

**QUARTERLY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP**

**1.0 INTRODUCTION AND BACKGROUND**

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th June 2020.

**2.0 SUMMARY OF REPORTS**

Service / Topic		Assurance level	No. of Recs.	
2.1	Member Code of Conduct & Standards Arrangements	Reasonable	C H M L	0 0 3 3
2.5	EKHR - Payroll	Reasonable	C H M L	0 0 0 3
2.6	EKHR – Benefits in Kind	No	C H M L	0 4 0 0

**2.1 Member Code of Conduct & Standards Arrangements - Reasonable Assurance:**

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the highest standards of Member conduct and probity are maintained.

2.1.2 Summary of Findings

There are 52 district councillors elected to represent Thanet District Council and 106 town and parish councillors representing 11 towns and parishes across the district. Local Authorities in England are responsible for putting standards arrangements in place to deal with complaints made against district and parish councillors who have not acted in accordance with the councillor code of conduct. Local authorities must approve and communicate a code of conduct and publish a register of disclosable pecuniary interests in accordance with the Localism Act 2011.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- There is a suitable Code of Conduct in place which has been adopted and adequately communicated;
- The Code of Conduct and supporting policies are in place in accordance with the Localism Act 2011;
- The processes in place for publishing gifts and hospitality received by councillors are in place. One instance of reporting gifts and hospitality has been declared in the past year;
- There are adequate Standards arrangements in place to assess complaints received in compliance with the Localism Act 2011 including the provision of parish councillors and independent members of the Standards Committee; and
- The arrangements in place for carrying out standards investigations are independent and sufficient for investigating complaints made against parish and district councillors.

Scope for improvement was however identified in the following areas:

- 66% of district councillors attended training on the Code of Conduct. (It is acknowledged that district councillors have access to the training material on the Modern.gov app and some re-elected members would have received this training previously);
- The reasons for withholding information in the online Register of Interests for security reasons is not currently adequately communicated to members of the public;
- Whilst offered, it is not currently compulsory for members of the Standards Committee to receive bespoke training on the role of a member of the Standards Committee which would be particularly useful for the parish councillor representatives; and
- Some of the information on the website requires a review and an update for example nine of the links to parish councillors declaration of interests were broken and could not be viewed.

## **2.2 EKHR Payroll – Reasonable Assurance:**

### **2.2.1 Audit Scope**

To ensure that the payroll service administered by EKHR on behalf of Canterbury, Dover and Thanet Councils, including EK Services is adequately controlled to ensure that the right people are getting paid the right amounts at the right time. Also that all deductions are adequately controlled.

### **2.2.2 Summary of Findings**

Payroll is administered by East Kent Human Resources on behalf of Thanet, Canterbury & Dover Councils in addition to EK Services, the Marlowe Theatre

and East Kent Housing. In a typical month the Payroll processes the following payments for each Council: -

Dover District Council - 408 individual net payments totalling £698k;

Canterbury City Council - 481 individual net payments totalling £748k;

Thanet District Council & EK Services - 545 individual net payments totalling £846k.

Before the actual pay date itself there are key dates and tasks to complete to ensure staff and councillors are paid the right amount at the right time. The payroll function is also responsible for calculating and accounting for other payments to third parties for tax, national insurance, trade union membership, pension and private health care etc.

Management can place solid Reasonable Assurance on the system of internal controls in operation. Some of the audit testing could not be fully completed due to the disruption caused by Covid-19, which is the reason why a substantial assurance could not be given at this time.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Payroll routines and processes are mature and are operating effectively to reduce the risk of fraud, error and failure to pay on time;
- Roles and responsibilities and operational payroll controls are well designed and communicated;
- The interfacing between the Payroll System & Finance System is working effectively with a good audit trail to support transactions;
- No issues were detected with the processes in place to submit payments to statutory and non-statutory third parties; and
- Payroll system reports are being produced and kept on file to help support payroll processes.

The following potential weaknesses were identified during the audit process:

- Purely as a precaution there are four employees or former employees whose net pay appears to be high or higher than expected and needs to be double checked;
- The calculation of income tax being deducted from five employees needs to be checked; and
- Payroll resilience could be improved through the introduction of procedure notes.

