

MID KENT AUDIT

Annual Internal Audit Report and Opinion

2015/16

Swale Borough Council



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 processes.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:

"[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
3. The currently operating standards are the [Public Sector Internal Audit Standards](#) published by HM Government for effect from April 2013 across the UK public sector.
4. In addition, all internal audit services in whatever sector must also abide by the *Code of Ethics* and International Professional Practices Framework. .
5. 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. This considers:
 - Internal Controls: Including financial and non-financial controls.
 - Corporate governance: Including effectiveness of measures to counter fraud, and
 - Risk Management: Principally, effectiveness of the risk management framework.

Independence

6. Mid Kent Audit is a shared service partnership involving Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils working to a collaboration agreement refreshed in July 2014. As a service, we report to the Mid Kent Services Director and the MKIP Board.
7. Within Swale BC, the Head of Audit Partnership has direct and unrestricted access to the Chief Executive, senior management and Members, including the Chairman of the Audit Committee. This right of access is contained within and reinforced by the Audit Charter agreed by management and Audit Committee in March 2015.
8. On no occasion have Senior Officers or Members sought to inappropriately restrict the scope of audit work or change any report prepared by or for the Head of Audit Partnership.
9. We are satisfied that Internal Audit is organisationally independent and fully meets the necessary standards for independence and objectivity.

Head of Audit Partnership Annual Opinion

10. I provide this opinion statement for Swale Borough Council (the Council) to inform its Annual Governance Statement which is published alongside the Statement of Accounts for the year ended 31 March 2016.

Scope of responsibility

11. The Council is responsible for ensuring its activities are conducted in accordance with the law and proper practices and that its resources are 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.
12. In discharging this responsibility the Council must also ensure it operates a sound system of internal control which allows for effective exercise of the Council's functions and arrangements for risk management.

The purpose of the system of internal control

13. The system of internal control is designed to manage risk to an acceptable level rather than eliminate entirely the risk of failing to achieve 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 objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and manage them efficiently, effectively and economically.
14. The Public Sector Internal Audit Standards (the 'Standards') state 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.
15. 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 internal control.

Basis of assurance

16. Mid Kent Audit has conducted its work both in accordance with the Standards and good practice as represented in our internal quality assurance system, which include operating to an agreed audit manual with adequate supervision and review.
17. My opinion is limited to the work carried out by Mid Kent Audit during the year on the effectiveness of the management of those risks identified within the Council's assurance framework that are covered within the audit programme or associated sources of assurance. Where risks are identified within the Council's assurance framework that do not fall within the scope of audit's coverage or associated sources of assurance I am satisfied that an assurance framework is in place that provides reasonable assurance that these risks are being managed effectively.
18. Our work for the year to 31 March 2016 and up to the date of this opinion was completed in line with the operational plan approved by the Audit Committee in March 2015.

Internal Control

19. From the internal control work undertaken in relation to 2015/16 it is my opinion that I can provide assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2016 accords with proper practice. This assurance extends to both financial and non-financial systems of the Council insofar as they have been subject to audit review or associated sources of assurance.

Corporate Governance

20. In my opinion the corporate governance framework operating at the Council for the year ended 31 March 2016 complies in all significant respects with the guidance on corporate governance issued by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in 2006 and updated in 2012.

Risk Management

21. I am satisfied that the risk management processes operating at the Council for the year ended 31 March 2016 are effective and provide reasonable assurance to officers and Members.
22. I have based these opinions on the work outlined in the detail of this report.

Internal Control

23. The system of internal control is the 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.
24. 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 2015.

Summary of Audit Plan Work in Swale 2015/16

25. Our plan presented in March 2015 moved away from a fixed number of audit projects and instead towards a total number of productive days per year. This has considerable advantages in providing a flexible basis to keep our plans up to date and respond appropriately to the Council's developing risks and priorities.
26. Up to the date of this report, our outturn days against each type of work separately identified in the plan is as set out below:

Type of work	Plan Days	Outturn days	Difference
Planned 2015/16 assurance projects	301	221	-80
Risk Management and Counter Fraud work	35	30	-5
Recommendation follow ups	40	41	+1
Other audit work ¹	34	53	+19
Concluding 14/15 plan projects ²	0	78	+78
Total	410	423	+13

27. There are still a few days to be accounted as the remaining 2015/16 projects reach conclusion, but up to the date of this report we have delivered 100% of the planned audit days. The variation above, and detailed in the tables to follow, also indicates the advantages to the flexibility and responsiveness of our audit planning.

¹ Includes unplanned reviews, Audit Committee training, preparation and attendance and various ad hoc assurance and advice provided to Swale BC during 2015/16.

² Only including those projects which were not complete at the time of the 2014/15 annual report presented to Audit Committee in June 2015.

