
INTERNAL AUDIT ANNUAL REPORT

To: **Governance and Audit Committee: 24th June 2015**

By: **Interim Director of Corporate & Regulatory Services & s151
Officer: Tricia Marshall**

Subject: **INTERNAL AUDIT ANNUAL REPORT OF THE HEAD OF THE
AUDIT PARTNERSHIP FOR 2014-15.**

Classification: **Unrestricted**

Summary: **This report provides the summary of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2015.**

For Information

1.0 Introduction

- 1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to Members is to:
- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
 - Present a summary of the internal audit work undertaken to formulate the opinion.
 - Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
 - Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
 - Comment on compliance with the PSIAS, and report the results of the Internal Audit quality assurance programme.
- 1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2014-15 for Thanet District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice.
- 1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to port best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.
- 1.4 During 2014-15 the EKAP delivered 99% of the agreed audit plan days, with 4.64 days carried over as work in progress at the year-end. The performance figures for the East Kent Audit Partnership as a whole for the year show good performance against targets.

2.0 Options

- 2.1 That Members consider and note the annual internal audit report for 2014-15.
- 2.2 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after considering the work or coverage of internal audit for the year 2014-15.

3.0 Corporate Implications

3.1 Financial Implications

- 3.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2014-15 budget. Savings against the budget have been delivered by EKAP, which have been utilised to purchase additional audit days which will be delivered during 2015-16.

3.2 Legal Implications

- 3.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

3.3 Corporate Implications

- 3.3.1 Under the Local Code of Corporate Governance accepted by Governance and Audit Committee on 11th December 2013, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

4.0 Recommendations

- 4.1 That the report be received by Members.

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Annex List:

Annex 1	East Kent Audit Partnership Annual Report 2014/15

Background Papers:

Title	Details of where to access copy
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<i>Internal Audit Annual Plan 2014-15</i>	Previously presented to and approved at the 20 th March 2014 Governance and Audit Committee meeting
<i>Internal Audit Follow Up 2014-15</i>	Previously presented to Governance and Audit Committee Meetings in quarterly updates
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

Annual Internal Audit Report for Thanet District Council 2014-15

1. Introduction

The Public Sector Internal Audit Standard (PSIAS) defines internal audit as:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the Audit Charter (Annex B). The East Kent Audit Partnership (EKAP) aims to comply with the PSIAS, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council’s review of the system of internal control in operation throughout the year. This annual report compares EKAP activity against auditing standards and any improvement actions required to achieve compliance with PSIAS are therefore reflected.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of Members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Objectives

The majority of reviews undertaken by Internal Audit are designed to provide assurance on the operation of the Council’s internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. Other work undertaken, includes the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services for which they are responsible. The annual audit plan is informed by special investigations and anti-fraud work carried out as well as the risk management framework of the Council.

A key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils’ anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through annual meetings.

3. Internal Audit Performance Against Targets

3.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8.1. Additional audit days have been provided via audit contractors, in order to meet the planned workloads.

3.2 Performance against Targets

The EKAP is committed to continuous improvement and has various measures to ensure the service can strive to improve. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix 6.

3.3 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Deputy Head of Audit or Head of the Audit Partnership; all of who are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at each stage of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide additional evidence to the strategic management of the EKAP performance.

3.4 External Quality Assurance

The external auditors, Grant Thornton, have conducted a review in February 2015 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP.

3.5 Liaison between Internal Audit and External Audit.

Joint liaison meetings with the audit managers from Grant Thornton for the partner authorities and the EKAP were held to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Thanet District Council. Consequently, the assurance, which follows is based on EKAP reviews of Thanet District Council's services.

3.6 Compliance with Professional Standards

The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some improvement actions are required to achieve full compliance. The self-assessment was reported to the March cycle of audit committee meetings and a progress update against each of the identified actions is contained in Appendix 7.

3.7 Financial Performance

Expenditure and recharges for year 2014-15 are all in line with the Internal Audit cost centre hosted by Dover District Council. Financial management has delivered a 8.4% saving against budget.

