

# AGENDA

## AUDIT COMMITTEE MEETING

Date: Wednesday, 10 June 2015  
Time: 7.00 pm  
Venue: Committee Room - Swale House

Membership:

Councillors Mike Baldock, Andy Booth (Vice-Chairman), Mick Galvin, Nicholas Hampshire (Chairman), Harrison, Alan Horton, Nigel Kay, Samuel Koffie-Williams and Peter Marchington

Quorum = 3

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	Pages
1. Apologies for Absence and Confirmation of Substitutes	
2. Declarations of Interest	
<p>Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.</p> <p>The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:</p> <p>(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.</p> <p>(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.</p> <p><b>Advice to Members:</b> If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Director of Corporate Services as Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.</p>	
3. Minutes	
<p>To approve the Minutes of the Meeting held on 25 March 2015 (Minute Nos. 584 - 591) as a correct record.</p>	

## Part B Reports for Decision by the Audit Committee

4.	Internal Audit Annual Report 2014/15	1 - 30
5.	Annual Governance Statement	31 - 44
6.	Audit Committee Annual Report	45 - 54
7.	Fee Letter 2015/16	55 - 58
8.	Benefit Fraud Annual report 2014/15	59 - 64
9.	Work Programme	65 - 70

### Issued on Monday, 1 June 2015

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit [www.swale.gov.uk](http://www.swale.gov.uk)

Corporate Services Director, Swale Borough Council,  
Swale House, East Street, Sittingbourne, Kent, ME10 3HT

<b>Audit Committee Meeting</b>
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<b>Meeting Date</b>	10 June 2015
<b>Report Title</b>	Internal Audit Annual Report 2014/15
<b>Cabinet Member</b>	CIlr Duncan Dewar-Whalley, Cabinet Member for Finance
<b>SMT Lead</b>	Mark Radford – Director of Corporate Services
<b>Head of Service</b>	Rich Clarke – Head of Audit Partnership
<b>Lead Officer</b>	Russell Heppleston – Audit Manager
<b>Key Decision</b>	No
<b>Classification</b>	Open
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. That the Audit Committee <b>notes</b> the annual opinion of the Head of Audit Partnership that reliance can be placed on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, and that the opinion can be used to inform the Annual Governance Statement 2014/15.</li> <li>2. That the Audit Committee <b>notes</b> the results of the work of the Internal Audit Team over the period April 2014 to March 2015, as shown in the report as the prime source for the Head of Audit Partnership’s opinion.</li> <li>3. That the Audit Committee <b>notes</b> the effectiveness of the Internal Audit service and its conformance to the Public Sector Internal Audit Standards.</li> </ol>

# 1 Purpose of Report and Executive Summary

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

## 2 Background

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

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

### **3 Proposal**

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

### **4 Alternative Options**

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

### **5 Consultation Undertaken or Proposed**

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

### **6 Implications**

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

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

## **7 Appendices**

7.1 Appendix I: Internal Audit Annual Report 2014/15

## **8 Background Papers**

8.1 None.

**MID KENT AUDIT**

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

**Swale**



## Introduction

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

### Independence:

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

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<sup>1</sup> This is the definition of internal audit included within the Public Sector Internal Audit Standards



