to modifications as described in accordance with PSIAS. Where there is work outstanding at the time of writing, it is sufficiently progressed 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 verbally at the meeting (if available) and/or included within the first interim update of 2017/18.

### **Risk Assessment**

7. N/A

### **Equalities Impact Assessment**

8. N/A

### **Other Options Considered**

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

### **Consultation**

10. All findings and recommendations identified within reviews are consulted on with the appropriate Head of Service and action plans are agreed with management to implement recommendations. The headline messages within the report are as discussed with the s151 Officer across the year, and have been communicated to the s151 Officer to assist with his preparation of the Council's Annual Governance Statement. .
11. The attached report is adapted for comments received.

### **Implications Assessment**

12. N/A

### **Handling**

13. N/A

## **Conclusion**

14. The overall opinion of the Head of Internal Audit is that the council's systems of internal control, corporate governance and risk management operated effectively during 2016/17

## **Portfolio Holder's Views**

15. The Portfolio Holder is a member of this Committee. We also shared with him an earlier draft of this report.

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**MID KENT AUDIT**

# **Annual Internal Audit Report and Opinion**

**2016/17**

**Ashford Borough Council**



## Introduction and Background

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. That mission, and the [code of ethics](#) and [Standards](#) which underpin it, encompass more than 200,000 professionals in all areas of business across the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations specify services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more exacting version of the global standards. Those Standards set demands for annual reporting:

### 2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

#### *Interpretation:*

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## Independence

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work with reference to a collaboration agreement.
4. Within Ashford BC during 2016/17 we have enjoyed complete and unfettered access to officers, records and systems to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

## Head of Audit Partnership Annual Opinion

6. I provide this opinion to Ashford Borough Council (the Council) to inform its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2017.

### Scope of responsibility

7. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
8. The Council has described key aspects of its internal control and risk management within its Local Code of Governance and its Risk Management Framework.
9. Internal controls are designed to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, it can only provide reasonable and not complete assurance of effectiveness. Internal controls are a continuing process designed to identify and set priorities around the risks to the Council achieving its objectives. Internal controls also evaluate the likelihood of those risks coming about and managing the impact should they do so.

### Basis of assurance and limits

10. I have drawn my opinion from the work completed during the year, as first set out in the plan approved by Members on 15 March 2016 and later developed in line with emerging risks and priorities. The rest of this report sets out the work and my findings in greater detail. I have not needed to place assurance on any other provider beyond those described in the original plan.
11. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.
12. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Where risks identified by the Council do not fall within the scope of our coverage I am satisfied an assurance framework exists to provide reasonable assurance on effective management.

## Overall opinion

13. I am satisfied that during the year ended 31 March 2017 the Council managed a system of internal control that offers sound assurance on control effectiveness.
14. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2017 comply in all material respects with guidance on proper practices<sup>1</sup>.
15. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2017 are effective and provide sound assurance.

Rich Clarke CPFA ACFS  
Head of Audit Partnership

14 June 2017

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<sup>1</sup> "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016 Edition).

## Internal Control

16. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
17. We gain 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 2016.

### Summary of audit plan work in Ashford 2016/17

18. Our plan presented in March 2016 continued the approach of dividing our work between audit days rather than a set number of projects. Among the advantages here is that we can be significantly more responsive to developing risks and priorities.
19. During 2016/17 this flexibility was most obvious in adapting our work in housing services. Also we could take one-off work on advice and guidance, such as in-depth review in following up weak assurance rated reports and assisting with developments in presenting to Audit Committee.
20. Up to our end of May 2017 time recording data, the table below shows days against each work area identified in the plan.

Type of work	Plan Days	Actual days	Difference
Planned 2016/17 assurance projects	317	320	+5
Risk Management Support	20	12	-8
Counter Fraud Support	0	1	+1
Member Support	6	15	+9
Audit Planning	0	17	+17
Recommendation Follow Up	30	36	+6
Other Assurance Work	22	25	+3
<b>Total</b>	<b>395</b>	<b>426</b>	<b>+31</b>
Concluding 2015/16 projects	0	44	+44

21. With a few days left to conclude the remaining projects, these numbers will increase, but I am pleased to confirm we have delivered over 100% of our planned audit days.

