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**Subject:** **QUARTERLY INTERNAL AUDIT UPDATE REPORT**

**Meeting and Date:** **Governance Committee – 29<sup>th</sup> June 2017**

**Report of:** **Christine Parker – Head of Audit Partnership**

**Decision Type:** **Non-key**

**Classification:** **Unrestricted**

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**Purpose of the report:** This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

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**Recommendation:** That Members note the update report.

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**1. Summary**

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

**2. Introduction and Background**

- 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 each member of Corporate Management Team, 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. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.
- 2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 2.6 To assist the Committee meet 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.

## SUMMARY OF WORK

- 2.7 There have been three Internal Audit reports that have been completed during the period, of which two reviews were classified as providing Substantial assurance and one as Substantial/Reasonable Assurance.
- 2.8 In addition seven follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

### **3 Resource Implications**

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2017-18 revenue budgets.

### **Appendices**

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

### **Background Papers**

- Internal Audit Annual Plan 2016-17 - Previously presented to and approved at the 24<sup>th</sup> March 2016 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of 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 Governance Committee meeting.

**2. SUMMARY OF REPORTS:**

Service / Topic		Assurance level	No. of Recs.	
2.1	EKHR – Leavers	Substantial	C H M L	0 0 0 0
2.2	EKS – ICT Change Control	Substantial	C H M L	0 0 0 0
2.3	Planning Applications, Income and s106 Agreements	Substantial/ Reasonable	C H M L	0 3 4 0

**2.1 EKHR – Leavers - Substantial Assurance**

2.1.1 Audit Scope

To provide assurance that the internal controls and procedures are robust, in order to ensure that the Council correctly processes staff leaving to include accurate calculation of last pay including any outstanding holiday pay or debts to the Council and the issuing of the P45 documentation.

2.1.2 Summary of Findings

East Kent Human Resources (EKHR) is responsible for giving advice as required on the termination of employment and, the administration of all leavers across the partner authorities – Canterbury City Council (CCC), Dover District Council (DDC), East Kent Housing (EKH), EK Services (EKS) and Thanet District Council (TDC). Statistics below show the number of starters and leavers in 2015/16 and 2016/17 to date, which gives an indication of growth and/or reduction in the establishment and staff turnover rates:

Partner	No. of leavers	No. of	No. of leavers	No. of
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authority	2016/17 (at Jan 2017)	starters 2016/17 (at Jan 2017)	2015/16	starters 2015/16
CCC	172	160	116	99
DDC	28	29	58	64
EKH	23	10	17	24
EKS + TDC	116	94	121	106

**Total staff and turnover:**

Partner authority	Total no. of employees 2016/17 (at Jan 2017)	Average staff turnover %
CCC	608	28.3
DDC	343	8.2
EKH	180	12.8
EKS + TDC	827	14.0
<b>Total</b>	<b>1958</b>	

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

Managers are responsible for ensuring that the leaver process is followed correctly; information and advice is available to managers in the EKHR toolkit and HR can be contacted directly;

In the testing sample of 30 leavers, 96.7% of managers had completed a leaver notification form; 90% of email accounts had been closed at the time of the audit;

96.3% of available final payslips (26/27) had been calculated correctly;

100% of P45's processed by EKHR payroll had been issued accordingly (27/27).

## 2.2 EKS – ICT Change Control - Substantial Assurance

### 2.2.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services used in relation to change controls are sufficiently robust to safeguard the partner councils where new systems and upgrades are introduced.

### 2.2.2 Summary of Findings

EK Services undertake the ICT function for DDC, CCC, TDC and EKH. They have a Service Level Agreement (SLA) in place for ICT.

A common cause of system or security failures is inadequate control of changes to information processing facilities and systems. Formal management responsibilities and procedures should be in place to ensure satisfactory control of all changes.

Change control can be separated into three areas 'standard changes', 'normal changes' and 'emergency changes': -

Standard changes – changes to a service or to the IT infrastructure where the implementation process and the risks are known upfront. These changes should be managed according to policies that the IT Team should already have in place. Since these changes should be subject to established policies and procedures, they are the

easiest to prioritise and implement, and often don't require approval from a risk management perspective.

Normal changes – are those that should go through the change process before being approved and implemented, based on the risk category applied.

Software vendors issue patches to their software as errors are identified and corrected, and also to prevent security breaches as possible attackers develop new ways of breaking into computer systems. These may be issued as one off patches or a number may be grouped together as a service pack release. All patches should be downloaded and tested in a development environment. These tests should be documented and repeatable.

Emergency changes – arise when an unexpected error or threat occurs, such as a flaw in the infrastructure related to services and needs to be addressed immediately.

ICT systems change control is not directly linked to the corporate objectives of the partner councils however, efficient and effective ICT resources are key to them providing services.

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

- Standards have been set and procedures are in place and followed.
- Policies are documented.
- Project management processes are in place for major upgrades, new system installations etc.
- Peer review and approval processes are in place where required.
- Role Based Access Controls and privileged user accounts are in place to manage access to process changes.
- Change requests, action taken, by whom and approval where required are recorded, providing a management trail; although this information is spread across three systems. The systems are generally cross referenced and ICT staff are able to locate documentation. There may be small benefits from recording all the information from the three systems in one place and this could be given consideration for the future. However, the current processes generally work well with no additional charges (i.e. software licences, maintenance etc.) being incurred.
- Third part access procedures are in place and controls are currently being strengthened under the new Network Access and Availability Policy.

<b>2.3 Planning Applications, Income and s106 Agreements – Substantial/Reasonable Assurance.</b>
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### 2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to:

Planning Applications and Income:

Ensure that planning application procedures, including those in respect of fees and collection of income, are in accordance with Statute, and the organisation's Standing Orders and Financial Regulations.

