

Audit Committee Meeting

Meeting Date	10 June 2015
Report Title	Internal Audit Annual Report 2014/15
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Russell Heppleston – Audit Manager
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none">1. That the Audit Committee notes the annual opinion of the Head of Audit Partnership that reliance can be placed on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, and that the opinion can be used to inform the Annual Governance Statement 2014/15.2. That the Audit Committee notes the results of the work of the Internal Audit Team over the period April 2014 to March 2015, as shown in the report as the prime source for the Head of Audit Partnership’s opinion.3. That the Audit Committee notes the effectiveness of the Internal Audit service and its conformance to the Public Sector Internal Audit Standards.

1 Purpose of Report and Executive Summary

- 1.1 This report meets the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (the “Standards”), including the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, which can be used to inform the Annual Governance Statement 2014/15.
- 1.2 The Standards, particular Standard 2450: Overall Opinions, direct that the annual report must incorporate:
- The annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control;
 - A summary of the work completed that supports the opinion; and
 - A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

2 Background

- 2.1 Internal Audit is a required service under the Accounts & Audit Regulations 2011. The principle objective of Internal Audit is to examine and evaluate the adequacy of the Council’s systems of internal controls, risk management and corporate governance.
- 2.2 As those charged with overseeing Governance, the Terms of Reference for the Audit Committee require it to ‘receive the annual report of the Head of Audit Partnership’. In order for the Committee to fulfil its duties we provide regular updates on the performance and effectiveness of the Internal Audit Service. The Council’s internal audit service is provided by Mid Kent Audit as a partnership between Swale, Maidstone, Ashford and Tunbridge Wells Borough Councils. The four way partnership has been in operation since 2010.
- 2.3 The overall scope of the Council’s audit service is set out in advance within the annual internal audit plan. The Council’s Audit Committee agreed the 2014/15 audit plan at its meeting on 16 March 2014, and considered the revised plan on 10 December 2014.
- 2.4 We have completed the audit work set out in that plan, subject to minor modifications in year in response to prevailing risks and needs of the Council, in accordance with mandatory standards and good practice contained within the Standards. Where there is work outstanding at the time of issuing this report, the

work is sufficiently advanced that the Head of Audit Partnership is satisfied its conclusions will not materially affect the Head of Audit Opinion. The final conclusions of any work outstanding will be reported to the Committee verbally during the meeting (where available) or as part of the first scheduled 2015/16 update.

3 Proposal

- 3.1 In summary, I am satisfied the Council can place assurance on the system of control in operation during 2014/15. Furthermore I am satisfied that the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, I am satisfied that the Council's risk management processes are effective. I ask the Audit Committee to note these opinions and that they will inform the Council's Annual Governance Statement.
- 3.2 Please see Appendix I for the Annual Internal Audit Report 2014/15 which includes a summary of work completed from 1 April 2014 to 31 March 2015 to support the overall opinions summarised above.

4 Alternative Options

- 4.1 The role of the Audit Committee includes the consideration of the Annual Head of Audit Partnership report in accordance with its Terms of Reference. We recommend no alternative course of action.

5 Consultation Undertaken or Proposed

- 5.1 We have consulted with officers throughout the delivery of audit work, and in particular with the Head of Finance to advise of the outturn of work to inform the Annual Governance Statement.

6 Implications

Issue	Implications
Corporate Plan	The role of Internal Audit is to help the Council accomplish its objectives. All audit work considers the adequacy of controls and risks associated with the delivery of the Council's strategic and operational objectives.
Financial, Resource and Property	None identified at this stage.
Legal and Statutory	Internal Audit is a statutory function in accordance with the Accounts & Audit Regulations 2011. Providing an internal audit annual report is a requirement inherent in operating a system of internal control which is in compliance with proper practices.
Crime and Disorder	None identified at this stage.

Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Risk Management and Health and Safety	There are no Health and Safety implications identified at this stage.
Equality and Diversity	None identified at this stage.

7 Appendices

7.1 Appendix I: Internal Audit Annual Report 2014/15

8 Background Papers

8.1 None.

MID KENT AUDIT

**Annual
Internal Audit
Report
April 2014 – March 2015**

Swale



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Authority for Internal Audit is within the Accounts and Audit Regulations 2011 that require the Council to undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS).
3. As required by these standards the Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
 - Internal Controls: Including financial and non-financial controls.
 - Corporate governance: Including effectiveness of measures to counter fraud and corruption.
 - Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. In addition, the Head of Audit Partnership must confirm to the Audit Committee at least annually, the organisational independence of internal audit activity.

Independence:

5. Mid Kent Audit is provided through a shared service partnership together with Ashford, Maidstone, Swale and Tunbridge Wells.
6. At Swale Borough Council, the Head of Audit Partnership has direct and unrestricted access to the Chief Executive, senior management and the Chair of the Audit Committee. This right of access is contained within and reinforced by the Audit Charter, as approved by Management and the Audit Committee
7. Organisationally the Head of Audit Partnership reports to the Director of Corporate Services who is a member of the Strategic Management Team (SMT). On no occasion has the Director or SMT sought to restrict the scope of audit work or to change any report prepared by the Head of Audit Partnership.
8. We are satisfied that Internal Audit is organisationally independent and fully meets the necessary standard for independence and objectivity.

¹ This is the definition of internal audit included within the Public Sector Internal Audit Standards

Head of Audit Partnership Annual Opinion

9. This opinion statement is provided for Swale Borough Council (the Council) in support of its Annual Governance Statement 2015, which is published alongside the statement of accounts for the year ended 31 March 2015.