# Head of Audit Partnership Annual Opinion

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

## Scope of responsibility

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

## The purpose of the system of internal control

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

## The control environment

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

### **Basis of assurance**

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

### **Internal control**

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

### **Corporate governance**

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

### **Risk management**

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

## Internal Control

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

### Summary of Audit Work – Swale 2014/15

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

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

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

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

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

## CHANGES TO THE PLAN

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

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

## Assurance Ratings Guide

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

## Audit Review Findings

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

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

## Safeguarding People

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

## ICT: Service Desk

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

## Housing Benefits – Systems

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



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

### **Business Rates Retention (Risk)**

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

### **Members' Allowances Scheme**

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

### **Housing Allocations Policy**

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

## **Council Tax – Systems**

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

## **Treasury Management**

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

## **Accounts Payable - Systems**

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

## **Payroll – Systems (on MBC Plan)**

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

## Computer Use Policy (on TWBC Plan)

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

## Follow-up of Internal Audit Recommendations

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

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

## Summary of Findings

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

## **Corporate Governance**

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

## **Counter Fraud & Corruption**

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

### **Investigations**

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

### **Whistleblowing**

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

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

### National Fraud Initiative

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

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

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

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

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

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

# Risk Management

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



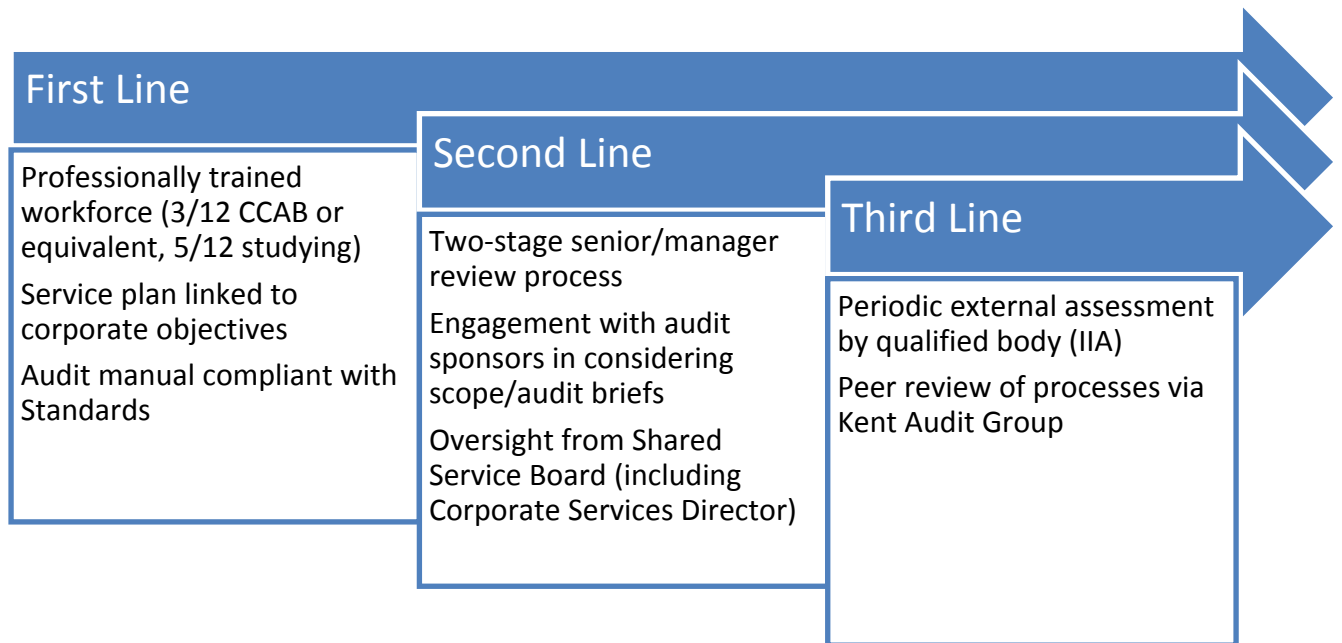
# Mid Kent Audit Service Update

## Quality Assurance and Improvement Programme: Public Sector Internal Audit Standards

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

## Quality Assurance and Improvement Programme: Ongoing monitoring

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



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

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

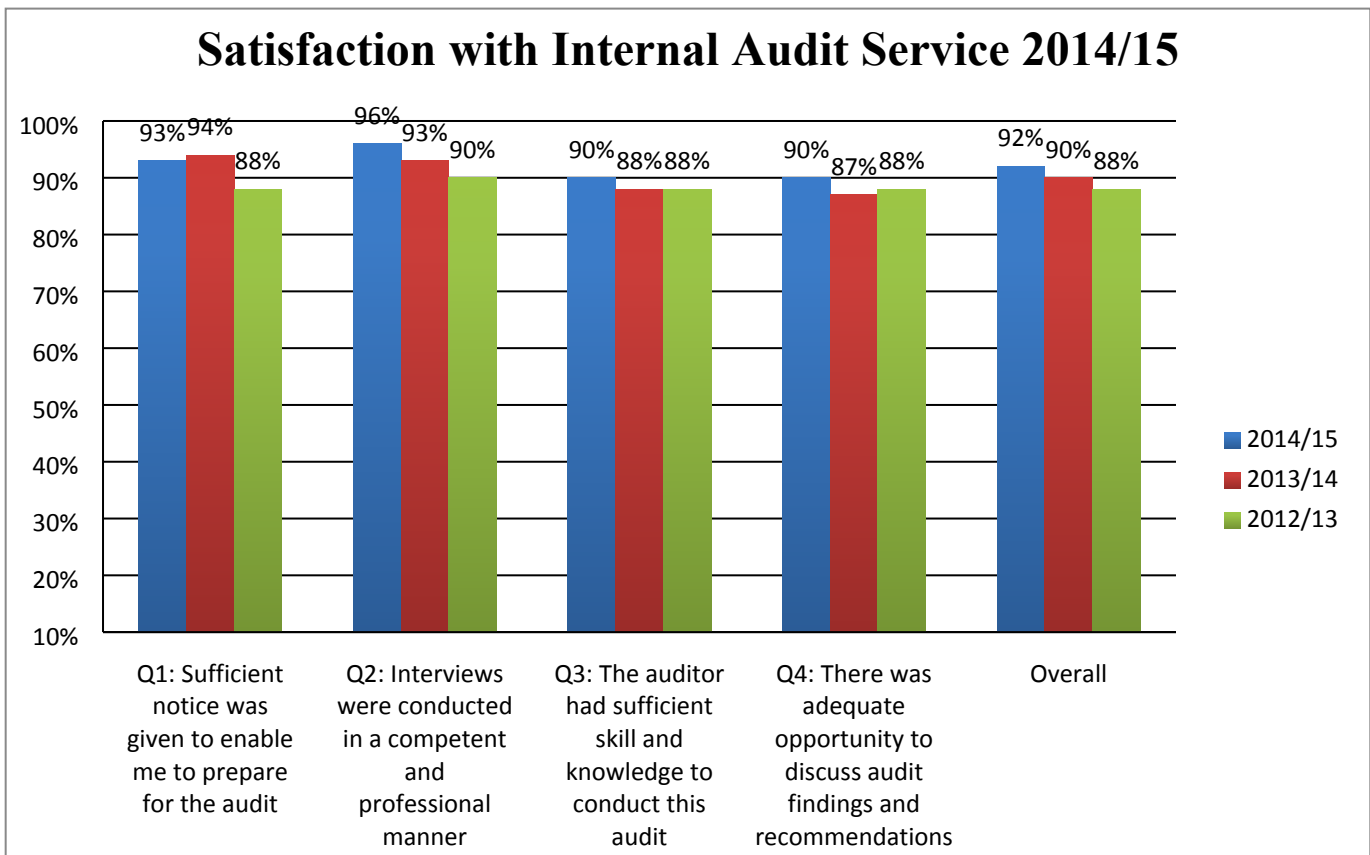
## Performance

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

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

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

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



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

## **Acknowledgements**

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



Rich Clarke  
Head of Audit Partnership

27 April 2015

Ref:201504Mid-Kentfollow-up

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

Dear Rich

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

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

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

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

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

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

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

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

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

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

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

Chris Baker

[signed]

