

# Annual Internal Audit Report for Thanet District Council 2016-17

## 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 agreed Audit Charter. 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 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. The shared arrangement for EKAP also secures organisational independence, which in turn assists the EKAP in making conclusions about any resource limitations or ensuring there are no instances of restricted access.

## 3. Internal Audit Performance Against Targets

### **3.1 EKAP Resources**

The EKAP has provided the service to the partners based on a FTE of 7.2. 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, conducted a review in February 2016 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.**

Liaison with the audit managers from Grant Thornton for the partner authorities and the EKAP is undertaken largely via email 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 actions are required to achieve full compliance which EKAP will continue to work towards. There is however, no appetite to pay for an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment. Consequently the EKAP can only say that it partially conforms with PSIAS.

### **3.7 Financial Performance**

Expenditure and recharges for year 2016-17 are all in line with the Internal Audit cost centre hosted by Dover District Council. Financial management has delivered a cashable saving of 10% against budget.

<b>Year</b>	<b>Cost / Audit Day</b>
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
2015-16	£293
2016-17	£294

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. The net result is a reduced EKAP cost per audit day below the original budget estimate.

#### 4. Overview of Work Done

The original audit plan for 2016-17 included a total of 28 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 (5) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward in the plan (6). The total number of projects undertaken in 2016-17 was 29, with 5 being WIP at the year end to be finalised in April.

### Review of the Internal Control Environment

#### 4.1 Risks

During 2016-17, 135 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being Critical, High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
Critical	7	5%
High	47	35%
Medium	53	39%
Low	28	21%
<b>TOTAL</b>	<b>135</b>	<b>100%</b>

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 2016-17 the EKAP has raised and reported to the quarterly Governance Committee meetings 135 recommendations, and whilst 79% were in the Critical, 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 29 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*

<b>Assurance</b>	<b>No.</b>	<b>Percentage of Completed Reviews</b>
Substantial	13	68%
Reasonable	2	11%
Limited	4	21%
No	0	0%
Work in Progress at Year-End	5	-
Not Applicable	5	-

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

Taken together 79% of the reviews account for substantial or reasonable assurance, whilst 21% of reviews placed a limited or partially limited assurance to management on the system of internal control in operation at the time of the review.

There were two reviews completed on behalf of East Kent Housing Ltd. one was a management request that did not attract an assurance and the other was Substantial Assurance. Information is provided in Appendix 3.

There were 16 reviews completed on behalf of EK Services and the assurances for these audits were - 5 Substantial, 4 Reasonable, 1 Limited, 2 Not Applicable and 4 work in progress at the year-end. 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 2016-17 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 2016-17.

<b>Total Follow Ups undertaken 15</b>	<b>No Assurance</b>	<b>Limited Assurance</b>	<b>Reasonable Assurance</b>	<b>Substantial Assurance</b>
<b>Original Opinion</b>	1	10	0	4
<b>Revised Opinion</b>	0	6	5	4

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

<b>Area Under Review</b>	<b>Original Assurance</b>	<b>Follow Up Result</b>
Sports Development	Reasonable / Limited	Reasonable / Limited
Equality & Diversity	Limited	Reasonable
Environmental H&S at Work	Limited	Reasonable
Your Leisure	No / No/ Reasonable	Limited / Reasonable
Corporate Properties and Concessions	Reasonable / Limited	Reasonable / Limited
Complaints Monitoring	Limited	Limited
Dog Warden & Street Enforcement	Limited	Reasonable
Safeguarding	Limited	Limited
Playgrounds	Limited	Limited
Officer Code of Conduct	Limited	Reasonable
Planning Applications & s.106	Reasonable / Limited	Reasonable

Consequently, there are six areas for TDC which remain (partially) limited after follow up and these have been escalated to the Governance and Audit Committee.

East Kent Housing received three follow up reviews for which the revised assurance levels were one Substantial, one Reasonable/ and Housing Repairs remained at Limited assurance after follow up, this was escalated to the December 2016 audit committees.

EK Services received four follow ups; the revised assurances were Substantial for one review and Reasonable for three reviews.