Audit Review Findings to Date

28. The table below summarises audit project findings and outturn up to the date of this report. Where there are material matters concluded between report issue and committee meeting we will provide a verbal update. We are satisfied that sufficient work has been completed, and the risk of adverse findings in the remainder sufficiently low, that we can offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2014/15 Plan Projects Concluded After 2014/15 Annual Report Issued							
I	Finance	Accounts Payable	n/a	9	May-15	STRONG	
II	Service	Joint Waste Contract Monitoring	n/a	15	Jun-15	STRONG	
III	Service	Cashless P&D Parking	n/a	11	Jul-15	SOUND	
IV	Service	Temporary Accommodation	n/a	17	Jul-15	SOUND	
V	Governance	Freedom of Information	n/a	26	Sep-15	SOUND	
Planned 2015/16 assurance projects completed							
VI	Finance	Business Rates	10	30	Jun-15	STRONG	Extra time associated with new trainee familiarisation
VII	Finance	Procurement	15	24	Nov-15	SOUND	Expanded scope from plan to include monitoring
VIII	Governance	Corporate Projects	10	5	Dec-15	SOUND	
IX	Service	Cemeteries	15	19	Jan-16	SOUND	Expanded scope from plan to include Iwade Cemetery
X	Service	Housing – Front of House	15	18	Feb-16	SOUND	Amended scope to focus on front of house services
XI	Governance	Performance Management	15	16	Feb-16	SOUND	
XII	Service	Discretionary Housing Payments	15	18	Mar-16	SOUND	
XIII	Finance	Budget Setting	15	14	Mar-16	STRONG	
XIV	Finance	Accounts Receivable	15	13	Apr-16	STRONG	
XV	Service	ICT Networks	5 [†]	4 [†]	Apr-16	SOUND	
XVI	Service	Learning & Development	7 [†]	10 [†]	May-16	SOUND	
XVII	Finance	Payroll Deductions	10 [†]	9 [†]	May-16	STRONG	

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
XVIII	Service	Customer Services	15	18	May-16	STRONG	
Unplanned/additional projects 2015/16							
XIX	Consultancy	Planning Support Disaggregation	n/a	5 †	Oct-15	N/A	
XX	Consultancy	Repair & Renew Grant	n/a	10	Dec-15	N/A	
Planned 2015/16 assurance projects underway							
XXI	Governance	Good Governance Framework	5 †	4 †			Fieldwork stage
XXII	Service	Communications & Social Media	15	14			Draft report stage
Planned 2015/16 assurance projects not completed							
	Finance	Feeder Systems	15	3	Deferred to 16/17 and incorporated within general ledger review following initial scoping work.		
	Governance	Register of Interests	15	1	Deferred to 17/18 as key officer absent in MKLS and assurance gained through Good Governance Framework review.		
	Governance	Data Protection	15	1	Deferred to 16/17 to accommodate absences in Mid Kent Legal Services (MKLS)		
	Service	IT Business & Application Support	5	0	Replaced with extended follow up to 2014/15 ICT Servicedesk review		
	Service	Parking Enforcement	7	0	Deferred to 17/18 due to the Parking Enforcement contract renewal		
	Service	Planning Support	5	0	Replaced by disaggregation review		
	Service	Commercial Property	15	0	Did not proceed following delay in acquisition plans		
	Service	S106 Payments	15	0	Deferred to 16/17 due to planning support disaggregation and new S106 system		
	Service	Grounds Maintenance	15	0	Deferred to 16/17		
	Service	Waste Collection Income	12	0	Deferred to 17/18		

†= Project conducted over multiple sites, Swale BC only days shown (e.g. total budget for project XVII on Payroll Deductions was 20 days)

Also note that projects I-V and XIX have been previously reported to this Committee but are included also in this year end report for completeness.

I: Accounts Payable

29. We conclude based on our audit work that there are **STRONG** controls in both design and operation within the Accounts Payable system.
30. 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.

II: Joint Waste Contract Monitoring

31. We conclude based on our audit work that there are **STRONG** controls in operation to enable effective monitoring of the joint Waste Contract.
32. We have established that the Council maintains comprehensive monitoring of its waste contract. The contractor's performance receives regular assessment with effective mechanisms in place to identify and address performance related issues. The Council makes payments in accordance with the contract sum or approved variations and an authorised officer checks and approves all invoices.
33. We identified a few minor areas for improvement relating to records management and review of customer requests.

III: Cashless Pay & Display Implementation

34. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with the cashless pay and display system. .
35. The cashless pay and display system provided by Bemrose Mobile was successfully rolled out across Maidstone and Swale in October 2014. We tested the service by phone and app, and confirm effective operation in line with the contract. The system is fully integrated to the handheld devices used by parking attendants to enable effective enforcement.
36. We found two respects where operative practice is not in line with the contract: frequency and formality of contract monitoring meetings, and timely payment of income. The Service has highlighted both issues in a recent formal remediation notice issued to the Contractor but revised procedures are not yet agreed.

