

MID KENT AUDIT

**Annual Internal Audit Report
and
Opinion 2021/22**

May 2022

Ashford Borough Council

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Introduction

1. This is the 2021/22 Annual Report by Mid Kent Audit on the internal control environment at Ashford Borough Council ('the Council'). The annual internal audit report summarises the outcomes of the reviews that have carried out on the Council's framework of governance, risk management and internal control and is designed to assist the Council making its annual governance statement.
2. This report provides the annual head of audit opinion ('Opinion statement') and a summary of the key factors taken into consideration in arriving at the Head of Audit Opinion statement, as at 31 May 2022. This includes incorporation of the CIPFA guidance on the potential limitation of scope brought about by the impact of COVID-19.

Head of Internal Audit Opinion statement

3. The Head of Audit 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. Not all risks fall within the agreed work programme. For risks not directly examined reliance has been taken, where appropriate, from other associated sources of assurance to support the Opinion statement (an explanatory note is included at Annex A).
4. The Head of Audit Opinion statement for 2021/22 is:

The planned programme of work delivered by internal audit was constrained by the impact of the COVID pandemic restrictions and significant staffing changes within the internal audit team. The results of the reduced level of internal audit work concluded during the year required me to seek additional assurances to form my opinion. A summary of where it has been possible to place reliance on the work of other assurance providers is presented in the annual internal audit report. Utilising all these forms of assurance I am able to draw a positive conclusion as to the adequacy and effectiveness of Ashford Borough Council's risk management, control and governance processes. In my opinion, Ashford Borough Council has adequate and effective management, control and governance processes in place to manage the achievement of their objectives.

Matters impacting upon the Opinion statement

5. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. Consequently, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing

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internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.

6. Mid Kent Audit recognises the considerable challenges and the difficult decisions that the Council had to deal with during 2021/22, however, the professional and regulatory expectations on public bodies to ensure that their internal audit arrangements, including providing the annual Opinion statement, conform with the Public Sector Internal Audit Standards (PSIAS) have not changed.
7. Factors that need to be taken in to account in reaching the Opinion statement include:
 - Changes in ways of working: Have these led to gaps in the governance, risk management and control arrangements?
 - Independence of internal audit: Have any limitations in the scope of individual audit assignments resulted in it only being possible to place partial assurance on the outcome?
 - Internal audit coverage: Has any reduction in internal audit coverage compared to what was planned resulted in insufficient assurance work?

Changes in ways of working

8. The following are the main considerations which impacted upon the provision of the Opinion statement for 2021/22. These are not in any priority order and in a number of cases there is an inter-relationship between two or more of these considerations.
 - The impact of COVID-19 on many organisations has continued to be felt throughout 2021/22 with restrictions continuing to be applied. These have impacted staff availability and organisational capacity.
 - Remote working and greater use of digital forms of operation and communication had to be instigated in a period of months, rather than the years which would normally be the case for such major changes.
 - New systems to assist in mitigating the impact of the pandemic on the local community had to be implemented at short notice using existing staff resources, which diverted them from their normal duties. It is acknowledged that this has affected some organisations more than others.
 - The significant increase in cyber attacks against all organisations to obtain unauthorised access to data and the consequential need for ongoing

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updating and vigilance in terms of security of data held.

Independence of internal audit

9. 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 the service under a collaboration agreement.
10. Within the Council during 2021/22 Mid Kent Audit has continued to enjoy complete and unfettered access to officers and records to complete its work. On no occasion have officers or Members sought or gained undue influence over the scope or findings of any of the work carried out.

Internal audit coverage

11. Mid Kent Audit has experienced significant turnover of staff throughout the financial year, including the departure of both the Head of Audit and Deputy Head of Audit. There was also a change of Audit Manager part-way through the year. Timely action was taken to appoint interims to all the senior management positions, but it is acknowledged that a significant level of local knowledge and experience of the Council was lost during the year.
12. The Council's Audit Committee approved the 2021/22 Audit & Assurance Plan on 16 March 2021. The selection, prioritising and scoping of the audit reviews in this Plan was overseen by the then Deputy Head of the Audit Partnership.
13. There has been impairment in terms of the planned internal audit coverage for 2021/22. This has been due to the knock-on effect of the late completion of the 2020/21 planned work and the significant churn in terms of staff within Mid Kent Audit. There were also a number of reviews which have either been deferred or cancelled at the request of management. As a consequence a number of the audit reviews set out in the 2021/22 Internal Audit Plan have not been completed in time to inform the 2021/22 Opinion Statement. This is a timing matter, rather than systematic of any issue in respect to the Council's governance, risk and control framework. The team at Mid Kent Audit has worked diligently at the delivering the work and this timing issue is not a reflection upon the efforts of the current team.

