MID KENT AUDIT

Annual Internal Audit Report and Opinion

2016/17

Swale Borough Council

Introduction and Background

1.   The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

2.   That mission, and the code of ethics and Standards which underpin it, encompass more than 200,000 professionals in all areas of business across the world. Within UK Local Government, authority for internal audit stems from the Accounts and Audit Regulations 2015. The Regulations specify services must follow the Public Sector Internal Audit Standards – an adapted and more exacting version of the global standards. Those Standards set demands for annual reporting:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

> **Public sector requirement**
>
> The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
>
> The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
>
> The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence

3.   Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work with reference to a collaboration agreement.

4.   Within Swale BC during 2016/17 we have enjoyed complete and unfettered access to officers, records and systems to conclude our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.

5.   I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Head of Audit Partnership Annual Opinion

6.   I provide this opinion to Swale Borough Council (the Council) to inform its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2017.

Scope of responsibility

7.   The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.

8.   The Council has described key aspects of its internal control and risk management within its Local Code of Governance and its Risk Management Framework (intranet).

9.   Internal controls are designed to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, it can only provide reasonable and not complete assurance of effectiveness. Internal controls are a continuing process designed to identify and set priorities around the risks to the Council achieving its objectives. Internal controls also evaluate the likelihood of those risks coming about and managing the impact should they do so.

Basis of assurance and limits

10.   I have drawn my opinion from the work completed during the year, as first set out in the plan approved by Members on 9 March 2016 and later developed in line with emerging risks and priorities. The rest of this report sets out the work and my findings in greater detail. I have not needed to place assurance on any other provider beyond those described in the original plan.

11.   Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.

12.   My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Where risks identified by the Council do not fall within the scope of our coverage I am satisfied an assurance framework exists to provide reasonable assurance on effective management.

Overall opinion

13. I am satisfied that during the year ended 31 March 2017 the Council managed a system of internal control that offers sound assurance on control effectiveness.

14. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2017 comply in all material respects with guidance on proper practices[1].

15. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2017 are effective and provide sound assurance.

Rich Clarke CPFA ACFS
Head of Audit Partnership

6 June 2017

---

[1] "Proper practices" are defined by CIPFA/SOLACE and set out in Delivering Good Governance in Local Government Framework (2016 Edition).

Internal Control

16.   Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.

17.   We gain 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 2016.

Summary of audit plan work in Swale 2016/17

18.   Our plan presented in March 2016 continued the approach of dividing our work between audit days rather than a set number of projects. Among the advantages here is that we can be significantly more responsive to developing risks and priorities.

19.   During 2016/17 this flexibility was most obvious in furthering our involvement in the Council's developing risk management approach. Also we could take one-off work on advice and guidance, for example in developing a well-attended set of Member briefings.

20.   Up to our end of May 2017 time recording data, the table below shows days against each work area identified in the plan.

Type of work	Plan Days	Actual days	Difference
Planned 2016/17 assurance projects	345	309	-36
Risk Management Support	15	30	+15
Counter Fraud Support	15	17	+2
Member Support	10	14	+4
Audit Planning	0	19	+19
Recommendation Follow Up	30	35	+5
Other Assurance Work	25	35	+10
Total	440	459	+19
Concluding 2015/16 projects	0	21	+21

21.   With a few days left to conclude the remaining projects, these numbers will increase, but I am pleased to confirm we have delivered over 100% of our planned audit days.

Audit Project Review Findings 2016/17

22. The table below summarises audit project findings up to the date of this report. Where there are material matters closed between report issue and committee meeting we will provide a verbal update. Enough work has finished already to offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2015/16 Plan Projects Concluded After 2015/16 Annual Report Issued							
	Governance	Good Governance Framework	n/a	n/a	Jul-16	**n/a**	Reported to Members Nov-16
	Operational	Communications (Social Media)	n/a	n/a	Jul-16	Strong	Reported to Members Nov-16
Planned 2016/17 assurance projects completed							
I	Operational	Grounds Maintenance	15	15	Jul-16	Sound	
II	Finance	Council Tax	10	14	Aug-16	Strong	
III	Operational	CCTV	15	15	Aug-16	Sound	
IV	Operational	Property Income	15	15	Sep-16	Sound	
V	Governance	Data Protection	15	14	Oct-16	Sound	
VI	Operational	Planning Enforcement	15	24	Oct-16	Weak	Extra time to clear findings
VII	Operational	Elections – Postal Voting	15	20	Dec-16	Sound	Extra time for amended scope
VIII	Operational	Licensing	15	22	Dec-16	Sound	Extra time to include follow up on 2015 investigation
IX	Operational	Building Control Partnership	15	13	Jan-17	Sound	
X	Governance	Members' Allowances	10	10	Jan-17	Sound	
XI	Operational	Environmental Response	15	15	Mar-17	Strong	
XII	Operational	Section 106 Agreements	15	15	Apr-17	Sound	
XIII	Finance	Bank Reconciliation	10	10	Apr-17	Strong	
XIV	Finance	General Ledger Journals & Feeders	15	19	Apr-17	Strong	Extra time to document system
XV	Operational	Complaints	15	15	Apr-17	Sound	
XVI	Finance	Accounts Payable	10	9	Apr-17	Strong	
XVII	Operational	Residents' Parking (MKS)	10*	10*	May-17	Sound	