Technical Manager, Chartered Institute of Internal Auditors

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<b>Audit Committee</b>
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<b>Meeting Date</b>	10 June 2015
<b>Report Title</b>	Annual Governance Statement
<b>Cabinet Member</b>	Duncan Dewar-Whalley, Cabinet Member for Finance
<b>SMT Lead</b>	Nick Vickers, Head of Finance
<b>Head of Service</b>	Nick Vickers, Head of Finance
<b>Lead Officer</b>	Nick Vickers, Head of Finance
<b>Recommendations</b>	1. To agree the Annual Governance Statement.

## 1 Purpose of Report and Executive Summary

- 1.1 The Council is required by statute to seek the agreement of the Audit Committee to the Annual Governance Statement.

## 2 Background

- 1.2 Whilst the production of an Annual Governance Statement is a statutory requirement its format is not specified. However, it has to meet certain requirements set out in the Chartered Public Finance and Accountancy/Society of Local Authority Chief Executives "Delivering Good Governance in Local Government" document and the Accounts and Audit Regulations.
- 1.3 This year's document is heavily revised to focus on the key control and governance processes in the Council. It is hoped that this approach will assist members of Audit Committee is taking assurance from the processes set out in the document about the effective operation of the control and governance processes.

## 3 Proposal

- 1.4 To agree the document attached in Appendix I.

## 4 Alternative Options

- 1.5 This is a statutory requirement.

## 5 Consultation Undertaken or Proposed

- 1.6 Key Officers in the Council responsible for governance and engagement have been consulted on the draft document.

## 6 Implications

Issue	Implications
Corporate Plan	Supports the Council's objective of promoting good governance.
Financial, Resource and Property	Agreement of the AGS is a key part of the process for producing and agreeing the Council's statutory accounts.
Legal and Statutory	Need to comply with the Accounts and Audit (England) Regulations.
Crime and Disorder	None identified.
Sustainability	None identified.
Health and Wellbeing	None identified.
Risk Management and Health and Safety	The Council's approach to strategic risk management is one of the areas considered in the statement..
Equality and Diversity	None identified.

## 7 Appendices

The following documents are to be published with this report and form part of the report

- Appendix I: Annual Governance Statement

## 8 Background Papers

None

## SWALE BOROUGH COUNCIL

### 2014/15 ANNUAL GOVERNANCE STATEMENT

#### 1. Scope of Responsibility

1.1 Swale Borough Council is responsible for ensuring that:

1.1.1 Its business is conducted in accordance with the law and proper standards;

1.1.2 Public money is safeguarded and properly accounted for; and

1.1.3 Public money is used economically, efficiently and effectively.

1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure 'Best Value' in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.3 In meeting this obligation, the Council has a responsibility for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. A schematic summarising how the Council meets this obligation is set out in Appendix I.

1.4 The Council has adopted a local code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework '*Delivering Good Governance in Local Government*'.

1.5 This Statement explains how Swale Borough Council has complied with the principles of good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

## **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

## **3. The Council's Governance Framework**

- 3.1 A brief description of the key elements of the Council's governance framework is described below.

### Communicating the Council's vision

- 3.2 The Council's Corporate Plan, Making Swale a Better Place, sets out an overarching statement of the Council's strategic objectives for the period April 2015 to March 2018. The plan is structured around three high level priorities, each containing a number of specific objectives. The three themes are:
- A Borough to be Proud Of
  - A Community to be Proud Of
  - A Council to be Proud Of
- 3.3 This is the Council's third corporate plan and the latest is very much an evolution based upon what has preceded it.

- 3.4 The Council has a range of performance indicators used to monitor the quality of its services and measure progress against its objectives and this is reflected in the performance reports considered by the Strategic Management Team on a monthly basis and by cabinet and Scrutiny Committee on a quarterly basis.

### Management of Resources

- 3.5 The Council seeks to use its resources efficiently and obtains value for money via a number of arrangements. These include:
- 3.5.1 A medium term financial strategy and annual budget process that ensures that financial resources are directed to the Council's priorities.
  - 3.5.2 Partnership working with a range of organisations where there are shared objectives and clear benefits from joint working. The most significant of the partnership arrangements is the Mid Kent Improvement Partnership with Maidstone Borough Council and Tunbridge Wells Borough Council.
  - 3.5.3 A co-ordinated and structured approach to better procurement practices across the Council. Whilst significant improvements have taken place across the board in the Council's procurement of goods and services the joint waste and street cleansing contract with Kent County Council, Maidstone Borough Council and Ashford Borough Council stands out-both for the service improvement and very substantial cost savings achieved.

### Members and officers working arrangements

- 3.6 Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The Cabinet is the main decision-making body of the Council and is made up of nine members who have responsibility for particular portfolios.
- 3.7 The Council also appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are set out in the Council's Constitution.
- 3.8 The Constitution also includes an Officer Code of Conduct which describes and regulates the way in which members and officers should interact to work effectively together.