The EKAP has been able to exceed its targets for financial performance for 2014-15 by generating income through 'selling days' for checking grant claims. This daily rate excludes any internal recharges that are added to the service by the Council. This equates to a total financial saving to Thanet District Council of £7,862 for 2014-15, and it has been agreed that this be used to purchase 27.43 additional audit days to fund planned audits currently falling outside of the three year programme of work.

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268
2011-12	£257
2012.13	£279
2013-14	£290
2014-15	£287

The EKAP was formed to provide a resilient, professional service and therefore achieving financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. Additionally, external fee earning work that has been carried out, this year some £22,477 was procured from EKAP for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day below the original budget estimate. In the current climate this is excellent performance and the partner councils have all enjoyed the overall savings of £34,593 generated by the EKAP.

4. Overview of Work Done

The original audit plan for 2014-15 included a total of 29 projects. We have communicated closely with the s.151 Officer, CMT and this Committee to ensure the projects actually undertaken continue to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. A few projects (3) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward in the plan (2). The total number of projects undertaken in 2013-14 was 28, with 14 being WIP at the year end to be finalised in April.

Review of the Internal Control Environment

4.1 Risks

During 2014-15, 70 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	23	33%
Medium	24	34%
Low	23	33%
TOTAL	70	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and Members' attention through Internal Audit's quarterly update reports. During 2014-15 the EKAP has raised and reported to the quarterly Governance Committee meetings 70 recommendations, and whilst 67% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

4.2 Assurances

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix 1 for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in

that particular review. The conclusions drawn are described as being “a snapshot in time” and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either ‘no’ or ‘limited’, or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 28 pieces of work commissioned for Thanet District Council over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	6	43%
Reasonable	4	29%
Limited	3	21%
No	1	7%
Work in Progress at Year-End	14	-
Not Applicable	0	-

Which one is No assurance? Must be able to see these in the table below, should be 4?

NB: ‘Not Applicable’ is shown against special investigations or work commissioned by management that did not result in an assurance level.

Taken together 72% of the reviews account for substantial or reasonable assurance, whilst 28% of reviews placed a limited or no (or partially limited) assurance to management on the system of internal control in operation at the time of the review.

There were three reviews completed on behalf of East Kent Housing Ltd. and the assurances for these audits were - Reasonable, Limited and one piece of work which had a split assurance ranging from Substantial to No Assurance. Information is provided in Appendix 3.

There were 15 reviews completed on behalf of EK Services and the assurances for these audits were - 7 Substantial, 3 Reasonable, 1 Limited, 2 Not Applicable and 2 Work in progress. Information is provided in Appendix 4.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas receiving either a ‘limited’ or ‘no’ assurance audit opinion during the year are detailed in the table at four, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

4.3 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up/progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have changed since the original review was undertaken.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit is tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

The results for the follow up activity for 2014-15 are set out below. The shift to the right in the third column in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2014-15.

Total Follow Ups undertaken	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	2	5	7
Revised Opinion	0	0	3	11

The reviews with an original limited assurance, together with the result of the follow up report, are shown in the following table:

Area Under Review	Original Assurance	Follow Up Result
Public Health Burials	Limited	Reasonable
Ramsgate Marina	Reasonable/Limited	Reasonable

East Kent Housing received one follow up review for which the assurance remained Reasonable.

EK Services received five follow ups; the revised assurances were Substantial for 3 reviews, Reasonable for 1 review and one remained Limited after follow up, this being Software Licensing as reported to the committee in September 2014.

4.4 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some reactive work was carried out during the year at the request of management, there have been no new fraud investigations conducted by the EKAP on behalf of Thanet District Council.

4.5 Completion of Strategic Audit Plan

Appendix 2 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 315.67 audit days were competed for

Thanet District Council during 2014-2015. Including the 20.31 days carried forward this adjusts the budgeted 300 days to 320.31, therefore 98.55% plan completion. The 4.64 days behind at the year end, will be carried over to 2015-16. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2007-08 concludes that EKAP is 4.64 days behind schedule as we commence 2015-16, as shown in the table below.