IV: Homelessness & Temporary Accommodation

37. We conclude based on our audit work that the service has **SOUND** controls in place over the administration and management of temporary homeless accommodation.

38. The Council complies with its statutory duty to provide interim and temporary accommodation with appropriate arrangements to manage allocation. Controls exist to ensure periods of accommodation are checked and verified prior to payment.
39. Management of the Council-owned property intended to provide temporary accommodation for homeless applicants is appropriately assigned. Our review against the property's business plan identified that the Council uses the property to house one family when the projected savings were based on three occupant households. The Council has not allocated separate budgets for the income and expenditure associated with operating the property, so we cannot confirm whether the Council is achieving projected savings.

V: Freedom of Information

40. We conclude based on our audit work that there are **SOUND** controls in place for achieving compliance with Freedom of Information requirements.
41. We established the Council has in place procedures and guidance to achieve compliance with the Freedom of Information Act. There are appropriate controls to administer responses to information requests, in accordance with agreed procedures. We identified no instances where the Council provided inaccurate or incomplete information.
42. Through the course of our testing we highlighted some areas to improve, in particular to ensure consistent application of agreed procedures and processes. In particular, our recommendations seek to reinforce procedures over compliance with statutory deadlines, and over FOI training requirements.

VI: Business Rates

43. We conclude based on our audit work that there are **STRONG** controls in both design and operation of the Business Rates system.
44. The controls within the Business Rates system are designed and operate effectively. The Business Rates process is well controlled and mitigates the risk of fraud and error. Management controls exist to check validity and integrity of systems information. Our testing found successful operation of these controls with no areas of concern, or significant areas where the service might reasonably seek to improve.

VII: Procurement

45. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with procurement.
46. The Contract Standing Orders (CSOs) underpin the Council's procurement activities. Detailed procedures and template documents are in place and help to guide and assist officers through the procurement process. Our testing identified only minor instances of non compliance which did not fundamentally thwart the CSOs objectives. The most notable of these suggest a need for the Council to ensure its contract templates align with its CSOs.
47. Although yet to conclude, we are satisfied that the Council's move to e-procurement is effective and reflects the CSO requirements. However, we encourage the Council to review the extent of access routinely given to system users to ensure adequate controls are maintained.

VIII: Corporate Projects

48. We conclude based on our audit work that there are **SOUND** controls in place over the management of corporate projects at Swale Borough Council.
49. We found in our sample a good level of adherence to principles of good project management endorsed by the MKIP Board. In particular we noted clear and consistent allocation of roles and responsibilities and effective and well established reporting lines to ensure projects are appropriately monitored by senior management. We identified some minor improvements that could be made to those projects tested, and to the methodology generally, principally around introducing more formalised recording and regular reviewing of project risks consistent with the Council's risk management approach.

IX: Cemeteries

50. We conclude based on our audit work that the Cemetery service has **SOUND** controls in place to manage its risks and support delivery of its objectives.
51. The Cemeteries service has set an objective within their service plan 'to improve management of the cemeteries service. They seek to achieve this objective by ensuring compliance with regulations, effective administration of burials and grounds maintenance, and through strong financial controls over income. We tested 10 burials completed in 2015/16 and confirmed that all burials were completed in accordance with the burial regulations. Good controls exist to ensure that all income due is recorded and banked promptly on receipt.

52. Our testing did identify a number of areas for improvement to enhance procedures and assist the service to continue to progress towards achievement of the objectives. In particular, to ensure that Data Protection principles are complied with when sharing information with Contractors.
53. Our review of the Iwade project identified that there is no project plan in place; we are therefore unable to determine delivery against any milestones or targets. The project manager is due to depart employment with the Council, and therefore without clear plans in place, there is a risk that the project will not be successfully delivered.

X: Housing Options Services – Front of House

54. We conclude based on our audit work that there are **SOUND** controls in operation within the Housing service to manage the 3 main risks identified by management as arising from the provision of the frontline Housing Options service. The 3 key risks as identified by the service are:
 - The ability to manage demand of housing advice and emergency accommodation.
 - Relationships between the Housing Options service and external partner agencies.
 - The procedures for dealing with and accommodating vulnerable persons.
55. Our testing confirms that the Council is meeting its statutory responsibility to provide housing advice and emergency accommodation to eligible persons who are assessed as being both unintentionally homeless, and in priority need.
56. Management initially expressed concerns that demand for the service is increasing significantly resulting in extra pressure continually being placed on frontline officers to deal with, and assess, potentially homeless households. Our review has focussed on this, and concludes that management's assessment of an increased demand for the service is correct. However, our review has identified that other local authorities in Kent are also experiencing similar increases in demand for the service so this issue is not unique to Swale Borough Council. Analysis of the strategies employed at other Authorities identified that there are options available to Swale which if employed could potentially make private sector houses more readily available to homeless households, such as, by introducing an incentive scheme for private sector landlords.