Section 106 Agreements:

Ensure that Section 106 agreements are used where appropriate in planning applications and that all legal requirements are adhered to. All income / benefits from the agreement are received and obligations imposed are complied with to the benefit of the district.

2.3.2 Summary of Findings

The Council's development management function is responsible for deciding whether a proposed development should be allowed. Most new buildings, major alterations to existing buildings and significant changes to the use of a building or piece of land need planning permission. Certain minor building works do not need planning permission as the effect on neighbours or the surrounding environment is minimal and in these instances they are classed as permitted development.

The level of planning applications and income over the past three years was as follows:

Income	2016/17 (as at 23.02.17)	2015/16	2014/15
Planning Application fees	£556,880	£797,040	£568,211
Pre Application Advice fees	£55,099	£43,861	£33,691
No. of applications received	947	900	836

There are 4 main performance indicators in place and currently in all 4 instances they are not meeting their targets, indeed for 3 of them the direction of travel is downwards. The Performance indicators are as follows

PI	Description	2016/17 Target	Q1	Q2	Q3	Current Cumulative Figure
PLA 002	% of <b>major</b> planning applications determined in 13 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	60%	41%	36%	33%	35%
PLA 003	% of <b>minor</b> planning applications determined in 8 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	65%	61%	72%	55%	61%
PLA 004	% of <b>other</b> planning applications determined in 8 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	80%	72%	83%	75%	76%
PLA	The % of appeals against	20%	42%	50%	38%	44%

001	planning decisions which were successful for the applicant					
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Management can place Substantial Assurance on the monitoring of the financial obligations recorded in S106 agreements and the digital processes for customers and a Reasonable Assurance for the back office planning application function as the current working processes are seen as a best fit solution for the current Acolaid system that has become cumbersome and time consuming.

The primary findings giving rise to the Substantial and Reasonable Assurance opinions in this area is as shown below:

- Processes are now established for monitoring financial S106 agreements to ensure the funds are received and spent correctly. However the notification process to these officers could be improved. (see 1.5 below)
- S106 Agreements (that are known about) can now be easily identified on a GIS interactive map which links to the S106 Agreement in the planning portal.
- Regular monitoring of planning income is in place through the normal budget monitoring processes.
- Digital processes for customers ensure that they are able to submit applications through the planning portal and information is available to the public to view and comment online on all applications that have been submitted.

Scope for improvement was however identified in the following areas:

- The back office functions have not moved forward since the last audit was carried out two and a half years ago in reengineering its processes and going digital thus removing the need for paper files. It should be noted that the current working processes are seen as a best fit solution for the current Acolaid system that has become cumbersome and time consuming. With the implementation of the new Uniform system (project due to commence in December 2017) and the project team driving this forward there is the opportunity to move the back office function forward by reviewing the current working practices, ensuring that the current database is up to date before interfacing into Uniform and possibly streamlining processes whilst embracing the use of technology (i.e. use of tablets and apps) that will become available.
- There is also still a need to put in place a data retention policy which clearly states how long the various types of documentation should be kept or and this should be adhered to. This has been an ongoing issue that has not been addressed for several years. By implementing this it will have an impact on the amount of storage needed for paper files and now has a target date of 30<sup>th</sup> June 2017 for completion.
- There needs to be a notifying process put in place so that the Regeneration Delivery Team, Land Charges and any other applicable departments / teams (i.e Support team) are notified of Section 106 agreements that have been put in place. This could be done by email by Legal when they are drawn up or approve the Section 106 agreement or by the Team Leaders (Development Management) when they are signing off the application.

### 3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, seven 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 Number of Recs		No of Recs Outstanding	
a)	Grounds Maintenance	Limited	Reasonable	C	0	C	0
				H	4	H	0
				M	4	M	0
				L	0	L	0
b)	Museums and VIC	Substantial	Substantial	C	0	C	0
				H	2	H	0
				M	0	M	0
				L	0	L	0
c)	Business Continuity & Emergency Planning	Reasonable	Reasonable	C	0	C	0
				H	1	H	0
				M	2	M	1
				L	6	L	1
d)	Equality & Diversity	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	3	L	0
e)	Receipt and Opening of Tenders	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	0	M	0
				L	1	L	0
f)	EKS – Business Rate Reliefs	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	2	L	0
g)	EKS – Business Rate Credits	Reasonable	Reasonable	C	0	C	0
				H	2	H	0
				M	2	M	0
				L	0	L	0

- 3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Annex 1 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 Committee.

The purpose of escalating outstanding high-risk matters 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.

**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: Homelessness, CSO Compliance, Land Charges, Anti-Fraud & Corruption, Officers' Code of Conduct, Local Code of Corporate Governance, Port Health, Pollution and Contaminated Land, and Service Contract Monitoring.

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

- 5.1 The 2016-17 Audit plan was agreed by Members at the meeting of this Committee on 24<sup>th</sup> March 2016.
- 5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer 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 have been made to the plan during the course of the year as some high profile projects or high-risk areas have been 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 Annex 3.

**6.0 FRAUD AND CORRUPTION:**

- 6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

**Attachments**

Annex 1	Summary of High priority recommendations outstanding after follow-up.
Annex 2	Summary of services with Limited / No Assurances
Annex 3	Assurance statements

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1**

<b>Original Recommendation</b>	<b>Agreed Management Action, Responsibility and Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
<i>None to report this Quarter</i>		

<b>SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED</b>			
<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Follow-up Action Due</b>
EKS – PCI DCC	September 2016	Limited	WIP
Playgrounds	December 2016	Limited	Spring 2017
Performance Management	March 2017	Reasonable/Limited	Summer 2017

## 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.