Arriving at the Opinion statement

Reliance on internal audit work performed

14. Audit evidence to support the Opinion statement on internal control is derived principally through completing the reviews set out within the agreed Audit Plan.

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The 2021/22 Audit & Assurance Plan provided for 19 reviews to be carried out.

15. For the reasons explained in paragraph 13, above, only 11 of these reviews were completed in time to inform the 2021/22 Opinion statement. These reviews are shown in the table below. Of these there was one review where the assurance grading was either 'Poor' or 'Weak'. There were no Priority 1 (Critical) Actions which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority.

Audit Review	Priority	Assurance assessment	Number of Actions by priority grading			
			1	2	3	4
Payroll & Expenses	1	Sound	-	-	-	2
Commercialisation	1	Sound	-	-	2	-
Port Health: Financial Controls	1	Sound	-	-	2-	5
Licensing	1	Strong	-	-	-	-
Section 106 Income	1	Weak	-	6	4	5
IT Phishing	1	Sound	-	-	-	2
Transformation Programme	2	Sound	-	-	-	2
Procurement	2	Sound	-	-	2	-
Environmental Protection (Noise)	2	Sound	-	-	-	3
Housing Rent Account (Rent Arrears)	2	Sound	-	-	2	-
Member Development	2	Sound	-	-	-	4

16. A summary of the Assurance and Action priority level definitions is provided in Annex B.
17. An overview of the key findings from each of the finalised reviews for which details have not been previously provided in the 2021/22 Progress Report to the Audit Committee is provided in Annex C. These finding do not indicate any significant Council-wide weaknesses in the corporate governance, risk or control framework.
18. A reconciliation to the work performed to the approved Audit & Assurance Plan for 2021/22 is provided in Annex D.
19. Where appropriate, reliance has been placed upon previous internal audit work and other work performed by Mid Kent Audit, including:
- The equivalent of an interim head of audit opinion for the Council was obtained from the then Head of the Audit Partnership at the time of their departure. This interim opinion covered the period April – December 2021 and raised no matters of concern.
 - The unqualified 2020/21 head of audit opinion and the findings of previous years' internal audit work carried out (paras 20 & 21 below refers).

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- The outcomes of the follow up work carried out to confirm control weaknesses identified by internal audit have been effectively mitigated (paras 23 - 24 below refers).
- The outcomes of other work performed by Mid Kent Audit for the Council (para 25 below refers).

20. **Previous years' internal audit work:** The unqualified opinion Internal Audit Report for 2020/21 advised that there were no audit reviews carried out by Mid Kent Audit during the financial year where there were assurance assessments of 'Weak' or 'Poor'.
21. There were four reviews from the 2020/21 Audit Assurance Plan which were not completed until 2021/22 and therefore these reviews have been used to assist in informing the 2021/22 Opinion statement. Summaries of the findings arising from these reviews were reported to the February 2022 meeting of the Audit Committee. These reviews are:

Audit Review	Assurance assessment	Number of Actions by priority grading			
		1	2	3	4
Development management – planning admin	Sound	-	-	1	-
Commercial property income	Sound	-	-	3	-
Performance management	Sound	-	-	2	1
Legal Services	Weak	-	2	5	4

22. **Poor or Weak Assessment reviews:** For these reviews which include either Priority 1 or 2 recommendations (Actions) management attend a meeting of the Audit Committee to explain in detail the action being taken in respect to the Actions.
23. **Following up Actions:** Actions are made in the audit reports to further strengthen the control environment in the area reviewed. Management provide responses as to how the risk identified is to be mitigated. Throughout the year Mid Kent Audit carried out checks to ascertain the extent to which the agreed Actions had been addressed by management and that the risk exposure identified has been mitigated.
24. During 2021/22 96 Actions were followed up and the table below summarises the extent to which the identified risk exposure have been mitigated. These 96 Actions include all those either made in 2020/21, or carried forward from a previous financial year. There were no Priority 1 (Critical) and 12 Priority 2 (High) Actions and as set out below these have now all been cleared. This indicates that there are no high risk exposure Actions made in 2020/21, or earlier, where there remains a material unmitigated controls risk position.