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
XVIII	Finance	Payroll (MKS)	10*	8*	May-17	**Strong**	
Planned 2016/17 assurance projects underway							
	Governance	ICT Controls (MKS)	7*	5*			Draft report issued
	Operational	Leisure Centre Contract	15	20			Draft report issued
	Operational	Rent Deposit Scheme	10	12			Draft report issued
	Governance	Corporate Governance (MKS)	10*	4*			Fieldwork stage
	Finance	Housing Benefits	10	3			Fieldwork stage
Planned 2016/17 assurance projects not completed							
	Operational	Customer Services Channel Shift	15	0			Cancelled due to substantial overlap with transformation team work (we will undertake a separate review of transformation in 2017/18)
	Operational	Private Sector Housing	10	1			Deferred to 2017/18 to allow change in approach within the service to bed-in.
	Operational	HR Policy Compliance (MKS)	10*	1			Deferred to 2017/18 to alleviate pressure on Mid Kent HR during Head of HR Shared Service's secondment.
	Operational	ICT Procurement (MKS)	7*	0			Incoming Head of ICT plans substantial changes to procurement process, so review re-considered as potential advice or consultancy as plans develop
	Operational	Land Charges (MKS)	6*	0			Deferred to 2017/18 as awaiting information on proposed national change to Land Charges process
	Governance	Business Continuity Planning	5*	0			Originally planned when the service was shared with Ashford BC. Deferred to 2017/18 to allow new sovereign arrangements to establish.

* = MKS projects, only show days attributable to Swale (for example ½ of days spent or planned in examining the HR service)

I: Grounds Maintenance (July 2016)

23. We conclude based on our audit work that the Contracts Monitoring Team has **Sound** controls in place to monitor the Grounds Maintenance contract.

24. We have established that the Contracts Monitoring Team have clearly defined roles and adequate resources to monitor the Grounds Maintenance contract and that the Contract Monitoring Officers (CMOs) demonstrate a good understanding of the key areas of the contract for monitoring.

25. However, we were unable to verify that all areas of the contract are monitored according to the expected frequency due to the functionality of the new tracking system and we have established that the CMOs do not consistently close down job requests on the CRM system. There are plans to introduce new software in the autumn which will allow management to more effectively track and close job requests.

26. Regular contract monitoring meetings are taking place, providing an effective forum to discuss emerging issues. There is also regular communication between the contractor and the Contract Monitoring Team as the need arises. We have also established that complaints made against the contractor are dealt with efficiently and effectively in accordance with the Council's corporate complaints policy.

27. We have also established that monthly contractor payments are being made in accordance with agreed procedures, are correct, and have been appropriately authorised, with only one non-rectifiable default being issued since April 2015.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	3	1

II: Council Tax – Valuation, Liability & Billing (August 2016)

28. We conclude based on our audit work that Council Tax has **Strong** controls in place over valuation, liability and billing.

29. Our review found only trivial changes to the Council Tax system we reviewed it in January 2015, meaning control design remains strong.

30. Our testing confirms controls on valuation, liability and billing work effectively. These controls work to ensure the information held on the Council Tax system is valid and to deliver accurate and timely annual billing.

31.   We found the Valuation Office Agency (VOA) is experiencing delays at present which means there can be several weeks between creation or modification of a liability and a valuation that allows billing to begin. Although the Council has limited influence, it is using that influence with the VOA to ensure new and amended properties are reviewed and updated promptly.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	1	1

III: CCTV (August 2016)

32.   We conclude based on our audit work that the Economy and Community Service has Sound controls in place to manage its risks and support its objectives in relation to the monitoring of the CCTV contract.

33.   In April 2016 the organisation monitoring the Council's CCTV changed from the Medway Control Centre to the Medway Commercial Group, which is now a local authority trading company owned wholly by Medway Council.

34.   We established that the controls around contract and non-contract payments were sound with adequate separation of duties and payments being made in a timely manner.

35.   Our testing further showed that there is effective communication between the Council and the Medway Commercial Group with regular meetings being held to discuss the outcomes of contract monitoring and performance. While we are satisfied that the monitoring arrangements are sound, a few administrative improvements have been identified that will assist with the effective monitoring of the Contract for the foreseeable future.

36.   Our review found that there is a lack of written procedures to set out the contract monitoring and default payment processes; this could pose a resilience risk if experienced officers were to leave the Council.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0 of recs	0	1	3	1

IV: Property Income (September 2016)

37.   We conclude based on our audit work that the Property Services team has **Sound** controls in place for the charging, collection, banking and recovery of income due from rental property.

38.   The Council has effective and embedded processes and procedures to ensure that income derived from rental and leased properties is correctly charged and collected in full. Our testing found that procedures are well understood and applied in practice, in particular there is effective communication between departments to inform the Property Services team of changes to lease arrangements as and when they occur.

39.   Income due to the Council is recorded within a Rent Schedule spreadsheet maintained by the Property Services team. Our testing identified that this record was not up to date e.g. costs centres missing/incorrect, not all properties included. Without a complete and accurate record of all of rental properties there is a risk that the Council may not receive all of the rental income due. The likelihood of this risk is currently increased as there is currently no reconciliation of income between the Rent Schedule and the main financial system (Agresso) completed by Property Services.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
n/a	n/a	1	4	1

V: Data Protection (October 2016)

40.   We conclude based on our audit work that there are **Sound** controls in place to manage the risks of non-compliance with legal Data Protection requirements.

41.   The Council materially conforms with all eight of the Data Protection principles set out by the Information Commissioner's Office (ICO). We noted a strong policy (although awaiting final issue), good levels of awareness, and comprehensive key officer training. We also found strong arrangements for keeping knowledge current and responsive to regulatory changes. We also found that, although the Council recorded 15 breaches in the past two years, none were grave enough to warrant ICO sanction.