XI: Performance Management

57. We conclude based on our audit work that there are **SOUND** controls in place over the Council's Performance Management system to manage the associated risks and to support individual service areas and the Council in the delivery of its objectives.
58. We found that Swale BC has a comprehensive and embedded performance management process. It covers the full span of Council activities and is supported by detailed guidance and training. It is also supported by a Data Quality Standard and regularised collation and reporting. We also found that the

indicators collected were useful, practical and offer a fair reflection on the priorities and performance of individual services.

59. We also examined the accuracy of the performance data reported and, on our sample, found that 95% of the information reported is materially accurate. However, we did note a significant minority of data – just over one in five of our sample – had some degree of discrepancy against reported outturn.
60. Moreover, our work identified that the process – while still robust – had not been reviewed or reconsidered in some time. This meant that newer officers were less certain of their responsibilities which impacted on the effectiveness of the performance management system's operation. Consequently we recommend that the Council re-evaluate and refresh the process to ensure it remains relevant and efficient.

XII: Discretionary Housing Payments

61. We conclude based on our audit work that the Housing Benefit service has **SOUND** controls in place to manage its risks and support its objectives for Discretionary Housing Payments.
62. We tested 10 Discretionary Housing Payments (DHP) which confirmed that they are assessed, calculated, reviewed and paid in line with the Council's policy and procedures, although the DHP policy and procedures are in need of review.
63. BACS payment files were paid in accordance with agreed procedures and a pre-determined timetable and input to the general ledger in a timely manner.

XIII: Budget Setting

64. We conclude based on our audit work that the Budget Setting process has **STRONG** controls to control its risks and support its objectives.
65. The budget setting process is set out each year in a budget preparation memo sent out to budget holders. High level responsibilities are also set out in the Financial Regulations. Risks associated with the budget and barriers to achieving resource levels required have been considered both within the Medium Term Financial Plan (MTFP) as well as the Finance Service Plan. Consultation of both Members and Officer is present throughout the budget setting process, with responses from a survey sent to budget holders highlighting that they feel actively involved in the budget setting process and that they have full ownership of their budget. Our testing confirmed that the budget has been approved appropriately and accurately input into the Council's Financial Management System, Agresso.

XIV: Accounts Receivable

66. We conclude based on our audit work that there are **STRONG** controls in operation within the Accounts Receivable system.
67. Our work identified that the Council has in place well-designed controls over the Accounts Receivable system. Our testing confirmed that those controls operate effectively. In particular we identified effective controls around user access, creating and managing credit notes and the authorisation process of writing off irrecoverable debts.

XV: ICT Networks

68. We conclude based on our audit work that there are **STRONG** controls in operation within the Shared ICT Service to manage the key risks identified by management surrounding the security of the Mid Kent ICT network.
69. Our testing confirms that the Mid Kent ICT service is taking suitable action to gain independent assurance on the security of the ICT network across all three sites (Maidstone, Swale & Tunbridge Wells). The network undergoes rigorous testing by an external specialist to verify the security measures in place. Our testing confirms that suitable action is taken to respond to any recommendations to address weaknesses identified as a result of these tests. As a result, all three Councils achieved compliance with the Public Services Networks IT Health Check (ITHC) in 2015.
70. We also reviewed controls around user access for officers who have left the Council's employment. Our testing identified that the ICT Service Desk is made aware when an officer is due to leave the Council and takes prompt action to ensure that network access is revoked. We are able to confirm that none of the 12 leavers we tested as part of the audit had accessed the ICT network after ceasing employment with the Council.

XVI: Learning & Development

71. We conclude based on our audit work that the Learning and Development service has **SOUND** controls to manage its risks and support its objectives.
72. We found the Learning and Development service at Swale and Maidstone Borough Councils has an effective process to identify staffs training needs. The service draws on a broad variety of sources when compiling the corporate training calendar. All staff can view the training calendar and book through a straightforward online process open to all.
73. We also examined procurement of training and found that while there is broad adherence to procedure, the service could do more to ensure compliance and evidence retention.

XVII: Payroll

74. We conclude based on our audit work that the Payroll service to Maidstone and Swale has **STRONG** controls, for the area of deductions, to control its risks and support its objectives.
75. Our work confirmed the system materially unchanged from our work in February 2015 which concluded the service had strong payroll controls.
76. This review focussed on payroll deductions. Our testing confirmed robust processes in place to account for, approve and accurately pass on mandatory deductions.
77. We found that a variety of categories for discretionary deductions exist across the two administered payrolls, which should each be supported by an employee instruction. We found a large majority of deductions adequately supported, with documentation absent for only some historic and long standing requests. Given their duration, we are satisfied the deductions are valid and the missing documentation poses no appreciable risk to the Councils or their employees.