Scope of responsibility

10. The Council is responsible for ensuring its business is conducted in accordance with the law and proper practices and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
11. In discharging this responsibility the Council is also responsible for ensuring that there exists a sound system of internal control with allows for effective exercise of the Council's functions and arrangements for the management of risk.

The purpose of the system of internal control

12. The system of internal control is designed to manage risk to a reasonable level rather than eliminate risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

The control environment

13. The Public Sector Internal Audit Standards (the 'Standards') states that the control environment includes the following elements:
 - Integrity and ethical values.
 - Management's philosophy and operating style.
 - Organisational structure.
 - Assignment of authority and responsibility.
 - Human resource policies and practices.
 - Competence of personnel.
14. In examining the control environment, I have had regard to these elements and how they support the Council's framework of governance, risk management and control.

Basis of assurance

15. Mid Kent Audit has conducted audits both in accordance with the mandatory standards and good practice contained within the Standards and additionally from our own internal quality assurance systems, which include operating to an agreed audit manual with adequate supervision and review.
16. My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the Council's assurance framework, that are covered by Internal Audit's programme. Where principal risks are identified within the Council's framework that do not fall under Internal Audit's coverage or that are not included in Internal Audit's coverage, I am satisfied that an assurance framework is in place that provides reasonable assurance that these risks are being managed effectively.
17. Our work for the year to 31 March 2015 was completed in line with the operational plan approved by the Audit Committee on 16 March 2014.

Internal control

18. From the Internal Audit work undertaken in relation to 2014/15 it is my opinion that I can provide assurance that the system of internal control that has been in place at Swale Borough Council (the Council) for the year ended 31 March 2015 accords with proper practice. This assurance extends to both the financial and non-financial systems of the Council insofar as they have been subject to audit review.

Corporate governance

19. In my opinion the corporate governance framework complies in all significant respects with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Risk management

20. I am satisfied that the risk management processes are effective and provide regular information on key risks and issues to the Council's management team and through to Members.
21. I have based these opinions on the work outlined in the detail of this report.

Internal Control

22. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
23. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2014.

Summary of Audit Work – Swale 2014/15

24. The table below sets out the internal audit projects undertaken during the year, including progression of work currently in the process of being finalised. Since the plan was agreed in March 2014 there have been a number of revisions to the scheduling of audit projects over the year, therefore a list of changes to the plan is also included as part of the table:

No.	Audit Project	Brief Agreed	Fieldwork	Draft Report	Final Report	Assurance Rating
	Audit Assurance Projects					
1	Safeguarding People	◆	◆	◆	◆	WEAK
2	ICT: Service Desk	◆	◆	◆	◆	WEAK
3	Housing Benefits	◆	◆	◆	◆	WEAK
4	Business Rates Retention Scheme (Risk)	◆	◆	◆	◆	SOUND
5	Members' Allowances Scheme	◆	◆	◆	◆	SOUND
6	Housing Allocations Policy	◆	◆	◆	◆	SOUND
7	Council Tax (Systems Audit)	◆	◆	◆	◆	STRONG
8	Treasury Management	◆	◆	◆	◆	STRONG
9	Accounts Payable (Creditors)	◆	◆	◆	◆	STRONG
10	Management of Misc. Cash	◆	◆	◆	◆	N/A
11	Risk Management Framework	◆	◆	◆	◆	N/A
12	Business Rates (Systems audit)	◆	◆	◆		
13	Commissioning Framework – Implementation	◆	◆	◆		
14	Contract Management: Waste Collection & Street Cleaning	◆	◆	◆		
15	Cashless P&D Implementation	◆	◆	◆		
16	Homelessness: Temporary Accommodation	◆	◆			
17	Freedom of Information	◆	◆			
	Other Projects					
18	Licensing Investigation	◆	◆	◆	◆	COMPLETE
19	National Fraud Initiative	◆	◆			PHASE 1

25. The team have completed 13 projects; of which 9 include a full assessment and assurance rating. We currently have 4 projects in draft reporting stage, indicating that the audit fieldwork has been completed, but the report is not yet been issued, and a further 2 projects in progress.
26. Note also that this table reflects only projects included within the Swale 2014/15 audit plan. For 2014/15 and earlier our practice when examining shared services was to share them between partner authority's audit plans. Although we have changed this approach for 2015/16 – shared service reports now feature in the audit plans and are outcomes reported automatically to the audit committee (or equivalent) of each partner – for 2014/15 the reviews below are also relevant to gaining an understanding of audit work completed that supports our overall view of the control environment at the Council:

No.	Audit Project	Brief Agreed	Fieldwork	Draft Report	Final Report	Assurance Rating
	Audit Assurance Projects					
1	Payroll (MBC plan)	◆	◆	◆	◆	STRONG
2	Computer Use Policy (TWBC plan)	◆	◆	◆	◆	SOUND
3	Planning Support Shared Service: Income Management (MBC plan)	◆	◆	◆	◆	N/A
	Other Projects					
4	Planning Support Project Implementation Review (TWBC plan)	◆	◆	◆	◆	N/A

27. Where work is incomplete at the time of preparing this report, we are satisfied that the work is sufficiently progressed to provide assurance that there are no matters arising that materially affect the Head of Audit Opinion. We will report the final conclusions of any work outstanding to the Committee verbally during the meeting (where available) or as part of the first scheduled 2015/16 update.
28. We include a summary of each completed review below.

CHANGES TO THE PLAN

29. The audit plan must be flexible and reactive, capable of adaptation to the changing risks and needs of the Council. As in previous years this has resulted in a number of changes to the original plan; five alterations in 2014/15. Two projects were deferred into the 2015/16 audit plan (which was agreed by Audit Committee in March 2015), and a further three projects were revised to reflect changes to original timeframes.