42.   The next steps involve expanding this strong core of guidance and knowledge across the Council. We found mixed levels of take-up for the e-Learning training, which saw some correlation to those services in breach most often.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	3	3	1

VI: Planning Enforcement (October 2016)

43. We conclude based on our audit work that the Planning Enforcement Service has **Weak** controls in place to ensure that the objectives set out in the Council's Planning Enforcement Strategy (the Strategy) are met.

44. The Strategy sets out how the Council intends to investigate and resolve planning complaints and breaches of planning conditions. The Strategy itself is a clear and comprehensive document and has recently been updated. The 15/16 version is due to be adopted at the end of the year.

45. We found that the Planning Enforcement service, while often operating in accordance with the strategy, has a number of issues and inconsistencies with regards to the completeness and integrity of case files and follow-up and evidence of compliance action, such that we cannot be confident of its overall effectiveness. A number of the cases tested had missing or incomplete evidence, or had been closed without explanation or sign-off. We identified examples of complaints that had not been input into the system, and cases where files had been missing altogether. These examples existed in our sample testing, which was only a relatively small proportion of the overall number of complaints received each year. We are therefore unable to say with surety that they are isolated cases.

46. The audit also identified that there are no quality assurance checks in place, and that the service has a significant backlog of historic open cases. Current performance indicators for the service do not reflect the monitoring and reporting arrangements in accordance with the Strategy, and as a result performance information may not reliably and accurately reflect real performance of the service.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	2	5	3	1

VII: Elections – Postal Voting (December 2016)

47. We conclude based on our audit work that the Elections Service has **Sound** controls in place over the preparation and processing of postal votes.

48. Our audit testing has established that there is robust planning for all Elections and that the Elections Service successfully co-ordinated the postal voting preparations for the overlapping Police and Crime Commissioner (PCC) Elections and the EU Referendum in 2016.

49. Our audit testing has also established that there are sound procedures in place for the issuing, receipting and opening of postal votes.

50. We have however, identified that some improvement is needed when procuring the printing and posting contract for postal votes to ensure all election expenditure is fully compliant with the Council's Contract Standing Orders.

51. We have also identified that improvements are needed to the Elections business continuity and disaster recovery arrangements.

52. Finally, we have identified some areas for improvement in relation to the retention and destruction of postal voter data, to ensure full compliance with the Data Protection Act.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	2	4	0

VIII: Licensing (December 2016)

53. Our opinion based on our audit work is that the Licensing Service has **Sound** controls in place over the issue and administration of licenses and receipting and banking of licensing income.

54. Our testing established there has been a significant improvement in controls since previous audit work in this area. There are sufficient procedures in place for the issue and administration of licences which meet regulatory requirements. However, we identified one improvement needed to license format and that the licensing information available on the website should be updated.

55. Our testing established that financial controls, including reconciliations, are operating effectively and as designed but should be improved to cover a gap in controls where refunding a card payment.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	2	2	1

IX: Building Control Partnership (January 2017)

56.   We conclude based on our audit work that there are **Sound** controls in place to ensure the Council can adequately monitor operation of the South Thames Gateway Partnership.

57.   We found the Council applies good governance procedures including regular and well attended meetings of the Joint Committee and Steering Group. We also found good arrangements in place for following up reports of potential dangerous structures, although there are improvements possible in retained evidence. We also identified a need to improve clarity and reporting to the partner Councils over the practice of offering fee variations to customers of the Partnership.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	5	3	0

X: Members' Allowances (January 2017)

58.   Our opinion based on our audit work is that the Democratic Services has **Sound** controls in place to manage its risks and support achievement of its objectives over the payment and processing of Members Allowances.

59.   Our testing has confirmed that there is a sound design of controls in place to monitor and pay Members' allowances and expenses. We also found the controls operate effectively, with an accuracy rate in payment of 99.85%. This compares favourably with other similar functions, for example the UK Parliament expense payment body aims for 99.75% accuracy. We identified some minor errors the service has already corrected and note some potential control improvements, such as strengthening consistency in sample checking.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	4	1

XI: Environmental Response (March 2017)

60.   Our opinion based on our audit work is that the Environmental Response service has **Strong** controls to receive and respond to environmental complaints and take enforcement and prosecution action.

61.   We found that the controls in place to receive and respond to environmental reports are effective, and our testing confirmed that reports are promptly allocated and

responded to. Complainants are kept up to date with progress and cases are closed upon completion. The service operates a range of mechanisms to engage with the public to help inform campaigns delivered across the borough to contribute towards the Council's priority theme '**a borough to be proud of**'.

62. Enforcement action is taken in accordance with the Environmental Response Team's Enforcement and Prosecution Policy and the Code for Crown Prosecutors. The Service receives specialist support from Mid Kent Legal Services with regards to undertaking prosecutions.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	0	1

XII: Section 106 Agreements (April 2017)

63. Our opinion based on our audit work is that Planning Services has Sound controls in place to manage its risks and support achievement of its objectives around the management and administration of s106 agreements.

64. We found a well established process in place for monitoring s106 agreements, enhanced by the Council's recent introduction of specific software. This has improved recording and monitoring and provided a full audit trail. The software also contains an alerts system the Council operates as a useful tool programmed to assist with monitoring and acting on development milestones set out in s106 agreements.