XVIII: Customer Services

78. We conclude based on our audit work that Customer Services has **STRONG** controls in place to manage the risks and support the delivery of objectives surrounding the use of the CRM System.
79. Customer Services has three objectives within their service plan. We reviewed two objectives, channel shift and customer service excellence. As a result of our testing we conclude that the service is taking actions to achieve the desired outcomes within the service plan. This includes: providing more self-service options, such as introducing an appointments system for Housing Benefits; encouraging behaviour change by reviewing the content and format of the letters sent for front line services; and achievement of the customer excellence accreditation (CSE). The risks associated with the delivery of the service have been identified and assessed as part of the service plan, and the controls in place to manage these risks have been identified and are kept under review.
80. We also reviewed the CRM System and its usage by back office functions. Our testing confirmed that all cases are recorded on the system and passed promptly to back office services for processing. The CRM System integrates with other Council systems, such as Uniform and Springboard, and creates e-mail cases for those services that do not have access to the system. This enables customer queries to be processed by those services best suited to provide the appropriate response.

XIX: Planning Support: Project Gateway Review

81. The [project] Board has proceeded largely on the basis that the option originally put to TWBC cabinet – of a TWBC withdrawal leaving a two-way partnership – would be the most likely outcome. As a result the Board has sought to fully appraise in greater detail this single and most likely option. While other options have been considered at the early stages of the project, they have not received a similar depth of analysis and, in the case of the option 3; have not been considered at all.
82. No options have been considered that involve TWBC remaining in the partnership as this fell outside of the mandated scope of the project. The Board therefore has largely been an exercise in constructing a business case rather than appraisal of different options as originally mandated.
83. Within those constraints, though, the Board has operated diligently in seeking to obtain the best evidence it can, including commissioning external advice where a need is identified. Each work stream has provided evidence to inform the Board in its decision to pursue the chosen option.
84. The inherent lack of clarity in operating ahead of a formal decision means that some evidence relies upon assumptions and extrapolations which are difficult to pin down with certainty and are subject to wide error bars. This is particularly notable on information regarding human resource and finance considerations and data forwarded by parallel project groups operating in MBC and SBC.
85. However, we are satisfied that the Board has efficiently documented its processes meaning that those assumptions are, in general, apparent, open to fair challenge and not unreasonable.

XX: Repair & Renew Grant

86. After the severe flooding at the end of 2013/2014 Defra established a scheme to provide flood affected homes and business premises in England with up to £5,000 to implement flood resilience measures to reduce the risk of future flooding and to minimise the effects of future flooding. The scheme was called the **Repair and Renew Grant**. As outlined in the accompanying Memorandum of Understanding (MoU), Mid Kent Audit reviewed the scheme to provide independent assurance over the adequacy of the financial controls.
87. We concluded based on the testing conducted as part of the review that the invoices submitted by Swale Borough Council fairly represent the expenditure under the Scheme, and that they have been made in accordance with the MoU between Swale Borough Council and the Secretary of State for Environment, Food and Rural Affairs (DEFRA) signed on 4 June 2014.
88. Our work identified no significant internal control matters of which we believe the Authority must inform DEFRA under the terms of the MoU and therefore conclude with reasonable assurance that the Council maintained sound systems of internal financial control over the scheme.

Follow-up of Internal Audit Recommendations

89. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finalise our reporting. We report progress on implementation to Senior Management Team each quarter, including noting where we have had reason to revisit an assurance rating (typically when a service has successfully implemented key recommendations) and raising any matters of ongoing concern.
90. Our most recent round of reports covered recommendations due for implementation on or before 31 March 2016 and consequently represents the full year outturn for 2015/16. We are pleased to note those reports confirm there are no recommendations outstanding for action beyond their agreed implementation date. This includes a few instances where, after request from the service and having considered the residual risk of delay posed to the Council, we have revised implementation date.
91. In the table below project titles shown in **bold type** are those that originally received an assurance rating of **weak** or **poor**.

Project	Agreed Actions	Falling due on or before 31/3/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Projects with actions brought forward from 2014/15 and completed during 2015/16					
Housing Benefit Payments	16	16	16	0	0
Housing Benefit System	7	7	7	0	0
Income Controls	3	3	0	0	0
Members' Allowances	3	3	0	0	0
ICT Servicedesk	8	8	8	0	0
PCT & Internet Controls	8	8	8	0	0
Projects with actions issued during 2015/16 and completed during 2015/16					
Cashless P&D Parking	1	1	1	0	0
Procurement	3	3	3	0	0
Projects with actions to carry forward into 2016/17					
Safeguarding	10	9	9	0	1
Waste Management Contract	3	2	2	0	1
Temporary Accommodation	2	1	1	0	1
Freedom of Information	6	2	2	0	4
Corporate Projects Review	3	2	2	0	1
Cemeteries	5	2	2	0	3
Housing – Front of House	2	1	1	0	1
Performance Management	5	0	0	0	5
Discretionary Housing P'ment	4	0	0	0	4
Learning & Development	3	0	0	0	3
TOTAL	92	68	68	0	24
		74%	74%	0%	26%

92. Note that the above list excludes projects where we raised no recommendations for action.
93. We note considerable progress made by managers in addressing the issues identified by our reports. With all 45 due recommendations implemented as agreed, the Council is 74% of the way to full implementation – exactly on track for delivery.
94. Of the 15 audit projects followed up, 3 originally received an assurance rating of **weak** or **poor**. We have previously advised Members in our 2014/15 annual report that 2 of these (ICT Service Desk and Housing Benefit System) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **SOUND**.
95. We also advised Members in our 2015/16 interim report in December 2015 that the Council made sufficient progress in implementing recommendations arising from our review of Safeguarding that we have since also revised the assurance rating of that review to **SOUND**.
96. We have issued no reports at Swale with an assurance rating of **weak** or **poor** since our interim report.