#### **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. 315.05 audit days were completed for Thanet District Council during 2016-2017, which represents 106.67% plan completion. The 19.69 days ahead at the year end, will be adjusted in 2017-18. 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 31<sup>st</sup> 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 19.69 days ahead of schedule as we commence 2017-18, as shown in the table below.

Year	Plan Days	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Carried Forward (Days Planned – 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
2016-17	300	4.64	304.64	309.28	101.52%	9.28
2017-18	300	-4.67	295.33	315.05	106.67%	15.05
<b>Total</b>	<b>3100</b>			<b>3119.69</b>	<b>100.63%</b>	<b>19.69</b>

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 3<sup>rd</sup> July 2017.

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 2016-17**

Based on the work of the EKAP on behalf of Thanet District Council during 2016-17, 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 that have been covered, which feed into the production of the Council's Financial Statements, have 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.

Several audits however, have also identified a common theme at Thanet District Council in recent years, that the lack of continuity of management has a detrimental impact upon the implementation of agreed audit recommendations. In many cases, at the time of the follow-up the auditor finds that the Manager who originally agreed to the recommendations is no longer in the Council's employ and that they are now dealing with a replacement (often an interim). Members of Governance and Audit Committee should be aware of this risk as it impacts upon the risk management and internal control framework of the organisation.

There were four areas where only a limited assurance level was concluded 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 2016-17**

From the work undertaken during 2016-17, 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 six reviews that remained either fully or partially Limited Assurance after follow up and twenty-one 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 or partial No 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.

<b>Area Under Review</b>	<b>Original Assurance (Date to Committee)</b>	<b>Progress Report Due</b>
Officers' Code of Conduct, Gifts & Hospitality	Limited March 2017	Quarter 3 2017-18
Building Control	Limited March 2017	Quarter 3 2017-18
Local Code of Corporate Governance	Limited June 2017	Quarter 3 2017-18
Project Management	Limited June 2017	Quarter 3 2017-18

And for EK Services there was one review that remained Limited Assurance after follow up and two 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.

<b>Area Under Review</b>	<b>Original Assurance (Date to Committee)</b>	<b>Progress Report</b>
PCI DSS	Limited September 2016	Quarter Two 2017-18

And for East Kent Housing one review (Housing Repairs) remained at Limited assurance after follow up, there are no other limited assurances awaiting a follow up.

## **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 2016-17, 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 2016-17 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.

## Definition of Audit Assurance Statements & Recommendation Priorities

### 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.

### Priority of Recommendations Definitions:

**Critical** – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

**High** – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

**Medium** – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

**Low** – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

**Performance against the Agreed 2016-17  
Thanet District Council Audit Plan**

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2017	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Main Accounting System	10	10	8.23	Finalised - Substantial
Budgetary Control	10	10	8.81	Finalised - Substantial
<b>RESIDUAL HOUSING SERVICES:</b>				
Homelessness	10	10	17.63	Finalised - Substantial
<b>GOVERNANCE RELATED:</b>				
Member Code of Conduct & Standards Arrangements	10	10	9.04	Finalised - Substantial
Officer Code of Conduct, Register of Interests, and Gifts and Hospitality	10	11	11.39	Finalised - Limited
Local Code of Corporate Governance	7	7	9.07	Finalised - Limited
Anti-Fraud & Corruption	9	0	0	Postpone until 2017-18
Performance Management	10	0	0	Postpone until 2017-18
Project Management	10	0	8.93	Work-in-progress
Corporate Advice/CMT	2	2	3.62	Finalised for 2016-17
s.151 Officer Meetings and Support	9	9	10.39	Finalised for 2016-17
Governance & Audit Committee Meetings and Report Preparation	12	12	13.01	Finalised for 2016-17
2017-18 Audit Plan and Preparation Meetings	9	9	10.08	Finalised for 2016-17
<b>CONTRACT RELATED:</b>				
Service Contract Management	10	10	0.75	Work-in-Progress
Procurement	10	10	0.24	Work-in-Progress
<b>SERVICE LEVEL:</b>				
Cemeteries & Crematoria	10	10	9.96	Finalised - Substantial
S11 Safeguarding Return to KCC	1	0	0	Not Required
HMO & Selective Licensing	10	10	10.18	Finalised - Substantial
Coastal Management	10	10	9.99	Finalised - Substantial
Public Health Burials	6	6	6.59	Finalised - Reasonable
Environmental Protection Service Requests	10	10	11.66	Finalised - Substantial
Playgrounds	8	8	9.76	Finalised - Limited