- 3.9 The Council's overview and scrutiny arrangements have continued to evolve. Since March 2014 there has been a Scrutiny Committee which scrutinises performance and holds cabinet to account for it, and a Policy Development and Review Committee which does not have formal scrutiny powers but which provides a mechanism for backbench members to consider and feed into policy proposals before formal decisions are taken.
- 3.10 The Council's Audit Committee has a remit consistent with those identified in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities'. It provides assurance to the Council on the effectiveness of its governance arrangements, risk management framework and internal control environment. The Committee regularly reviews the internal audit work programme, the results of internal audit work and management's implementation of audit recommendations.
- 3.11 A central role on governance issues is undertaken by the Council's three statutory officers; the Head of Paid Service, the Monitoring Officer/Proper Officer and the Chief Financial Officer.
- 3.12 The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's services, its budget, the work of the Council's employees and the work done for the Council by a variety of partners and contractors who deliver a wide range of services to the community. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council following the recommendation of a candidate for the role by the Appointments Sub Committee of General Purposes Committee.
- 3.13 Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. This role is undertaken by the Director of Corporate Services, who is responsible for:
- 3.13.1 Ensuring that the Council acts and operates within the law. He or she has a duty to report to the whole Council if the Council has broken or may have broken the law;
  - 3.13.2 Maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;
  - 3.13.3 Supporting the Council's Standards Committee and helping promote and maintain high standards of conduct by Council members, officers, partners and contractors;

- 3.13.4 Establishing and maintaining a register of interests (including receipts of gifts and hospitality);
- 3.13.5 Receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.
- 3.14 The Director of Corporate Services is a direct report to the Chief Executive.
- 3.15 The Head of Finance, as the Section 151 Officer appointed under the 1972 Local Government Act, is the Council's Chief Financial Officer and carries overall responsibility for the financial administration of the Council. The Council's governance arrangements relating to the role of the CFO overall comply with those arrangements set out in the CIPFA statement on the role of the Chief Financial Officer (CFO) in Local Government (2010).
- 3.16 The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership, an arrangement covering the three MKIP Councils and Ashford Borough Council. This role is responsible for the Council's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. The Council's arrangements conform to Public Sector International Audit Standards, as independently assessed by the Institute of Internal Audit. The Standards are the "proper practices in relation to internal control" referenced in the Accounts and Audit Regulations 2011. The Head of Audit Partnership has no operational responsibilities inconsistent with the independence requirements set out in the Standards.
- 3.17 All employees have clear conditions of employment and job descriptions which set out their roles and responsibilities.
- 3.18 The Council has clearly set out terms and conditions for the remuneration of members and officers and there is an effective structure for managing the process. A Scheme of Members' Allowances has been set by the Council having regard to a report of an Independent Panel made up of non-Councillors. The Council sets and publishes a 'Pay Policy Statement' which provides transparency with regard to the Council's approach to setting the pay of its employees. The 'Pay Policy Statement' is reviewed annually.

#### Promoting values and upholding high standards of conduct and behaviour

- 3.19 The Council has a Standards Committee to promote high standards of member conduct. Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties. In the last two years the Committee has met once a year to receive an annual report from the Director of Corporate Services in his role as Monitoring Officer.

- 3.20 Officer behaviour is governed by the Officer Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work and the link between that work and their private lives.
- 3.21 The Council takes fraud, corruption and maladministration seriously and has established policies and processes which aim to prevent or deal with such occurrences. These include:
- 3.21.1 Anti-Fraud and Anti-Corruption Strategy.
  - 3.21.2 Procurement policies.
  - 3.21.3 Whistleblowing Policy.
  - 3.21.4 HR policies regarding discipline of staff involved in such incidents.
  - 3.21.5 A corporate complaints procedure exists to receive and respond to any complaints received.
- 3.22 Arrangements exist to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:
- 3.22.1 Registers of disclosable pecuniary interests and disclosable other interests;
  - 3.22.2 Declarations of disclosable pecuniary interests and disclosable other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
  - 3.22.3 Registers of gifts and hospitality for Officers;
  - 3.22.4 Equal opportunities policy.
  - 3.22.5 Member induction.

#### Taking informed and transparent decisions and managing risk

- 3.23 The Council's decision-making processes are clear, open and transparent. The Council's Constitution sets out how the Council operates and the processes for policy and decision-making. Key decisions are published in the Council's Forward Plan. Agendas and minutes of all meetings are published on the Council's website.



3.24 The Council provides decision-makers with full and timely access to relevant information. The Cabinet report template requires information to be provided explaining the legal, financial and risk implications of decisions, as well as implications for each of the corporate priorities and any equality and diversity implications.

3.25 The Council has a Strategic Risk Register covering the Council's most significant over-arching risks. These are:

3.25.1 Impact of welfare reform and wider economic pressures.

3.25.2 Regeneration and place shaping.

3.25.3 Achieving a balanced budget across the medium term financial plan period.

3.25.4 Transforming to meet the financial environment.

3.25.5 Safeguarding

3.26 Operational level risks are picked up through the service planning process. Internal Audit have examined the Council's approach to risk management and are now engaged with the Strategic Management Team in developing our current approach.

#### Developing the capacity and capability of Members and Officers

3.27 The Council recognises that the success of its business is built upon the knowledge, expertise and commitment of its workforce. Development and retention of staff therefore remains a priority for the Council.

3.28 The Council continues to put great emphasis on the management and development of its key resource-the people who work for the Council. There are well established performance appraisal and development processes for all staff. The Council has developed our values to clearly describe how we do things- Fairness, Integrity, Respect, Service and Trust (FIRST) and all employees should be aware of how we expect them to work so that they behave in ways which are consistent with these values. The Council also has a staff engagement strategy. Communications with staff are paramount with a monthly Team talk document, three all staff briefings a year led by the Chief Executive, weekly Strategic Management Team meetings, monthly Corporate Leadership Team meetings, monthly team meetings and quarterly of third tier managers. These processes are supplemented by a staff Group with direct access to SMT.