No.	Audit Project	Comments
1	Asset Transfer Policy Review	Deferred to 2015/16 to allow for implementation of the project intended as subject to review..
2	Corporate Governance	CIPFA is to consult on a new code of Corporate Governance for local authorities in summer 2015. As a result we proposed to officers this work be delayed to examine instead the forthcoming 'new' Code.
3	Repair & Renew Grant - Sign-off	The grant paying body moved the deadline for sign off back to July 2015.
4	General Ledger: Budgetary Control	We agreed with officers to defer this project into 2015/16 to allow for its completion alongside similar work at partner authorities.
5	Cash Receipting System	On discussion with officers, we agreed audit would be kept updated as the system implementation progresses and determine an appropriate audit response once the project is further advanced.

Assurance Ratings Guide

Full Definition	Short Description
<p>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 will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>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.</p>	<p>Service/system is operating effectively</p>
<p>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.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>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.</p>	<p>Service/system is not operating effectively</p>

Audit Review Findings

30. We have completed 11 projects relevant to the Council that included an assessment and assurance rating (9 from Swale’s plan, 2 shared service reviews). We include below an extract from each report supporting the conclusion of the audit. We are pleased to report that management accepted our audit findings, and set target dates for implementing the recommendations. We will follow up that implementation as the recommendations fall due over the coming months.

No.	Audit Project	Head of Service	Assurance
1	Safeguarding People	Head of Economy & Community	WEAK
2	ICT: Service Desk	Mid Kent ICT	WEAK
3	Housing Benefits	Head of Service Delivery	WEAK
4	Business Rates Retention Scheme (Risk)	Head of Service Delivery	SOUND
5	Members’ Allowances Scheme	Director of Corporate Services	SOUND
6	Housing Allocations Policy	Head of Resident Services	SOUND
7	Council Tax (Systems Audit)	Head of Service Delivery	STRONG
8	Treasury Management	Head of Finance	STRONG
9	Accounts Payable (Creditors)	Head of Finance	STRONG
No.	Non-SBC Plan Audit Project	Head of Service	Assurance
10	Payroll (MBC plan)	Head of HR Shared Service	STRONG
11	Computer Use Policy (TWBC plan)	Mid Kent ICT	SOUND

Safeguarding People

31. We conclude based on our audit work that the Council has **WEAK** controls in place over its safeguarding arrangements.
32. The Council has moved quickly compared to its peers in highlighting Safeguarding as an issue. It is included within the strategic risk register with senior responsibility clearly assigned, including at Member level. It has backed up that strategic oversight with a policy and supporting guidance clearly setting out roles and responsibilities.
33. However our audit testing identified weaknesses in how the policy works in practice that serve to undermine its effectiveness. This encompasses fairly straightforward procedural oversights, limitations in software functionality and insufficient training reach and scope. The Council also needs to be clearer in identifying which roles present particular safeguarding requirements, so it can better direct its training and resources.
34. Since we issued the final report in March the Council has acted promptly to address the major recommendations, including implementing both those identified as falling due before the end of March (see paragraph 62 on follow ups). The service has also sought, and obtained, additional funding from Cabinet in order to enhance the service and sustainably address our remaining findings, which we will review later in 2015.

ICT: Service Desk

35. We conclude based on our audit work that the ICT Service Desk has **WEAK** controls to control its risks and support its objectives.
36. We found that the service offered to customers, while often prompt and efficient, has a number of issues and inconsistencies with regards to logging, prioritising and resolving calls such that we cannot be confident on its overall effectiveness. A significant number of incidents are not logged so we cannot place reliance on accuracy of service performance data. In addition, calls allocated to the Application Support Team – who are not managed by the service desk team directly - are not routinely managed or progressed resulting in a significant backlog.
37. The ability of the service to consistently deal effectively with these issues is limited by a lack of formalised and agreed procedures. Current service standards as set out in the ICT collaboration agreement do not accurately reflect how the service operates as we found Service Desk Engineers do not deal consistently with accepting, recording, and monitoring calls. The most significant inconsistency being how the Engineers record new incidents reported via the telephone.
38. Since our final report in early March, the Council has taken part in a special meeting of the shared service board dedicated to addressing the issues raised in the report. None of the recommendations have yet fallen due, although we understand good progress is being made as described in updates provided to subsequent meetings of the board.

Housing Benefits – Systems

39. We conclude based on our audit work that there are **WEAK** controls in operation within the Housing Benefits system. Based on this assessment we are unable to provide assurance that the system is operating effectively and as designed.
40. The Council manages the majority of its benefits system effectively; however we have identified a number of weaknesses surrounding the checks carried out on changes to the bank details of claimants and landlords that leave the Council exposed to risk.
41. We identified a significant weakness surrounding the method used for the selection of claims subject to Quality Assessment (QA) review. Our review has identified that claims are subject to a manual selection process which has an overall aim to ensure that an accuracy rate either above, or near 98% is achieved. This bias over sample selection means that it is highly unlikely that the accuracy rates being recorded and reported are a true reflection of actual performance. The QA review stage in the benefits process is considered by all parties concerned (including the Department for Work and Pensions) to be the final check to ensure that the correct amount of benefit is paid to the claimant. Without an effective QA process the Council runs the risk of not detecting and correcting errors, leading to increased external audit attention, reputational damage and potential increased costs.

42. Since we issued our final report in February the service has acted to implement all of the recommendations that spoke to immediate process changes and is currently updating its QA processes. We will review that update as part of our follow up work later in 2015.

