

# INTERNAL AUDIT ANNUAL REPORT 2019-20

Governance & Audit Committee **22nd July 2020**

Report Author **Christine Parker, Head of the Audit Partnership**

Portfolio Holder **Cllr Rob Yates; Cabinet Member for Finance, Administration and Community Wealth Building**

Status **For Information**

Classification: **Unrestricted**

Key Decision **No**

## **Executive Summary:**

This report provides a summary of the work completed by the East Kent Audit Partnership together with details of the performance of the EKAP against its targets for the year ending 31<sup>st</sup> March 2020.

## **Recommendation(s):**

That the report be received by Members.

## **CORPORATE IMPLICATIONS**

<b>Financial and Value for Money</b>	There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2019-20 budgets.				
<b>Legal</b>	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.				
<b>Corporate</b>	Under the Local Code of Corporate Governance 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.				
<b>Equalities Act 2010 &amp; Public Sector Equality Duty</b>	<p>Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy &amp; maternity. Only aim (i) of the Duty applies to Marriage &amp; civil partnership.</p> <table border="1" style="width: 100%; margin-top: 10px;"> <tr> <td colspan="2">Please indicate which aim is relevant to the report.</td> </tr> <tr> <td style="width: 80%;">Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td style="width: 20%;"></td> </tr> </table>	Please indicate which aim is relevant to the report.		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
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	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
	Foster good relations between people who share a protected characteristic and people who do not share it.	
<i>There are no equity or equalities issues arising from this report.</i>		

<b>CORPORATE PRIORITIES (tick those relevant)✓</b>	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

<b>CORPORATE VALUES (tick those relevant)✓</b>	
Delivering value for money	X
Supporting the Workforce	
Promoting open communications	X

## 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 effectiveness 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, including reliance placed on work by other assurance bodies,
- 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 Public Sector Internal Audit Standards (PSIAS), and report the results of the Internal Audit quality assurance programme.
- Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.

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 2019-20 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. In providing this opinion, this report supports the Annual Governance Statement.

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 share best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.

1.4 During 2019-20 the EKAP delivered 89% of the agreed audit plan days. 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 internal audit annual report.
- 2.2 That Members consider registering their comments 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 comments after considering the work or coverage of internal audit for the year 2019-20.

Contact Officer:	Christine Parker, Head of the Audit Partnership, Ext. 42160 Simon Webb, Deputy Head of Audit, Ext 57189
Reporting to:	Tim Willis, Deputy Chief Executive (S151 Officer), Ext. 57617

**Annex List**

<i>Annex 1</i>	East Kent Audit Partnership Annual Report 2019-20
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**Background Papers**

<b>Title</b>	<b>Details of where to access copy</b>
<i>Internal Audit Annual Plan 2019-20</i>	Previously presented to and approved at the 6 <sup>th</sup> March 2019 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

**Corporate Consultation**

<b>Finance</b>	Tim Willis, Deputy Chief Executive (s.151 Officer )
<b>Legal</b>	Tim Howes, Director of Corporate Governance

## Annual Internal Audit Report for Thanet District Council 2019-2020

### 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 approved 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 though 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 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 6.88. 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 5. The measures themselves were reviewed by the Client Officer Group at their annual meeting and no changes were made.

### **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 the Head of the Audit Partnership; all of whom 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 2020 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP. See also 3.6.1 below.

### **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**

3.6.1 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 with the Client Officer Group 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 (presented to the March 2020 meeting). Consequently, the EKAP can say that it partially conforms with PSIAS and this risk is noted in the AGS.

3.6.2 The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

3.6.3 In 2019-20 EKAP as required by the standards has demonstrated that it achieved the Core Principles in three key ways. Firstly, by fulfilling the definition of Internal Auditing which is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession (and is shown at paragraph 1 above). Secondly by demonstrating that it has been effective in achieving its mission showing that it;-

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

And thirdly by complying with The Code of Ethics, which is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing. The Rules of Conduct describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Core Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

### 3.7 Financial Performance

Expenditure and recharges for year the 2019-20 are all in line with the Internal Audit cost centre hosted by Dover District Council. 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.

