

This Report will be made public on 5 September 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **AuG/17/08**

To: Audit and Governance Committee
Date: 13 September 2017
Status: Non-Executive Decision
Corporate Director: Tim Madden - Organisational Change (S151)

SUBJECT: INTERNAL AUDIT PROGRESS REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th June 2017.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because:
In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

1. To receive and note Report AuG/17/08
2. To note the results of the work carried out by the East Kent Audit Partnership.

1. INTRODUCTION

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee progress report, together with details of the performance of the EKAP to the 30th June 2017.

2. AUDIT REPORTING

- 2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to the relevant Heads of Service, as well as an appropriate manager for the service reviewed.
- 2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3 An assurance statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be substantial, reasonable, limited or no assurance.
- 2.4 Those services with either limited or no assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of assurance to either reasonable or substantial. There is currently one review with such a level of assurance as shown as Appendix 2 to the EKAP report.
- 2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.
- 2.6 To assist the Committee in meeting its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3. SUMMARY OF WORK

- 3.1 There have been two audit reports completed during the period. These have been allocated assurance levels as follows: one was classified as providing reasonable assurance and one was not applicable for an assurance. Summaries of the report findings are detailed within Annex 1 to this report.

- 3.2 In addition, five follow-up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.
- 3.3 For the period to 30th June 2017 72.82 chargeable days were delivered against the planned target of 332.11 days, (including 17.11 days carried over from 2016/17) which equates to achievement of 22% of the planned number of days.
- 3.4 Other performance figures for the East Kent Audit Partnership for the period 2017/18 show good performance against target.

4. RISK MANAGEMENT ISSUES

- 4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis
Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit and Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the external audit requirements reduces the impact of non-completion on the Authority.

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's comments (DK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (TM)

Responsibility for the arrangements of the proper administration of the council's financial affairs lies with the Chief Finance Officer (S151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is

important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 Head of the East Kent Audit Partnership comments (CP)

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 Diversities and Equalities Implications (CP)

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership

Telephone: 01304 872160 Email: Christine.parker@dover.gov.uk

Tim Madden, Corporate Director – Organisational Change (S151)

Telephone: 01303 853371 Email: Tim.madden@shepway.gov.uk

6.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit working papers - Held by the East Kent Audit Partnership.

Attachments

Annex 1 – Update report from the Head of the East Kent Audit Partnership.

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

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit and Governance Committee meeting, together with details of the performance of the EKAP to the 30th June 2017.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Performance Management	Reasonable	C	0
			H	1
			M	2
			L	1
2.2	Car Park Machine Theft	Not applicable	C	0
			H	5
			M	2
			L	0

2.1 Performance Management - 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 Council adopts best practices in the identification, evaluation and monitoring of its performance management data.

2.1.2 Summary of Findings

Effective performance management is critical to the success of the Council. The Council is faced with a complex range of challenges, some externally driven (e.g. from central government) and some locally driven (e.g. corporate priorities and actions). These initiatives all rely on effective performance management and measurement for their success. Performance management provides the framework to help link and underpin both national initiatives and the achievement of local priorities.

There are 197 active performance indicators being managed through the Covalent system, 71 of which are Key Performance Indicators which are monitored and

reported to Corporate Management Team (CMT), the Cabinet and to the Overview and Scrutiny Committee on a regular basis throughout the year.

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

- The draft new Performance Management Framework will help provide a useful and solid foundation for performance related monitoring purposes;
- Performance information is well communicated and the governance arrangements are working well;
- Corporate Objectives and Service Objectives are well documented and well communicated through service plans;
- CMT is able to demonstrate its commitment to performance management through its minutes of meetings.

Scope for improvement was however identified in the following areas:

- The appraisals policy and subsequent templates on the intranet need to be reviewed to ensure they refer to the latest set of Corporate Objectives;
- HR should review the way it monitors the completion of appraisals across the Council; and
- Targets in strategies should flow into the service plan and associated targets.

2.2 Car Park Machine Theft – Not applicable for assurance level

2.2.1 Audit Scope

The audit will review the one incident of unauthorised cash collection from a parking machine and will undertake a full investigation to establish the facts surrounding the incident.