Business Rates Retention (Risk)

43. We conclude based on our audit work that there are **SOUND** controls in place for the management of the risks and opportunities associated with the Business Rates Retention Scheme.
44. The Council has a good understanding of the risks associated with the scheme. Mitigating actions are in place to manage the risks in accordance with the Council's current processes. The Council's budget setting has sufficiently considered the scheme's impact and regularly monitors outturn. However, communication between officers needs to be more robust to support monitoring of business rate fluctuations and changes to businesses within the Borough. The effect of appeal levels on the budget are understood and monitored. The Council has implemented opportunities to increase income. Service resilience with regard to understanding technical information from Academy needs to be further developed.

Members' Allowances Scheme

45. We conclude based on our audit work that the Council has **SOUND** controls in place over the management and administration of the Members' Allowances Scheme.
46. The Council's Members' Allowances Scheme fully complies with Regulations. Allowances and expenses paid to Members are paid in accordance with the Scheme and the Council's Financial Regulations. We identified some minor matters for the Council to address including enhancements to its publication of the Remuneration Panel's decisions and changes to improve compliance and efficiency in administration and processing of payments.

Housing Allocations Policy

47. We conclude based on our audit work that the service has **SOUND** controls in place for the successful management of the housing register in compliance with the Council's Housing Allocations Policy.
48. The Council managed implementation of the new Housing Allocations Policy effectively giving careful thought to the impact of changes in housing need criteria to existing applicants. The service continues to operate in line with the Policy and our testing confirms allocation ensures the Council houses those in most need. We identified some minor improvements required around identifying evidence to confirm eligibility and processing refusals.

Council Tax – Systems

49. We conclude based on our audit work that **STRONG** controls exist over the design and operation of the Council Tax system.
50. The key controls operating within the council tax system provide mitigation of the inherent risks within the system, and are operating effectively. Management controls are in place to check the validity and integrity of information held on the system (Academy). The system also includes a level of quality assurance unique in Kent that we consider the Council could, if it wishes, cease without noticeably increasing its risk of error.

Treasury Management

51. We conclude based on our audit work that the Council has **STRONG** controls in place over its Treasury Management function.
52. The Council practices and administers its Treasury Management to a high standard, in full compliance with the CIPFA Code of Practice. Transactions are processed in accordance with the Council's Treasury Management Strategy, Treasury Management Practices and Financial Regulations.
53. This framework sets out robust mechanisms to ensure transactions are closely monitored and performance is comprehensively and accurately reported.

Accounts Payable - Systems

54. We conclude based on our audit work that there are **STRONG** controls in both design and operation within the Accounts Payable system.
55. The controls within the Accounts Payable system are designed and operate effectively. The Accounts Payable process is well controlled and mitigates the risk of fraud and error. Our testing found no areas of concern or significant areas where the service might reasonably look to improve its operation.

Payroll – Systems (on MBC Plan)

56. We conclude based on our audit work that there are **STRONG** controls in operation within the Payroll service provided for Maidstone and Swale.
57. The Council manages its payroll effectively, resulting in accurate and timely payment of employees. Our testing confirms the adequacy of key controls in both design and operation as well as management of risks within the payroll system and associated processes. We have identified opportunities to enhance some of the controls within the process, such as on retaining supporting evidence for leavers and offering additional guidance on expenses.

Computer Use Policy (on TWBC Plan)

58. We conclude based on our audit work that there are **SOUND** controls in place to ensure the Council operates in compliance with its Computer Use Policies (the Policies).
59. Our work established that the ICT policies are both widely available and effectively incorporated within the induction process for new staff. The Policies are comprehensive, covering a range of ICT activity from purchase and disposal of hardware, guidance on software use and controls to monitor and inhibit unauthorised activity and connections. However, we identified weaknesses for the Council to address, in particular the information it holds on its asset registers and progress moves to reduce the risk posed by removable media devices.

Follow-up of Internal Audit Recommendations

60. In July 2014 we advised the Audit Committee of our revised process for following up agreed audit recommendations. We undertook work throughout the year to systematically follow-up on all agreed audit recommendations as they fell due. We have reported progress each quarter to members of SMT. We are pleased to report that our new approach has been received positively and already developing case studies to demonstrate how an increased and systemic focus on recommendations has assisted management in making the changes agreed as arising from audit work. The table below sets out in more detail progress against specific reports with respect to recommendations falling due for implementation on or before 31 March 2015.

Project	Assurance Rating	Agreed Actions	Actions Completed	Actions past due date	Actions Not Yet Due
Business Rate Retention Scheme	Sound	2	2	0	0
Car Park Income & Season Tickets	Substantial	3	3	0	0
Residents Parking	Substantial	4	4	0	0
Leisure Centre	Limited	10	10	0	0
Sustainable Sheppey	Limited	12	12	0	0
Accounts Receivable	High	1	1	0	0
Emergency Planning	Substantial	5	5	0	0
Income Controls	N/A	3	1	0	2
Members' Allowances	Sound	3	2	0	1
Business Rates – Valuation, Liability & Billing	Substantial	4	4	0	0
Housing Benefits Payments	Substantial	16	15	0	1
Housing Benefits – Systems	Weak	8	5	0	3
Safeguarding People	Weak	9	2	0	7
Housing Allocation Policy	Sound	4	4	0	0
Mid Kent Legal Services	Substantial	6	6	0	0
Mid Kent ICT -PC Internet Controls	Substantial	18	11	0	7
Mid Kent HR – Recruitment	Substantial	8	7	0	1
Mid Kent HR - Payroll	Sound	3	3	0	0
TOTAL		119	97	0	22
			82% of agreed (100% of due)		18% of agreed

