

**MID KENT AUDIT**

# **Interim Internal Audit & Assurance Report**



**November 2017**

**Swale Borough Council**



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## Introduction

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. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

### 2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

#### *Interpretation:*

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

## Audit Charter

3. This Committee approved our *Audit Charter* in March 2016. The Charter remains effective through the updated standards in April 2017. We will consider whether to recommend updates alongside our 2018/19 audit plan.

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## Independence of internal audit

4. 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 based on our collaboration agreement.
5. Within Swale BC during 2017/18 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

## Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

## Resource Requirements

9. We reported in our plan presented to this Committee in March 2017 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

*We feel on current assessment the Audit Partnership has enough resources in both quantity and ability to deliver the audit plan and a robust overall audit opinion.*

10. Since that review we have seen various changes to our current and projected position. First we report with pleasure that one of our audit trainees, Ben Davis, has accepted an offer to continue as a permanent auditor on completing his qualification in 2018. When we began the training scheme in 2014 it was with the hope we would eventually develop our own qualified people who could continue contributing to our success. We take great pride in beginning to realise that hope. This move will increase the number of audit days available to the partnership.

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11. However, we also continue dealing with long-term sickness absence of a senior member of the audit team. While in 2016/17 we were largely able to compensate for the absence through use of contractors and increased general productivity we are less able to cover the gap in 2017/18. In the spirit of greater resilience from working in partnership, no single authority will see a material loss but we do expect each will see some fall in available days.
12. Finally, we will look later in the year at our audit software. Originally through the efforts of the then Ashford team, Mid Kent have pioneered the use of “e-audit”. We were one of the first local authority teams to adopt electronic working when we began using Teammate software in 2001. Since then, though obviously upgraded, we have stuck with Teammate.
13. However, the increasing need to examine our costs carefully – the licence fees are by far our largest non-staff expense – have led us back to market. We will seek to establish the market, possibly jointly with Kent County Council, early in the New Year. This exercise and associated training if we buy new software will impact on the 2017/18 audit plan. However, we are confident that we will realise efficiencies in both cost and auditor time from 2018/19 onwards.
14. The result of these changes is a good chance we will not deliver in full the number of audit days set out in the 2017/18 plan. However, by continuing to focus on productivity and risk, we are confident that we will be in a position to deliver a robust overall opinion at year end.

## Audit Plan Progress

15. This Committee approved our *Annual Audit & Assurance Plan 2017/18* in March 2017. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2017 and expect completing enough to form our *Annual Opinion* by June 2018.
16. The table below shows progress in total number of days delivered against the plan (figures are to end of October 2017, about 42% through the audit year).

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Category	2017/18 Plan Days	Outturn at Interim	Days Remaining
2016/17 Assurance Projects	0	36	N/A
2017/18 Assurance Projects	300	130	170
Risk Management	35	12	23
Counter Fraud Support	30	7	23
Member Support	20	6	14
Recommendation Follow-Up	30	23	7
Audit Planning	10	3	7
Contingency and Consultancy	45	18	27
<b>Totals (17/18 Work Only)</b>	<b>470</b>	<b>199</b>	<b>271</b>

17. Based on resources available to the partnership for the rest of the year we forecast delivery of around 232 further audit days. This will total 431 days (92% of planned).
18. We detail the specifics, and results, of this progress further within this report.

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## Results of Audit Work

19. The tables below summarise audit project findings and outturn up to the date of this report. Where there are material matters finished between report issue and committee meeting we will provide a verbal update. (\* = days split between partners, SBC only shown).

## Completed Assurance Projects

	Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
<b>2016/17 Assurance Projects Completed After 1 April 2017</b>						
	Accounts Payable	10	10	Apr-17	Strong	Reported to Members Jun-17
	Bank Reconciliation	12	12	Apr-17	Strong	Reported to Members Jun-17
	General Ledger: Journals & Feeder Systems	15	19	Apr-17	Strong	Reported to Members Jun-17
	Section 106 Agreements	15	18	Apr-17	Sound	Reported to Members Jun-17
	Complaints	15	16	Apr-17	Sound	Reported to Members Jun-17
	Residents' Parking	9*	10*	May-17	Sound	Reported to Members Jun-17
I	Payroll	5*	5*	Jun-17	Strong	
II	ICT Controls & Access	8*	5*	Jun-17	Sound	Budget reduced to 5 days during planning to reflect assurance from third party sources
III	Leisure Centre Contract	15	21	Jun-17	Weak	Budget overrun to investigate matters arising from review
IV	Housing Benefits	10	14	July-17	Sound	
V	Corporate Governance: Transparency Review	7*	6*	July-17	N/A	
VII	Rent Deposits	10	19	Aug-17	Weak	Budget overrun to investigate matters arising from review