65. However we identified the current process of using the software to issue invoices to developers was not consistent with the Council's financial procedures rules. Using the software directly also leaves the Council at greater risk of fraud or error, including leaving the finance function unaware of significant debts. Upon receipt of the draft audit report the s106 Monitoring Officer acted promptly to mitigate this risk with all s106 invoices now being issued through the Councils corporate sundry debtors system however in practise this was yet to happen. We also identified a need for the service to develop a protocol to govern release of s106 monies to third parties.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	4	3	1

XIII: Bank Reconciliation (April 2017)

66.   Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the bank reconciliation process.

67.   We are satisfied that the Council conducts the bank reconciliation process in compliance with financial procedures. The bank reconciliation is undertaken monthly, and good controls exist over the authorisation of the process. Our testing found no errors in the bank reconciliations between April and December 2016.

68.   There is adequate separation of duties and resilience within the team which, along with sufficiently documented procedures, allows for the effective and efficient completion of the bank reconciliation process.

No recommendations for improvement made.

XIV: General Ledger, Journals & Feeder Systems (April 2017)

69.   Our opinion based on our audit work is that the Finance Service has **Strong** controls in place to manage its risks and support achievement of its objectives in relation to the General Ledger feeder systems and journals.

70.   Our system mapping and testing established that the General Ledger Feeder Systems and Journal process is adequately designed and effectively operated. The Council properly controls inputs from feeder systems, manages risk appropriately and maintains data integrity with a strong centralised control record. The service also holds well documented procedures and responsibilities. We also found the service processes correct, authorised and evidenced journal transfers between financial codes, enabled and supported by effective use of automation.

No recommendations for improvement made.

XV: Complaints (April 2017)

71.   Our opinion based on our audit work is that the Customer Service Centre has **Sound** controls in place to manage its risks and support the achievement of its corporate Complaints Policy.

72.   Our testing confirmed that there is a robust system in place for recording and monitoring complaints, which is consistent with the best practice guidance provided by the Local Government Ombudsman (LGO). Furthermore the "complaints" and "unreasonably persistent or vexatious contacts" policies offer a robust framework to guide officers when handling complaints.

73.   However, not all officers who deal with complaints are aware of the Council's definition of what constitutes a complaint. We do acknowledge that although the Customer Service Centre oversees the complaints handling process, service area managers remain responsible for complaints handling within their unit and need to ensure that the appointed complaint handler(s) understand and are confident in complaint handling.

74.   Also, our testing established that stage 1 complaint responses do not always include reference to the next stage if the complainant remains dissatisfied.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	1	3	3

XVI: Accounts Payable (April 2017)

75.   Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Accounts Payable process.

76.   Our work confirmed the system is materially unchanged from our last examination in May 2015 that found a Strong level of assurance. The service retains the elements of notable practice in system design we highlighted in our previous work.

77.   We are also satisfied through our testing that the Accounts Payable process complies with the Council's Financial Regulations and agreed procedures as well as operating efficiently.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	1	0

XVII: Residents' Parking (Mid Kent Services) (May 2017)

78.   Our opinion based on our audit work is that the controls over the administration and payment of Residents Parking Permits are **Sound**, and that the Parking Services partnership is managing the risks to support achievement of its objectives.

79.   The Parking Service Partnership operates distinctly separate administration procedures with regards to the processing and issuing of residents' permits across Maidstone and Swale. Efficiencies are however gained through the use of a shared IT system and also through work conducted over time to harmonise procedures where practical to do so. Our review therefore tested the processes adopted at both sites, and while clear differences have been identified, the existing procedures being

operated are well embedded, understood and result in the accurate and timely issue of residents' permits.

80. Testing of the income procedures identified no issues at Swale, with the controls over the handling, receipt and reconciliation of permit income being sound. However, we have identified that at Maidstone, income is not being reconciled fully. This has resulted in a variance between the parking income system and the Council's financial system. While we are satisfied that the variance is not material, it does present a level of risk that should be managed by implementing improved controls.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	2	6	0

XVIII: Payroll (Mid Kent Services) (May 2017)

81. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.

82. Our work confirmed the Payroll process is materially unchanged from our last review in May 2016. Controls are well designed and the payroll continues to be managed effectively across the shared service.

83. Our testing confirmed that payroll payments made are accurate, authorised and processed in accordance with agreed procedures.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	0	1	2

Following Up Recommendations

84. 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 finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

85. In total, we summarise in the table below the current position on following up agreed recommendations:

Project	Total	High Priority	Medium Priority	Low Priority
Recommendations brought forward into 2016/17	22	0	8	14
Recommendations agreed in 2016/17	55	2	19	34
Total Recommendations Agreed	**77**	**2**	**27**	**48**
Implemented	60	0	21	39
Recommendations carried forward into 2017/18	**17**	**2**	**6**	**9**
Not Yet Due	12	1	4	7
Delayed Implementation but no additional risk	5	1	2	2
Delayed Implementation with risk exposure	0	0	0	0

86. In the table below we summarise progress against all reports with recommendations that fell due during 2016/17. The table excludes reports that raised no risk-rated recommendations for follow-up:

APPENDIX I

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Joint Waste Contract	Jun-15 (Strong)	3				✔	Apr-16
Safeguarding People	Mar-15 (Weak) May-16 (Sound)	10				✔	Apr-16
Homelessness	Jul-15 (Sound)	2				✔	Apr-16
Discretionary Housing Payments	Mar-16 (Sound)	4				✔	Apr-16
Performance Management	Feb-16 (Sound)	5				✔	Jun-16
Social Media	Jul-16 (Strong)	2				✔	Jun-16
ICT Network Controls	Apr-16 (Strong)	1				✔	Jun-16
Cemeteries	Jan-16 (Sound)	5				✔	Sep-16
Council Tax	Aug-16 (Strong)	1				✔	Sep-16
Learning & Development	May-16 (Sound)	3				✔	Sep-16
Grounds Maintenance	Jul-16 (Sound)	3				✔	Jan-17
CCTV	Aug-16 (Sound)	4				✔	Jan-17