2.2.2 Summary of Findings

On 11th or 12th April 2017 a parking machine was cut out and stolen from the High Knocke car park in Dymchurch. This resulted in a replacement new machine being ordered, installed and commissioned at this site. On 31st May 2017 this newly commissioned machine was emptied by unknown person/s and £642.20 was stolen.

The outcome of the investigation is that this theft occurred due to circumstances creating an opportunity through not controlling sets of keys, and not updating the Council's contractor for collecting car park machine cash that the machine was up and running, and ensuring that they had the keys to empty the cash. Unknown persons seized the opportunity to access the machine and empty the cash as a one off theft, believing that it could not be traced back to them.

Lessons can be learnt from the series of events that lead up to the theft and recommendations have been made to ensure that security controls are improved such that the incident can not ever be repeated in the future.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

- 3.1 As part of the period's work, five follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously 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 recs	Outstanding recs
Treasury Management	Substantial	Substantial	C 0 H 0 M 0 L 1	C 0 H 0 M 0 L 0
Complaints Monitoring	Substantial	Substantial	C 0 H 0 M 1 L 1	C 0 H 0 M 0 L 0
Environmental Health – Food Safety & H&S	Reasonable	Substantial	C 0 H 1 M 1 L 0	C 0 H 0 M 0 L 0
Miscellaneous Income	Reasonable	Reasonable	C 0 H 0 M 1 L 4	C 0 H 0 M 0 L 1
Flexi, Annual & Sick leave	Reasonable	Reasonable	C 0 H 0 M 2 L 1	C 0 H 0 M 2 L 1

- 3.2 There are no individual high priority recommendations outstanding after follow-up requiring escalation to the Committee at this time as detailed in Appendix 1.

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: ICT Policies; Housing Right to Buy, Hythe Swimming Pool and Planning Income.

5.0 CHANGES TO THE AGREED AUDIT PLAN

- 5.1 The 2017/18 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 8th March 2017.
- 5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy 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.

6.0 FRAUD AND CORRUPTION

There has been one recent case of a theft from a car park machine. The details are contained within section 2.2 above.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the period ended 30th June 2017, 72.82 chargeable days were delivered against the planned target of 332.11 days, (including 17.11 days that were carried over from the previous year) which equates to achievement of 22% of the original planned number of days.
- 7.2 The financial performance of the EKAP for 2017/18 is on target for Shepway District Council.
- 7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for quarter 1 of 2016/17 is attached as Appendix 4. There are no concerns regarding the resources engaged or outputs.
- 7.4 The EKAP introduced 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. Current feedback arising from the customer satisfaction surveys is featured in the balanced scorecard which is attached as Appendix 4.

Attachments

- Appendix 1 Summary of high priority recommendations outstanding or in progress after follow up
- Appendix 2 Summary of services with limited / no assurances.
- Appendix 3 Progress to 30th June 2017 against the agreed 2017/18 Audit plan.
- Appendix 4 EKAP Balanced scorecard of performance indicators to 30th June 2017.
- Appendix 5 Assurance Statements.

Appendix 1

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
None		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Waste Recycling Income	March 2017	Reasonable / Limited	Q 2 2017/18

