

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 14 JULY 2014

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Rich Clarke

1. INTERNAL AUDIT PROCESS REFRESH REPORT 2014/15

1.1 Issue for Decision

This report sets out revisions to the internal audit approach for 2014/15 arising from responses to the recent IIA review and a desire to review and refresh a process which has not been examined for some years.

As these changes will affect the information presented to the Audit Committee in future we present this report to inform the Committee in advance and give opportunity to comment.

The principal changes affect the assurance levels, recommendation ratings and process for completing and following up audit projects.

1.2 Recommendation of the Head of Audit Partnership

That the Audit Committee note and provide comment as it may wish against the revised approach for undertaking and reporting the work of Internal Audit for 2014/15.

1.3 Reasons for Recommendation

Earlier in 2014 Mid Kent Audit – which operates as a shared service across Swale, Maidstone, Tunbridge Wells and Ashford Borough Councils – was reviewed by the Institute of Internal Auditors assessing its conformity with Public Sector Internal Audit Standards. The outcome report of that review was presented to this Committee at its last meeting on 26 March 2014.

The overall result was very positive, highlighting full conformity with 50 of the 56 areas assessed and partial conformity with the remaining 6. The report recorded recommendations on achieving full conformity, some of which spoke directly to the arrangements for undertaking audits:

- Ensuring a clear link between audit engagement objectives and the criteria for success and risk management of the service area under examination;

- Clearer co-ordination with other assurance providers to minimise duplication of effort and seek efficient assurance.
- Review of IA resourcing to ensure audits are assigned and completed within appropriate budgets.

In addressing these recommendations we have also considered the continuing effectiveness of the existing audit approach which has been essentially unchanged for a number of years.

Assurance Ratings

2013/14 Ratings
High assurance
Substantial assurance
Limited assurance
Minimal assurance

2014/15 Ratings
Strong controls
Sound controls
Weak controls
Poor controls

Appendix I contains further details, including full definitions.

The key benefit of this change is re-calibrating the levels to provide a more even distribution which will better reflect the conclusions of the audit. In particular, there was a view within the audit team and officers that ‘substantial’ sometimes gave assurance beyond that which was justified by the findings but ‘limited’ was also an unsuitable conclusion. We are also aware that other audit services are using the same term – substantial – to denote the highest level of achievement, which would potentially cause confusion in the event of joint service audits.

We also take the opportunity to make clearer in the definitions the extent to which weaknesses identified by audit put the Council’s key objectives under threat and the best practice and value for money delivered by a service.

Recommendation Ratings

2013/14 Ratings
High risk
Medium risk
Low risk

2014/15 Ratings
Priority 1 (Critical)
Priority 2 (High)
Priority 3 (Medium)
Priority 4 (Low)
Advisory
Good practice

Appendix II contains further details, including full definitions.

This revision makes clear the link between findings and the Council’s risk management process within the detailed definitions and by ranking the levels as ‘priority’ to avoid potential misunderstanding. The levels also include a new ‘top level’ used to indicate findings of immediate and significant threat to the Council.

The levels are also expanded to more formally recognise and highlight areas of good practice and opportunities to improve we can put to the service learned from our professional experience and other work across the partnership.

Audit Process

Stage	2013/14 Process	2014/15 Process
Planning	Audit Brief Issued	Draft audit brief
	Opening meeting	Audit opening meeting
		Final audit brief
Fieldwork	Fieldwork	Fieldwork
	Review	Initial findings meeting
		File Review
Reporting	Draft Report (not issued)	Draft Report (issued)
	Findings meeting	Closing Meeting
	Final Report	Final Report & Agreed Actions
	Management response	
	Adequacy of response memo	
Follow up	Follow up within 6 months	Recommendations followed up quarterly
	Follow up report	'Weak' or 'Poor' reports followed up per schedule set out in final reports.

The revisions to the process are intended to make it more streamlined while also being more flexible and responsive to the needs of Council services. In particular we hope that introducing 'draft' stages at brief will allow audit objectives to be more closely tailored. Also we intend that incorporating discussion around management responses within the final report stage will help speed up audit closure as well as improving the support that can be offered by our recommendations. Appendix III contains further details.