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	Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
<b>Planned 2017/18 Assurance Projects Completed so far</b>						
VI	Safeguarding	15	16	July-17	Strong	
VIII	Litter Enforcement	15	17	Sept-17	Sound	
X	Business Rates	10	10	Oct-17	Strong	
XI	IT Disaster Recovery	15	15	Oct-17	Sound	
XII	Debt Recovery Service	5*	5*	Oct-17	Strong	
XIII	Business Continuity	15	17	Nov-17	Sound	
<b>Assurance Projects Added to the 2017/18 Plan and Completed</b>						
	Mid Kent Audit Mid Term Review	n/a	4*	Aug-17	N/A	See "Standards Compliance" section
IX	Homelessness Budget Review	n/a	11	Oct-17	N/A	

## Assurance Projects Awaiting Completion

	Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
<b>Planned 2017/18 Assurance Projects In Progress</b>					
	Land Charges	5*	8*	Nov-17	Draft report
	Payroll	6*	9*	Nov-17	Fieldwork
	Landlord Complaints	10	4	Dec-17	Fieldwork
	Building Maintenance	10	2	Jan-18	Planning
	Community Safety	15	4	Jan-18	Planning
	Corporate Planning	10	2	Jan-18	Planning
	Sports Pitches & Pavilions	10	3	Mar-18	Planning
	Stray Dogs	10	1	Mar-18	Planning

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	Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
	Legal Services	5*	1*	Apr-18	Planning
<b>Planned 2017/18 Assurance Projects Yet To Begin</b>					
	Financial Planning	7*	0	Q3	Four-way review
	Animal Licenses	5	0	Q4	
	Community Grants	5	0	Q4	
	Community Halls	10	0	Q4	
	Food Safety	5*	0	Q4	
	HR Policy Compliance	5*	0	Q4	
	Information Security	5*	0	Q4	
	Parking Income	6*	0	Q4	
	Pre-application Planning Service	15	0	Q4	
	Public Conveniences	10	0	Q4	
	Corporate Governance	6*	0	Q4+	Four-way review
	Staying Put	12	0	Q4+	
	Transformation Team	15	0	Q4+	
	Waste Income	10	0	Q4+	

We will continue to keep these projects under review in the light of our available resources and the changing risk position at the authority.



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## Assurance Projects Removed from 2017/18 Plan

	Title	Plan Days	Days Spent	Postponed or cancelled?	Rationale and alternative assurance sources
Planned 2017/18 Assurance Projects Postponed or Cancelled					
	Equalities	10	0	Cancelled	Reviewed risk assessment and rolled into future corporate governance general assurance work.
	Electoral Register	15	0	Postponed	Deferred at client request due to workload pressure.
	Income Management	10	1	Cancelled	Replaced with consultancy support on PCI Compliance Project.

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## Audit Project Summary Results

### I: Payroll (June 2017)

20. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.
21. 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.
22. 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

23. The service has now acted to implement our recommendation, so this report is closed.

### II: ICT Controls & Access (June 2017)

24. Our opinion based on our audit work is the ICT shared service has **Sound** controls in place to manage its risks and support achievement of its objectives.
25. We identified the service annually receives external assurance around its access controls and takes actions as a result to improve. The overall design and operation of controls is consistent with Government standards sufficient to permit access to the Public Sector Network (PSN Compliance).
26. However the service needs to update procedures to improve controls around user access when an officer leaves the partnership that are currently inconsistently applied. Our testing identified individuals who had accessed the Council's system after leaving employment and a number of other accounts that closed only when we identified them in our sample. The service also needs to introduce controls to ensure the prompt closure of access to applications users no longer need when they change job roles.

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

27. The service has since acted to implement all recommendations. This report is now closed.

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## III: Leisure Centre - Contract Monitoring (June 2017)

28. Our opinion based on our audit work is that the Contracts Monitoring Team has **WEAK** controls in place to monitor the Leisure Centre Contract.
29. At the time of our review the Council was reviewing options for operating its Leisure Centre facilities in the future, which is recognised as one of the Council's major projects under the watch of Strategic Management Team.
30. Our review found that the Agreements which, taken together, describe the services to be provided at the Leisure Centre are comprehensive. The principal agreement relating to the operation of the Council's leisure centres operates between the Trust and its appointed operator SERCO. The Council's interests are primarily set out in a Funding agreement to the arrangement. The Council has a good relationship with the Trust and SERCO and undertakes adequate monitoring visits. These monitoring visits include regular site visits, checks on insurances and health and safety risk assessments.
31. However, we were unable to verify the accuracy of the operating fee payments made to SERCO during the audit and the Council was unable to explain the apparent discrepancy. As a result, we cannot give assurance over the adequacy of the controls, which have currently failed to identify the variance, and are unable to offer a resolution.
32. Since identifying this issue during our work, the service has reacted swiftly to investigate the cause of the difference, and have sought to take immediate action to resolve and correct the issue.