Year	Plan Days	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Carried Forward (Days Required – Days Delivered)
2008-09	400	0	400.00	397.61	99.40%	-2.39
2009-10	408	2.39	410.39	399.82	97.42%	-8.18
2010-11	430	10.57	440.57	466.04	105.78%	+36.04
2011-12	342	25.47	316.53	309.32	97.72%	-32.68
2012-13	320	7.21	327.21	318.20	97.25%	-1.80
2013-14	300	9.01	309.01	288.70	93.43%	-11.30
2015-16	300	-20.31	320.31	315.67	98.55%	15.67
Total	2,500			2,495.36		-4.64

Appendix 3 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Housing Ltd. Thanet District Council contributed 25 days from its original plan in 2011-12 and 20 days subsequently as it's share in this four way arrangement. The EKH Annual Report in its full format will be presented to the EKH - Finance and Audit Sub Committee on 6th July 2015.

Appendix 4 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Services. Thanet District Council contributed 60 days from its original plan as its share in this three-way arrangement. As EKS is hosted by TDC, the EKS Annual Report in its full format, is attached as Appendix 5.

5. Overall assessment of the System of Internal Controls 2014-15

Based on the work of the EKAP on behalf of Thanet District Council during 2014-15, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have a very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. Many of the main financial systems, which feed into the production of the Council's Financial Statements, have been assessed as providing a Substantial assurance level following audit reviews. The Council can therefore be very assured in these areas. This position is the result of improvements to the systems and procedures

over recent years and the willingness of management to address areas of concern that have been raised.

There were three areas where only a partially limited assurance level was given and one which concluded no assurance and these reflect a lack of confidence in arrangements, and these were brought to officers' attention. These reviews are shown in the table in paragraph 6 along with the details of our planned follow up activity for other areas awaiting a progress report.

6. Significant issues arising in 2014-15

From the work undertaken during 2014-15, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that the associated costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The EKAP has been commissioned to perform only one follow up, there were four reviews that remained a partial Limited Assurance after follow up and twenty-three recommendations that were originally assessed as high risk, which remained a high priority and outstanding after follow up were escalated to the Governance and Audit Committee during the year.

Reviews previously assessed as providing a Limited Assurance that are yet to be followed up are shown in the table below. The progress reports for these will be reported to the Committee at the meeting following completion of the follow up.

Area Under Review	Original Assurance	Progress Report
Income	Substantial/Limited	Quarter 2 of 2015-16
CCTV	Reasonable/Limited	Quarter 2 of 2015-16
Waste Vehicle Fleet Management	Reasonable/Limited	Work-in-Progress
Overtime within Waste and Recycling	No	Work-in-Progress

7. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2014-15, however, this is as expected and there are no matters of concern to be raised at this time.

It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

The EKAP assesses the overall system of internal control in operation throughout 2014-15 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Performance against the TDC Agreed 2014-15 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2015	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking and Enforcement	10	10	10.33	Finalised – Reasonable
Creditors and CIS	8	8	6.04	Work-in-Progress
Income	10	10	19.33	Finalised – Substantial/Limited
Insurance and Inventories of Portable Assets	10	10	19.5	Work-in-Progress
RESIDUAL HOUSING SERVICES:				
Right to Buy	8	8	8.23	Finalised - Reasonable
HRA Business Plan	10	10	9.31	Finalised - Substantial/Reasonable
GOVERNANCE RELATED:				
Fraud Prevention	10	0	0	Postpone to 2015-16 to accommodate unplanned work
Anti-Money Laundering	6	6	5.83	Finalised – Substantial
Complaints Monitoring	10	10	1.2	Work-in-Progress
Scheme of Officer Delegations	7	7	0	Postpone to future year to accommodate unplanned work
Corporate Advice/SMT	2	2	6.85	Finalised for 2014-15
s.151 Officer Meetings and Support	9	9	10.47	Finalised for 2014-15
Governance & Audit Committee Meetings and Report Preparation	12	12	13.59	Finalised for 2014-15
2015-16 Audit Plan and Preparation Meetings	9	9	12.86	Finalised for 2014-15
CONTRACT RELATED:				
Receipt and Opening of Tenders	6	6	6.26	Finalised - Substantial
SERVICE LEVEL:				
Community Safety	10	10	0.97	Finalised - Substantial
CCTV	10	10	11.16	Finalised – Reasonable/Limited
Dog Warden, Street Scene and Litter Enforcement	10	10	4.34	Work-in-progress
Equality and Diversity	10	20	21.32	Work-in-Progress
Airport and Port Health	10	0	0	Delete and replace with overtime review
Pest Control	10	10	6.01	Finalised – Substantial