## Audit Project Review Findings 2016/17

22. The table below summarises audit project findings up to the date of this report. Where there are material matters closed between report issue and committee meeting we will provide a verbal update. Enough work has finished already to offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
<b>2015/16 Plan Projects Concluded After 2015/16 Annual Report Issued</b>							
	Finance	Procurement	n/a	n/a	Jul-16	Sound	Reported to Members Dec-16
	Operational	Tourism	n/a	n/a	Jul-16	N/A	Reported to Members Dec-16
	Operational	Member Training & Induction	n/a	n/a	Jul-16	Sound	Reported to Members Dec-16
<b>Planned 2016/17 assurance projects completed</b>							
I	Finance	Council Tax	10	11	Sep-16	Strong	
II	Operational	Housing Maintenance	10	10	Oct-16	N/A	
III	Operational	Street Cleansing	n/a	19	Oct-16	Sound	Report deferred from 2015/16
IV	Operational	IT Development	15	17	Dec-16	Sound	
V	Operational	Elections & Registration	15	13	Jan-17	Strong	
VI	Operational	Public Sector Equality Duty	15	14	Jan-17	Sound	
VII	Governance	Members' Allowances	15	16	Feb-17	Sound	
VIII	Operational	Customer Services	15	14	Feb-17	Sound	
IX	Finance	Business Rates	15	15	Mar-17	Strong	
X	Finance	Payroll	15	15	Mar-17	Strong	
XI	Governance	Arms Length Companies	15	20	Mar-17	Sound	Extra time to review governance documents
XII	Operational	Create Festival	15	10	Apr-17	Sound	Scope focussed from 'Creative Industries'
XIII	Operational	Property Management	12	Mazars	May-17	Weak	
XIV	Operational	Appraisal System	15	13	May-17	Strong	
XV	Finance	Bank Reconciliations	10	Mazars	May-17	Sound	

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
XVI	Finance	Budgetary Control	15	Mazars	May-17	Sound	
XVII	Operational	Social Media Access Controls	15	12	May-17	Sound	Scope focussed from 'Corporate Communications'
XVIII	Governance	ICT Network Controls	15	14	May-17	Sound	
XIX	Finance	General Ledger Journals	10	Mazars	Jun-17	Sound	
<b>Planned 2016/17 assurance projects underway</b>							
	Finance	Accounts Payable	15	Mazars			Draft report issued
	Operational	Counter Fraud Risk Assessment	10	2			Fieldwork stage
	Governance	Business Continuity Planning	10	3			Fieldwork stage. Originally planned as shared service review with Swale but re-scoped when share ended.
	Operational	HR Policy Compliance	15	10			Fieldwork stage
	Governance	Governance Review	10	4			Fieldwork stage
<b>Planned 2016/17 assurance projects not completed</b>							
		Development Management	15				Deferred to 2017/18 due to significant staffing changes within the service.
		Housing Services Team	10				Scope rolled into review of housing maintenance to examine wider functions of the team.

Note that projects completed by Mazars were contracted project-by-project rather than on a day rate, so insulating us from the risk of cost overruns. For the purposes of outturn calculations we have assumed the projects ran to budget.

## I: Council Tax Billing (September 2016)

23. We conclude based on our audit work that the Revenues and Benefits department has **Strong** controls in place to manage its risks and support its objectives in relation to Council Tax - Billing.
24. Our review found only minor changes to the Council Tax system since we reviewed it in April 2015, meaning control design remains robust.
25. There are established processes for billing which have been enhanced with the increased use of Victoria Forms to automate the moving out process. Our testing identified a pro-active move towards e-billing, with customer's being automatically opted in when they complete any of the Council's online forms and provide their email address. This has led to an increase in the number of e-bills being sent from 40 in 2015/16 to 1113 in 2016/17.
26. However the monitoring of the Virtual Mailroom (VM) contract needs improvement. Officers who monitor the reports provided by VM were unaware of the timescales in which they had to be provided and adequate monitoring records were not being kept. This means that the performance of VM is not being measured against the standards in the contract.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
n/a	n/a	n/a	2	n/a