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Freedom of Information	Sep-15 (Sound)	6				✓	Apr-17
Property Income	Sep-16 (Sound)	5				✓	Apr-17
Housing Services – Front of House	Feb-16 (Sound)	2				✓	Apr-17
Corporate Projects	Dec-15 (Sound)	3			✓		Jul-17
Planning Enforcement	Oct-16 (Weak)	10		✓			Jul-17
Licensing	Dec-16 (Sound)	4			✓		Sep-17
Data Protection	Apr-17 (Sound)	6			✓		Sep-17
Elections – Postal Votes	Dec-16 (Sound)	6		✓			Oct-17
Building Control Partnership	Jan-17 (Sound)	8		✓			Dec-17

Delayed Implementation Details

Planning Enforcement

87. We agreed to defer a high priority recommendation on the need to keep evidence on enforcement action, originally scheduled for implementation by November 2016. While the service has issued new guidance to staff, early follow-up testing in December 2016 identified some continuing gaps in case records and evidence. We agreed to revisit this testing in June 2017 to ensure enough time passes to allow new instructions to set in. Deferral also allows us to see the impact of amendments to software in February 2017 designed to further help and organise evidence. Meanwhile, we consider the extra focus on planning enforcement during this implementation period will work to avoid exposing the Council to extra risk.

88. Having previously assessed arrangements as offering weak assurance, we will revisit the rating during 2017/18 as the service continues to act on recommendations (especially the two high priority matters).

Building Control Partnership

89. We agreed to defer one medium priority recommendation to align with a review of the Partnership scheduled for September 2017. The Council plans to refresh and update the Memorandum of Understanding during that review.

Elections – Postal Votes

90. We agreed to defer one medium and two low priority recommendations as the service, understandably, needed to focus on the unexpected general election. We consider the delayed implementation poses no extra risks to the Council.

Corporate Governance

91. Corporate governance is the rules, practices and processes that direct and control the Council.

92. We gain 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.

93. We attend the Council's Information Governance and Procurement Groups, as well as comment on all waivers sought against the Council's Contract Standing Orders. We also help in upholding good governance by providing advice and training to both officers and Members.

94. During the year we also undertook a specific review examining the Council's compliance with the new Code of Corporate Governance published. We noted the results of that review earlier in this document.

Counter Fraud & Corruption

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

Investigations

96. During 2016/17 there were no matters raised with us that required investigation.

Whistleblowing

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

98. Late in 2016/17 we received one matter raised with us for further enquiry. Examination is at an early stage, but it does not involve any allegation of criminal behaviour. If findings follow and are material to the Council's governance, we will provide more information to Members in our interim reporting at the latest. We had no other matters raised with us during 2016/17.

National Fraud Initiative

99.   We have continued to co-ordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project, and we must send in various forms of data to the Cabinet Office, who administer the exercise.

100. We have now examined all relevant matches arising from the 2014/15 exercise. In doing so, the Council has identified 50 cases of customer error and one fraud, together leading to recovery of £31,137. This gives a fraud or error rate of around 1 in 40 matches, with an average return of £14 for every match examined.

101. The Cabinet Office started collecting data to form its 2017 matches in autumn 2016. We worked with data owners across the Council to ensure they sent information in the correct format. We also helped makes sure each authority had in place Fair Processing Notices to safeguard individual rights under the Data Protection Act.

102. The table below sets out the number of matches identified in 2015 compared with those released to authorities in 2017. We have now embarked on a review of the 2017 matches starting with those identified by the Cabinet Office as 'high risk' with the aim of meeting Government expectation to review all matches within two years.

Type of Match	2015 Matches	2017 Matches
Housing Benefit	1,287	563
Council Tax Reduction Scheme		738
Creditors	734	607
Housing Waiting List	n/a	101
Procurement	n/a	15
Payroll	170	15
Insurance Claimants	5	1
Residents' Parking	0	0
Licensing	0	0
Total	2,196	2,040

CIPFA Fraud and Corruption Tracker

103. Early in 2016/17, as members of the CIPFA Counter Fraud Centre, we contributed to a national survey to gauge the fraud and response across local government. In all, most local government organisations replied, including almost 40% of District Councils, giving a reasonably reflective set of results.

104. The full report notes the continuing threat from fraud, with authorities identifying almost 90,000 cases in 2015/16, with an estimated value of £324.7m. The table below breaks those numbers down further.

Types of fraud	Fraud cases	% of the total	Value £m	% of the total value	Average £'000
Council Tax	57,681	65.70	24.1	7.40	0.42
Housing Benefit	11,902	13.50	40.5	12.5	3.41
Disabled Parking Concession	6,578	7.50	3.0	0.90	0.45
Housing	5,823	6.60	207.9	64.1	35.71
Debt	1,053	1.20	0.2	0.10	0.23
Business Rates	706	0.80	8.2	2.50	11.55
Welfare Assistance	616	0.70	0.1	0.02	0.12
Procurement	613	0.70	6.2	1.92	10.19
Insurance Claim	382	0.43	5.3	1.62	13.76
Adult Social Care	323	0.37	2.9	0.90	9.09
No Recourse to Public Funds	251	0.29	8.7	2.67	34.51
Mandate	216	0.25	7.2	2.22	33.31
School	182	0.21	0.9	0.26	4.71
Payroll	163	0.19	0.3	0.10	1.98
Recruitment	143	0.16	0.7	0.23	5.21
Pensions	89	0.10	0.6	0.18	6.42
Economic and Voluntary Sector	61	0.07	1.5	0.47	25.10
Expenses	50	0.06	0.5	0.15	9.78
Children's Social Care	29	0.03	0.3	0.09	9.86
Manipulation of Data	24	0.03	na	na	na
Investments	1	0.00	0.2	0.07	221.00
Other	983	1.12	5.3	1.65	5.44
	87,869		324.7		

105. At the same time, the report notes a decline in the number of counter fraud staff working in local authorities. This decline follows both pressures on public finances and the DWP's centralisation of housing benefit fraud investigation into the Single Fraud Investigation Service.