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Extent of control risk mitigation	Number of Actions by priority grading			
	1	2	3	4
Opening number	-	12	31	53
Current status: Cleared	-	8	27	41
Not Yet Actioned	-	4	4	11
Closed - Council accepts risk	-	-	-	1

25. **Outcomes of other work carried out by Mid Kent Audit:** Work was carried out on the COVID-19 Local Authority Compliance and Enforcement Grant for Lower Tier and Unitary Authorities Determination 2020 No31/5216 Certification - Consultancy. The then Head of the Audit Partnership reviewed the certification completed by the Council on COVID grant spend and in May 2021 provided a formal audit opinion which confirmed it was in line with COVID 19 related enforcement and compliance activity.

Reliance on other sources of assurance

26. For the reasons set out earlier in the Report it has been necessary for 2021/22 to place some reliance upon a number of 'other assurance providers' and these are summarised below:
- The work of the Council's Corporate Enforcement Support & Investigations Team (para 27 below refers).
 - The external audit fraud risk return completed by management (para 28 below refers).
27. The Council's Corporate Enforcement Support & Investigations Team has advised that their work during 2021/22 did not identify any diminution in the overall control environment for the Council's systems, in terms of the existence of internal controls, including segregation of duties and that no significant internal controls failures which have led to fraud losses were identified.
28. The external audit return for 2021/22 ('Informing the audit risk assessment for Ashford Borough Council 2021/22') compiled by the Council's finance team was reviewed and this not identify any diminution in the overall control environment for the Council's systems, in terms of the existence of internal controls, including segregation of duties and that no significant internal controls failures which have led to fraud losses had been identified.
29. It is noted that the annual audit letter from the external auditor for 2020/21 has not yet been received by the Council.

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30. Information on Mid Kent Audit which supports the delivery of the internal audit and other work carried out in the financial year is summarised in Annex E. Overall, despite the significant staffing changes during the year, Mid Kent Audit has maintained a PSIAS compliant service and there has been no diminution in the robustness of the work performed.

Acknowledgements

31. Managers, Officers and Members are thanked for their continued support throughout the year which has assisted in the efficient delivery of the audit work.

Other sources of assurance for 2021/22

The corporate governance, risk and control framework

The corporate governance, risk and control framework for the Council is dynamic and there will be changes to the processes throughout the year. The key consideration for arriving at the annual Head of Audit Opinion is the materiality of any changes in terms of possibly increasing the exposure of the Council to activities and decisions which do not conform with the approved strategies and policies.

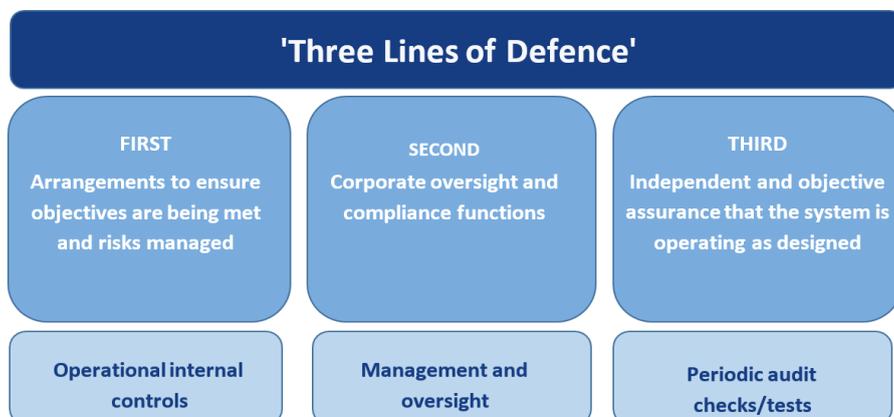
Obtaining additional sources of assurance

Due to the impact of the COVID Pandemic CIPFA has provided guidance on utilising other forms of assurance to support arriving at a Head of Audit Opinion. This means that where the agreed internal audit plan of work has not been fully carried out additional assurances can be obtained from 'other assurance providers' (this being the CIPFA terminology).

Three lines of defence

The three lines of defence model, below, explains how the level of assurance that can be taken by the Head of Audit reduces if the source of assurance is from the second line of defence and reduces even further if it is from the third line of defence.

As a consequence the additional assurance utilised to assist in supporting the 2021/22 Head of Audit Opinion has only relied upon second line of defence sources of assurance (i.e. where the author is not directly involved in the day-to-day operation of the corporate governance, risk and control arrangements they are reporting upon).



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Reduction in reliance due to passage of time

Due to the dynamic nature of the corporate governance, risk and control framework for the Council the reliance which can be placed on forms of assurance reduces as time passes. This has particularly been the case over the last two financial years with all the short-notice changes that were made to respond to the business disruption due to the COVID 19 pandemic.