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2015	Status and Assurance Level
Contaminated Land, Pollution, Air and Water Quality	8	8	8.18	Finalised – Reasonable
Dalby Square and Housing Intervention Grants	10	10	0	Postponed until 2015-16 – Quarter 4
Land Charges	8	8	8.36	Finalised – Substantial
Licensing	10	10	10.47	Finalised – Substantial
Printing and Post	5	5	7.77	Finalised - Substantial
Your Leisure	10	10	3.96	Work-in-progress
Sports Development and Footprints in the Sand	8	8	13.01	Finalised - Reasonable
Waste Vehicle Fleet Management	12	12	11.44	Finalised – Reasonable/Limited
Garden Waste Income	5	5	4.21	Finalised - Limited
OTHER :				
Liaison With External Auditors	2	2	0.77	Finalised for 2014-15
Follow-up Reviews	15	15	12.93	Finalised for 2014-15
UNPLANNED WORK:				
Overtime within Waste and Recycling	0	10	10	Finalised – No Assurance
Refuse Freighter Specification	0	0	0.34	Work-in-progress
FINALISATION OF 2013-14 AUDITS:				
Days under delivered in 2013-14	0	20.31	0	Completed
Procurement	5	5	11.29	Finalised - Substantial
Planning			10.19	Finalised – Substantial/Reasonable
Tackling Tenancy Fraud			6.24	Finalised - Reasonable
Budgetary Control			0.58	Finalised - Substantial
Payroll			6.74	Finalised - Reasonable
Employee Benefits-in-Kind			0.94	Finalised – Reasonable
FOI, Data Protection and Information Management.			8.9	Finalised - Reasonable/Limited/Reasonable
EK HUMAN RESOURCES:				
Absence Management	5	5	5.74	Work-in-progress
Payroll	5	5	0	Combined with above
Employee Allowances and Expenses	5	5	0	Work-in-progress
TOTAL -	300	320.31	315.67	98.55%

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2015	Status and Assurance Level
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Maritime (Yacht Valley)	4	4	6.64	Finalised
Interreg Grant – LOPINOD	4	4	4.36	Finalised
Interreg Grant – PAC2	4	4	0.84	Finalised
Empty Homes Cluster Grant	0	0.5	0.54	Finalised
Complaint Investigation – CSO Compliance	0	0	6.28	Finalised
Overtime within Waste and Recycling	0	0	47.45	Finalised

**Performance against the Agreed 2014-15
East Kent Housing Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2015	Status and Assurance Level
Planned Work:				
Audit Ctte/EA Liaison/Follow-up	8	8.5	10.02	Finalised for 2014-15
Finance & ICT Systems	10	0	0	Postpone until 2015-16
Tenant Health & Safety	17	30	27.93	Finalised
Void Property Management.	15	18	0	Postpone until 2015-16
Sheltered Housing	30	0	0.2	Postpone until 2015-16
<u>Finalisation of 2013-14 Audits:</u>				
Leasehold Services	0	21	23.73	Finalised - Limited
Rent Collection and Debt Management	0	2.5	2.36	Finalised - Reasonable
Days under delivered in 2013-14	0	0	0	Completed
<u>Unplanned</u>				
CSO Compliance	0	0	16.42	Work-in-progress
Total	80	80	80.66	100.42%