106. In part, this impact is offset by increasing use of data matching. The NFI, noted above, is the largest most settled route but there are also local counter fraud hubs in Kent and London that provide useful information.

Counter fraud staff in the public sector (FTE) at 31 March each year
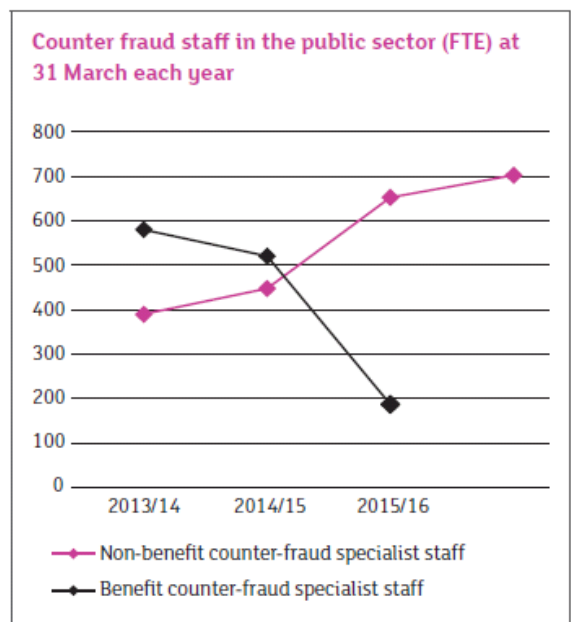
107. Also, there is an increasing shift towards using intelligence and data matching alongside applications to prevent fraud before it occurs. In addition, widespread publicity of these measures helps deter would-be fraudsters.

108. In the coming year, CIPFA with local practitioners aim to further improve counter fraud practices by setting up a set of specific local government standards. We will watch developments, in part through the Head of Audit Partnership's position on the Internal Audit Standards Advisory Board. We will then propose fitting adjustments to the Council's policies and practices to continue to learn from others on the approaches that deliver the best results.

Risk Management

109. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

110. 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.

111. As well as seeking assurance through our audit work, Mid Kent Audit also plays a lead role in promoting good risk management throughout the authority. Our Audit Charter (approved by this Committee in March 2016) details the safeguards on our independence in fulfilling both roles. These safeguards include division within the Audit Team (our assurance work is led by the Head of Audit Partnership, promoting risk management by the Deputy Head), oversight by the Shared Service Board and a fully independent review. The Head of Audit at Medway Council will undertake that independent review (at no cost to the Council) during 2017/18.

112. The timeline below sets out the actions taken since we issued our audit review of risk management in January 2015. This timeline was included in the report to Informal Cabinet and to the Audit Committee in March 2017 and shows how far we have come since 2015 to implement new processes and to create a comprehensive risk register:

January 2015 Risk Management Audit Review	July 2015 Risk Management Framework	January 2016 Corporate Level Risk Workshop		November 2016 Second Risk Register Report	March 2017 Audit Committee Report