We have also adapted for 2014/15 the process by which audits are assigned across the partnership. This process involved a skills assessment across the audit team, seeking to identify auditors with projects (or groups of projects) where their skills and experience was most beneficial, whilst maintaining onsite expertise and presence for ad hoc consultation and advice. The resulting full list of projects, included at appendix IV, sets out the common projects across the partnership and how we are seeking to use, develop and maintain the expertise of our audit team to deliver efficient and effective audit support.

On the follow up process, we found that a mandatory 6 month revisit did not consistently provide good value, especially where recommendations were due to be implemented later in the year. That approach also meant we could not easily track individual recommendations and so the answer to key questions such as the proportion of recommendations successfully implemented on time was obscure. The new two-stream approach allows us to focus proportionately on

implementation in services that are performing well and also looking more closely at improvements made in services assessed as possessing 'weak' or 'poor' control environments.

We intend that these revisions will provide richer and more useful information to the Committee, especially on progress against recommendations and highlighting any continuing risks associated with non-implemented agreed recommendations. I would be happy to discuss our reporting to Members either during the meeting or separately with individuals as they wish.

1.4 Alternative Action and why not Recommended

These proposals follow extensive research undertaken on audit approaches and assurance ratings in use across the public and private sectors, assisted by information provided by the Institute of Internal Auditors and the Kent Audit Group. As you will expect, there is an enormous range of potential options but we, and the Audit Partnership Board, were satisfied that this proposal best achieves the desired aims of refreshing the service and its reporting without losing existing strengths.

The initial proposals were developed in consultation with the audit team and the IIA review team before being shared with the Audit Partnership Board on 23 April. Following the comments of that forum we set out the proposals in letters sent to all Heads of Service and Senior Officers across all four authorities in the partnership with an invitation to comment by 23 May. The proposals set out in this report are informed by comments received to date, which have been welcoming and supportive, as well as providing useful information on where additional flexibility would be appreciated by services.

We will continue to review the operation of the revised process and assurance levels during 2014/15 and keep this Committee informed of progress through the scheduled interim reports.

1.5 Impact on Corporate Objectives

There is no direct impact upon corporate objectives immediately arising. However, part of the rationale for the change is to allow audit findings to better support achievement of those objectives.

1.6 Risk Management

The proposals will better integrate with and support the Council's approach to risk management.

1.7 Other Implications

1.7.1 None directly

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

The following documents published with and form part of this report:

- Appendix I: Assurance Ratings and follow ups, further detail and definitions
- Appendix II: Recommendation Ratings further detail and definitions
- Appendix III: Audit process further detail
- Appendix IV: Full list of partnership projects in 2014/15 with assignment

1.8.2 Background Documents

1.8.2.1 None

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

No

If yes, this is a Key Decision because:

.....

Wards/Parishes affected:

.....

Appendix I: Assurance Ratings

Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those that are reported will generally be priority 4.

Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.

Audit projects rated as 'strong' or 'sound' assurance will generally be regarded as indicating that the service is operating effectively. Consequently we will not as a matter of routine follow-up the entire review, but instead focus our follow up work on the implementation of recommendations. We will collate recommendations across the projects delivered at each authority and, each quarter, identify those that have fallen due and seek to verify their implementation. This verification will vary in approach depending on the nature and priority of the recommendation, but may range from a simple request for confirmation of a particular action to a fresh sample test for higher priority recommendations.

We will report progress on implementing recommendations periodically to the Audit Committee. The Committee has the authority to require explanations from Heads of Service where high priority recommendations are persistently not implemented or remain outstanding significantly after their due date.

Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.

Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.

Audit projects rated as 'Weak' or 'Poor' assurance will generally be regarded as indicating that the service is not operating effectively. Consequently we will follow up each of these reports in full, generally within six months of the initial review but this will vary depending upon the specifics of the service. This follow up review will focus on implementation of our recommendations and any other improvements made to the service and will seek to provide a fresh assurance rating.