## II: Housing Maintenance (October 2016)

27. The purpose of this review was to identify and assess the key controls currently employed by the Service to manage the associated risks around Housing Maintenance. The service is in the process of reviewing how it maintains and repairs its housing stock, and so this audit was designed to complement that review and assist the service as it considers changing and updating its processes. As such, we have not issued this work with an overall level of assurance.
28. This report details the key controls identified for each key stage within the Housing Maintenance process. We have assessed each of the controls in place and identified the key controls as those which we feel provide the greatest level of control to manage the risks.
29. We conclude as a result of our work that the controls currently operating enable the Council to comply with its obligations as a landlord, in accordance with the Landlord and Tenants Act and the Right to Repair legislation. As the service moves to review

and update its processes it will be necessary to ensure that any new service delivery model gives consideration as to how these obligations will continue to be fulfilled.

30. The remainder of this report details the key controls assessed as part of a process mapping exercise, and the associated risks. The service should have regard to these key controls as they consider any re-design of process to ensure that the processes continue to operate in accordance with statutory requirements and provide assurance that associated risks are being managed.

*We made no recommendations for improvement.*

### III: Street Cleansing (October 2016)

31. We conclude based on our audit work that there are **Sound** controls in operation to support the monitoring of the street cleansing element of the Mid Kent Joint Waste Contract.
32. We found good working relationships between the Council and contractor. This relationship includes regular performance monitoring and proper application of performance penalties stipulated in the contract. We also found sound controls over payments.
33. Although we found sound monitoring arrangements, the real-time monitoring solution specified in the contract (Springboard) is not operational and the contractor has provided no implementation date. The interim approach provides reasonable assurance the contractor meets cleanliness standards, but places additional demands on the monitoring team. The demand increases risks to capacity and resilience the service should address to avoid infringing on other tasks such as environmental enforcement.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	2	0	2

### IV: IT Development (December 2016)

34. We conclude based on our audit work that the service has **Sound** controls to control its risks and support its objectives as they relate to IT development work.
35. We found in our testing a generally effective process in place for operational management in developing new and enhanced IT systems at the Council. We undertook a survey that revealed high levels of customer satisfaction from client departments, including praise for the team's accessibility, engagement and expertise.

36. While we found the service could adopt some minor improvements on its processes, our more significant recommendation is the need to link this work to the Council’s overall objectives via an ICT Strategy and so provide clear strategic management. We also found some weaknesses in a lack of clear project approval process, but noted draft proposals in place which our evaluation found fit for purpose.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	1	0	3	2

## V: Elections & Registration(January 2017)

37. We conclude based on our audit work that Electoral Services has **Strong** controls and procedures in place to manage and administer elections and registration.
38. We are satisfied that the transition process to individual electoral registration (IER) was planned and managed effectively and implemented as required by the Cabinet Office. The Council effectively communicated the changes to the public and have now incorporated IER within their day-to-day business.
39. Following our review of the project management of elections, we are satisfied the Council has properly administered recent elections. The elections service has demonstrated good planning and preparation for elections to mitigate risks. These include fitting controls and procedures on security of the ballot and count, run by well trained and highly experienced elections staff. Some of the work is outsourced but is managed effectively.

*We made no recommendations for improvement.*

## VI: Public Sector Equality Duty (January 2017)

40. We conclude based on our audit work that the Council has **Sound** controls in place to manage its risks and support its objectives in relation to equalities.
41. The Council has a strong and comprehensive set of equality objectives to demonstrate and monitor its conformance with the Public Sector Equalities Duty. It also has a good structure in place to embed equality considerations in decision making, including for example in contract procedure rules. However, we identified some areas where those links could be better established, such as in dealing with complaints.

42. We also identified through survey that training and awareness among Members, while present and available, could be given more prominence to assist Members in fulfilling the Council’s responsibilities. For example, by including equalities information in induction packs and a clear route to provide updates and respond to queries.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	5	1

## VII: Members’ Allowances (February 2017)

43. Our opinion based on our audit work is that Member Services has Sound controls in place to manage its risks, and support achievement of its objectives, over the processing and payment of Members Allowances. We provide the definitions of our assurance ratings at appendix II.
44. Our testing has confirmed that the controls in place to monitor and pay Members’ allowances and expenses are well designed. We found that 100% of all the Basic Allowances payments made between April and September were accurately paid and that pre-completed Travel Allowance claim forms were accurate in 99.4% of the 158 journeys tested. We identified some minor errors in the payment of Special Responsibility Allowances and suggest control enhancements by introducing sample checks to supplementary Travel Allowance claims. We also identified minor areas of correction and update to the Members’ Allowances Scheme, including current rates for Allowance amounts, and the inclusion of ICT consumables and parking expenses.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	6	0