**Performance against the Agreed 2014-15
East Kent Services Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03 - 2015	Status and Assurance Level
Planned Work:				
Housing Benefits Admin & Assessment	15	15	14.80	Completed - Substantial
Housing Benefits Payments	15	16	16.14	Completed - Substantial
Council Tax	30	16	16.72	Completed - Substantial
Customer Services	15	15	15.51	Completed - Substantial
ICT File Controls / Data Protection / Back ups	12	12	18.11	Completed - Reasonable
ICT Internet & Email	12	18	17.64	Completed - Reasonable
ICT Physical & Environment	12	17	20.23	Completed - Reasonable
Corporate/Committee/follow-up	9	10	15.37	Finalised for 2014-15
DDC / TDC HB reviews	40	40	34.51	Finalised for 2014-15
ICT SAM Procurement	0	11	11.60	Completed- Reasonable
Finalisation of 2013-14 audits:				
Housing Benefit Verification	0	5	4.59	Completed
Reviews carried over from 2013-14	0	16	15.74	Completed
Days under delivered in 2013-14	31.15	0	0	Allocated
Total	191.15	191.15	200.94	105.12%

Annual Internal Audit Report for EK SERVICES 2014-15

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been completed with some projects being finalised as work in progress at 31st March 2015. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered an 8.4% saving against budget. The saving accrued to EK Services is £4,193 and it has been agreed that this will be used to purchase 14.63 additional audit days as required in 2015-16.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2014-15, 23 recommendations were made in the agreed final audit reports for EK Services. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	10	44%
Medium	9	39%
Low	4	17%
TOTAL	23	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and Councillors' attention through Internal Audit's quarterly update reports. During 2014-15 the EKAP has raised 23 recommendations, and whilst 83% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, this provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 15 pieces of work commissioned for EK Services over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	7	64%
Reasonable	3	27%
Limited	1	9%
No	0	0%
Work in Progress at Year-End	2	-
Not Applicable	2	-

NB: 'Not Applicable' is shown against quarterly benefit checks.

Taken together 91% of the reviews account for substantial or reasonable assurance, whilst 9% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas receiving either a 'limited' or 'no' assurance audit opinion during the year are detailed in the following table, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due/ Result
ICT Change Controls	Limited	Quarter 1 2015-16

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- "closed" as they are successfully implemented, or
- "closed" as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) "closed" as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

Five follow up reports were carried out for EK Services during the year. The results for the follow up activity for 2014-15 will continue to be reported at the appropriate time. The results in the following table show the original opinion and the revised

opinion after follow up to measure the impact that the EKAP review process has made on the system of internal control.

Total Follow Ups undertaken 5	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	1	1	3
Revised Opinion	0	1	1	3

There are no fundamental issues of note arising from the audits undertaken in 2014-15. The one follow up resulting in no improvement is Software Licensing and this is due to a delay in the purchasing of a Software Asset Management system. Reviews previously assessed as providing a Limited Assurance that are yet to be followed up are shown in the table below. The progress report for these reviews will be reported to the Committee at the meeting following completion of the follow up.

Area Under Review	Original Assurance (Date to G&A Cttee)	Progress Report
ICT Software Licensing	Limited / June 2013	Quarter 1 2015-16
ICT Change Controls	Limited / June 2014	Quarter 1 2015-16

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. During the year 2014-15 there have been no fraud investigations conducted by the EKAP on behalf of EK Services but there were two responsive reviews at the request of management concerning Housing Benefit Verification and the review of the Procurement of the Software Asset Management system.

2.4 Completion of Strategic Audit Plan

The analysis in Appendix 4 shows the individual reviews that were completed during the year. As at 31st March 2015 delivery was slightly ahead of plan and EKAP had delivered 200.94 days against 191.15 required (105.12%). The 9.79 days carried over will be adjusted in 2015-16 as part of the rolling three-year plan process.

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2011-12	169	0	0	143.90	85.15%	-25.10
2012-13	160	25.10	185.10	156.99	84.81%	-3.01
2013-14	160	28.11	188.11	156.96	83.44%	-3.04
2014-15	160	31.15	191.15	200.94	105.12%	+40.94
Total	649			658.79	101.51%	+9.79

3.0 Significant issues arising in 2014-15

From the work undertaken during 2014-15, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

There was one area in 2014-15 regarding ICT Change Controls where a limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers' attention. The follow up review that remained a Limited Assurance regarding ICT Software Licencing will be followed up again in 2015-16, however a management update from the Head of ICT on this is as follows;

"We are issuing tender invites this week (w/c 26/05/2015) as a start to the procurement process having received final approvals from Thanet procurement. The SAM system is being purchased alongside two other key products; a replacement for the Service Desk system and the Introduction of a new Software Contract Management system. We are seeking all products as a combined software suite under a single tender. The implementation of the suite will be complex but we are hopeful that full procurement and staged go live will be completed by the end of this financial year with the SAM system taking priority. In the interim we are using an inventory module within the existing software to keep track of software licences aided by manual procedures for ensuring licence purchases are managed".