Appendix II: Recommendation Ratings

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

Good practice – We will also note areas where the service is performing particularly well or has an approach or process that it likely to help enhance the service offered by other authorities. These will help inform our 'opportunities to improve' for our work at other authorities but we will always inform the Head of Service before sharing any specific details.

Appendix III: Audit Process Detail

Planning Phase

- **Four weeks** before fieldwork begins: Audit opening meeting with Head of Service (or nominee) to discuss draft terms of reference including the scope, timing and focus of audit work.
- **Two weeks** before fieldwork: Agreed terms of reference published, will include document request and details of any sample testing we plan to undertake.

Fieldwork Phase

- **Day one of fieldwork:** Service to provide all requested documentation, systems access and so on as agreed in the terms of reference.
- **Final day of fieldwork:** Wash up meeting between auditor and service manager to discuss emerging findings. This is also the principal opportunity to agree the factual accuracy of findings and our understanding of the service.
- **Post fieldwork:** The auditor's work will be reviewed in detail by a manager or senior auditor. As a result, it may be necessary to clarify some matters with the service.

Reporting Phase

- **Within two weeks of fieldwork end:** Draft report issued to Head of Service and management. This draft will include our overall assurance rating, recommendations for improvement and note areas of good practice identified.
- **Within three weeks of fieldwork end:** Audit close meeting with Head of Service (or nominee). To discuss comments on the draft report and agree recommendations and service response.
- **Within four weeks of fieldwork end:** Final report issued to Head of Service and management, copied to Director and Chief Executive. This includes our final assurance rating, agreed recommendations and a completed action plan in response.

Follow up phase

- See Appendix I (on assurance ratings) for details of follow up processes

Appendix IV: Mid Kent Audit Projects 2014/15

Mid Kent Audit Projects 2014/15				
Authority	Type	Title	Proposed Auditor	Proposed Timing
Ashford	Finance/Systems	Accounts Payable (Creditors)	David Griffiths**	Q4
Maidstone	Finance/Systems	Accounts Payable (Creditors)	David Griffiths**	Q4
Swale	Finance/Systems	Accounts Payable (Creditors)	Frankie Smith	Q3
Tunbridge Wells	Finance/Systems	Accounts Payable (Creditors)	Monisola Omoni**	Q4
Tunbridge Wells	VfM/Services	Assembly Hall Theatre	Paul Goodwin	Q2
Maidstone	VfM/Services	Asset Management Plan	Jen Dunn	Q4
Maidstone	VfM/Services	Asset Management: Commercial Property Investment	Claire Walker	Q2
Ashford	VfM/Services	Asset Management: Investment Properties	Claire Walker	Q4
Tunbridge Wells	VfM/Services	Asset Management: Investment Properties	Frankie Smith	Q4
Swale	VfM/Services	Asset Management: Investment Properties	Frankie Smith	Q1
Swale	VfM/Services	Asset Transfer Policy Review	Frankie Smith	Q4
Tunbridge Wells	Finance/Systems	Bank Arrangements	Claire Walker	Q1
Maidstone	Finance/Systems	Bank Reconciliation	David Griffiths**	Q2
Tunbridge Wells	Finance/Systems	Bank Reconciliation	Claire Walker	Q3
Maidstone	Finance/Systems	Business Assurance Mapping	Frankie Smith	Ongoing
Maidstone	Governance	Business Continuity Planning	Alison Blake	Q4
Tunbridge Wells	Governance	Business Continuity Planning	Mark Goodwin	Q2
Ashford	Finance/Systems	Business Rates (Systems audit)	Jo Herrington	Q3
Maidstone	Finance/Systems	Business Rates (Systems audit)	Paul Goodwin	Q3
Swale	Finance/Systems	Business Rates (Systems audit)	Monisola Omoni**	Q4
Maidstone	Governance	Business Rates Retention Scheme (Risk)	Jo Herrington	Q1
Swale	Governance	Business Rates Retention Scheme (Risk)	Alison Blake	Q1
Tunbridge Wells	Finance/Systems	Car Parking	Paul Goodwin	Q3
Swale	Finance/Systems	Cash Receipting System - Project Assurance	Frankie Smith	Q3
Swale	Finance/Systems	Cashless P&D Implementation	Jo Herrington	Q3
Ashford	VfM/Services	Cemetery	Paul Goodwin	Q1
Maidstone	Governance	Channel Shift Project	[tbc]	[tbc]
Maidstone	Governance	Commercialisation Programme	Alison Blake	Q4
Swale	Contract	Commissioning Framework - Implementation	Jen Dunn	Q3
Tunbridge	Governance	Commons Conservators (fee	Paul Goodwin	Q1