## VIII: Customer Services (February 2017)

45. We conclude based on our audit work that there are Sound controls in operation for the management and provision of the customer services function to members of the public for face to face, email and telephone contacts with the Council. We provide the definitions of our assurance ratings at appendix II.
46. The move back into the Civic Centre together with the introduction of an appointment only system has resulted in an unprecedented drop in face to face, email and telephone contacts, up to January 2017. In particular, visitors to the Civic Centre and Tenterden were 58% lower in June 2016 (3756 visitors) compared to June 2015 (9018

visitors). The changes now enable officers to continue to promote the use of ‘self-help’ and allocate more time to those customers which are unable to ‘self-help’.

47. The service has been able to maintain, and in some cases improve the provision of service to meet the needs of individual Council services by offering internal support. We found no deficiencies between the expectations of client services and the level of service being provided by the Customer Services team throughout our work.
48. Our testing has identified that the existing performance measures in place for the service are no longer aligned with the service objectives as a result of the move back into the Civic Centre. While this doesn’t represent a significant risk to the delivery of the service itself, it does make it more difficult to quantify the actual impact of the move and changes to service delivery.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	1	0

## IX: Business Rates (March 2017)

49. Our opinion based on our audit work is that the Revenues and Benefits section has Strong controls in place to manage its risks and support achievement of its objectives in relation to Business Rates recovery and write offs. We provide the definitions of our assurance ratings at appendix II.
50. Our review found only minor changes to the Business Rates system since we reviewed it in March 2015, meaning control design remains robust.
51. Through our testing we are able to confirm that the Revenue and Benefits section has well established procedures in place to facilitate the prompt recovery of unpaid Business Rates. Similarly where these procedures have been exhausted, there are good procedures for the writing off of irrecoverable debts, which are in accordance with the Council’s Financial Regulations.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	1	0

## X: Payroll (March 2017)

52. Our opinion based on our audit work is that the Payroll section has **Strong** controls in place to manage its risks and support achievement of its objectives.
53. The Council manages its payroll effectively, resulting in accurate and timely payment to employees. Our testing confirms the effectiveness of key controls in both design and operation as well as management of risks within the payroll system and associated processes.
54. We also conclude the Council manages its self-service function effectively to ensure correct payment of expenses.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	0	2

## XI: Arms Length Companies (March 2017)

55. Our opinion based on our audit work is that the Council has **Sound** controls in place to manage its interests in its trading companies.
56. We found that the Council's governance structure adopted to manage its interests in its trading companies is sound. Our testing confirmed key documents are in place to regulate the relationship, including shareholders and service level agreements. We identified minor improvements to ensure the arrangements remain fit for purpose as the companies evolve and potentially grow.
57. The Trading and Enterprise Board was created to oversee the governance arrangements and approve the trading activities of the companies. Our review confirmed the company reports performance information as required by the shareholders agreement and that the Board provides sufficient challenge to ensure the companies meet the Council's expectations.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	2	0

## XII: Create Festival (April 2017)

58. Our opinion based on our audit work is that Cultural Services has **Sound** controls in place to manage its risks and support achievement of its objectives in relation to the Create Festival.

59. Our testing has established the Create Festival is well managed. Although not directly modelled on the Council’s project toolkit, roles and responsibilities are clearly laid out and there is a robust Event Safety Plan in place. The Council has also compiled professional accompanying promotional and sponsorship documentation.
60. For future festivals, we advise that management could be further improved by closer adherence to the project toolkit, in particular on considering equalities impact and procurement guidance.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	3	2