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2017	Status and Assurance Level
Events Management	10	10	0	Postpone until 2017-18
Disabled Facilities Grants	10	10	9.36	Finalised - Substantial
Asset Management	10	10	0	Postponed until 2017-18
Ramsgate Marina	12	12	12.3	Finalised - Substantial
Members Allowances & Expenses	10	10	5.53	Finalised - Substantial
Building Control	10	10	13.35	Finalised - Limited
Imprest Floats & Travel Warrants	6	6	6.03	Finalised - Substantial
Phones, Mobiles & Utilities	7	3	0	Postpone until 2017-18
<b>OTHER :</b>				
Liaison With External Auditors	2	0	0	Finalised for 2016-17
Follow-up Reviews	10	10	26.43	Finalised for 2016-17
<b>FINALISATION OF 2015-16 AUDITS:</b>				
Days under delivered in 2015-16	0	4.64	0	Completed
Grounds Maintenance	5	40.85	10.52	Finalised – Limited
Street Cleansing			9.74	Finalised – Limited
Planning Applications, Income & s106 Agreements			13.61	Finalised – Reasonable/Limited
Museums			1.28	Finalised - Limited
Recruitment			5.70	Finalised - Substantial
<b>RESPONSIVE ASSURANCE:</b>				
Car Parking – Key Control Testing	0	2	2.37	Finalised
Dreamland – Post Implementation Review	0	12	13.22	Finalised
CSO Compliance Query	0	0	0.84	Finalised
Safeguarding Referral	0	0	3.44	Finalised
Referendum – 1 Presiding Officer	0	1	1	Finalised
Right to Buy	0	0	1.48	Work-in-Progress
<b>EK HUMAN RESOURCES:</b>				
Payroll	5	5	3.15	Work-in-Progress
Employee Benefits-in-Kind	5	5	1.24	Work-in-Progress
Leavers/Disciplinary	5	5	5.13	Finalised - Substantial
<b>TOTAL</b>	<b>300</b>	<b>295.36</b>	<b>315.05</b>	<b>106.67%</b>

**Performance against the Agreed 2016-17  
East Kent Housing Audit Plan**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-03-2017</b>	<b>Status and Assurance Level</b>
<b>Planned Work:</b>				
Governance	15	0	0	Postponed to future audit plan
Finance Systems and ICT Controls	15	10	0	Postponed to future audit plan
Finance & Audit Sub Cttee/Plan/CMT	3	4	5.38	Completed
Follow-up Reviews	3	4	4.96	Completed
Rent Accounting & Collection	15	0	0	Postponed to future audit plan
Tenancy & Estate Management	29	22	20.55	Finalised - Substantial
Days over delivered in 2015-16	0	-18.15	0	Completed
<b>Responsive Assurance:</b>				
Procurement	0	15	14.92	Finalised
Repairs and Maintenance Contract Query	0	0	0.60	Finalised
Performance Indicator Data Quality	0	10	5.48	Work-in-Progress
Single System Controls	0	15	2.12	Postponed to 2017-18
<b>Total</b>	<b>80</b>	<b>61.85</b>	<b>54.01</b>	<b>87.32% at 31-03-2017</b>