## 4. Overview of Work Done

The original audit plan for 2019-20 included a total of 22 projects. We have communicated closely with the s.151 Officer, CMT and this Committee 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 (12) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward (4). The total number of projects undertaken in 2019-20 was 14, with 3 being WIP at the year end to be finalised in April 2020. In addition, 5 projects were finalised from the 2018-19 plan.

## Review of the Internal Control Environment

### 4.1 Risks

During 2019-20, 87 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	3	3%
High	37	43%
Medium	26	30%
Low	21	24%
<b>TOTAL</b>	<b>87</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 the Internal Audit quarterly update reports. During 2019-20 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 87 recommendations, and whilst 86% 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 fourteen pieces of completed work for Thanet District Council, together with the finalisation of the five 2018-19 audits 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	4	28%
Reasonable	5	36%
Limited	5	36%
No	0	0%
Work in Progress at Year-End	2	-
Not Applicable	3	-

\* See list in the table below

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

Taken together 64% of the reviews account for substantial or reasonable assurance, whilst 38% of reviews placed a (partial) 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'.

There were eleven reviews completed on behalf of East Kent Housing Ltd. and the assurances for these audits were - 2 Substantial, 3 Reasonable, 3 Limited, 1 No Assurance 2 Not Applicable and 0 work in progress at the year-end. Information is provided in Appendix 3.

There were seven reviews completed on behalf of EK Services and the assurances for these audits were - 3 Substantial, 1 Reasonable, 1 Limited, 2 Not Applicable and 4 reviews were 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 assessed as being as either 'limited' or 'no' assurance audit opinion during the year are detailed in the table at paragraph 6, 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 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 have been 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, or
- (for critical or high risks only) escalated to the audit committee.

At the conclusion of the follow up review the overall assurance level is re-assessed.

The results for the follow up activity for 2019-20 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 2019-20.

<b>Total Follow Ups undertaken</b> 7	<b>No Assurance</b>	<b>Limited Assurance</b>	<b>Reasonable Assurance</b>	<b>Substantial Assurance</b>
<b>Original Opinion</b>	0	4	2	1
<b>Revised Opinion</b>	0	1	5	1

The reviews with an original (partially) no or limited assurance, together with the result of the follow up report, are shown in the following table which concludes there is one TDC review showing a partially limited assurance after follow up, this was escalated to the Governance & Audit Committee during the year.

<b>Area Under Review</b>	<b>Original Assurance</b>	<b>Follow Up Result</b>
Complaints Monitoring	Limited	Reasonable
GDPR	Limited	Reasonable /Limited
Asset Management	Limited	Reasonable
Planning Income & 106s	Reasonable/Limited	Reasonable



East Kent Housing received five follow up reviews for which the revised assurance levels remained at No or partially Limited assurance after follow up, these concerns have been escalated to the EKH Board.

EK Services received four follow ups; the revised assurances were Substantial for two reviews, Reasonable for one review and one with a partially Limited assurance after follow up.

Consequently, the areas with fundamental issues of note arising from the audits and follow up undertaken in 2019-20 have been escalated. There is one TDC review showing a partially limited assurance after follow up.

#### 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 one financial irregularity was investigated during the year at the request of management, the officer concerned resigned before the disciplinary hearing and consequently whilst the EKAP concluded a fact finding report into a potential fraud on behalf of Thanet District Council in 2019-20, the matter was not formally proven or disproven. The Head of Audit also undertook the role of 'commissioning officer' for a Whistleblowing fact finding matter in the year, that was not fully concluded by the year end.

#### 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. 288.46 audit days were completed for Thanet District Council during 2019-20 which represents 89% plan completion. The 35.53 days behind at the year end, will be adjusted in 2020-21. 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 35.53 days behind schedule as we commence 2020-21, 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
2014-15	300	20.31	320.31	315.67	98.55%	15.67
2015-16	300	4.64	304.64	309.28	101.52%	9.28
2016-17	300	-4.67	295.33	315.05	106.67%	15.05
2017-18	285	-19.69	265.31	226.95	85.54%	-58.05
2018-19	285	-38.86	323.86	284.37	87.94%	-0.63
2019-20	285	-38.99	323.99	288.46	89.04%	-3.46
<b>Total</b>	<b>3955</b>			<b>3919.47</b>	<b>99.10%</b>	<b>-35.53</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 in subsequent years as its share in this four way arrangement. From 2017-18 an additional 15 days has been contributed to the EKH Plan from each partner taking the total EKH plan to 140 days. The EKH Annual Report in its full format will be presented to the EKH – Board on 17th June 2020.