The recent staff engagement survey showed significant improvements in the already good results achieved 2 years ago.

- 3.29 The Member Development Working Group has an overview of the approach to member development. It continues to operate to the principles which underpin the member Development Charter.

Engagement with local people and other stakeholders to ensure robust public accountability

- 3.30 The Council employs a range of mechanisms for ensuring that it takes decisions in accordance with local preferences and remains responsive to residents' concerns and priorities. These range from formal consultation on specific proposals to regular public engagement events attended by members and senior officers and with agendas determined by residents. These include three geographically based "Local Engagement Forums", as well as the more thematic Rural Forum and Youth Forum. In recent years the Council has also made progress in developing relationships with the Borough's 36 town and parish councils, regularly consulting with them on a range of issues. The Council has developed a Statement of Intent which Cabinet agreed in March 2015 which sets out clear guidance for the level of support town and parish councils can expect from this Council.

- 3.31 The Council also engages with stakeholders through various partnerships such as the Public Services Board, Community Safety Partnership, Health and Well Being Board and the Green Grid Partnership to ensure collaboration on strategic issues and delivery by working together for the benefit of Swale.

- 3.32 It also engages with the voluntary, community and business sectors, working closely with Swale CVS and communicating through the Swale Community Empowerment Network. It also disseminates and adds information about the Council to various e-bulletins and newsletters to these groups eg the Business Bulletin and Active Swale Bulletin

#### **4. Review of Effectiveness**

- 4.1 The Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of internal audit and by comments made by the external auditors and other inspection agencies.

- 4.2 The processes applied in maintaining and reviewing the effectiveness of the system of governance include:
- 4.2.1 The work of the Audit Committee.
  - 4.2.2 The work of the Standards Committee.
  - 4.2.3 The role of the Scrutiny Committee in holding the Cabinet to account.
  - 4.2.4 The operation of the Council's performance management frameworks with an Annual Report and risk management.
  - 4.2.5 The work of internal audit as an assurance function that provides an independent and objective opinion to the Council on its control environment;
  - 4.2.6 The external auditor's opinion report on the Council's financial statements and conclusion on whether the Council has put in place proper arrangements to secure efficiency and effectiveness in its use of resources (the Value for Money conclusion);
  - 4.2.7 The roles of the Council's Statutory Officers.
  - 4.2.8 The corporate complaints procedure.
  - 4.2.9 The anti-fraud and corruption and whistleblowing framework;

4.3 In the 2013/14 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is:

Issue	Updated position
Sittingbourne Town Centre Regeneration	Good progress has been made and Planning Committee resolved to grant planning permission on 16 March. There now appears to be real momentum to the project.
Localisation of Business Rates	Substantial progress has been made in establishing more robust monitoring procedures. However, issues such as appeals do have the capacity to fundamentally change the underlying position.
Prioritisation of resources	The 2015/16 budget process started with a funding gap of around £1.5m. This was closed through budget savings, avoiding reductions in front line services, and increased business rates income. The process was well managed.

## 5. Significant Governance Issues

5.1 The main areas for members and senior management attention in the coming year are:

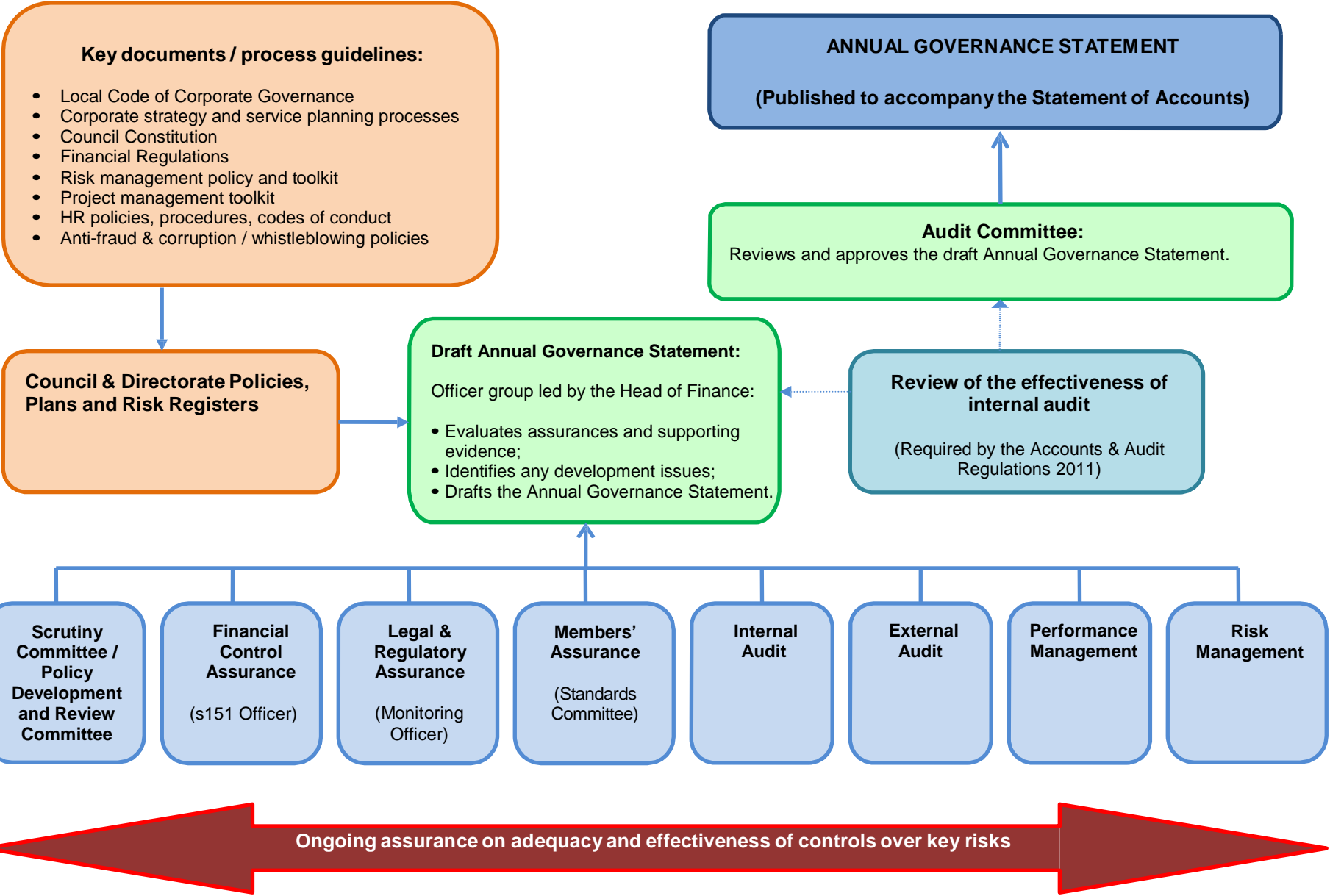
- 5.1.1 Revising the Council's approach to prioritisation of resources and meeting the financial challenge in the new political environment in the Council.
- 5.1.2 Updating the approach to strategic and operational risk management.
- 5.1.3 Updating the Fraud and Corruption policy and embedding it in the Council.