**Performance against the Agreed 2016-17  
EK Services Audit Plan**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-03-2017</b>	<b>Status and Assurance Level</b>
<b>Planned Work:</b>				
Housing Benefit Overpayments	15	14	13.85	Finalised - Substantial
Fraud Arrangements	15	0	0.64	Postponed to future audit plan
Housing Benefit Subsidy	15	10	0.36	Work-in-progress
Council Tax	30	15	0.47	Work-in-progress
Customer Services	15	15	15.31	Finalised - Substantial
ICT Change Controls	12	11	11.99	Finalised - Substantial
ICT Software Licensing	12	11	11.85	Finalised - Reasonable
ICT Network Security	12	11	10.89	Work-in-progress
DDC / TDC Quarterly Housing Benefit Testing	20	20	18.43	Completed
<b>Other:</b>				
Corporate/Committee	8	7	9.85	Completed
Follow-up	6	4	4.46	Completed
<b>Finalisation of 2015-16 Audits:</b>				
Business Rates Credits	0	33.58	6.11	Finalised - Reasonable
Business Rates Reliefs			10.43	Finalised - Reasonable
Debtors			2.45	Finalised - Substantial
ICT Disaster Recovery			5.81	Finalised – Reasonable/Substantial
ICT Management & Finance			3.84	Finalised - Substantial
ICT PCI DSS			4.94	Finalised - Limited
Days under delivered in 2015-16	7.33	7.33	0	Completed
<b>Responsive Assurance:</b>				
Housing Benefit +40 testing	0	17	17.95	Completed
<b>Total</b>	<b>167.33</b>	<b>167.33</b>	<b>149.63</b>	<b>89.42% at 31-03-2017</b>

## Annual Internal Audit Report for EK SERVICES 2016-17

### 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 31<sup>st</sup> March 2017. 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 a cashable saving of 10% against budget.

#### Overview of Work Done

The original audit plan for 2016-17 included a total of 16 projects. We have communicated closely with the s.151 Officers and the audit committees to ensure the projects actually undertaken continued 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 (1) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward in the plan (1). The total number of projects undertaken in 2016-17 was 16, with 3 being WIP at the year end to be finalised in April.

### 2. Review of the Internal Control Environment

#### 2.1 Risks and Assurances

During 2016-17, 40 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	8	20%
Medium	18	45%
Low	14	35%
<b>TOTAL</b>	<b>40</b>	<b>100%</b>

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 2016-17 the EKAP has raised 40 recommendations, and whilst 65% 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 16 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*

<b>Assurance</b>	<b>No.</b>	<b>Percentage of Completed Reviews</b>
Substantial	5	50%
Reasonable	4	40%
Limited	1	10%
No	0	0%
Work in Progress at Year-End	4	-
Not Applicable	2	-

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

Taken together 90% of the reviews account for substantial or reasonable assurance. There was one review assessed as having a limited 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. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

## **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.

Four follow up reports were carried out for EK Services during the year. The results for the follow up activity for 2016-17 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 4	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	0	3	1
Revised Opinion	0	0	3	1

There are no fundamental issues of note arising from the audits undertaken in 2016-17. There were no reviews previously assessed as providing a Limited Assurance that have been followed up in 2016/17.

### 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 2016-17 there have been no fraud investigations conducted by the EKAP on behalf of EK Services.

### 2.4 Completion of Strategic Audit Plan

The analysis in Annex A shows the individual reviews that were completed during the year. As at 31<sup>st</sup> March 2017 delivery was slightly behind plan and EKAP had delivered 149.63 days against 167.33 required (89.42%). The 17.70 days carried over will be adjusted in 2017-18 as part of the rolling three-year plan process.

The EKAP completes a rolling programme of work to cover a defined number of days each year. As at the 31<sup>st</sup> 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 2011-12 concludes that EKAP is 17.7 days behind schedule as we commence 2017-18, as shown in the table below

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
2015-16	160	-9.79	150.21	142.88	95.12%	-17.12
2016-17	160	7.33	167.33	149.63	89.42%	-10.37
<b>Total</b>	<b>969</b>			<b>951.30</b>	<b>98.17%</b>	<b>-17.70</b>

### 3.0 Significant issues arising in 2016-17

From the work undertaken during 2016-17, 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.