Mid Kent Audit Projects 2014/15

Authority	Type	Title	Proposed Auditor	Proposed Timing
Wells		earning)		
Maidstone	VfM/Services	Communications: Press & Public Relations	David Griffiths**	Q2
Tunbridge Wells	VfM/Services	Conservation /Heritage Planning	Claire Walker	Q1
Swale	Contract	Contract Management: Waste Collection	Frankie Smith	Q2
Tunbridge Wells	Contract	Contracts	Paul Goodwin	Q2
Maidstone	Finance/Systems	Corporate Credit Cards	Mark Goodwin	Q3
Swale	Governance	Corporate Governance	Frankie Smith	Q3
Maidstone	Governance	Corporate Governance	Jen Dunn	Q3
Ashford	Finance/Systems	Council Tax (Systems audit)	Jo Herrington	Q4
Swale	Finance/Systems	Council Tax (Systems audit)	Jen Dunn	Q2
Tunbridge Wells	Finance/Systems	Council Tax (Systems audit)	Claire Walker	Q3
Ashford	VfM/Services	Courtside	Mark Goodwin	Q1
Maidstone	VfM/Services	Customer Services	David Griffiths**	Q3
Maidstone	Governance	Data Protection	Alison Blake	Q2
Ashford	VfM/Services	Economic Development –Portas /Markets /Funding	Claire Walker	Q4
Ashford	Governance	Elections	N/A*	N/A
Tunbridge Wells	Finance/Systems	Electronic Payments Received	Paul Goodwin	Q4
Maidstone	VfM/Services	Emergency Planning	Jen Dunn	Q1
Tunbridge Wells	Finance/Systems	Enforcement	Paul Goodwin	Q2
Ashford	Governance	Farrow Court	Mark Goodwin	Ongoing
Maidstone	Governance	Fraud Risk Review	Jen Dunn	Q1
Swale	Governance	Freedom of Information	Jo Herrington	Q4
Swale	Finance/Systems	General Ledger: Budgetary Control	Alison Blake	Q4
Ashford	Finance/Systems	GIS	David Griffiths**	Q4
Ashford	Governance	GM – Project Board	[tbc]	Ongoing
Ashford	Governance	Governance & Ethics	Alison Blake	Q1
Tunbridge Wells	Governance	Governance & Ethics	Alison Blake	Q3
Ashford	Contract	Greenov	Mark Goodwin	Q4
Ashford	VfM/Services	Homelessness/Hostel	Mark Goodwin	Q4
Swale	VfM/Services	Homelessness: Temporary Accommodation	Jo Herrington	Q3
Ashford	Finance/Systems	Housing Benefits (Systems audit)	Jo Herrington	Q2
Swale	Finance/Systems	Housing Benefits (Systems audit)	Monisola Omoni**	Q3
Tunbridge Wells	Finance/Systems	Housing Benefits (Systems audit)	Monisola Omoni**	Q3
Ashford	Contract	Housing Maintenance Contracts	Mark Goodwin	Q2