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

33. The service has since acted to address all of our recommendations. As a result we have reassessed the controls as **SOUND** and the report is now closed.

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## IV: Housing Benefits – Processing of Claims (July 2017)

34. Our opinion based on our audit work is that the Housing Benefit team has **SOUND** controls in place for the processing of claims.
35. Our review found that the controls in place for the processing and payment of housing benefit claims are adequately designed. Our testing confirmed that the council processes new claims and changes in circumstances in accordance with procedures. The Council also makes housing benefit payments with accuracy and appropriate authorisation.
36. We established that the service has embedded improvements made to the quality control process since our last audit review in 2014/15. Also, the service has introduced additional controls to ensure changes to some bank details are independently checked before payment. However, this check is not comprehensive in that certain categories of bank details can still be changed by a single officer which leaves some exposed risk of fraud or error the service should address.

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

37. The service has since acted to implement all recommendations. This report is now closed.

## V: Governance Review (July 2017)

38. The purpose of this review was to focus on the transparency arrangements in place at Ashford, Maidstone, Swale and Tunbridge Wells Borough Council, against the requirements set out in Principle G of the [Good Governance Framework](#) (the Framework) and the [Local Government Transparency Code 2015](#) (the Code).
39. Our review has confirmed that all 4 Councils are fulfilling all transparency requirements. However, we have identified some areas where further consideration is needed to ensure full compliance with the Framework and Code.
40. The following table summarises some of the good practice and areas for improvement identified during the audit:

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Authority	Notable practice	Areas for improvement
Ashford	<ul style="list-style-type: none"> <li>- Compilation of Annual Performance Report and Governance Statement</li> <li>- Ability to download &amp; view individual elements of the constitution</li> <li>- Clear and well understood reporting cycle to Management and Members</li> </ul>	<ul style="list-style-type: none"> <li>- Completeness of contract register information and garage data</li> <li>- Some information out of date – in particular social housing assets</li> </ul>
Maidstone	<ul style="list-style-type: none"> <li>- Centralised approach to consultations and analysis of results</li> </ul>	<ul style="list-style-type: none"> <li>- Inconsistent monitoring of transparency compliance</li> <li>- Some information incomplete or missing</li> </ul>
Swale	<ul style="list-style-type: none"> <li>- Good knowledge and monitoring of transparency requirements</li> <li>- Central transparency webpage</li> <li>- Benchmarking of performance data</li> <li>- Annual Governance Statement and Annual Performance Report</li> </ul>	<ul style="list-style-type: none"> <li>- Consultation</li> <li>- Publication of tender opportunities over £5k and the contracts register</li> <li>- Publication of local authority land information, parking spaces, staffing and Trade Union</li> </ul>
Tunbridge Wells	<ul style="list-style-type: none"> <li>- Consultation framework</li> </ul>	<ul style="list-style-type: none"> <li>- Co-ordination and monitoring of transparency obligations</li> <li>- No central transparency webpage</li> </ul>

41. The table below summarises the transparency requirements considered during the audit and our assessment for each element. An assessment key and a summary of the key findings are also provided below:

Good Governance Framework	Ashford	Maidstone	Swale	Tunbridge Wells
Officers' awareness of transparency requirements	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Monitoring compliance	COMPLIANT	PARTIAL	COMPLIANT	NOT COMPLIANT
Accessibility of Council information	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Service delivery	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Policy and strategy development	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Decision making	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Reporting	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Annual Performance Reporting	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Financial statements	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Conclusion	COMPLIANT	PART COMPLIANT	PART COMPLIANT	IMPROVEMENT NEEDED

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## VI: Safeguarding (July 2017)

42. Our opinion based on our audit work is that Safeguarding has **Strong** controls in place to satisfy the Council's statutory duties.
43. Our testing noted significant improvement in controls since our previous audit review. We identified a dedicated safeguarding office at the Council showing a commitment to safeguarding children and vulnerable adults. There is also strong Member lead involvement, leading to a new performance measure and a robust Section 11 compliance return.
44. We found peer councils recognise Swale's expertise. Swale officers regularly complete peer reviews of other authorities and reviews for the Kent Safeguarding Children Board (KSCB). The KSCB has also highlighted the Council bringing safeguarding levels within its contracting as best practice.
45. The Council has bought a new safeguarding database (MyConcern). The Council will introduce the database, after tailoring to meet its needs, in October 2017. Having a tailored database will make the Council unique in Kent.
46. We have one remaining concern, on data retention. The service should seek clarification on fitting retention periods for safeguarding records. The Council should include this information, once clarified, in its document retention policy.