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 presented to the TDC - Governance & Audit Committee, and is attached as Appendix 4.

## 5. Overall assessment of the System of Internal Controls 2019-20

Based on the work of the EKAP on behalf of Thanet District Council during 2019-20, the overall opinion is:

There are some areas of concern, but none which would give rise to a qualified audit statement regarding the systems of internal control concerning the main financial systems, there are some

themes or emerging evidence of management override or investigation matters outstanding that indirectly impact the overall systems of corporate governance.

There were five new areas where a partially no or limited assurance level was given which reflected a lack of confidence in arrangements. These reviews will be followed up in due course as set out in the table at 6. below. Reviews previously assessed as Limited assurance that have been followed up are detailed in the table at Paragraph 4.3. The one area that remains at partially limited assurance (GDPR) has been escalated to the Committee.

## 6. Significant issues arising in 2019-20

From the work undertaken during 2019-20, 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, although none of these are significant and require reporting or escalation at this time.

One significant issue relates to the fraud investigation at Paragraph 4.4 which has resulted with the anti fraud and corruption policy not being fully followed by virtue that the officer resigned before the Council could pursue a disciplinary hearing and a potential criminal investigation.

Significant findings include areas of Operational Services which have consistently received a Limited Assurance opinion. Crucially, several high profile corporate plan priority areas such as Street Cleansing and Grounds Maintenance carry a limited assurance for the second audit in a row, with Critical Priority recommendations outstanding for more than three years. An emerging theme has been identified with delays in management responses (some intolerable) in these areas, and this is highlighted as it impacts the system of internal control.

The EKAP has been commissioned to perform only one follow up, there is one review that remained a partially Limited Assurance after follow up, and three recommendations that were originally assessed as critical or high risk, which remained a high priority and outstanding after follow up were escalated to the Governance & Audit Committee during the year (from two reviews - Garden Waste & Recycling July 2019 1 Recommendation, and GDPR December 2019 2 Recommendations).

Reviews previously assessed as providing a (partial) 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 (Date to Committee)	Progress Report Due
Planning Income & s.106 Agreements	Reasonable / Limited December 2019	Summer 2020
Building Control	Limited	Autumn 2020
Street Cleansing	Limited	Summer 2020 (WIP)
Homelessness	Limited	Spring 2020 (WIP)

Grounds Maintenance	Limited - Awaiting MR	Autumn 2020
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And for EK Services four follow up reviews were undertaken which resulted with two Substantial, one with Reasonable assurance and one remained at partially Limited after follow up. There are no new reviews with a limited assurance awaiting a follow up. The overall Opinion in the 2019-20 Annual Report for EKS is Reasonable Assurance.

And for East Kent Housing Contract Management remained at partially Limited assurance after follow up, and 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 at the year end. Additionally, the Tenant's Health and Safety review resulted in Limited/No Assurance across five key areas. Four of these have been followed up and Fire Safety is awaiting follow up, this currently sits at No assurance. There are three new reviews with partially limited assurance where the follow up is not yet due.

The findings in respect of Contract Management reinforce the concerns in the overall environment of asset management. Several audits have also identified a common theme of the lack of continuity through the use of interim staff which has a potential detrimental impact upon the implementation of agreed audit recommendations. Overall, the impact of the findings within the Tenant's Health and Safety Review have been far reaching. Having self-referred to the Housing Regulator, the four councils have requested that the Internal Audit follow up work continues to be an important source of independent assurance. However, it is slow progress with a need to test the systems control changes to ensure they have become embedded before revising the opinion. And, (particularly the case for Fire Safety) awaiting EKH to inform Internal Audit that they have made sufficient progress for the progress report to be undertaken. Tolerating these critical risks for such a long period of time is unacceptable. We would usually aim to see improvement within 3 months. The original Tenant's H&S audit was reported to Committee in September 2019. The overall Opinion in the 2019-20 Annual Report for EKH is Limited Assurance.

Members of this Committee should be aware of this risk as it impacts upon the risk management and internal control framework of the organisation.