## **2.3 EKHR Benefits in Kind– No Assurance:**

### **2.3.1 Audit Scope**

To ensure that the payroll service administered by EKHR on behalf of Canterbury, Dover and Thanet Councils, including EK Services is adequately controlled to ensure that the correct regulatory requirements are being adhered to in relation to the benefits in kind that are being provided to the officers and members of the three partner councils.

### 2.3.2 Summary of Findings

In 2016 HMRC replaced payroll dispensations with a new exemption process and to date only Canterbury City Council have ensured that their records are up to date and the new exemption process is being complied with. Previous Benefit In Kind audit reports have highlighted that there have been and continue to be issues at Dover and Thanet District Councils in ensuring that the new exemption process has been carried out and that relevant payroll exemptions are now in place. It should be noted that these issues were also a concern prior to 2016 under the old payroll dispensation process.

Management can place the following assurance on the system of internal controls in operation. Whilst the report was written for all three partners only the relevant detail for each council is recorded here).

Thanet District Council – No Assurance.

The primary findings giving rise to the No Assurance opinion in this area are as follows:

- At Thanet District Council there should be a nominated officer responsible for monitoring the payroll exemptions and reviewing them on an annual basis or discussions should be held for this role to be included as part of the full payroll service that is stated in the EKHR Service Level Agreement.
- An exercise needs to be carried out to ensure that all the correct payroll exemptions are put in place.
- Following the Payroll Team Leader's retirement at the end of April 2019 there was a weakness in the current staffs' knowledge in respect of P11D's and calculating Class 1A National Insurance. However this has now been addressed and EKHR payroll officers have received appropriate training.
- EKHR may wish to seek annually from each authority confirmation that they have completed the submission of any P11D's and any subsequent Class 1A National Insurance payments and that there are no new adjustments needed to be processed through the payroll or that existing ones should continue or cease. (i.e. Taxable benefits taxed at source through the payroll)

#### Management Response from EKHR:

A process has now been agreed between TDC finance and EKHR to address the concerns highlighted in this audit report. There is now a responsible officer within TDC who takes ownership of this and instructs EKHR who then complete and submit the appropriate documentation to HMRC annually. This agreement now forms part of the SLA between TDC and EKHR.

3.0. **FOLLOW UP OF AUDIT REPORT ACTION PLANS:**

3.1 As part of the period's work, two follow up review have been completed of those areas previously reported upon to ensure that the recommendations made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. Not yet implemented	
a)	EKS – PSN Compliance	N/A	N/A	C	0	C	0
				H	4	H	0
				M	1	M	0
				L	0	L	0
b)	East Kent Housing - Tenants' H&S (Lifts)	No	Reasonable	C	3	C	0
				H	1	H	0
				M	0	M	0
				L	0	L	0

3.2 Details of any individual Critical and High priority recommendations still to be implemented at the time of follow-up are included at Appendix 3 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Members' of the Governance and Audit Committee.

The purpose of escalating high-priority recommendations which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and Members are advised as follows:

a) Since the appointment in November 2019 of a dedicated Compliance Manager with responsibility for lifts, significant improvements in procedures around the actioning of faults identified on lift examination reports have become evident. While a number of faults remain outstanding on some lifts tested, this is mainly due to such a large number of faults outstanding on lifts in late 2019, a number of lifts requiring refurbishment and also lift contractors having reduced manning to address faults due to Covid 19.

New procedures have been introduced and have been evidence during the audit so that where a category 'A' faults are identified as part of a lift examination, if the lift maintenance contractor is unable to undertake and

complete the repair to the lift on the day, the lift is taken out of service until the fault has been rectified.

#### **4.0 WORK-IN-PROGRESS:**

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Public Health Burials, Members' Allowances, HMO & Selective Licensing, and Disabled Facilities Grants.