### XIII: Property Management (May 2017)

61. Our opinion based on our audit work is that the Property Management Service has **Weak** controls in place to manage its risks and support achievement of its objectives.
62. The Council has valid lease agreements in place that we found matched details held in the property register. The Council’s legal team appropriately retain and securely store all lease documentation. However, key property information such as property category, use, occupier, rental income, details of maintenance liability, terms of assignment and subletting, insurance details, tenant and landlord covenants is held in unprotected spreadsheets vulnerable to incorrect adjustment. The Council recognises this risk and plans to acquire a dedicated Asset Management System.
63. The current procurement strategy is not finalised and supporting procedures need to be developed to ensure consistency in key functions such as managing and reconciling rental income, processing lease terminations, and maintaining and updating the property register. Furthermore the Council should document and clarify roles and responsibilities for implementing the strategy. For example, responsibility for monitoring the rent review process is unassigned and so does not always happen in good time.
64. The Council has sound processes in place for invoicing and collecting payment of rent. However, we could not confirm the Council has accounted for all income due owing to a lack of clarity and documentation in reconciliation processes.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
-	1	8	-	-

## XIV: Appraisal System (May 2017)

65. Our opinion based on our audit work is that the Council has **Strong** controls in place to manage the risks and support achievement of the objectives of the appraisal system.
66. We found that the appraisal system adopted to support the Council's competency framework is sound. Our testing confirmed that the process is followed in practice with all actions being completed on iTrent. Feedback is sought following each round of appraisals to ensure the process remains fit for purpose and is supported across the organisation.
67. As a result of staff feedback, we note that new web-based software (Moodle-based) has been procured to better facilitate the appraisal process in the future. The system is currently being trialled and tested and is due to be rolled out for the next round of appraisals in 2018. The approach to implement the new software will be similar to that followed for the iTrent system roll out in early 2015 which was successful in communicating, training and supporting staff and achieving good levels of staff engagement.

*We made no recommendations for improvement.*

## XV: Bank Reconciliations (May 2017)

68. Our opinion based on our audit work is that the bank reconciliation process has **Sound** controls in place to manage its risks and support achievement of its objectives.
69. The Council's banking arrangements and control of cheques policy is documented in its financial procedure rules and supported by procedure notes. Monthly bank statement reconciliations for the general and accounts payable accounts are prepared. However, these are not consistently evidenced as independently checked and, due to a system fault, one of the accounts was last reconciled in December 2016. Furthermore, not all daily reconciliation tasks are completed in line with procedures.
70. The Income Suspense account is reconciled monthly, however our testing identified some longstanding unresolved transactions dating back to 2012, which although not material should be investigated and resolved.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
-	-	3	2	-

## XVI: Budgetary Control (May 2017)

71. Our opinion based on our audit work is that the Council has **Sound** controls in place to manage its risks and support achievement of its objectives in relation to Budgetary Control.
72. The Council's budgetary control process is documented in its Financial Procedure Rules. However, procedure notes should be developed to provide guidance on the overall budgetary process. Roles and responsibilities are clearly defined and budget holders provided with the necessary information and support to allow them to monitor and control their budgets.
73. There is a policy for processing virements, but supporting documentation is not retained. As such we were unable to verify that virements are processed and authorised in line with the agreed policy.
74. Summarised budget monitoring reports are presented quarterly to Senior Management and Members. Controls were found to be adequate to ensure the accuracy, completeness and regularity of budget monitoring reports.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
-	-	2	-	2

## XVII: Social Media Access Controls (May 2017)

75. Our opinion based on our audit work is that there are **Sound** controls in place over the management and use of the Council's social media accounts.
76. We found sound controls over social media use. These include the Communications and Marketing team maintaining an inventory of the Council's social media accounts, including central record of username and passwords. However, we also identified a need for greater clarity in policies around opening and closing accounts, as well as setting parameters for monitoring.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	4	2

## XVIII: ICT Network Controls (May 2017)

77. Our opinion based on our audit work is the ICT service has **Sound** controls in place to manage its risks and support achievement of its objectives.
78. Our testing confirms the ICT service gains assurance on IT network security from qualified independent sources. The service also takes prompt action to address any identified weaknesses. Consequently, the Council achieved and maintained Public Services Network (PSN) compliance. However, within the Council’s network, while we identified no issues there is clear opportunity for strengthening processes to ensure user accounts are disabled and deleted when an employee leaves.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	3	2