As a consequence the additional assurance placed on work carried out prior to the start of 2021/22 has been kept to a minimum.

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Annex B

Assurance & Priority level definitions

Assurance Ratings 2021/22 (Unchanged from 2014/15)

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

Finding Gradings 2021/22 (Unchanged from 2014/15)

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

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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.

Summary of Audit Findings

Licensing

Strong

Our work confirmed the service operates with up-to-date policies and procedures. The service takes a proactive approach towards liaising and monitoring with licence holders, as well as considering and sharing licensing best practices with relevant organisations.

Our testing confirmed all licence applications had been correctly issued with the correct licensing fees paid prior to issuance.

Section 106 Income

Weak

Our testing of the current controls in place found they are all either partially effective or ineffective at mitigating the following examined risks.

The ineffectiveness of the monitoring system, and limited resources available, makes it difficult to have adequate oversight of s106 agreements. As such, the Service is unaware if all historic s106 obligations are met and funds collected. There is also limited information on whether all s106 funds have been spent within the required timescales and whether funds paid to 3rd parties are spent in accordance with the s106 agreement.

Furthermore, resilience in the s106 process is limited. There is only one officer responsible for s106 monitoring, a lack of documented procedures and a trigger point alert system that doesn't link to the s106 monitoring package.

The Service is aware of many of the weaknesses in controls and are in the process of building a new s106 monitoring system to improve the administration and income processes. However, it's likely that the new system won't be operational for another 6-12 months. Effective project planning and delivery will be crucial to ensuring the system is a success. As such, we have raised a recommendation in this report to support delivery and control of the project so that effective controls are designed into the system at the appropriate time.

IT Phishing

Sound

The Council is proactive in raising awareness of a Phishing attack and has employed effective measures through training, internal communications and active monitoring. Additionally, the IT team have further strengthened processes over the past year to mitigate the threat of a successful Phishing attempt.

Simulated Phishing exercises are in place and regularly undertaken to test vulnerabilities, and supplement the awareness raising initiatives amongst staff and Members.

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IT Officers are experienced and well connected to supporting groups to stay abreast of potential threats. The recently adopted cyber incident response policy will further strengthen the arrangements by formalising the Council's response should an incident occur.

Environmental Protection (Noise)

Sound

Controls within the Service are well designed and operating as intended. Although we note that the Service has no out of hours' service and no evidenced understanding as to whether such a provision is needed.

The Environmental Protection and Licensing team consists of experienced officers who possess appropriate qualifications to ensure noise complaints are investigated in line with Council procedure. The service provided is also effective and materially compliant with DEFRA guidance.

Officers can make some minor improvements to the complaint monitoring system (M3) to ensure it records accurate dates.

Housing Rent Account (Rent Arrears)

Sound

We undertook this audit shortly after the service merged two teams; estates management and rent arrears into a generalist role. We found generally the area is a well-controlled environment, but noted policies and procedures require an update to align with one another. A point of note is that during the Covid-19 pandemic, the service implemented additional contacts with tenants in arrears with the aim of preventing further arrears.

Member Development

Sound

There is a constitutional requirement for Members of the Licensing and Planning Committees to have received training prior to voting on decisions and our work confirmed that this requirement is being fulfilled. Our work confirmed that training for these Committees has been delivered by officers and external providers appropriately experienced and qualified, covering relevant content to support Members in their decision making.

To ensure that Member knowledge and expertise in these committees remains current, we advocate that the mandatory training within the terms of reference to the Licensing and Planning Committees is expanded to include periodic refresher training. In addition, that officers from the Licensing and Planning teams engage and participate directly with the Member Training Panel to develop future training sessions and briefings.

The period of our audit covered 2020/21, which coincided with the height of lockdown measures. Notwithstanding, we note that a number of wider training courses were provided to all Members during this period by officers. While suitable records are in place to document member attendance at training events, there would be greater transparency, and may indirectly increase attendance, if future member training attendance is published and reported.

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Annex D

Reconciliation of the approved 2021/22 Internal Audit Plan

The Position column provides the position as at 31 May 2022 and with the exception of the shaded reviews, does not warrant that this will be the final position for any of these reviews. The shaded rows, below, are the reviews which informed the 2021/22 Head of Audit Opinion statement.

As part of Project Clean Sweep it was acknowledged that there can be a time-lag between issue of the draft report and the subsequent finalisation of an audit report. The 'Agreed Draft' status signifies that management has accepted the assurance grading provided for the review and is substantially in agreement with the detailed findings. The management responses to the Actions have not yet been provided. Consequently, for the purposes of providing the Head of Audit Opinion audit reviews which have reached Agreed Draft have been included.