#### **5.0 CHANGES TO THE AGREED AUDIT PLAN:**

- 5.1 The 2020-21 internal audit plan was agreed by Members at the meeting of this Committee on 4<sup>th</sup> March 2020.
- 5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.
- 5.3 There has of course been an impact on the work of the internal audit team as a result of the C19 Crisis. The Audit Plan for 2020-21 was prepared as usual throughout February and agreed with the s.151 Officer and CMT and was presented to the March meeting. Following this, the team was re-deployed to assist with C19 response work in the community. As a consequence, no new internal audit work was commissioned or undertaken throughout April to June, leading to a total of 145 audit days being lost (over the partnership). The plan that was approved at the March meeting is set out in the table in Appendix 3, with few days allocated up to the end of June. It has therefore been necessary to work with the s.151 Officer to agree a revised plan based on 9 month's work not 12, the reviews that are deferred within the overall five-year strategic audit plan are also shown. Additionally, the revised plan also accommodates the new Housing audits which will commence after 1<sup>st</sup> October once the former EKH Ltd responsibilities have transferred back to the four councils. Except for follow up, no new EKH Ltd audits will commence before the end of September, and therefore the revised EKH Plan is also shown in Appendix 3.

#### **6.0 FRAUD AND CORRUPTION:**

There are no known instances of fraud or corruption being investigated by the EKAP to bring to Members attention at the present time.

#### **7.0 UNPLANNED WORK:**

All responsive assurance / unplanned work is summarised in the table contained at Appendix 3.

## **8.0 INTERNAL AUDIT PERFORMANCE**

- 8.1 For the three month period to 30th June 2020, 31.5 chargeable days were delivered against the revised target of 281.54 days which equates to 11.19% plan completion.
- 8.2 The financial performance of the EKAP is on target at the present time.
- 8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures.
- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service.

### **Attachments**

- Appendix 1 Progress to 30th June 2020 against the agreed 2020-21 Audit Plan.
- Appendix 2 Definition of Audit Assurance Statements & Recommendation Priorities
- Appendix 3 Summary of Critical and High priority recommendations not implemented at the time of follow-up.
- Appendix 4 Summary of services with Limited / No Assurances yet to be followed up.
- Appendix 5 Balanced Scorecard to 30th June 2020.

**PROGRESS TO DATE AGAINST THE AGREED 2020-21 AUDIT PLAN –  
APPENDIX 1**

**THANET DISTRICT COUNCIL:**

<b>Area</b>	<b>Original Planned Days</b>	<b>Revised Budgeted Days</b>	<b>Actual days to 30-06-2020</b>	<b>Status and Assurance Level</b>
<b>HOUSING SERVICES:</b>				
Homelessness	10	10	0	Quarter 3
Tenant Health & Safety Compliance	0	10	0	Quarter 4
Data Quality	0	10	0	Quarter 4
Leasehold Services	0	10	0	Quarter 4
<b>GOVERNANCE RELATED:</b>				
GDPR, FOI & Information Management	10	10	0.18	Draft Brief Prepared
Members' Code of Conduct & Standards Arrangements	10	10	5.97	Finalised - Reasonable
Officers' Code of Conduct & Gifts & Hospitality	10	10	0.18	Draft Brief Prepared
Local Code of Corporate Governance	8	8	0.26	Draft Brief Prepared
Corporate Advice/CMT	2	2	2.26	Work-in-Progress throughout 2020-21
s.151 Officer Meetings and Support	9	9	4.46	Work-in-Progress throughout 2020-21
Governance & Audit Committee Meetings and Report Preparation	12	12	4.44	Work-in-Progress throughout 2020-21
2021-22 Audit Plan and Preparation Meetings	9	9	0.68	Work-in-Progress throughout 2020-21
<b>CONTRACT AUDITS</b>				
Service Contract Management	10	0	0	Deferred
Procurement	10	10	0.18	Draft Brief Prepared
<b>SERVICE LEVEL:</b>				
Cemeteries & Crematoria	12	12	0.18	Draft Brief Prepared
HMO Licensing & Selective Licensing	10	10	0	Work-in-Progress
Coastal Management	10	10	0.18	Draft Brief Prepared
Public Health Burials	7	7	0.18	Work-in-Progress