Corporate Governance

97. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
98. 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 staff through whistleblowing and the Council's counter fraud and corruption arrangements.
99. We attend the Council's Information Governance and Procurement Groups, as well as comment on all waivers requested against the Council's Contract Standing Orders.
100. During the year we also undertook a specific review examining the Council's readiness for compliance with the revised Code of Corporate Governance published by CIPFA/SOLACE in April 2016. We noted the results of that review earlier in this document.

Counter Fraud & Corruption

101. 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

102. During 2015/16 there were no matters raised with us that required investigation.

Whistle-blowing

103. 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. During 2015/16 we have received no such declarations.

National Fraud Initiative

104. We have continued as co-ordinator of 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. Since March 2015, the NFI exercise has been administered by the Cabinet Office.

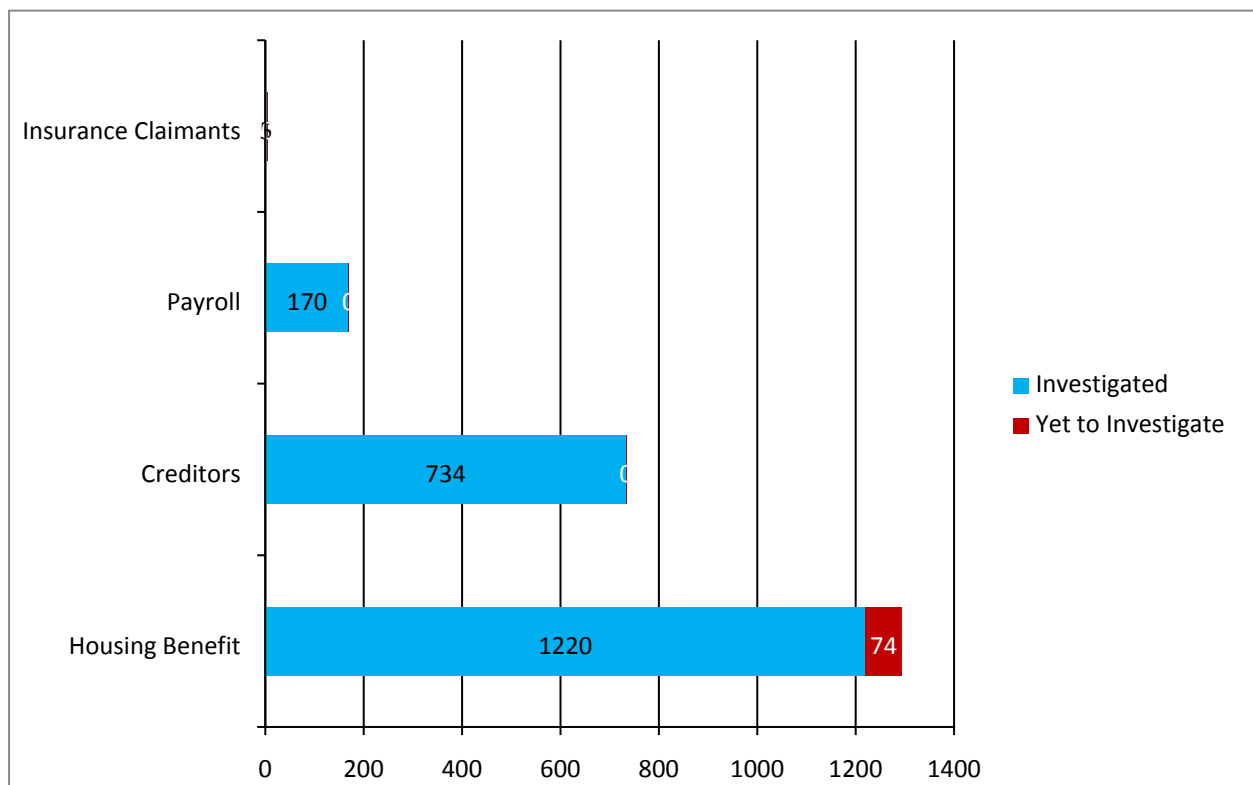
105. The current NFI exercise has been releasing data in tranches since January 2015 and includes the following services:

- Housing Benefits (1,205 total matches)
- Creditors (734 total matches)
- Payroll (170 total matches)
- Insurance Claimants (5 total matches)

106. Two further categories (Residents' Parking and Licensing) returned no matches for the Council.

107. The graph below plots progress to date. Up to the end of March 2016, in reviewing the matches the Council has identified 39 cases of fraud or error leading to the recovery of £40,558. Cabinet Office guidance is that all matches should be investigated within the two year cycle of NFI data (so, by January 2017).