Summary of Findings

61. Of the twenty audit projects followed-up in 2014/15 two – the **Sustainable Sheppey Project**, and the **Leisure Centre** – originally received an assurance rating of **limited**. Both of the service areas have worked hard to address the issues raised by our audit, and to implement all of the recommendations. We re-tested the controls as part of the follow up and conclude that the controls now provide a **substantial** level of assurance in both cases. As the reviews were conducted using the 2013/14 assurance ratings, we have for consistency, employed the same rating system for the re-assessment.
62. Two projects – **Housing Benefits Systems** and **Safeguarding** – received **weak** assurance rating. To date, management responsible for both services have implemented all recommendations that have fallen due. However, we cannot yet re-assess the assurance rating as several recommendations, including the issues that substantively informed our overall assessment, do not fall due for implementation until 2015/16. Once the remaining recommendations do fall due, we will test the controls and re-assess the level of assurance. Members will be provided with further updates throughout 2015/16 as part of our regular progress reports.
63. One further project – **ICT Servicedesk** – received **weak** assurance rating but none of its recommendations fell due for implementation on or before 31 March 2015. As noted above, we will examine these recommendations when they are due and potentially reassess the assurance rating, reporting our revised findings to the Committee in due course.
64. The Council has successfully implemented all high priority recommendations which fell due.
65. Overall, we are very pleased with the performance of management in addressing recommendations, demonstrating audit and services working closely together to help improve how the Council operates. We would like to draw particular attention to the assistance we have received from Directors in supporting the process, which represented a significant change from our previous practice and can only be effective where management are dedicated to taking appropriate action in response to our findings.

Corporate Governance

66. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
67. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or officers through whistleblowing and the Council's counter fraud and corruption arrangements.
68. Members will recall in our interim report in December we reported a response on the Council's behalf to a CLG consultation on secondary legislation following on from the Local Audit and Accountability Act 2014. The Government has since published its response and laid the final regulations before Parliament, confirming arrangements for collective procurement of external audit services via a 'specified person' and bringing forward the accounts publication date from 30 September to 31 July by 2018.
69. We also reported in December on a separate review commissioned by the three MKIP Chief Executives examining the implementation of the Planning Support Shared Service. The Head of Audit Partnership presented this report to a joint Overview & Scrutiny Committee meeting in February and it contained extensive commentary on the key issues faced by the project and included issues for consideration by future project boards. We are pleased that report was accepted in full by the MKIP Board who set out their plans in response to its comments. Regarding continuing governance of the shared service, we have allocated time in our 2015/16 audit plan to keep the area under review as each authority considers its role.

Counter Fraud & Corruption

70. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking distinct activities to assess and support the Council's arrangements.

Investigations

71. During 2014/15 we undertook one large scale investigation. We provided a separate report to the Committee outlining our conclusions from that investigation in the restricted papers of this meeting. In addition to this, we have conducted 2 smaller scale investigations both of which were reported in our interim report in December 2014.

Whistleblowing

72. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.

73. We received one disclosure in the first half of the year which formed the basis of our large scale investigation referenced above.

National Fraud Initiative

74. We have continued to co-ordinate the Council’s response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data, securely, to the Cabinet Office (who have taken on responsibility for managing NFI following the demise of the Audit Commission).

75. The 2014/15 NFI exercise included the following services:

- Creditors
- Payroll
- Housing Benefits
- Licensing
- Parking
- Insurance

76. The NFI team then analyse this data and release it back to authorities in the form of ‘matches’ – items identified by the analysis as potentially indicative of fraud or error. These might include, for example, the same national insurance number appearing as receiving a significant amount of salary from authority A yet making a benefit claim in authority B. Another example might be repeated payments to the same supplier at the same value, potentially indicating erroneous (or even fraudulent) duplicate payments.

77. The NFI team released the data in two tranches, January and March 2015, for investigation by authorities. The matches are generally flagged as ‘high priority’ where, based on the NFI team’s experience, there is more chance of the match having identified a fraud rather than a simple error or quirk in the data. In 2015, all of the Council’s ‘high priority’ matches were within the Housing Benefit data set. The NFI team recommend that councils should seek to follow up, in the first instance, all high priority matches by September 2015. Progress to date is summarised in the table below:

Data Set	Number of Matches	Investigated / In Progress	Outcomes
Housing Benefits	1,206	740	£2,144.96
Creditors	734	0	0
Payroll	170	0	0
Licensing	0	0	0
Parking	0	0	0
Insurance	5	0	0
TOTAL	2,115	740	£2,144.96
		35%	

Risk Management

78. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
79. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
80. The Council's Strategic Risk Register was adopted by Cabinet on 29 May 2014, after review by the Audit Committee in March 2014. The strategic risk register outlines five risks:
 - **Risk Scenario 1** - Impact of welfare reform and wider economic pressures
 - **Risk Scenario 2** - Regeneration and place shaping
 - **Risk Scenario 3** - Achieving a balanced budget across the medium term financial plan period 2014/15 – 2016/17
 - **Risk Scenario 4** - Transforming to meet the financial environment
 - **Risk Scenario 5** - Safeguarding People
81. The Council plans to revisit and update its strategic risks in 2015/16, to align with the Council's corporate priorities.
82. We are currently working with the Council to help improve the risk management process and clarify the role of the audit service in assisting the Council's risk management. This work includes the implementation of a revised risk management strategy, process and guidance/training. As we progress we will be working closely with officers and members prior to reviewing and refreshing the strategic risks as well as providing clearer management for key operational risks.
83. We will update the Committee as this work progresses through 2015/16.