Environmental Health & Safety at Work	10	0	0.18	Deferred
Playgrounds	10	10	0.18	Draft Brief Prepared
Disabled Facilities Grants	10	10	0.18	Work-in-Progress
Museums	12	12	0	Quarter 3
Ramsgate Harbour Accounts	5	5	0	Quarter 3
Members' Allowances & Expenses	10	10	3.03	Work-in-Progress
Phones, Mobiles & Utilities	8	8	0.87	Work-in-Progress
Your Leisure	10	10	0	Quarter 3
Waste & Street Cleansing Vehicle Fleet Management	12	12	0	Quarter 3
Refuse Collection	10	0	0	Deferred
Climate Change	10	10	0.26	Work-in-Progress
<b>OTHER :</b>				
Liaison With External Auditors	1	1	0	Work-in-Progress throughout 2020-21
Follow-up Reviews	15	15	0.61	Work-in-Progress throughout 2020-21
<b>FINALISATION OF 2019-20 AUDITS:</b>				
Days over delivered in 2019-20	0	-3.46		
Community Safety	15	15	0.08	Finalised
Printing & Post			0.24	Finalised
Building Control			0.27	Finalised
Insurance & Inventories			0.23	Finalised
Capital			5.1	Finalised
<b>RESPONSIVE WORK:</b>				
East Kent Housing - Tenant H&S Compliance Monitoring	0	0	0.31	Work-in-Progress
Creditors Duplicate Testing	0	0	0.81	Work-in-Progress
Covid-19 Assistance	0	0	33.40	Finalised
<b>TOTAL</b>	<b>285</b>	<b>311.54*</b>	<b>64.9</b>	<b>20.83% as at 30-06-2020</b>

- **30 days added to the revised planned days from the former East Kent Housing audit plan from 1<sup>st</sup> October 2020.**

**EAST KENT HOUSING LIMITED:**

Review	Original Planned Days	Revised Planned Days	Actual To 30/06/2020	Status and Assurance Level
<b>Planned Work:</b>				
CMT/Audit Sub Ctte/EA Liaison	4	4	2.09	Work-in-progress throughout 2020-21
Follow-up Reviews	15	0	0	Work-in-progress throughout 2020-21
Tenants Health & Safety	0	7	0.74	Work in progress
<b>Finalisation of 2019/20 Work-in-Progress:</b>				
Days over delivered in 2019/20		-7.37	0	Allocated
Welfare Reform	0	1	0.41	Finalised - Substantial
Employee Health & Safety	1	0.63	0.50	Finalised - Limited
<b>Total</b>	<b>20</b>	<b>12.63</b>	<b>3.73</b>	<b>29% as at 30/06/2020</b>

**EKS, EKHR & CIVICA:**

Review	Original Planned Days	Revised Planned Days	Actual days to 30/06/2020	Status and Assurance Level
<b>EKS Reviews;</b>				
Housing Benefits Overpayments	10	10	0.24	Quarter 4
Housing Benefit Testing	30	15	0	Quarter 2 & 4
Housing Benefit Subsidy	10	10	0	Quarter 3
Customer Services Gateway	10	0	0	Deferred
ICT – Disaster Recovery	15	0	0	Deferred
ICT – Software Licensing	15	15	0	Quarter 2
KPIs	5	5	0	Quarter 3
<b>EKHR Reviews;</b>				
Payroll	15	0	0	Deferred
EKHR DBS Checks	15	15	10.36	Work in progress
EK People Review	15	15	0	Quarter 3
<b>Other;</b>				

Corporate/Committee	5	5	3.03	Ongoing
Follow up	5	3	1.06	Ongoing
<b>Finalisation of 2019/20 Audits:</b>				
Days under delivered in 2019-20	0	30.69	-	Allocated Below
EKHR Employee Benefits in Kind	10	2	1.19	Finalised – Substantial / No
Housing Benefit Testing 2019/20		10	10.82	Finalised N/A
EKHR Payroll		10	10.07	Finalised - Reasonable
<b>Total</b>	<b>160</b>	<b>190.39</b>	<b>36.75</b>	<b>19.27%</b>

## Definition of Audit Assurance Statements & Recommendation Priorities

### Cipfa Recommended Assurance Statement Definitions:

**Substantial assurance** - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

**Reasonable assurance** - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

**Limited assurance** - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

**No assurance** - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

### EKAP 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.