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

47. The sole recommendation for action is due in December 2017. We will follow up on implementation early in the new-year.

## VII: Rent Deposits (August 2017)

48. Our opinion based on our audit work is that the Housing service has **WEAK** controls in place for the administration, payment and recovery of rent deposit bonds. These bonds operate as a security deposit for (vulnerable) tenants who are unable to afford a rent deposit, to help them to secure appropriate accommodation.
49. While the Council monitors some of the bonds effectively, we identified various concerns in our testing. These include a failure to seek proof the landlord complied with the agreement before the Council released payment. We found in some cases

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this arose as the Council had not updated agreements to reflect current procedures and the landlord accreditation status. We also note, in some instances, although properties had been inspected, safety certificates had not been retained.

50. Our testing found the Council pays bonds accurately to landlords. However, recovery action is not regularly monitored as anticipated by the terms of the scheme.

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

51. The service is currently under review from the Council's transformation team and so will address these recommendations before the end of 2017 alongside any improvements from the transformation review. We will follow up on these actions early in the new-year.

## VIII: Litter Enforcement (September 2017)

52. Our opinion based on our audit work is that the Environmental Response Team has **SOUND** controls in place to monitor and manage the Litter Enforcement contract.
53. Our testing established that the litter enforcement service, provided by Kingdom Security, is monitored in accordance with the contract. There is a close working relationship between the Council and Kingdom which enables continuing service development and effective contract monitoring. We also note Kingdom continues to meet the specified conditions of service as specified in the contract. We established during the review that the Council is satisfied with the service provided by Kingdom Security.
54. However financial procedures over the reconciliation of income and verifying invoices should be improved to ensure all income due to the Council is received and / or to identify and resolve variances. Monitoring records for cancellations and write offs should also be improved to ensure the Council is correctly charged for Fixed Penalty Notices (FPNs) issued.

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

55. The service acted to address two of the three recommendations during the time we finalised our report. The third recommendation is due before the end of 2017 and we will follow-up action early in the new-year.

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## IX: Homelessness Budget Outturn (October 2017)

56. The Head of Finance and Director of Regeneration invited us to review the circumstances leading to an overspend 170% greater at year-end than forecast in January 2017. We looked both at the specific circumstances and sought to find out how the service could potentially achieve more accurate forecasting in future.
57. We found that demand leads the homelessness budget with few fixed costs; with total costs being hard to predict for all authorities. The Council expects budget managers to develop and use forecasting methods suitable to their spending. However, we found the service had relied heavily on the 'straight line' forecast produced automatically by the accounting software that better suits stable predictable budgets such as salary. Because of using this method, the Council missed the effect of a spike in demand across the winter of 2016/17 from its budget forecasts resulting in a large variation.
58. We advised the Council to work towards developing budget forecasting models that take greater account of demand. We also advised strengthening internal communications so the Council can reflect rapid changes to activity in its reporting.
59. As a consultancy review, we did not give this work an assurance rating nor provide recommendations for formal follow-up. However, we will take into consideration our findings from this review while completing our risk assessment ahead of 2018/19 audit planning.

## X: Business Rates (October 2017)

60. Our opinion based on our audit work is the Council has **Strong** controls in place over valuation liability, billing and refunds of business rates.
61. Our review of the Business Rates system, documented in July 2015, found no major changes, meaning control design remains strong.
62. The rest of our testing confirms controls on valuation, liability and billing work effectively – property amendments are uploaded accurately and relief was found to have been awarded in accordance with guidance and procedures.
63. Controls over the refunds process are strong and our testing confirmed appropriate authorisation and adequate separation of duties.

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



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64. The service is currently completing an action to review valuation office notifications to address our findings. We will consider the results of that review as part of our follow-up work in 2018.

## XI: IT Disaster Recovery (October 2017)

65. Our opinion based on our audit work is that the ICT shared service has **Sound** controls in place to manage its Disaster Recovery (DR) arrangements.
66. The service has well designed arrangements to allow effective response to a disaster with prompt service restoration. Documentation is clear with well-considered roles plus comprehensive backup arrangements, secure communication and regular testing. However, we found some minor instances of documentation falling behind developments in wider business continuity that varied between the partner authorities. The service holds significant experience and expertise including offering advice to other authorities, but we identified opportunities to better document and manage that resource.