**Agreed:**

**Leader of the Council**

**Chief Executive**

ANNUAL GOVERNANCE STATEMENT – ASSURANCE FRAMEWORK



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<b>Audit Committee Meeting</b>
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<b>Meeting Date</b>	10 June 2015
<b>Report Title</b>	Audit Committee Annual Report 2014/15
<b>Cabinet Member</b>	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
<b>SMT Lead</b>	Mark Radford – Director of Corporate Services
<b>Head of Service</b>	Rich Clarke – Head of Audit Partnership
<b>Lead Officer</b>	Russell Heppleston – Audit Manager
<b>Key Decision</b>	No
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. That the Audit Committee agree the Audit Committee Annual Report for 2014/15</li> </ol>
	<ol style="list-style-type: none"> <li>2. That the Chairman of the Audit Committee provides the report to a meeting of the full Council to demonstrate how the Committee has discharged its duties.</li> </ol>

## 1 Purpose of Report and Executive Summary

- 1.1 The report has been proposed to demonstrate that the Audit Committee has effectively discharged its duties during 2014/15. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee. The report seeks to provide additional assurance to support the Annual Governance Statement.

## 2 Background

- 2.1 The Audit Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council’s regulatory framework and review and approve the Council’s annual statements of accounts and scrutinise associated strategy and policy. This reports sets out how this has been achieved during 2014/15.
- 2.2 This will be the fourth year that the Audit Committee has reported its annual activity to full Council.

## 3 Proposal

- 3.1 To agree the Audit Committee Annual Report as attached in Appendix I
- 3.2 That the Chairman of the Audit Committee provides the report to a meeting of full Council setting out how the committee has discharged its duties.

## **4 Alternative Options**

- 4.1 The production and presentation of an annual report is required by this Committee's terms of reference. Therefore no other alternative could be recommended.

## **5 Consultation Undertaken or Proposed**

- 5.1 We provided this report to the Chair of the Audit Committee for consultation prior to submission for this meeting.

## **6 Implications**

<b>Issue</b>	<b>Implications</b>
Corporate Plan	None identified at this stage
Financial, Resource and Property	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.
Legal and Statutory	None identified at this stage.
Crime and Disorder	None identified at this stage.
Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Risk Management and Health and Safety	The role of the Audit Committee requires it to consider the effectiveness of the Councils risk management arrangements. There are no Health and Safety implications identified at this stage.
Equality and Diversity	None identified at this stage.

## **7 Appendices**

- 7.1 Appendix I: Audit Committee Annual Report 2014/15

## **8 Background Papers**

- 8.1 None.



# **Audit Committee Annual Report 2014/15**



## **1. The Role of the Audit Committee:**

Swale Borough Council understands and supports the value of having an independent Audit Committee as an essential component of the Council's governance framework.

The Swale Audit Committee comprises nine members whose key purpose is to monitor internal and external audit activity, review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy.

The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access in order to discharge its responsibilities in line with its terms of reference. This includes direct access to the Council's Appointed Auditor and Head of Audit Partnership where appropriate.

The Committee holds, develops and maintains skills, interests and knowledge in finance and risk management, accounting concepts, standards and regulation. It must provide independent and unbiased scrutiny to promote apolitical discussion, as well as maintain ability to challenge the Executive and senior officers of the Council when required.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

## **2. Terms of Reference**

The Committee's detailed terms of reference are set out in the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.

In summary, the Committee is responsible for providing independent assurance to the Council in relation to the areas of governance. Key terms are to:

- 1) Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- 2) Seek assurances that action is being taken on risk-related issues identified by auditors.
- 3) Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- 4) Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.
- 5) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- 6) Receive the annual report of the Head of Internal Audit
- 7) Consider the reports of external audit and inspection agencies.
- 8) Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- 9) Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
- 10) Approve the Annual Statement of Accounts.
- 11) Present an annual report to the Executive on exceptions and highlights throughout the year.