EKH Ltd. is in the process of being wound up, and operational responsibility is transferring back to the four councils. Therefore, the 2020-21 Audit Plan will need to be re-designed and the number of days per partner will transfer back to each council (35 days). It will be for the s.151 Officer at each council to agree the Internal Audit resources they require on housing areas in future years.

## 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 2019-20, 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.

From the work undertaken the EKAP assesses the overall system of internal control in operation throughout 2019-20 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 a reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. There are some unresolved matters for the Council which may further impact the systems of governance and systems of internal control, and much consideration has been given to providing the opinion. Further assurances on the adoption of Anti Fraud and Corruption and Whistleblowing policies will need to be incorporated into further work plans. Doubtless, the results of Internal Audit assurances given on some areas of EKH have also had an impact on the overall control environment for 2019-20 for the four councils involved.

## 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 2019-20  
Thanet District Council Audit Plan**

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2020	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Capital	10	10	2.34	Work-in-progress
Treasury Management	10	10	9.68	Finalised - Substantial
External Funding Protocol	10	10	9.24	Work-in-progress
Insurance & Inventories of Portable Assets	12	12	8.94	Finalised - Substantial
<b>RESIDUAL HOUSING SERVICES:</b>				
HRA Business Plan	10	0	0	Postponed
<b>GOVERNANCE RELATED:</b>				
GDPR Compliance	13	0	0	Postponed
Anti-Fraud & Corruption	2	2	0.64	Finalised
Shared Service Monitoring	10	0	0	Postponed
Partnerships	8	0	0	Postponed
Risk Management - Review of Mitigation Controls	10	0	0	Postponed
Corporate Advice/CMT	2	2	2.4	Completed
s.151 Officer Meetings and Support	9	12	12.66	Completed
Governance & Audit Committee Meetings and Report Preparation	12	14	14.37	Completed
2020-21 Audit Plan and Preparation Meetings	9	12	12.90	Completed
<b>CONTRACT AUDITS</b>				
CSO Compliance	12	18	18.97	Finalised - Reasonable
<b>SERVICE LEVEL:</b>				
Environmental Health & Safety at Work	10	0	0	Postponed
Grounds Maintenance	12	15	14.47	Finalised - Limited
Grants	10	0	0	Postponed
Commercial Let Properties & Concessions	10	1	0.61	Postponed
Ramsgate Marina	12	15	14.34	Finalised - Substantial

Planning Applications, Income & s106 Agreements	12	14	14.38	Finalised - Reasonable/Limited
Building Control	10	18	17.78	Finalised - Limited
Printing & Post	10	10	10.08	Finalised - Substantial
Sports & Community Development	10	0	0	Postponed
Visitor Information Arrangements	10	0	0	Postponed
Waste & Street Cleansing Vehicle Fleet Management	10	1	0.24	Postponed
Climate Change	6	0	0.09	Postponed
<b>OTHER :</b>				
Liaison With External Auditors	1	1	1	Completed
Follow-up Reviews	15	20	19.93	Completed
<b>FINALISATION OF 2018-19 AUDITS:</b>				
Days under delivered in 2018-19	0	38.98	0	Allocated Below
Dog Warden & Street Scene Enforcement	5	34	11.39	Finalised - Substantial/Reasonable
Street Cleansing			19.94	Finalised - Limited
Business Continuity & Emergency Planning			0.44	Finalised - Reasonable
Community Safety			0.54	Finalised -Reasonable
Employee Health & Safety			14.04	Finalised -Reasonable
<b>RESPONSIVE WORK:</b>				
Homelessness	0	14	14.17	Finalised - Limited
Electoral Registration Investigation	0	10	10.37	Finalised -N/A
Whistleblowing Investigation	0	25	25.29	Draft report- N/A
Ramsgate Harbor Accounts Audit	3	5	5.24	Finalised - N/A
<b>TOTAL</b>	<b>285</b>	<b>323.98</b>	<b>288.48</b>	<b>89.04%</b>