## XIX: General Ledger Journals (June 2017)

79. Our opinion based on our audit work is that there are **Sound** controls in place to manage the Council’s General Ledger – Journals process and its risks to support achievement of its objectives.
80. Access to process journals on the eFinancials System (the System) is appropriately restricted to officers in Finance Team. The System captures details of journals raised and sequentially numbers them. Our testing confirmed that journals raised contain sufficient information, and are processed appropriately. Furthermore adequate documentation is kept in support of the journals. However, there is no segregation of duties in the processing of journals, so the system could be enhanced through the introduction of periodic reviews or spot checks.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
-	-	1	1	-

## Following Up Recommendations

81. 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 finish our reporting. We report progress on implementation to Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

82. In total, we summarise in the table below the current position on following up agreed recommendations:

Project	Total	High Priority	Medium Priority	Low Priority
Recommendations brought forward into 2016/17	16	7	6	3
Recommendations agreed in 2016/17	40	1	12	27
<b>Total Recommendations Agreed</b>	<b>56</b>	<b>8</b>	<b>18</b>	<b>30</b>
Implemented	41	7	11	23
<b>Recommendations carried forward into 2017/18</b>	<b>15</b>	<b>1</b>	<b>7</b>	<b>7</b>
Not Yet Due	10	1	2	7
Delayed Implementation but no additional risk	5	0	5	0
Delayed Implementation with risk exposure	0	0	0	0

83. In the table below we summarise progress against all reports with recommendations that fell due during 2016/17. The table excludes reports that raised no risk-rated recommendations for follow-up:

Project	Report Issue Date & Rating	Recs Agreed / bfwd	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Banking Arrangements	Jan-14 (Limited)	3				✓	July 2016
Creditors	Mar-14 (Substantial)	1				✓	April 2016
Housing Rents	Aug-15 (Sound)	1				✓	April 2016
Safeguarding	Dec-15 (Weak) Jun-16 (Sound)	3				✓	July 2016
Data Protection	Feb-16 (Weak) Jan-17 (Sound)	6		✓			July 2017
Income System	Mar-16 (Strong)	2				✓	April 2016
ICT Service Desk	Jun-16 (Sound)	3				✓	January 2017
Member Training & Induction	Jul-16 (Sound)	4				✓	January 2017
Procurement	Aug-16 (Sound)	10		✓			October 2017
Council Tax Billing	Sep-16 (Strong)	2				✓	April 2017
Street Cleansing	Oct-16 (Sound)	2		✓			October 2017

Project	Report Issue Date & Rating	Recs Agreed / bfwd	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
IT Developments	Dec-16 (Sound)	4			✓		July 2017
Public Sector Equalities Duty	Jan-17 (Sound)	6			✓		July 2017
Members' Allowances	Feb-17 (Sound)	6				✓	April 2017
Customer Services	Feb-17 (Sound)	2			✓		July 2017
Business Rates	Mar-17 (Strong)	1			✓		July 2017

## **Delayed Implementation Details**

### **Data Protection** *(1 medium priority recommendation deferred)*

84. The Council has updated its policy framework including a number of related protocols. This recommendation relates to roll out of a Compliance Monitoring Protocol. The Data Protection Officer was appointed at the end of April 2017 meaning that, at the time of follow up, there was limited opportunity for practical application of the protocol to be demonstrated. As such the recommendation was deferred.

### **Procurement** *(2 medium priority recommendations deferred)*

85. These recommendations related to identifying and monitoring the compliance of procurement exercises (between £15k and £164,176) and the monitoring of waivers. Implementation of these recommendations is dependent on the implementation of the e-procurement module of eFinancials, which has not yet been completed.

### **Street Cleansing** *(1 medium priority recommendations deferred)*

86. These recommendations relate to evidencing self-monitoring checks and the resilience of the team. They were originally scheduled for implementation by April 2017 and would have been followed up as part of our Q1 exercise in July. The service requests early deferral of these recommendations as a result of significant officer changes within the service.

## Corporate Governance

87. Corporate governance is the rules, practices and processes that direct and control the Council.
88. We gain 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.
89. We attend the Council's Management Team. We also help in upholding good governance by providing advice and training to both officers and Members.
90. During the year we also undertook a specific review examining the Council's compliance with the new Code of Corporate Governance published. That work is ongoing but informs our opinion on work completed to date.