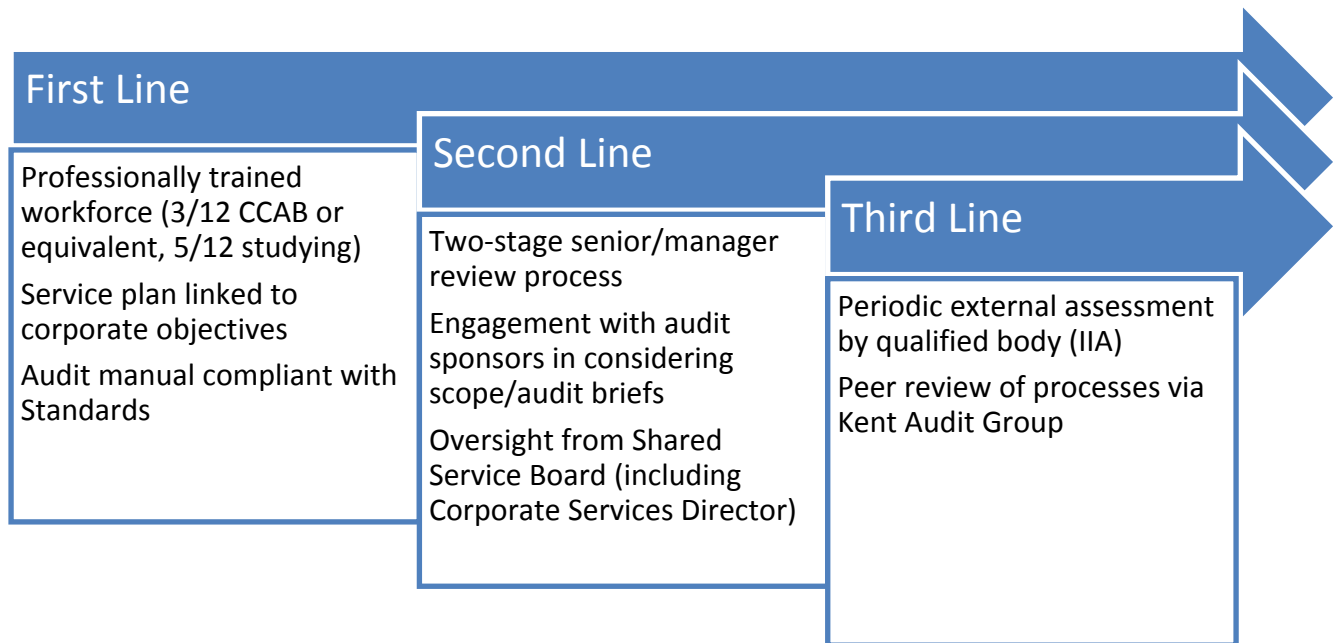
Mid Kent Audit Service Update

Quality Assurance and Improvement Programme: Public Sector Internal Audit Standards

84. The Public Sector Audit Standards (the 'Standards') demand that we include for Members a report on how we have assured the quality of our work and plans for maintaining and improving that quality.
85. A key means of quality assurance included within the Standards is the requirement for every internal audit service to receive external assessment against the Standards at least every five years. We commissioned the Institute of Internal Audit (IIA) to undertake an external quality assessment of Mid Kent Audit and we reported the outcome of that review to Members in March 2014, concluding we were fully conforming to 50 of the standards and partially conforming to the remaining 6.
86. During 2014/15 we worked to implement the recommendations left by the IIA, some of which we could only address in early 2015 as they related to the process for compiling our annual audit plan. In April 2015 we invited the IIA back to re-evaluate the audit service based on our progress and we are very pleased to report their assessment that we are now **fully conforming** to the Standards. A copy of the IIA follow up report is included in Annex A.
87. Also during 2014/15 the Head of Audit Partnership was successful in an application to join the **Internal Audit Standards Advisory Board (IASAB)** as its Local Government practitioner representative. The IASAB is responsible for monitoring use and overall adherence to the Standards, including making recommendations for their development. The Head of Audit's presence on the IASAB will give us early insight into developing issues around audit quality as well as access to leading and best practice from across the public and private sectors; other members including representatives from the major audit firms, accountancy bodies, NHS auditors, the London Stock Exchange, HM Treasury and each of the devolved parliaments.

Quality Assurance and Improvement Programme: Ongoing monitoring

88. However, quality assurance is not simply something to be assessed periodically and externally; it is central to all of our work. The chart below sets out, very briefly, some of the core practices and processes we employ to assure the quality of our work.



Quality Assurance and Improvement Programme: Developments Planned for 2015/16

89. We continue to examine and review our processes, drawing on feedback from Members and officers as well as best practice from across public and private sector audit. For 2015/16 we intend a number of developments to our service to further improve, including:
- Increased standardisation of our work around the three core elements of the opinion (internal controls, core finance and corporate governance) while retaining clear mandate to vary the scope according to identified risk,
 - Examining the structure of our audit team with a view to making more use of knowledge gained across the partnership to inform best practice both in our work and that of the partner authorities, and
 - Continuing to work with partner authorities to develop their risk management processes, including a clear channel into risk management to both record audit findings and use identified risks to drive audit planning.
90. It would be remiss at this point though not to acknowledge the exceptional efforts and talents of our audit team in both enabling us to be recognised by the IIA as full conforming – still a rare distinction – as well as allowing us to continue positive developments within the service. Both the Head of the Partnership and the Audit Manager are grateful for the continuing skill, hard work and dedication of our auditors.