**Performance against the Agreed 2019-20  
East Kent Housing Audit Plan**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-03-20</b>	<b>Status and Assurance Level</b>
<b>Planned Work:</b>				
MT/Audit Sub Ctte/EA Liaison	4	13	13.30	Finalised
Follow-up Reviews	4	13	13.90	Finalised
Rent Accounting, Collection & Debt Management.	40	40	40.44	Finalised - Substantial
Rechargeable Works	10	0	0	Postponed
Employee Health, Safety & Welfare	15	15	9.34	Finalised - Limited
Customer Contact	12	0	0	Postponed
East Kent Housing Improvement Plan	10	0	0	Postponed
Estate Management Inspection	15	0	0	Postponed
Anti-Social Behaviour	15	0	0	Postponed
Tenants' Health & Safety Split into 5 areas - Gas	15	20	21.97	Finalised – Limited
Fire Safety				Finalised – No
Lifts				Finalised – No
Electrical Testing				Finalised – No
Legionella				Finalised – No
<b>Finalisation of 2018-19 Work-in-Progress:</b>				
Days under delivered in 2018-19	0	19.50	0	Allocated Below
Staff Performance Management	0	10	10.34	Finalised - Limited
Welfare Reform	0	0	8.23	Finalised - Reasonable
Repairs & Maintenance split into 3 areas – Budget Control	0	20	40.22	Finalised – Substantial
Voids				Finalised - Reasonable
Repairs & Maintenance				Finalised -Limited
Service Level Agreements	0	0	0.97	Finalised - N/A
<b>Responsive Work:</b>				
Data Integrity	0	5	4.46	Finalised - Reasonable
Planned Maintenance Contracts	0	4	3.70	Finalised - N/A
<b>Total</b>	<b>140</b>	<b>159.50</b>	<b>166.87</b>	<b>104.62%</b>

## Annual Internal Audit Report for EK SERVICES 2019-20

### 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 2020. 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 against budget.

#### Overview of Work Done

The original audit plan for 2019-20 included a total of 10 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. One project was added at management's request to accommodate changes. The total number of projects undertaken in 2019-20 was 4, with 3 being WIP at the year end to be finalised in April. In addition 3 reviews carried over from 2018-19 were also finalised.

### 2. Review of the Internal Control Environment

#### 2.1 Risks and Assurances

During 2019-20, twenty-six 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, there were no critical risks raised:

Risk Criticality	No. of Recommendations	Percentage
High	4	16%
Medium	11	42%
Low	11	42%
<b>TOTAL</b>	<b>26</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 2019-20 the EKAP has raised 26 recommendations, and whilst 58% 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 7 pieces of work finalised 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	3	60%
Reasonable	1	20%
Limited	1	20%
No	0	0%
Work in Progress at Year-End	4	-
Not Applicable	2	-

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

Taken together 80% of the reviews account for substantial or reasonable assurance. 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. 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 2019-20 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.

<b>Total Follow Ups undertaken 4</b>	<b>No Assurance</b>	<b>Limited Assurance</b>	<b>Reasonable Assurance</b>	<b>Substantial Assurance</b>
<b>Original Opinion</b>	0	1	2	1
<b>Revised Opinion</b>	0	1	1	2

There are no fundamental issues of note arising from the audits undertaken in 2019-20. There were no reviews previously assessed as providing a Limited Assurance that required follow up. Therefore, no EKS reviews were required to be escalated to the Audit Committees during the year.

### **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 2019-20 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 2020 delivery was behind plan and EKAP had delivered 129.33 days against 160 required (80.83%). The 57.94 days carried over will be adjusted in 2020-21 as part of the rolling four-year plan process. Some of these audits were postponed at management's request.

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. The progress in ensuring adequate coverage against the agreed audit plan of work since 2011-12 concludes that EKAP is 57.94 days behind schedule as we commence 2020-21, 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
2017-18	160	-17.70	177.70	129.91	73.11%	-30.09
2018-19	160	-47.49	207.79	180.52	86.88%	+20.52
2019-20	160	+27.26	187.26	129.33	69.06%	-30.67
<b>Total</b>	<b>1449</b>			<b>1391.06</b>	<b>96.00%</b>	<b>-57.94</b>

### 3.0 Significant issues arising in 2019-20

From the work undertaken during 2019-20, 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 are no reviews previously assessed as providing a Limited Assurance that are yet to be followed up.

### 4.0 Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment operating 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 2019-20, 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 2019-20 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.