January 2015

January 2016

January 2017

March 2017

April 2015
Risk Management
Discussion Paper

July 2015 - November 2015
Operational Risk Update

February 2016 - July 2016
Comprehensive Risk Register

October 2016
First Risk
Register Report

February 2017
Informal Cabinet
Report

113. The next steps include continual review and refresh of the key risks. Particular staging posts include a revised risk workshop in summer 2017, and further reporting to the Audit Committee and Cabinet later in 2017/18.
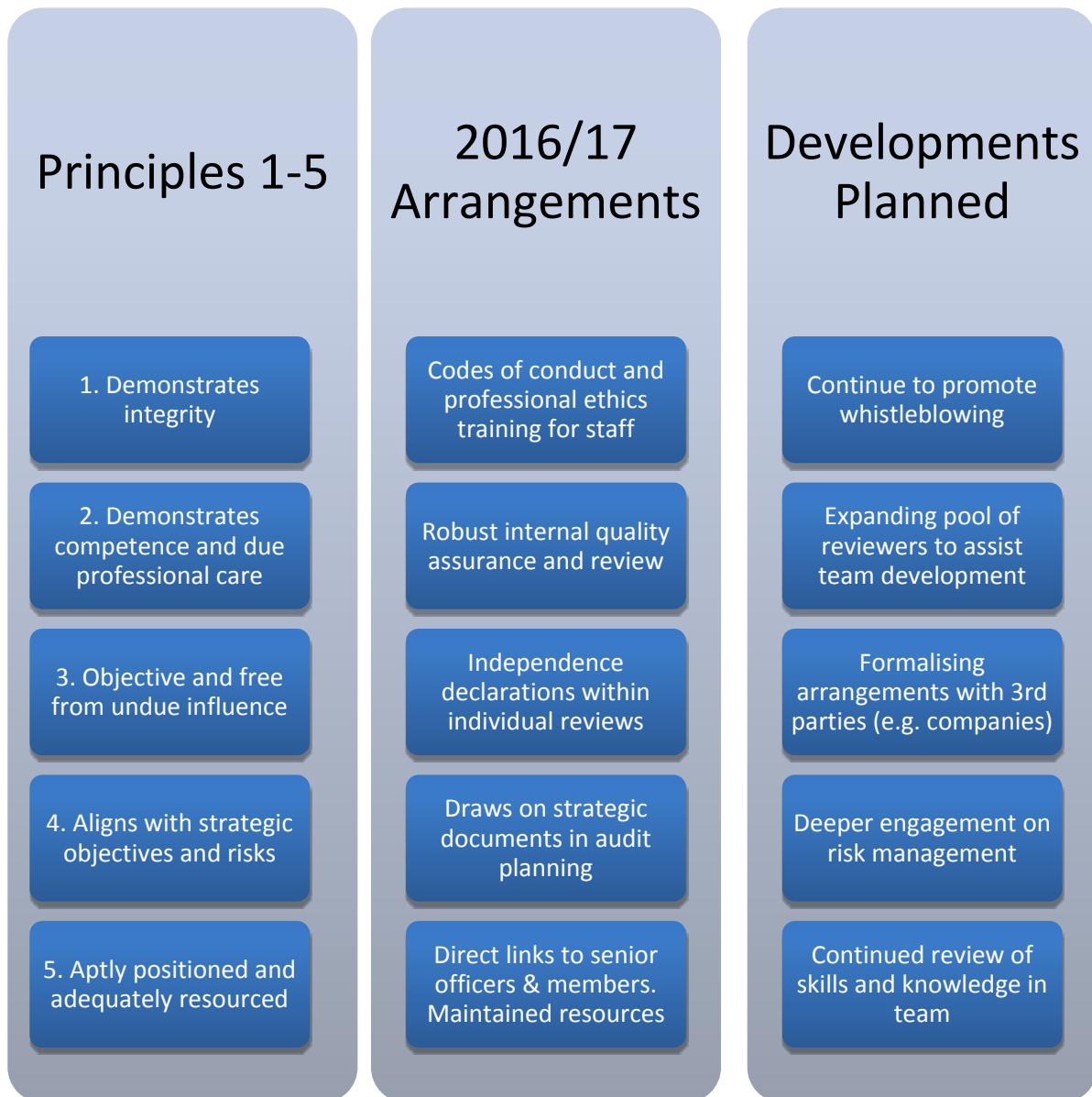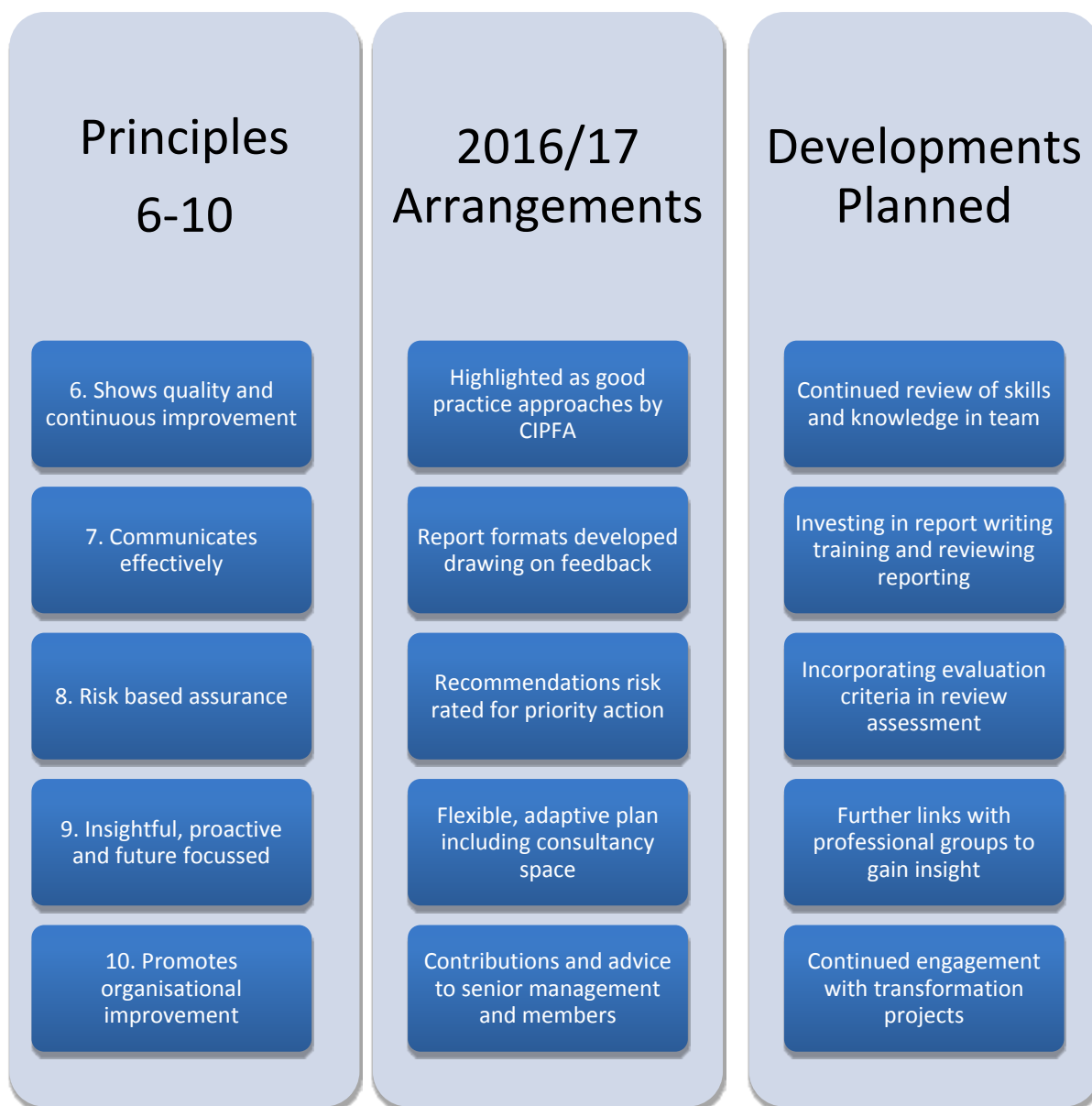
Mid Kent Audit Service