### 3. Membership 2014/15

The Audit Committee comprised nine members in 2014/15:



Cllr Pat Sandle  
Chairman



Cllr Andy Booth  
Vice Chairman



Cllr John Coulter



Cllr Adrian  
Crowther



Cllr Ed Gent



Cllr Nick  
Hampshire



Cllr Angela  
Harrison



Cllr Peter  
Marchington



Cllr Nick Williams

## 4. Committee Attendance 2014/15

The Committee met on four occasions in 2014/15. Audit Committee meetings are held in public, and members of the Council and the public are welcome to attend. All of the Audit Committee agenda papers and minutes are available on the Council's [website](#).

The Audit Committee has been well supported throughout the year by both Members and Officers. Regular attendees to the Audit Committee meetings include the Director of Corporate Services/ Monitoring Officer, the Head of Finance (with S151 responsibility), the Head of Audit Partnership and the Audit Manager and senior representatives from the external auditor. The Committee also has the right to call any other officers or agencies of the Council as required.

Attendance records for 2014/15 are set out in the table below:

Cllr/Officer	11 June 2014	17 Sept 2014	10 Dec 2014	25 Mar 2015
<b>Audit Committee Members</b>				
Councillor Pat Sandle (Chairman)	✓	✓	✓	✓
Councillor Andy Booth (Vice-Chairman)	✓		✓	✓
Councillor John Coulter	✓	✓	✓	✓
Councillor Adrian Crowther	✓			
Councillor Ed Gent				
Councillor Nicholas Hampshire		✓	✓	✓
Councillor Angela Harrison	✓	✓	✓	✓
Councillor Peter Marchington	✓	✓		
Councillor Nick Williams			✓	
<b>Substitute Members</b>				
Councillor Derek Conway			✓	
<b>Officers</b>				
Director of Corporate Services	✓			✓
Head of Finance	✓	✓	✓	✓
Chief Accountant		✓		
Head of Audit Partnership	✓	✓	✓	
Audit Manager	✓		✓	✓
Senior Auditor			✓	
Benefit Fraud Team Manager	✓			
Revs & Bens Manager – Financial & Technical				✓
<b>External Audit – Grant Thornton</b>				
Swale BC Audit Manager	✓	✓	✓	✓
Engagement Lead		✓	✓	✓
<b>Democratic Services</b>				
Democratic Services Officers	✓	✓	✓	✓

## 5. Reports Considered by the Committee

The Committee considered the following reports during 2014/15:

Function / Issue	11 June 2014	17 Sept 2014	10 Dec 2014	25 Mar 2015
Internal audit annual report 2013/14	✓			
Internal Audit 14/15 Reporting Refresh	✓			
Audit committee annual report	✓			
External Audit Fee Letter 14/15	✓			
Benefit Fraud Annual Report 13/14	✓			
Annual Governance Statement	✓			
Annual Treasury Management Report 13/14		✓		
Annual financial report 13/14		✓		
Audit Findings Report 2013/14		✓		
Treasury Management ½ Year Review 14/15			✓	
Annual Audit Letter 13/14			✓	
Audit Committee Update – Grant Thornton			✓	
Internal Audit Interim Report 14/15			✓	
Investigation Summary Report			✓	
Internal Audit Plan 2015/16- 2018/19				✓
Internal Audit Charter				✓
Certification Report 13/14				✓
Audit Plan 14/15 – Grant Thornton				✓
Audit Committee Update – Grant Thornton				✓
Audit Committee Work Programme	✓	✓	✓	✓

## 6. Assurance

The Audit Committee has considered the following areas of work over the course of the year in fulfilling its duties in line with its terms of reference:

## Risk Management

In June 2014 the Committee considered the adoption of the risk based audit planning process and a revised internal audit process and assurance levels.

In June 2014 the Committee considered the Benefit Fraud Annual report 2013/14, including summary of fraud prevention and detection activity.

In March 2015 the Committee considered the operational audit plan for 15/16 - 18/19. The report set out the risk based audit planning process in compliance with the Public Sector Internal Audit Standards (PSIAS).

## Internal Control

In March 2015 the Committee considered the Internal Audit Charter including substantial revisions as per PSIAS.

In December 2014 the Committee considered the Internal Audit interim report including a summary of audit findings and overall assessment of controls.

In December 2014 the Committee considered the findings from an investigation which included summary of resulting control improvements.

In June 2014 and December 2014 the Committee considered the Treasury Management activity reports and Prudential Indicators.

## Audit Activity

In June 2014 the Committee considered the Head of Audit Partnerships Annual Report for 2013/14 which included the opinion on the Council's control environment and performance of the Internal Audit service against delivery of the audit plan.

Throughout the year the Committee has reviewed and considered various Internal Audit reports covering revised processes and updates. The Committee has contributed and commented to how these have been adopted to the service.

## Accounts

In June 2014 the Committee approved the Annual Governance Statement for 2012/13 for submission to Council.

In September 2014 the Committee approved the Statement of Accounts within the Annual Financial Report 13/14.

Throughout the year the Committee considered various reports from the External Auditor (Grant Thornton). Notably, the Committee agreed the certification of the grant claim, the Annual Audit Letter and agreed the Audit Plan and fee scales for 14/15.

## **7. Conclusion**

In partnership with its External Auditors, and with the support of Officers, the Audit Committee has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues. It is concluded therefore, that the Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties for 2014/15.

## **8. Work Programme 2015/16**

The Audit Committee will continue to seek best practice to satisfy itself that the Council maintains effective systems of internal control, governance and risk management. In particular the committee will continue to oversee the external audit arrangements with Grant Thornton.