NFI Matches Investigation Progress



108. In keeping with the enhanced skill base of the audit team, and to ensure greater independence and efficiency in matches, Mid Kent Audit will be taking on direct examination of non-benefits matches (rather than just co-ordination) with the commencement of the next round of NFI.

National Fraud Initiative – Outcomes validation

109. In January 2016 the Cabinet Office announced they would be asking key contacts at each authority to undertake a separate testing exercise validating the NFI outcomes recorded on through the web portal. Mid Kent Audit played a key role in this consultation; the eventual wording of the declaration asked of key contacts is the same as the form we proposed and reads:

The Cabinet Office require NFI outcomes to be validated by Key Contacts prior to reporting these outcomes externally, e.g. in a national report or to public accounts committee. Key Contacts are responsible for co-ordinating an approach that is deemed appropriate for validating outcomes at their respective authorities.

I declare that reasonable checks have been undertaken to ensure that 2014/15 and FMS outcome summaries are a fair reflection of outcomes achieved by Swale Borough Council.

110. In response we designed a work programme that tested 10% of cases that recorded a costed outcome and 1% with a nil outcome (making for a total of 134 cases across the partnership).
111. We identified only one issue relating to an outcome where evidence was incomplete as a counter fraud officer had left the Council without leaving clear documentation behind. However, we were satisfied in that instance of being reasonably certain through inspection of other material that the outcome was accurate.
112. Consequently, in line with the Cabinet Office's deadlines, we made a positive declaration for the Council on 14 April 2016.
113. We understand that Cabinet Office will make this validation an annual requirement and so will, in consultation with partners across Kent, review our approach and methodology to the 2016 exercise to ensure it remains effective and efficient.

Counter Fraud and Corruption Tracker

114. During 2015/16 we also contributed to the CIPFA Counter Fraud Centre annual survey, using the NFI data and other information obtained from our own records and held by the shared Revenues and Benefits Counter Fraud team. In February 2016 CIPFA published the full summary of results (available for free download [here](#)) which included the table below giving an indication of the major fraud threats in local government:

Types of fraud	Fraud cases	% of the total	Value £m
Council tax SPD	30,184	52.7%	£10.7m
Housing benefit	12,989	22.7%	£56.9m
Council tax CTR	4,142	7.2%	£2.0m
Housing and tenancy fraud	3,002	5.2%	£77.5m
Disabled parking concession (Blue Badge)	2,545	4.4%	£1.0m
Council tax other	1,556	2.7%	£1.4m
Debt	997	1.7%	£0.5m
Other types of fraud (see table below)	1,829	3.2%	£21.0m
Total	57,244	100%*	£171m

Figure 2.1

Other types of fraud	Fraud cases	% of the total	Value £m
Social care	287	0.5%	£2.0m
Abuse of position	155	0.27%	£2.0m
Payroll	137	0.24%	£0.3m
Insurance	133	0.23%	£2.6m
Welfare assistance	104	0.18%	£1.6m
Business rates	102	0.18%	£0.8m
Procurement	60	0.10%	£2.2m
Recruitment	58	0.10%	£0.2m
Expenses	56	0.10%	£0.1m
Economic and voluntary sector	28	0.05%	£1.1m
Manipulation of data	24	0.04%	N/A
Pensions	20	0.03%	£0.2m
Investment	11	0.02%	£0.0m
Other fraud	654	1.14%	£7.8m

Figure 2.2

Attempted Frauds

115. We previously advised Members in our interim report that another Council within the Mid Kent area were subject to a fraud attempt involving the use of a 'spoofed' email account purporting to be that of a Council employee and requesting a bank transfer. Our investigation could not identify the culprit – 'spoof' emails are created easily enough and very difficult to trace – but we did examine the Council's controls and investigated to determine whether any similar attempts had been successful and undetected.
116. In the remainder of 2015/16 we did not identify any further such attempts which, coupled with successful operation of financial and IT controls, led us to identify this as a low fraud risk. Consequently, we have provided advice to finance teams on remaining vigilant and have reported the matter to the police but plan no continuing action unless there are further developments.

Risk Management

117. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
118. 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.
119. We previously updated the Committee in March 2016 of the Council's revised risk process which included a workshop in January 2016 with Senior Management Team that identified five major themes for risk:
- Regeneration projects, including Sittingbourne Town Centre
 - Infrastructure and planning
 - Safeguarding
 - Resource constraints (both financial and workforce)
 - Devolution and partnerships.
120. Following adoption of a revised Audit Charter by this Committee in March 2016 which clarified the extent of our role in risk management we will be leading within the Council in establishing a *comprehensive risk register*. This will draw together risks identified in the course of service planning and corporate projects and inform the overall risk register as well as ongoing audit planning.
121. We will continue to report outcomes and progress to the Audit Committee through the year.