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

67. Mid Kent ICT has acted swiftly to address the recommendations, which are all due for action before the end of 2017. We will follow up on those actions early in 2018.

## XII: Debt Recovery Service (October 2017)

68. Our opinion based on our audit work is that the Debt Recovery Service has **STRONG** controls in place over the administration and management of enforcement cases and receipting and banking of enforcement income.
69. We found that there are sufficient procedures in place for the administration and management of enforcement cases. Our testing confirmed that enforcement action is taken in accordance with agreed procedures and fees and charges are applied in accordance with regulations. However, we identified a potential improvement in how data is transferred and stored between the partner authorities and the service.
70. Our testing established that financial controls, including receipting, banking and reconciliations, are operating effectively and as designed, and the partner authorities are accurately and promptly paid. However, we identified a potential risk in the

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process when updating enforcement cases with the payments received due to manual inputting of income received.

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

71. We do not review follow up actions on advisory recommendations and so this report is closed.

## XIII: Business Continuity (November 2017)

72. Our opinion based on our audit work is the Council has **SOUND** controls in place to manage its risks and support its objectives in relation to Business Continuity.
73. At individual service level we found sound arrangements in place for updating and testing individual Business Continuity Plans. We also found within services a comprehensive set of Business Impact Assessments and Risk and Issue Registers. The Council also has a settled Business Continuity Steering Group to help organisation wide management.
74. However, we identified weaknesses at that overall level the Council should address. For example it should update its overall strategy to reflect current arrangements. Also the Council should ensure consolidated Business Continuity risks feature suitably in the corporate risk register.

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

75. The recommendations for this review begin to fall due for action later in 2017. We will follow up on implementation during 2018.

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## Recommendation Follow Up Results

76. 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 Strategic 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).
77. 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 2017/18	18	2	7	9
New recommendations agreed in 2017/18	48	3	19	26
<b>Total Recommendations Agreed</b>	<b>66</b>	<b>5</b>	<b>26</b>	<b>35</b>
Fulfilled by 30 September 2017	39	4	13	22
<b>Recommendations carried past 30 September 2017</b>	<b>27</b>	<b>1</b>	<b>13</b>	<b>13</b>
Not Yet Due	20	0	11	9
Delayed Implementation but no extra risk	7	1	2	4
Delayed Implementation with risk exposure	0	0	0	0

78. We describe our priority ratings in Annex 1. In the table below we summarise progress against all reports with recommendations that fell due during 2017/18. The table excludes reports that raised no risk-rated recommendations for follow-up:

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Corporate Projects Review	Dec-2015 (Sound)	3	0	1	0	2	December 2017
Planning Enforcement	Oct-2016 (Weak)	10	0	1	0	9	December 2017
Data Protection	Oct-2016 (Sound)	6	0	1	0	5	March 2018
Licensing	Dec-2016 (Sound)	4	0	0	1	3	December 2017
Elections – Postal Votes	Dec-2016 (Sound)	6	0	1	0	5	December 2017
Members Allowances	Jan-2017 (Sound)	4	0	0	0	4	June 2017
Building Control Partnership	Jan-2017 (Sound)	8	0	1	1	6	December 2017
Section 106 Agreements	Apr-2017 (Sound)	7	0	0	0	7	September 2017
Complaints	Apr-2017 (Sound)	4	0	1	1	2	December 2017
Accounts Payable	Apr-2017 (Strong)	1	0	0	1	0	December 2017
Residents Parking	May-2017 (Sound)	8	0	1	3	4	December 2017
Leisure Centre Contract	Jun-2017 (Weak)	4	0	0	0	4	June 2017

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Payroll	Jun-2017 (Strong)	1	0	0	0	1	June 2017
ICT Controls and Access	Jun-2017 (Sound)	4	0	0	0	4	September 2017
Housing Benefit	Jul-2017 (Sound)	2	0	0	0	2	September 2017
Safeguarding	Jul-2017 (Strong)	1	0	0	1	0	December 2017
Rent Deposits	Aug-2017 (Weak)	5	0	0	5	0	December 2017
Litter Enforcement	Sept-2017 (Sound)	3	0	0	1	2	December 2017
Business Rates	Oct-2017 (Strong)	1	0	0	1	0	December 2017
Business Continuity	Nov-2017 (Sound)	7	0	0	5	2	March 2018

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## Other Audit Activity Results

### Risk Management Update

79. Risk management how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve objectives.
80. The Council set up a new risk management approach in July 2015. Since then we have been providing risk management support to help ensure the success of the approach. This resulted in us presenting the Audit Committee with its first dedicated risk report in [March 2017](#). That report provides details of the **corporate level risks** managed by the Council through the **comprehensive risk register**.
81. The comprehensive risk register is a record of all the operational level risks. Using the register we can understand how many and how grave the risks that we have across the Council.
82. We set out the current risk profile of the Council below including movement across the year.