Team Update

114. During 2016/17 we were, on average, 1.4fte short of establishment owing to a combination of long term sickness absence and vacancies at trainee and administrator level. Nevertheless, we could complete the audit plan in record time; 61 weeks compared with 84 weeks to complete the 2013/14 plan. We achieved this through the hard work and dedication of our team with the resilience that comes from working a shared service across four authorities.

115. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through 2016/17.

116. We also, following a competitive tender, received more support during spring 2017 from Mazars in completing some reviews of key financial systems. While we have no current plans to seek contractor support in 2017/18, the external tender showed there exists a high-quality low cost market for audit support should we need it in future.

117. We have continued to support the team in learning and development through 2016/17. This includes professional qualifications, with five of the team currently working towards accreditation in internal audit, accounting and risk management.

118. We have also continued to seek opportunities to take up commercial work where we can do so without compromising the quality of service to our local authorities. In 2016/17 this included the Head of Audit Partnership working with CIPFA to deliver training to Heads of Audit across the country on managing effective audit teams.

119. More locally, we have also developed and delivered training on Introduction to Internal Audit, aimed specifically at those with a counter fraud background. As well as producing income, this training also received exceptional response from delegates. With ever more authorities creating combined audit and counter fraud teams, we continue to receive expressions of interest for this training and may deliver more sessions during 2017/18.

Quality And Improvement Plan

120. 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.

121. 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 rest. In 2015, following action to fulfil the IIA's recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.

122. In 2017 we have undertaken a self-assessment against the Standards and confirm to Members we remain in full conformance. Our next external assessment is due before 2020.

123. While the full standards comprise more than fifty demands, the IIA sums them up in ten principles. Below, we describe the principles, note our current performance and highlight further initiatives to continue development.

Principles 1-5	2016/17 Arrangements	Developments Planned
1. Demonstrates integrity	Codes of conduct and professional ethics training for staff	Continue to promote whistleblowing
2. Demonstrates competence and due professional care	Robust internal quality assurance and review	Expanding pool of reviewers to assist team development
3. Objective and free from undue influence	Independence declarations within individual reviews	Formalising arrangements with 3rd parties (e.g. companies)
4. Aligns with strategic objectives and risks	Draws on strategic documents in audit planning	Deeper engagement on risk management
5. Aptly positioned and adequately resourced	Direct links to senior officers & members. Maintained resources	Continued review of skills and knowledge in team

Principles 6-10	2016/17 Arrangements	Developments Planned
6. Shows quality and continuous improvement	Highlighted as good practice approaches by CIPFA	Continued review of skills and knowledge in team
7. Communicates effectively	Report formats developed drawing on feedback	Investing in report writing training and reviewing reporting
8. Risk based assurance	Recommendations risk rated for priority action	Incorporating evaluation criteria in review assessment
9. Insightful, proactive and future focussed	Flexible, adaptive plan including consultancy space	Further links with professional groups to gain insight
10. Promotes organisational improvement	Contributions and advice to senior management and members	Continued engagement with transformation projects

Performance Indicators

124. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Audit Board (with Mark Radford as Swale's representative for the early part of the year, followed by Nick Vickers) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKIP Board (which includes the Council's Chief Executive and Leader).

125. 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 Outturn	2016/17 Outturn
Cost per audit day	Met target	Met target ➔←	Beat target ⬆
% projects completed within budgeted number of days	47%	60% ⬆	71% ⬆
% of chargeable days	75%	63% ⬇	74% ⬆
Full PSIAS conformance	56/56	56/56 ➔←	56/56 ➔←
Audit projects completed within agreed deadlines	41%	76% ⬆	81% ⬆
% draft reports within ten days of fieldwork concluding	56%	68% ⬆	71% ⬆
Satisfaction with assurance	100%	100% ➔←	100% ➔←
Final reports presented within 5 days of closing meeting	89%	92% ⬆	94% ⬆
Respondents satisfied with auditor conduct	100%	100% ➔←	100% ➔←
Recommendations implemented as agreed	95%	98% ⬆	98% ⬆
Exam success	100%	100% ➔←	85% ⬇
Respondents satisfied with auditor skill	100%	100% ➔←	100% ➔←

126. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service. Unfortunately during the year we saw our first exam failures. However, the IIA in particular have raised pass marks on their professional exams (80%) with a commensurate fall in pass rates so we continue to outperform the national picture. We are optimistic for our staff in re-takes to follow in 2017/18.

Acknowledgements

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

Assurance & Priority level definitions

Assurance Ratings 2016/17

Full Definition	Short Description
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.	Service/system is performing well
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.	Service/system is operating effectively
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.	Service/system requires support to consistently operate effectively
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.	Service/system is not operating effectively

Recommendation Ratings 2016/17

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.