Mid Kent Audit Projects 2014/15

Authority	Type	Title	Proposed Auditor	Proposed Timing
Swale	VfM/Services	Housing Options	Jo Herrington	Q1
Tunbridge Wells	VfM/Services	Housing Options	Claire Walker	Q4
Ashford	Finance/Systems	Housing Rents	Mark Goodwin	Q3
Tunbridge Wells	Finance/Systems	HR - Recruitment	Paul Goodwin	Q4
Tunbridge Wells	Finance/Systems	ICT	Claire Walker	Q1
Ashford	Finance/Systems	ICT – Disaster Recovery	Mark Goodwin	Q1
Maidstone	Finance/Systems	ICT Project Management	Paul Goodwin	Q1
Swale	Finance/Systems	ICT Service Desk	Jen Dunn	Q2
Ashford	Finance/Systems	Income Management (new system)	Jen Dunn	Q4
Swale	Finance/Systems	Income, Cash Collection & Banking	Monisola Omoni**	Q2
Maidstone	Finance/Systems	Information Management	David Griffiths**	Q3
Maidstone	Finance/Systems	Land Charges	David Griffiths**	Q4
Tunbridge Wells	Finance/Systems	Lease Holder Recharges	Paul Goodwin	Q3
Maidstone	Contract	Leisure Centre Contract	Mark Goodwin	Q1
Ashford	VfM/Services	Licensing	Paul Goodwin	Q1
Maidstone	Governance	Member Services: Allowances & Expenses	Frankie Smith	Q2
Swale	Governance	Member Services: Allowances & Expenses	Frankie Smith	Q1
Maidstone	Governance	Members and Officers Declarations of Interest	David Griffiths**	Q3
Tunbridge Wells	Governance	MKIP Governance Framework	Alison Blake	Q3
Tunbridge Wells	VfM/Services	Museum & Art Gallery	Claire Walker	Q2
Ashford	Governance	National Fraud Initiative (NFI)	Mark Goodwin	Ongoing
Swale	Governance	National Fraud Initiative (NFI)	Jen Dunn	Ongoing
Tunbridge Wells	Governance	National Fraud Initiative (NFI)	Monisola Omoni**	Ongoing
Maidstone	Governance	National Fraud Initiative (NFI)	Jen Dunn	Ongoing
Tunbridge Wells	Finance/Systems	Parks Income	Monisola Omoni**	Q2
Maidstone	Finance/Systems	Payroll	Jo Herrington	Q2
Maidstone	Finance/Systems	PC & Internet Controls	Frankie Smith	Q1
Maidstone	Contract	Planning Support Shared Service	Alison Blake	Q1
Maidstone	Contract	Procurement	Jen Dunn	Q4
Ashford	Governance	Project Office	Mark Goodwin	Q3
Maidstone	Finance/Systems	Rent Accounting System	Jo Herrington	Q4
Maidstone	Governance	Risk Management Framework: Strategic & Operational Risk	Alison Blake	Q2

Mid Kent Audit Projects 2014/15

Authority	Type	Title	Proposed Auditor	Proposed Timing
Swale	Governance	Risk Management Framework: Strategic & Operational Risk	Alison Blake	Q2
Swale	Governance	Safeguarding People	Alison Blake	Q2
Ashford	Governance	Strategic Risk (subject tbc)	[tbc]	[tbc]
Tunbridge Wells	Governance	Strategic Risk (subject tbc)	[tbc]	[tbc]
Tunbridge Wells	Governance	Strategic Risk (subject tbc)	Paul Goodwin	Q4
Maidstone	Contract	Street Cleansing	Jen Dunn	Q1
Swale	Contract	Street Cleansing	Frankie Smith	Q4
Maidstone	Finance/Systems	Teammate Development	Alison Blake	Ongoing
Swale	Finance/Systems	Treasury Management	Frankie Smith	Q2
Maidstone	Finance/Systems	VAT Management	Jo Herrington	Q1
Maidstone	Contract	Waste Collection Contract: Monitoring	Claire Walker	Q2
Ashford	Contract	Waste Management	Mark Goodwin	Q4

*: Project deferred into 2015/16 at request of authority

** : David and Monisola are due to join the team on fixed term contracts later in 2014 and as such these allocations are provision.