Audit Review	Priority	Position at 31 May 2022
Payroll & Expenses	1	Agreed Draft
Voids	1	Work in progress
Commercialisation	1	Agreed Draft
Ashford Port Health: Financial Controls	1	Agreed Draft
Licensing	1	Finalised
Apprenticeships (X-Cut)	1	Cancelled by service
Section 106 Income	1	Finalised
IT Phishing	1	Finalised
Recovery Plan	1	Cancelled by service
Leisure Services	1	Cancelled by Service
Economic Regeneration: Broadband	1	Cancelled by Service
Development Management	1	Cancelled by Service
Transformation Programme	2	Agreed Draft
Procurement (Processes & Compliance)	2	Agreed Draft
Environmental Protection (Noise)	2	Finalised
Housing Rent Account (Rent Arrears)	2	Finalised
Member Development	2	Finalised
Community Safety Partnerships	2	Cancelled by Service
(no topic agreed)	2	Dropped

(X-cut) signifies that the review was carried out over two or more of the Councils to which Mid Kent Audit provides the internal audit service.

About Mid Kent Audit

Standards and ethical compliance

- A. Government sets out the professional standards that Mid Kent Audit must work to in the Public Sector Internal Audit Standards (PSIAS). These Standards are a strengthened version of the Institute of Internal Audit's global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
- B. The Standards include a specific demand for reporting to Senior Management and the Audit Committee on Mid Kent Audit's conformance with the Standards.

Conformance with the PSIAS

- C. CIPFA carried out a comprehensive External Quality Assessment (EQA) in May 2020 which confirmed that MKA was in full conformance with the Standards and the CIPFA Local Government Application Note (LGAN). The Standards requires an EQA to be carried out at least once every five years, but does not stipulate specific time intervals for Internal Quality Self-Assessments (ISA) in the intervening period.
- D. In February 2021 the interim Head of Audit for Mid Kent Audit carried out an ISA of conformance with the PSIAS. This review confirmed conformance with the PSIAS and raised 13 advisory or low priority action points. It has been agreed by the Mid Kent Audit management board that these action points will be progressed by the substantive Head of Audit, once this person is in post.
- E. The scope of this ISA did not include consideration of either the risk management or counter fraud work carried out by MKA. The scope did not include consideration of the resourcing of MKA, the audit risk prioritisation process or the appropriateness of the times allocated to the different stages of individual audit assignments.

Project Clean Sweep

- F. Project Clean Sweep was a pragmatic strategy put in place by Mid Kent Audit to deliver as much as possible of the 2021/22 planned work outstanding and ensuring there were no delivery 'surprises' at the time the Opinion statement for 2021/22 was presented to the Audit Committee.
- G. There were two key objectives for Project Clean Sweep. These were:
 - To enable the interim Head of Audit to provide the Head of Audit opinion for 2021/22 in a timely manner; and

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- To ensure there is no a knock-on effect on the delivery of the 2022/23 Audit Plan and thereby meaning the incoming substantive Head of Audit is arriving to an internal audit service which is on track to deliver the 2022/23 audit plan, rather than still focussed on 2021/22.
- H. Project Clean Sweep included nine actions which were taken to assist in achieving a 16 May 2022 deadline, which was subsequently extended to 31 May 2022. The key consideration was that all the Mid Kent Audit team were clearly sighted on the fact that achieving a deadline was not to be through any impairment of either audit quality or thoroughness.
- I. All of the Mid Kent Audit team who were in post during February to May 2022 rose to the challenge of delivering Project Clean Sweep and their effort and commitment needs to be recognised. The success in delivering Project Clean Sweep demonstrates the high calibre, can do ethos which confirms that the confidence the Council has with the Mid Kent Audit is not misplaced.

Resources

- J. 2021/22 was a year of unprecedented staff change within Mid Kent Audit. Details of a number of these changes have been previously been reported to the Audit Committee in the reports submitted by Mid Kent Audit. By the end of the financial year all the management positions at Mid Kent Audit were filled by interims. The use of interims demonstrates that Mid Kent Audit has made good endeavours to minimise the impact of staff turnover during a period when the market for internal audit personnel has been the most difficult for over three decades. The staffing position is likely to remain an issue for 2022/23.

Use of an external provider to assist with audit reviews

- K. In December 2021, following a procurement process, BDO was appointed to carry out a number of the audit reviews for which Mid Kent Audit did not have the available resources in-house. This reflects that Mid Kent Audit has ensured the difficulties with staffing experienced during the year have been partially mitigated.