## Counter Fraud & Corruption

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

### Investigations

92. During 2016/17 there were no matters raised with us that required investigation.

### Whistleblowing

93. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. We are aware of matters raised elsewhere in the Council during 2016/17 and are satisfied they were properly handled and resolved. There were no matters raised directly with us in audit during 2016/17.

## Risk Management

94. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
95. 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.
96. This Committee endorsed the Councils' Strategic Risk Register in March 2016 and during 2016/17 Officers have twice presented updates to the register. Amendments were made to ensure that the risks reflect the Councils' current circumstances, and to update current and planned key controls. The strategic risks facing the Council, as reported to Committee in March 2017, are:
  - Organisational skills and capacity,
  - Housing and infrastructure,
  - Key project failure,
  - Resource limitations,
  - Collaborative working,
  - Community Capacity, and
  - Reputation.
97. During 2016/17 the Council, with support from Mid Kent Audit, undertook to identify and capture the Operational Risks across service areas. Strategic and Operational Risks have been captured on a central system, Covalent, and work is being undertaken to improve the effectiveness of reporting to the Committee.
98. The next steps for the Council will be to work more closely with Mid Kent Audit to enhance the risk management arrangements in 2017/18. Furthermore, updates on strategic risks will be provided to each Committee meeting on a rolling basis throughout 2017/18.
99. Mid Kent Audit will continue to support this process, using the additional flexibility for providing second line of defence services set out in the *Audit Charter* agreed by this Committee in March 2016.
100. We will continue to report outcomes and progress to the Audit Committee through the year.