PROGRESS AGAINST THE AGREED SHEPWAY AUDIT PLAN 2017/18

Review	Original Planned Days	Revised Planned Days	Actual - 30/06/17	Status and Assurance level
FINANCIAL SYSTEMS				
Business Rates	10	10		Quarter 2
Council Tax	10	10		Quarter 3
Housing Benefits DHPs	10	10	0.07	Quarter 2
Housing Benefits Overpayments	10	10	0.17	Quarter 3
Main Accounting	10	10		Quarter 3
HOUSING SYSTEMS				
Homelessness	10	10	0.16	Quarter 2
ICT SYSTEMS				
ICT review	9	9		Quarter 3
HUMAN RESOURCES SYSTEMS				
Employee Benefits in Kind	10	10	0.10	Quarter 3
Payroll transactions	5	5		Quarter 2
GOVERNANCE RELATED				
Contract Monitoring	15	18	18.44	Completed
Public Scrutiny of Accounts	10	7	1.47	Work in progress
SERVICE LEVEL				
Asset Management	10	0	0	Carried forward
Business Continuity	10	10		Quarter 2
Cemeteries & Crematoria	10	10		Quarter 3
Child & Adults - Safeguarding	10	10	0.09	Quarter 4
Councillor Grants	10	8	0.14	Quarter 2
Customer Services	10	0	0	Carried forward
Digital Transformation	10	10		Quarter 3
Electoral Finance	10	10		Quarter 4
Employee Health & Safety	5	5		Quarter 2
Environmental Protection	10	10		Quarter 4
Equality & Diversity	10	10		Quarter 4
Hythe Swimming Pool	10	10	7.03	Work in progress
Improvement Grants / DFGs	10	10	0.09	Quarter 2
Planning S106s / CILs	10	10		Quarter 3
Risk Management	10	10		Quarter 4
OTHER				
Committee reports & meetings	10	10	1.59	Ongoing
S151 meetings & support	11	11	1.70	Ongoing
Corporate advice / CMT	3	3	0.44	Ongoing
Audit plan prep & meetings	11	11	1.13	Ongoing

Liaison with External Audit	1	1		Ongoing
Polling Duty Elections	0	5	5.61	Completed
Follow Up Reviews	15	15	5.99	Ongoing
Days under delivered in 2016/17		17.11	17.11	Allocated Below
FINALISATION OF 2016-17- AUDITS				
Performance Management	15		3.86	Completed - Reasonable
Emergency Planning			0.41	Completed – Substantial
Payroll			0.10	Completed – Substantial
Planning Income			11.89	WIP – Draft Report
Right To Buy			0.60	WIP
ICT Review			0.37	WIP
RESPONSIVE ASSURANCE				
Car Park Theft	0	12	11.37	Completed – N/A
Total	315	332.11	72.82	21.92% complete as at 30/06/2017

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2017	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Cttee/EA Liaison	4	4	1.15	Work-in-progress throughout 2017-18
Follow-up Reviews	4	4	0.78	Work-in-progress throughout 2017-18
Finance Systems & ICT Controls	15	15	0	Quarter 4
Data Protection & Information Management	12	12	0	Quarter 4
Leasehold Services	15	15	0	Quarter 4
Fire Safety	15	15	1.20	Work-in-Progress
Safeguarding Children & Vulnerable Groups	10	10	0.18	Work-in-Progress
Anti-Fraud & Corruption	10	10	0	Work-in-Progress
Risk Management	10	10	0.18	Work-in-Progress
Performance Management	5	5	0	Quarter 4
Complaints Monitoring	10	10	0.18	Work-in-Progress
Single System – Post Implementation Review	10	10	0	Quarter 4
Property Services Improvement Plan	20	20	0	Quarter 3/4
Days under delivered in 2016-17		7.84		
Unplanned Work:				
Performance Indicator Data Quality	0	0	8.52	
Total	140	147.84	12.19	8.25% at 30-06-2017



Balanced Scorecard

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Original Budget</u>
	Quarter 1		Reported Annually		
Chargeable as % of available days	83%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£309.77
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£385,970
CCC	25%	25%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,530
DDC	22%	25%			
SDC	22%	25%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
TDC	26%	25%			
EKS	26%	25%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 	£	£396,500
EKH	8%	25%			
Overall	22%	25%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	22	-			
<ul style="list-style-type: none"> • Not yet due 	17	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	19	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Target</u>
	Quarter 1		Quarter 1		
Number of Satisfaction Questionnaires Issued;	16		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	8		Percentage of staff holding a relevant higher level qualification	38%	38%
	= 50%		Percentage of staff studying for a relevant professional qualification	14%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	1.48	3.5
<ul style="list-style-type: none"> Interviews were conducted in a professional manner 	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	38%	38%
<ul style="list-style-type: none"> The audit report was 'Good' or better 	100%	100%			
<ul style="list-style-type: none"> That the audit was worthwhile. 	100%	100%			

Definition of Audit Assurance Statements & Recommendation Priorities Appendix 5

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.