Mid Kent Audit Service Update

Team Update

122. During 2015/16 following the departure of a long-serving manager, absences for maternity leave and a pair of recruitment exercises, the audit service averaged a vacancy rate of 2.5 FTE, around 20% of establishment. However, due to a variety of factors including around 1xFTE of short term contractor support, efficiencies arising from our mid-year restructure and resilience of working in a shared service across four authorities we have been able to complete the work set out in this report which supports a definitive Head of Audit Opinion.
123. The whole management team of Mid Kent Audit convey their public thanks to the team for their hard work and dedication through 2015/16.
124. We have continued through the year to support our staff in their professional development. During 2015/16 the audit team has added the following skills and qualifications to help support our partner authorities:
- Frankie Smith (Audit Manager, Swale & Tunbridge Wells) achieved Chartered status with the Institute of Internal Auditors (IIA) (CMIIA designation)
 - Jo Herrington (Senior Auditor) achieved the practitioners' diploma from the IIA (PIIA designation)
 - Helen Pike (Trainee Auditor) achieved the IIA's Certificate in Internal Audit and Business Risk (IACert designation)
 - Alison Blake (Audit Manager, Ashford & Maidstone) achieved the professional qualification of the Institute of Risk Management (IRM designation)
 - Russell Heppleston (Deputy Head of Audit Partnership) achieved the International Certificate in Risk Management from the IRM.
 - Rich Clarke (Head of Audit Partnership) achieved the Chartered Institute of Public Finance & Accountancy (CIPFA) professional qualification as an Accredited Counter Fraud Specialist (ACFS designation)
 - Mark Goodwin (Senior Auditor) achieved CIPFA's professional qualification as an Accredited Counter Fraud Technician (ACFT designation)
125. We congratulate all in the team on these achievements during 2015/16 and anticipate further exam success in 2016/17.

Quality and Improvement

126. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members. At least every five years that assessment must be external and independent.
127. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the remainder. In 2015, following action to implement the IIA's recommendations, we were re-assessed as being in full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
128. In 2016 we have undertaken a self assessment against the Standards and confirm to Members we remain in full conformance.
129. Beyond simple conformance, as reported to Members in our interim report, we go further and comply with the requirements of the IIA's revised International Professional Practices Framework (IPPF) unveiled in July 2015 but not mandatory for local government internal audit until 2016/17. We are assisted in remaining at the leading edge of developing standards by the presence of the Head of Audit Partnership as the English Local Government representative on the Internal Audit Standards Advisory Board (IASAB), as well as roles as Chairman of Kent Audit Group and on the Executive Board of the London Audit Group.
130. During 2016/17 we hope to capitalise on this position by beginning to offer Quality Assessments against the Standards either in our own right or in partnership with a national body. Aside from the benefits of sharing good practice, we hope that this route will provide income to the authorities. We will keep Members updated on progress in this regard through our update reports.

Performance

131. 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 Audit 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 (which includes the Council's Chief Executive and Leader).
132. 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	2014/15 Outturn	2015/16 Target	2015/16 Outturn
Cost per audit day	Met target	Meet target	Met target
% projects completed within budgeted number of days	47%	60%	60%
% of chargeable days	75%	68%	63%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within agreed deadlines	41%	60%	76%
% draft reports within ten days of fieldwork concluding	56%	70%	68%
Satisfaction with assurance	100%	100%	100%
Final reports presented within 5 days of closing meeting	89%	90%	92%
Respondents satisfied with auditor conduct	100%	100%	100%
Recommendations implemented as agreed	95%	95%	98%
Exam success	100%	75%	100%
Respondents satisfied with auditor skill	100%	100%	100%

133. Of particular note in the figures above is the continuing improvement in completing projects within the scheduled budgeted days. This has shown steady improvement as the year progressed and our refreshed audit methodologies became more established, with a 78% outturn in quarter 4. This bodes well for meeting the stretched 2016/17 target of 75%.

134. We also note the continued strong performance in customer satisfaction. This has remained at a high level even as, with the help of the audit team's new administrative assistant, we have increased response rate more than fivefold.

135. A note too on chargeable days (which is the percentage of audit time spent directly progressing the audit plan as opposed to, for example, training, administration, personnel management and so on). This was affected during the year by the departure of one of our trainees during his probationary period meaning lost time both in the new recruitment and supporting integration of his replacement. However, as noted earlier, by using additional contractor support, resilience in the team, and efficiencies introduced in our restructure this did not impair our ability to substantially complete the audit plan.

Acknowledgements:

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

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2015/16

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>

Recommendation Ratings 2015/16

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.