# Mid Kent Audit Service

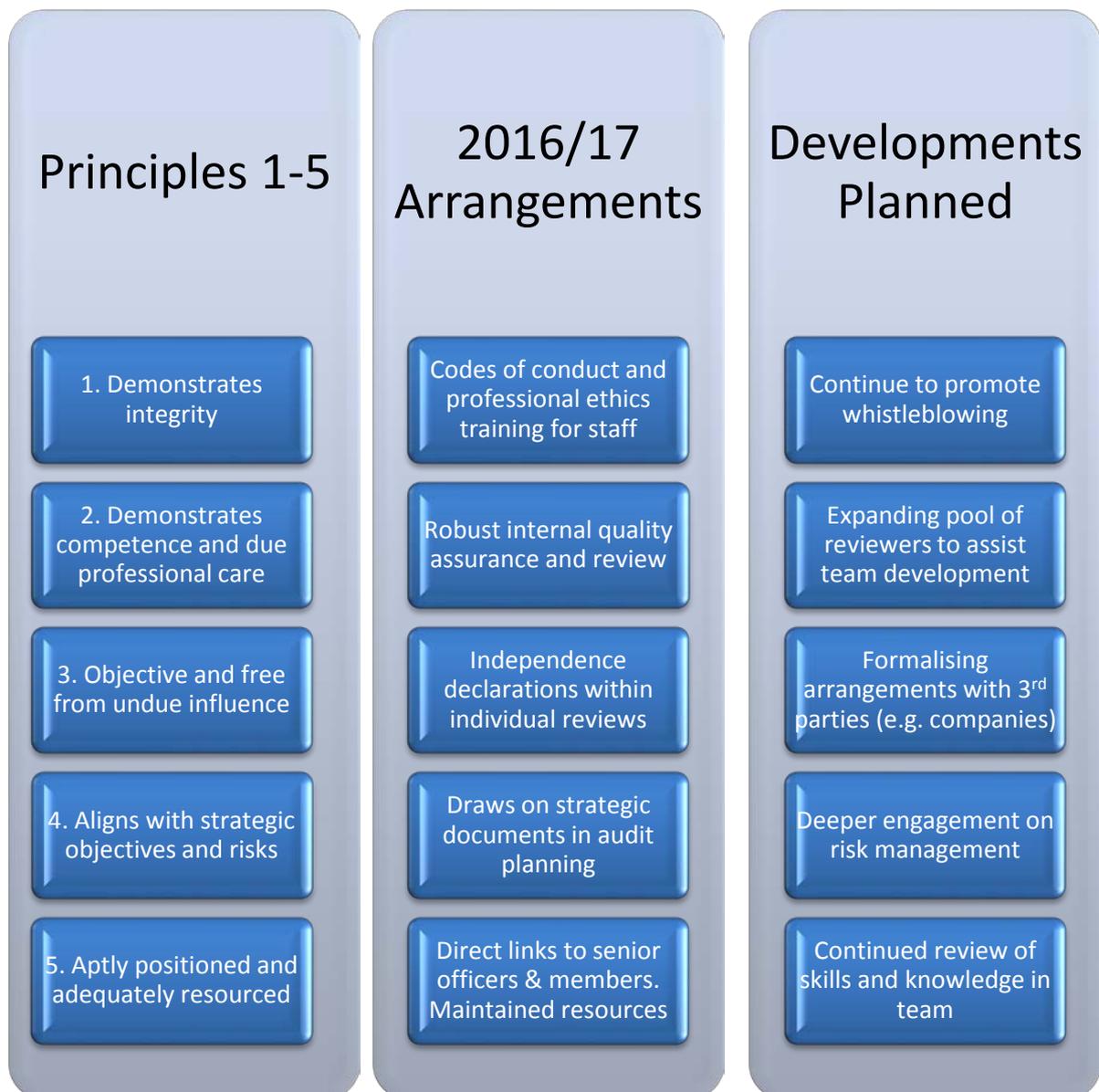
## Team Update

101. During 2016/17 we were, on average, 1.4fte short of establishment owing to a combination of long term sickness absence and vacancies at trainee and administrator level. Nevertheless, we could complete the audit plan in record time; 61 weeks compared with 84 weeks to complete the 2013/14 plan. We achieved this through the hard work and dedication of our team with the resilience that comes from working a shared service across four authorities.
102. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through 2016/17.
103. We also, following a competitive tender, received more support during spring 2017 from Mazars in completing some reviews of key financial systems. While we have no current plans to seek contractor support in 2017/18, the external tender showed there exists a high-quality low cost market for audit support should we need it in future.
104. We have continued to support the team in learning and development through 2016/17. This includes professional qualifications, with five of the team currently working towards accreditation in internal audit, accounting and risk management.
105. We have also continued to seek opportunities to take up commercial work where we can do so without compromising the quality of service to our local authorities. In 2016/17 this included the Head of Audit Partnership working with CIPFA to deliver training to Heads of Audit across the country on managing effective audit teams.
106. More locally, we have also developed and delivered training on Introduction to Internal Audit, aimed specifically at those with a counter fraud background. As well as producing income, this training also received exceptional response from delegates. With ever more authorities creating combined audit and counter fraud teams, we continue to receive expressions of interest for this training and may deliver more sessions during 2017/18.

## Quality And Improvement Plan

107. 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.

108. 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 rest. In 2015, following action to fulfil the IIA’s recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
109. In 2017 we have undertaken a self-assessment against the Standards and confirm to Members we remain in full conformance. Our next external assessment is due before 2020.
110. While the full standards comprise more than fifty demands, the IIA sums them up in ten principles. Below, we describe the principles, note our current performance and highlight further initiatives to continue development.





## Performance Indicators

111. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Audit Board (with Ben Lockwood as Ashford BC's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKIP Board (which includes the Council's Chief Executive and Leader).
112. 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 Outturn	2016/17 Outturn
Cost per audit day	Met target	Met target →←	Beat target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑
% of chargeable days	75%	63% ↓	74% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑
Satisfaction with assurance	100%	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←
Recommendations implemented as agreed	95%	98% ↑	98% ↑
Exam success	100%	100% →←	85% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←

113. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service. Unfortunately during the year we saw our first exam failures. However, the IIA in particular have raised pass marks on their professional exams (80%) with a commensurate fall in pass rates so we continue to outperform the national picture. We are optimistic for our staff in re-takes to follow in 2017/18.

## Acknowledgements

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

## Assurance & Priority level definitions

### Assurance Ratings 2016/17

Full Definition	Short Description
<p><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.</p>	<p>Service/system is performing well</p>
<p><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.</p>	<p>Service/system is operating effectively</p>
<p><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.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><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.</p>	<p>Service/system is not operating effectively</p>

## Recommendation Ratings 2016/17

**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.