The EKAP has been commissioned to perform only one follow up, there were no reviews that remained a Limited Assurance after follow up, however two recommendations that were originally assessed as high risk, which remained a high priority and outstanding after follow up were escalated to the three audit committees 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 this review will be reported to the committees at the meeting following completion of the follow up.

Area Under Review	Original Assurance (Date to Committee)	Progress Report
PCI DSS	Limited September 2016	Quarter Two 2017-18

#### 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 2016-17, 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 2016-17 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.

## EKAP Balanced Scorecard – 2016-17

<b><u>INTERNAL PROCESSES PERSPECTIVE:</u></b>	<b><u>2016-17 Actual</u></b>	<b><u>Target</u></b>	<b><u>FINANCIAL PERSPECTIVE:</u></b>	<b><u>2016-17 Actual</u></b>	<b><u>Original Budget</u></b>
	<b>Quarter 4</b>		<b>Reported Annually</b>		
<b>Chargeable as % of available days</b>	<b>86%</b>	<b>80%</b>	<ul style="list-style-type: none"> <li>• <b>Cost per Audit Day</b></li> </ul>	<b>£294.47</b>	<b>£326.61</b>
<b>Chargeable days as % of planned days</b>			<ul style="list-style-type: none"> <li>• <b>Direct Costs</b></li> </ul>	<b>£378,711.25</b>	<b>£419,420</b>
CCC	<b>102.80%</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>• <b>+ Indirect Costs (Recharges from Host)</b></li> </ul>	<b>£10,530</b>	<b>£11,700</b>
DDC	<b>97.91%</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>• <b>- 'Unplanned Income'</b></li> </ul>	<b>£536.25</b>	<b>Zero</b>
SDC	<b>94.88%</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>• <b>= Net EKAP cost (all Partners)</b></li> </ul>	<b>£388,705</b>	<b>£431,120</b>
TDC	<b>106.67%</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>• <b>Saving Target Achieved (shared between all partners)</b></li> </ul>	<b>£42,415</b>	<b>£42,415</b>
EKS	<b>89.42%</b>	<b>100%</b>			
EKH	<b>87.32%</b>	<b>100%</b>			
<b>Overall</b>	<b>98.15%</b>	<b>100%</b>			
<b>Follow up/ Progress Reviews;</b>					
<ul style="list-style-type: none"> <li>• <b>Issued</b></li> </ul>	<b>78</b>	<b>-</b>			
<ul style="list-style-type: none"> <li>• <b>Not yet due</b></li> </ul>	<b>20</b>	<b>-</b>			
<ul style="list-style-type: none"> <li>• <b>Now due for Follow Up</b></li> </ul>	<b>33</b>	<b>-</b>			
<b>Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)</b>	<b>Partial</b>	<b>Full</b>			

<b><u>CUSTOMER PERSPECTIVE:</u></b>	<b><u>2016-17 Actual</u></b>	<b><u>Target</u></b>	<b><u>INNOVATION &amp; LEARNING PERSPECTIVE:</u></b>	<b><u>2016-17 Actual</u></b>	<b><u>Target</u></b>
	<b>Quarter 4</b>		<b>Quarter 4</b>		
<b>Number of Satisfaction Questionnaires Issued;</b>	<b>80</b>		<b>Percentage of staff qualified to relevant technician level</b>	<b>83%</b>	<b>75%</b>
<b>Number of completed questionnaires received back;</b>	<b>43</b>		<b>Percentage of staff holding a relevant higher level qualification</b>	<b>36%</b>	<b>32%</b>
	<b>= 54%</b>		<b>Percentage of staff studying for a relevant professional qualification</b>	<b>28%</b>	<b>N/A</b>
<b>Percentage of Customers who felt that;</b>			<b>Number of days technical training per FTE</b>	<b>0.97</b>	<b>3.5</b>
• Interviews were conducted in a professional manner	<b>100%</b>	<b>100%</b>	<b>Percentage of staff meeting formal CPD requirements (post qualification)</b>	<b>36%</b>	<b>32%</b>
• The audit report was 'Good' or better	<b>100%</b>	<b>90%</b>			
• That the audit was worthwhile.	<b>100%</b>	<b>100%</b>			