Inherent Risk Rating	March 2017	November 2017
BLACK	4	1
RED	17	17
AMBER	59	49
GREEN	25	17
BLUE	4	3
Total	109	80

83. The number of risks has reduced through the year. Those risks removed are those the Council has successfully managed to a conclusion or have otherwise fallen from prominence owing to passage of time.

#### *Corporate level risks*

84. By definition these risks are more strategic, inherently hold a greater impact to the Council, and potentially affect multiple services. They are the key risks that link directly to achieving our priorities. The Council continuously oversees these risks and reports to provide assurance on their management and mitigating actions. These risks are often also a product of the external environment beyond the Council's control.

# MID KENT AUDIT

85. This summer we took the opportunity to run an exercise to refresh the corporate risks. The workshop had a large and broad attendance including Heads of Service and members of Strategic Management Team. Its focus was to review the existing corporate risks and identify any new or emerging risks.

## Risk profile

86. The tables below provide a summary of the corporate level risks. The matrix shows how each risk owner has assessed the impact and likelihood (see annex 3 for definitions):

Ref	Risk Heading	Score
a	STC Delivery	12
b	Transport infrastructure	16
c	Local Plan	15
d	Homelessness	16
e	Skills Gap	9
f	Funding Restrictions	12
g	Income Generation	6
h	Emergency Plan	6
i	Recruitment & Retention	4
j	Business Transformation	9
k	External Partners	12
l	Partnerships (Internal)	8
m	Cyber Security Incidents	16

87. The Council will oversee and manage the risks regularly and provide updates to Members as part of the annual risk report in March 2018.

88. Risk management is a continuing enterprise. We will continue providing general support to the Council and focus in particular in the coming months on:

- Producing project risk guidance;
- Creation of a risk web page as part of the shared Mid Kent Audit web page;
- Training and briefing sessions to Officers and Members;

Likelihood	5					
	4					
	3					
	2					
	1					
		1	2	3	4	5
		Impact				

# MID KENT AUDIT

## Counter Fraud Update

89. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

### *Investigations*

90. During 2017/18 we have completed one investigation on a matter referred to us about a council tax support claim made by a member of staff. We investigated to a PACE standard since the nature of the referral could have meant criminal charges might follow.
91. However we decided the matters arose because of misunderstandings and confusion rather than malicious intent. We reported our conclusions to management.

### *Whistleblowing*

92. 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.
93. We have had two matters raised with us for review during 2017/18. This includes the matter in our report to this Committee in June 2017.
94. We have now resolved both matters to the complainants' satisfaction. Although the resolutions have led to review on certain matters of the Council's governance there are no details we need to bring to the Committee's attention.

### *National Fraud Initiative*

95. We continue to coordinate 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 manage the exercise.
96. The Cabinet Office released the 2017 matches in January 2017 as reported to this Committee in June 2017. Most matches (64%) fall to the MKS Revenues & Benefits Compliance team to look into. That team report separately to this Committee.
97. We have now embarked on a review of the remaining matches starting with those identified by the Cabinet Office as 'high risk'. We aim to meet the Government



# MID KENT AUDIT

expectation to review all matches within two years. We will report results of the matches to Members as part of our year-end review.

## *Counter Fraud Policy*

98. We reported to Members in June an expectation that CIPFA would be working with local practitioners during 2017/18 to develop counter fraud standards for local government. Through the Head of Audit Partnership's roles with the IASAB and LAG we understand that development is delayed. We also note the DWP's recent extension of its pilot on leading Council Tax fraud that might further limit fraud roles within local government.
99. Our plan had been to use these new standards to review the Council's counter fraud and associated policies to ensure they conform to current best practice. However, given the delay in developing national standards, we will now go ahead with this policy review early in the new-year. We will draw on current examples of best practice in governance, such as the *CIPFA Counter Fraud Code*.

## **Other Audit and Advice Work**

100. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include work on the project team examining PCI compliance, attendance at Procurement Board, Information Governance Group and as part of the Wider Management Team.
101. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

# MID KENT AUDIT

## Code of Ethics and Standards Compliance

102. On 1 April 2017 the RIASS<sup>1</sup> published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
103. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards for 2017/18. One specific change is the new demand to report to Senior Management and the Board (Audit Committee) on conformance with the Code of Ethics and the Standards.