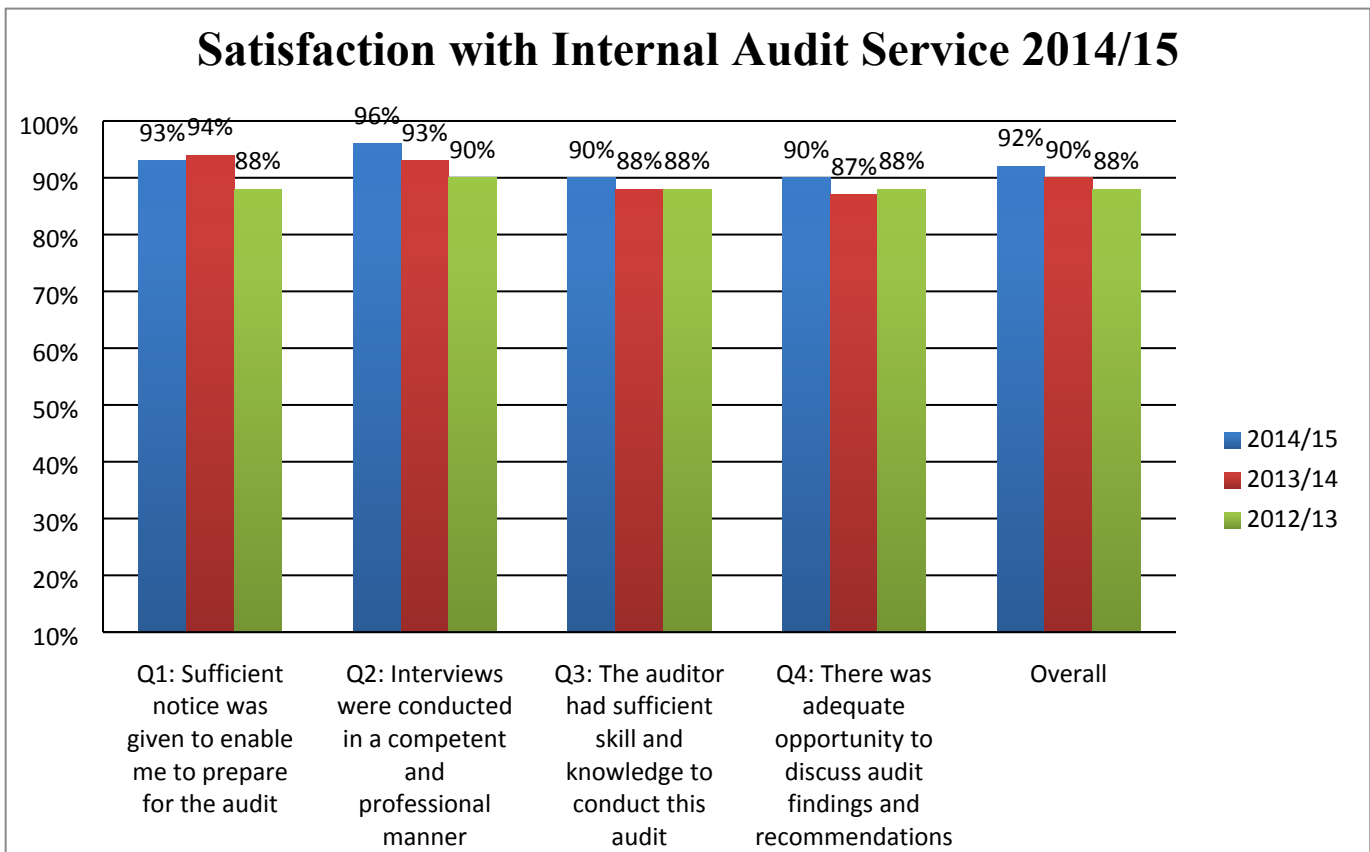
Performance

91. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Shared Service Board (with Mark Radford as Swale’s representative) considers these measures at each of its quarterly meetings, and they are also consolidated into reports submitted to the MKIP Board (including the Council’s Chief Executive and Leader).
92. Below is the outturn from the performance report for 14/15, as reported to Shared Service Board on 4 June. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.
93. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	Outturn	Target & Commentary
% projects completed within budgeted number of days	47%	Much improved from 2013/14 performance (18%) and indicative of continued work within the team to shape realistic budgets based on agreed scope. In 2015/16 we will work towards a target of 60% as suggested by trend towards the end of the year.
% of chargeable days (Finance)	75%	Proportion of available days spent on productive client-focussed work rather than administration, training, general management and so on. General target used by Kent Audit Group members is 70%.
Full PSIAS conformance (Internal Process)	56/56	As confirmed by IIA assessment (see annex).
Audit projects completed within agreed deadlines (Internal Process)	41%	As with the budgeted number of days indicator, this is developing as we enhance our planning approach (previously we made no specific commitment at all to audit sponsors on when to expect the final report). In 2015/16 we will work towards a target of 60%.
% draft reports presented within ten days of fieldwork concluding (Internal Process)	56%	Another new indicator (previously we did not track how promptly reports were delivered) and has led to a streamlining of our review process which has also enabled giving greater responsibility to the role of Senior Auditors. In 2015/16 we will work towards a target of 70%.
Satisfaction with assurance (Customer)	100%	From satisfaction surveys (see below).
Final reports presented within 5 days of closing meeting (Customer)	89%	The only occasions where we did not meet this target were where we engaged in ongoing discussion with the service on how best to respond to recommendations. For this reason, we work to a 90% target for this indicator.
Respondents satisfied with auditor conduct (Customer)	100%	From satisfaction surveys (see below).
Recommendations implemented as agreed (Learning & Growth)	95%	As reported elsewhere in this review.
Exam success (Learning & Growth)	100%	All of our team were successful in professional exams in 2014/15. We generally work towards a target of 75%, slightly ahead the national pass rate of 70%.
Respondents satisfied with auditor skill (Learning & Growth)	100%	From satisfaction surveys (see below).