**Performance against the Agreed 2019-20  
East Kent Services Audit Plan**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31/03/2020</b>	<b>Status and Assurance Level</b>
<b>EKS &amp; Civica Reviews:</b>				
Housing Benefits Appeals	15	14	13.54	Finalised - Substantial
Housing Benefit Testing	15	20	20.44	Finalised – N/A
Business Rates Reliefs & Credits	15	15	16.76	Finalised - Substantial
Council Tax	20	20	0	Postpone
ICT – Disaster Recovery	15	0	0.20	Postpone
ICT – Physical & Environment	15	15	13.81	Finalised – Substantial
ICT – Software Licensing	0	13	0.24	Work in progress
KPIs	5	5	5.44	Work in progress
<b>EKHR Reviews:</b>				
Payroll	15	15	6.97	Work in progress
Recruitment	15	15	0.17	Postpone
Employee Benefits in Kind	15	15	11.39	WIP-Draft report
<b>Other:</b>				
Corporate/Committee	8	9	8.96	Finalised
Follow up	7	10	9.85	Finalised
<b>Finalisation of 2018/19 Audits:</b>				
Days under delivered in 2018-19			27.26	Allocated below
Housing Benefit Testing	0	9	8.70	Finalised – N/A
Payroll	0	2	2.22	Finalised - Reasonable
PCI-DSS Compliance	0	10.26	10.64	Finalised – Reasonable/Limited
<b>Total</b>	<b>160</b>	<b>187.26</b>	<b>129.33</b>	<b>69%</b>

Appendix 5 - EKAP Balanced Scorecard 2019-20

<b>INTERNAL PROCESSES PERSPECTIVE:</b>	<b>2019-20 Actual</b>	<b>Target</b>	<b>FINANCIAL PERSPECTIVE:</b>	<b>2019-20 Actual</b>	<b>Original Budget</b>
	<b>Q 4</b>		<b>Reported Annually</b>		
<b>Chargeable as % of available days</b>	<b>86%</b>	<b>80%</b>	<b>Cost per Audit Day</b>	<b>£324.66</b>	<b>£332.50</b>
<b>Chargeable days as % of planned days</b>			<b>Direct Costs</b>	<b>£419,910</b>	<b>£428,375</b>
			<b>+ Indirect Costs (Recharges from Host)</b>	<b>£10,530</b>	<b>£10,530</b>
<b>CCC</b>	<b>95%</b>	<b>100%</b>	<b>- 'Unplanned Income'</b>	<b>£1,886</b>	<b>Zero</b>
<b>DDC</b>	<b>91%</b>	<b>100%</b>	<b>= Net EKAP cost (all Partners)</b>	<b>£428,554</b>	<b>£438,905</b>
<b>F&amp;HDC</b>	<b>78%</b>	<b>100%</b>		<b>(£10,351 reduction due to resource changes -credit rolled over to 2020-21)</b>	
<b>TDC</b>	<b>89%</b>	<b>100%</b>			
<b>EKS</b>	<b>69%</b>	<b>100%</b>			
<b>EKH</b>	<b>105%</b>	<b>100%</b>			
<b>Overall</b>	<b>87%</b>	<b>100%</b>			
<b>Follow up/ Progress Reviews;</b>					
· <b>Issued</b>	<b>28</b>	<b>-</b>			
· <b>Not yet due</b>	<b>12</b>	<b>-</b>			
· <b>Now due for Follow Up</b>	<b>37</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>			

**Appendix 5 - EKAP Balanced Scorecard 2019-20**

<b><u>CUSTOMER PERSPECTIVE:</u></b>	<b><u>2019-20 Actual</u></b>	<b><u>Target</u></b>	<b><u>INNOVATION &amp; LEARNING PERSPECTIVE:</u></b>	<b><u>2019-20 Actual</u></b>	<b><u>Target</u></b>
Number of Satisfaction Questionnaires Issued;	60		Percentage of staff qualified to relevant technician level	74%	74%
Number of completed questionnaires received back;	23		Percentage of staff holding a relevant higher level qualification	38%	38%
Percentage of Customers who felt that;	= 38%		Percentage of staff studying for a relevant professional qualification	15%	N/A
Interviews were conducted in a professional manner.	100%	100%	Number of days technical training per FTE	4.1	3.5
The audit report was 'Good' or better.	100%	90%	Percentage of staff meeting formal CPD requirements (post qualification)	38%	38%
That the audit was worthwhile.	100%	100%			



**Appendix 5 - EKAP Balanced Scorecard 2019-20**