## Code of Ethics

104. We include the full Code at Annex 2. Although a new document, similar codes were already part of the profession especially for people holding membership of professional institutions. We have included the Code within our Audit Manual and training for some years.
105. We can report to Members we remain in conformance with the Code. For further assurance, the chart below describes some of the working practices and controls we use to encourage and oversee continuing adherence.

### Integrity

- Code of ethics within manual and part of basic training
- Working within ethical codes of profession and authorities

### Objectivity

- Separate independence declarations globally and on specific work
- Auditors mobile between authorities in partnership

### Confidentiality

- Guidance for auditors on minimal retention of personal data in audit files
- Information not of continuing use deleted on completing audit review

### Competency

- Need to consider competence before accepting engagements within Audit Charter
- Dedicated personal training budgets to support continuing professional development

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<sup>1</sup> Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

# MID KENT AUDIT

## Public Sector Internal Audit Standards

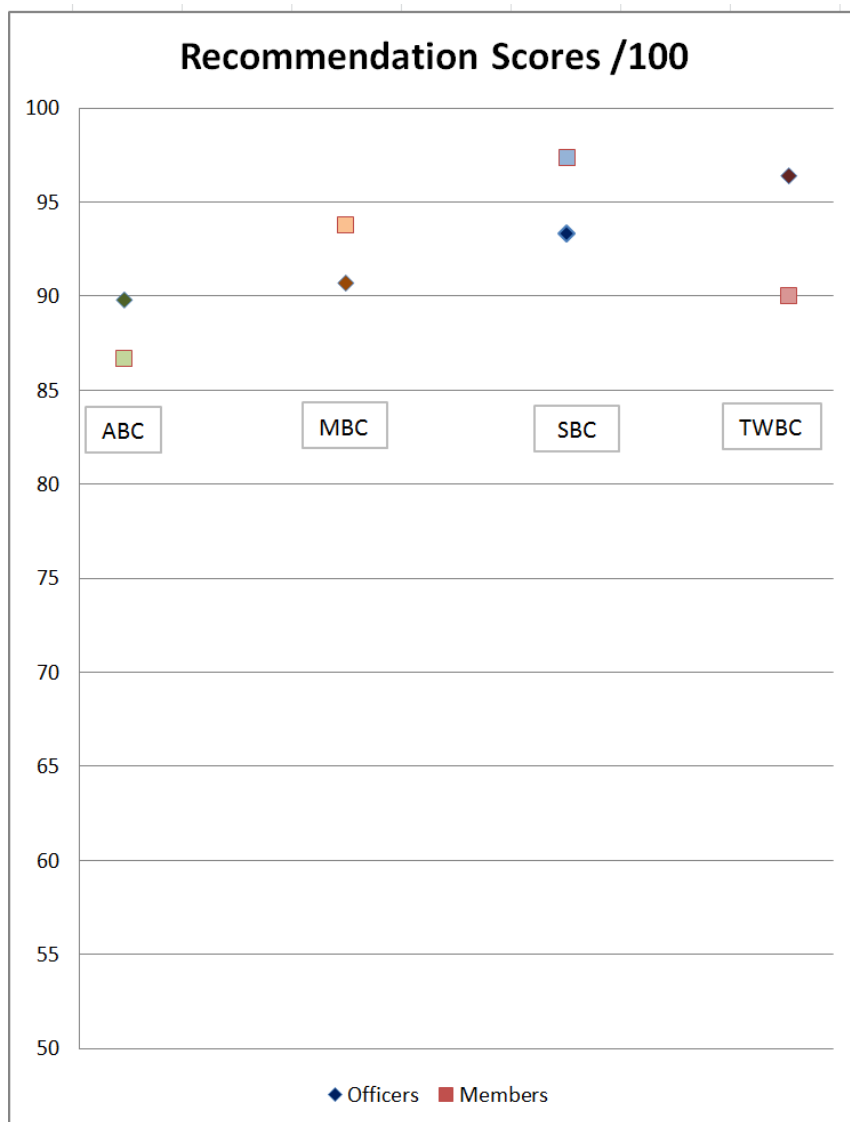
106. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
107. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the 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.
108. In 2017 we undertook a self-assessment against the Standards and confirm to Members we remain in full conformance. We will undertake a new self-assessment in 2018 alongside our annual opinion. However, including considering the changes to Standards published for 2017/18, we are confident we remain in full conformance. Our next external assessment is due before 2020.