Satisfaction with Internal Audit Service – Mid Kent Audit 2014/15

94. At the close of each audit project we issue a satisfaction survey to recipients of our final report, which will include the Audit Sponsor as well as key operational managers engaged in the audit.
95. We ask four questions, designed to measure the overall audit experience:
- Sufficient notice was given to enable me to prepare for the audit.
 - Interviews were conducted in a competent and professional manner.
 - The auditor had sufficient skill and knowledge to conduct this audit.
 - There was adequate opportunity to discuss audit findings and recommendations.
96. Respondents score each question either: Strongly Agree (4), Agree (3), Disagree (2) or Strongly Disagree (1).
97. The level of satisfaction has been calculated by using the total responses received to give an overall level of satisfaction, compared with 12/13 and 13/14 (the percentage indicating proportion of total marks available, i.e. 100% would be each return scoring ‘Strongly Agree’ (4), 75% if each had reported ‘Agree’ (3) and so on. We received no responses at the Disagree/Strongly Disagree level in 2014/15):



98. We are encouraged by having maintained consistently high satisfaction ratings during a period in which we have made significant changes to how we complete and report our work.

Acknowledgements

99. We would like to thank Managers, Officers and Members for their continued support, assistance and co-operation as we complete our audit work during the year.

Annex A: IIA Follow Up Report



Chartered Institute of
Internal Auditors

Rich Clarke
Head of Audit Partnership

27 April 2015

Ref:201504Mid-Kentfollow-up

Mid-Kent Audit Partnership External Quality Assessment (EQA) follow-up

Dear Rich

Following our meeting on Wednesday 15 April 2015, during which we discussed and reviewed implementation of EQA actions points, I am pleased to inform you that sufficient progress has been made to enable the partnership to state that it conforms fully to the International Standards for the Professional Practice of Internal Auditing. Our decision is based upon the examination of evidence that addresses the six areas of partial conformance highlighted in our report in January 2014, as follows:

- 1. Standard 1000 Purpose, Authority and Responsibility** - Review and update of the internal audit charter in March 2015 that has established a specific and tailored charter for each of your clients within partnership. Also the expansion of the charter to include more detailed explanation of internal audit's role in relation to risk management, projects and fraud. We also acknowledge the inclusion of sections that set out how internal audit will manage quality and make decisions on performing consultancy work based upon defined criteria.
In July 2015 the Institute will be publishing amendments to the professional practice framework to include a new mission statement and a new set of principles. This may present a timely opportunity to review the charters and your audit manual.
- 2. Standard 1310 Requirements of the Quality Assurance and Improvement Programme** – Developing a broader range of performance indicators in a balanced scorecard style that was presented to audit committees in March 2015 as an appendix to the 2015/16 audit plans and had been agreed with Management in mid-2014.
With the scorecard in place we suggest that a forward looking timetable of quality reviews with scheduled reports could now be prepared and shared with audit committees.
- 3. Standard 2010 Planning** – The 2015/16 audit plans show a clear link to key governance and strategic risk issues based upon defined categories of risk. The revised methodology also demonstrates an internal audit plan that provides a good balance between high profile objectives and important systems and procedures that are relied upon on a day by day basis.
As the organisations within the partnership develop their approach to risk management we anticipate a point where the defined risks and mitigating action can be relied upon as the basis for the internal audit plan and individual audit engagements, making it unnecessary for internal audit to prepare their own

assessment of risk. We would also envisage the need to update plans during the year to accommodate emerging risks.

4. **Standard 2050 Coordination** – Senior managers within the audit partnership are devoting considerable time and effort to developing a coordinated approach to assurance. This began with presentations upon the three lines of defence followed by workshop exercises and surveys to determine who provides assurance and how it is delivered. We appreciate that the next step will be to prepare Assurance Maps showing who is providing assurance against management’s mitigation of key risks and to further integrate this information into internal audit plans.

We foresee a time when internal audit will be working on a joint basis with other assurance providers and relying on the assurance of others to maximise assurance coverage. This particularly applies to the coverage of routine systems and procedures as part of the 4 year strategic audit plan.

5. **Standard 2120 Risk Management** – Through its consultancy role internal audit is supporting and facilitating the development of risk management within each of the partner organisations, albeit each organisation is at a different stage in its development. For example, we note the progress upon helping authorities to formulate risk appetite statements. At the same time internal audit has begun to conduct health checks and assurance upon risk management.

Providing assurance upon the maturity and effectiveness of risk management is a key feature of the Standards and of good governance. To achieve this objective internal audit needs to be fully independent from risk management and at some point it will be advantageous for them to stand back from the process. However, for the time being we recognise the value of their risk related work.

6. **Standard 2210 Engagement Objectives** – An updated approach to audit engagements has introduced a new template to prompt internal auditors to consider and focus upon the key objectives and risks of the service under review. This underlines and delivers upon the risk based approach to planning. We acknowledge that the template has been introduced to the audit manual and is part of an audit methodology that is motivating the team.

Finally I would also like to recognise some of the additional changes you have made that support the requirements of the Standards and demonstrate the commitment to continuous improvement, including:

- Reviewing current skill levels to identify potential gaps and resource needs.
- Training and qualifications programmes to fill gaps and develop competencies
- Time recording to enhance management and delivery of plans.
- Refinement and simplification of audit reporting format.
- Improved follow-up procedures using Teammate.

If I can be of further assistance please do not hesitate to drop me an email at my usual address and in the meantime we wish you every success.

Chris Baker

[signed]

Technical Manager, Chartered Institute of Internal Auditors