4.0 Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment in operation within EK Services, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts for each partner council. It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

Based on the work of the EKAP on behalf of EK Services during 2014-15, the overall opinion is that there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The EKAP assesses the overall system of internal control in operation throughout 2014-15 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.



INTERNAL PROCESSES PERSPECTIVE:	2014-15 Actual	Target	FINANCIAL PERSPECTIVE:	2014-15 Actual	Target
	Quarter 4		Reported Annually		
Chargeable as % of available days	87%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£286.65	£312.86
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs (Under EKAP management) 	£366,677	£392,980
CCC	91%	100%	<ul style="list-style-type: none"> • Indirect Costs (Recharges from Host) 	£11,700	£19,990
DDC	99%	100%	<ul style="list-style-type: none"> • 'Unplanned Income' 	£22,477	Zero
SDC	100%	100%	<ul style="list-style-type: none"> • Total EKAP cost 	£378,377	£412,970
TDC	99%	100%			
EKS	105%	100%			
EKH	100%	100%			
Overall	99%	100%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	59	-			
<ul style="list-style-type: none"> • Not yet due 	24	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	38	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Partial	Full			



<u>CUSTOMER PERSPECTIVE:</u>	<u>2014-15 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2014-15 Actual</u>	<u>Target</u>
	Quarter 4			Quarter 4	
Number of Satisfaction Questionnaires Issued;	87		Percentage of staff qualified to relevant technician level	88%	75%
Number of completed questionnaires received back;	30 = 34 %		Percentage of staff holding a relevant higher level qualification	43%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	25%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Good' or better • That the audit was worthwhile. 	100%	100%	Number of days technical training per FTE	4.75	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements	43%	32%
	100%	100%			



Improvement Actions Required for EKAP to “conform with the International Standard for the Professional Practice of Internal Auditing

PSIAS	PSIAS Name	Action Required	Update at June 2015
1110	Organisational Independence	<ul style="list-style-type: none"> Update the Audit Charter to reflect that the Head of Audit has direct access to the Chair of the Audit Committee should this be ever required. Confirm annually that EKAP is organisationally independent. Remind IA Staff of their ethical responsibilities. Ensure the HoA’s performance appraisal is reviewed and signed off by Chief Executive and feedback sought from the Chair of the Audit Committee. 	<ul style="list-style-type: none"> Completed Included in Annual Report Team Meetings Considered by the EKAP Client Officer Group May 15
1111	Interaction with the ‘Board’	<ul style="list-style-type: none"> Consider the need to meet in private at least annually with the Chair of the Audit Committee. 	<ul style="list-style-type: none"> Proposed for December Meeting annually.
1311	Internal Assessments	<ul style="list-style-type: none"> Improve the internal quality assessment in accordance with the new requirements; specifically to capture more evidence of the assessments done and include budget information in the annual report. 	<ul style="list-style-type: none"> Ongoing
1312	External Assessments	<ul style="list-style-type: none"> Ensure an external assessment is carried out in the next four years. Look into a joint procurement exercise with Kent Audit Group. Establish a champion/sponsor to oversee the process. Agree the approach, scope and budget for the External Assessment with the Audit Committee. 	<ul style="list-style-type: none"> Diarized, discussed at KAG and with Client Officer Group to see how the market develops.
2000	Managing the IA Activity	<ul style="list-style-type: none"> General tidy up on files including ensuring compliance with the Document Retention Scheme and disposal of old files. Investigate how our software APACE can do more for us, including updating the Audit Universe and Risk scores held. Better evidence reasons for over and underspends on time budgets against individual reviews as recorded on APACE. Combine the former Audit Charter and the Strategy, and update the Charter 	<ul style="list-style-type: none"> Raised at Team Meetings New Charter Approved March 2015