## Mid-Term Review

109. The collaboration agreement between the four authorities demands the service undergo a 'mid-term review' before January 2018. The aim of the review is to ensure the authorities continue to draw the benefits they expect from working together and point towards how the partnership can continue to improve.
110. We undertook this review principally as a self-assessment during late summer 2017. However, we also sought a wide range of qualitative and quantitative evidence including a survey sent to more than a hundred members and officers and face-to-face discussions with key individuals.
111. The overall picture of Mid Kent Audit that emerged from the review is of a service working well and delivering above expectations. Several participants also remarked how much those expectations have risen in recent years, focusing on the clarity of our reporting and the increasing value of advice and wider governance work. Authorities place great value in Mid Kent Audit as a template of how partnership working can deliver improved expertise, resilience and learning unavailable from a single-authority enterprise. As a result, all four authorities show a strong wish to continue the arrangement beyond 2019. They also encourage Mid Kent Audit to take on extra roles and work outside the partnership where doing so can continue delivering benefits to the authorities.

# MID KENT AUDIT

112. We found the current collaboration agreement contains various sections related to the detail of service delivery that do not work as intended. However, we noted councils did not consider the variations important and most were unaware of them. Essentially, while satisfaction is high, councils have not inquired deeply into the detail. This gives strong support for the future agreement to focus more narrowly on governance with questions of service delivery for agreement with individual authorities through audit plans and charters.
113. The full report goes into detail on the governance and survey results but we'd like to highlight one area. The final question of the survey invited participants to score on a scale of 0-100 the question of how likely they would be, if asked, to recommend Mid Kent Audit to another authority. The results showed a strong positive response to the audit service remaining consistent across members, officers and authorities.



# MID KENT AUDIT

## Performance Indicators

114. 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 Nick Vickers, Chief Financial Officer, as the Council's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).

115. 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 Results	2015/16 Results	2016/17 Results	2017/18 Q2 Results
Cost per audit day	Met target	Met target →←	Beat target ↑	Beating target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑	77% ↑
% of chargeable days	75%	63% ↓	74% ↑	75% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←	58/58 ↑
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑	85% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑	77% ↑
Satisfaction with assurance	100%	100% →←	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑	100% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←	100% →←
Recommendations fulfilled as agreed	95%	98% ↑	98% ↑	95% →←
Exam success	100%	100% →←	85% ↓	67% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←	100% →←

# MID KENT AUDIT

116. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.
117. While we seek comments from a broad range of sources, the driver for the satisfaction numbers is responses to the surveys we circulate with each final report. Response rates to the surveys have varied over the years, but never been high. The response rate at this authority is 50% for 2017/18, the second highest in the partnership. We continue working with audit sponsors, recognising the many draws on their time, developing ways to gain comments on our work.
118. On exam success, we continue to see the influence of the IIA's change to its qualification that has depressed pass rates across the country. Our results remain above the national average and our people continue to gain success at a retake.

## Swale Stars Team of the Year 2017

119. We report with delight that we received "Team of the Year" at the *Swale Stars* awards earlier this year. As a purely internal service with no public facing role we are aware that audit is often, understandably, overlooked for awards so take great pride in this honour. Beyond the performance data and results noted above we believe firmly that an effective audit service is one that creates and nurtures close working with our clients. It is only by that close working that we can fulfil the mission of internal audit to provide effective, insightful and future focused support.



120. Our integrated working means almost the entire team has spent some time at Swale and so contributed to our achievement. However we'd like to praise the individuals who work most closely with the Council; Frankie Smith and Jo Herrington.

## Acknowledgements

121. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
122. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
123. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

# MID KENT AUDIT

## Annex 1: Assurance & Priority level definitions

### Assurance Ratings 2017/18 (Unchanged from 2014/15)

Full Definition	Short Description
<b>Strong</b> – 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
<b>Sound</b> – 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
<b>Weak</b> – 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
<b>Poor</b> – 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

# MID KENT AUDIT

## Recommendation Ratings 2017/18 (unchanged from 2014/15)

**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.



# MID KENT AUDIT

## Annex 2: Institute of Internal Audit Code of Ethics

### { CODE of ETHICS... }

#### // PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

#### // RULES OF CONDUCT

##### 1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

##### 2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

##### 3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

##### 4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



The Institute of Internal Auditors

# MID KENT AUDIT

## Annex 3: Risk Definitions

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following agreed definitions have been used to inform the assessment of risks on the comprehensive risk register.

### RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law	Uncontrollable financial loss or overspend over £1.5m	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	punishable by imprisonment or significant fines	Financial loss or overspend greater than £100k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £20k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £20k	Environmental incident with no lasting detrimental effect

### RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history

<sup>i</sup> Photograph of Faversham Creek from “The Coastal Path Blog” at <https://thecoastalpath.net/2012/08/19/28-faversham-to-seasalter/>