The Members of the Audit Committee continue to enhance their skills, knowledge and experience through training and development to provide robust challenge throughout 2015/16. This will include induction of new members following the elections of May 2015.

The Audit Committee will face challenges in 2015/16 as the Council continues to operate within restricted finances, and adopting new ways of working to deliver services.





## Grant Thornton

An instinct for growth™

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27 April 2015

Dear Abdool

### **Planned audit fee for 2015/16**

Before it closed on 31 March 2015, the Audit Commission was asked to set the scale fees for audits for 2015/16. The Commission published its work programme and scales of fees for 2015/16 at the end of March 2015. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2015/16 has been set by the Audit Commission at £60,739, which compares to the audit fee of £80,985 for 2014/15. The reduction in fees has been enabled by the procurement exercises run by the Commission across both the Local Government and Health sectors.

After the Commission's closure, the 2015/16 work programme and fees will be accessible from the archived Audit Commission website from the National Archives [http://webarchive.nationalarchives.gov.uk/\\*/http://www.audit-commission.gov.uk/](http://webarchive.nationalarchives.gov.uk/*/http://www.audit-commission.gov.uk/) and on the Public Sector Audit Appointments PSAA website [psaa.co.uk](http://psaa.co.uk)

The audit planning process for 2015/16, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

### **Value for Money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and provide feedback in our Audit Findings Report.

### **Certification of grant claims and returns**

The Council's indicative grant certification fee has been set by the Audit Commission at £20,710.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2015	15,184
December 2015	15,184
March 2016	15,184
June 2016	15,187
<b>Grant Certification</b>	
December 2016	20,710
<b>Total</b>	<b>81,449</b>

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2015 to February 2016. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion and work on the whole of government accounts return will be completed in September 2016.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2015- February 2016	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July to September 2016	Audit Findings Report	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to September 2016	Audit Findings Report	As above
Whole of government accounts	September 2016	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2016	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	April to November 2016	Grant certification report	A report summarising the findings of our grant certification work

### Our team

The key members of the audit team for 2015/16 are:

	Name	Phone Number	E-mail
Engagement Lead	Iain Murray	020 7728 3328	Iain.g.murray@uk.gt.com
Engagement Manager	Trevor Greenlee	01293 554071	Trevor.Greenlee@uk.gt.com

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett our Public Sector Assurance regional lead partner ([paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'I Murray', with a stylized flourish at the end.

Iain Murray  
Engagement Lead  
For Grant Thornton UK LLP

<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	10th June 2015
<b>Report Title</b>	Benefit Fraud Annual Report 2014/15- “Activity and Outcomes”
<b>Cabinet Member</b>	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
<b>SMT Lead</b>	Pete Raine
<b>Head of Service</b>	Paul Riley MKIP
<b>Lead Officer</b>	Filmer Wellard
<b>Key Decision</b>	No
<b>Classification</b>	Open
<b>Forward Plan</b>	Reference number:
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. Consider the results of the Investigation Team for the year 2014/15.</li> <li>2. To note the current format of the Mid Kent Partnership Shared Fraud Service</li> <li>3. To note the impending changes resulting from the roll out of Single Fraud Investigation Service for Swale 16 March 2016</li> </ol>

## **1 Purpose of Report and Executive Summary**

1.1 This report provides a summary of activities and outcomes undertaken during 2014/15 by Mid Kent Fraud Shared Service in conjunction with their partners from The Department for Work and Pensions (DWP) Fraud Investigation Service under the banner of ‘One Customer One Team’ (OCOT)

1.2 Introduction of the current set up of the Mid Kent Fraud Shared Service, which commenced November 2014.

1.3 Introduces the proposed roll out of national Single Fraud Investigation Service which is due to roll out for the shared service on 16 March 2016.

## **2 Background**

The primary role of the Fraud Shared Service team is:-

- a. The Detection / Investigation / Prevention of Housing Benefit and Council Tax Support Fraud.

- b. To ensure persons who commit fraud are dealt with in accordance with the shared service prosecution policy with reference to the Crown Prosecutor's evidential & public interest tests.
- c. Promote fraud awareness amongst staff, customers, landlords and other third parties.
- d. Support the work of the benefits department in ensuring errors are identified promptly and claimants receive their correct entitlement.
- e. Seek to minimise overpayments by timely intervention.
- f. Correctly use legislation, all viable sources of information and powers afforded under the Social Security Administration Act 1992 to conduct thorough and professional investigations.

## 2.1 Investigation Results for year 2014/15 for Swale area

Number of Cases referred for investigation	601	(470)	(493)
Number of cases subject to investigation closed	579	(366)	(396)
Number of Cases Cautioned for Benefit Offences	19	(20)	(27)
Number of cases where Administration Penalty accepted	5	(3)	(14)
Number of cases prosecution with guilty outcomes	8	(12)	(13)
TOTAL	32	(35)	(54)

Note: Figures in brackets refer to year (2013/14)

## 2.2 Overpayments identified by the investigation Team in 2014/15.

Note: Figures in brackets refer to year (2013/14)

Value of Housing Benefit overpayments	£225,660.70	(£467,211.74)
Value of Council Tax Benefit and CTS overpayments	£43,393.95	(£67,767.34)
Value of DWP overpayments	£ 87,395.95	(£122,863.24)
TOTAL	£356,450.60	(£657,842.32)

The above figures are for Swale area only and the overpayment figure for the shared service for Housing Benefit and Council Tax Support in total was £790,486.85

### 2.3 Comparison between the two year results:-

Increase no. of referrals	(131)
Increase no: of cases investigated	(213 )
Decrease no: of Local Authority Cautions	(-1)
Increase no: of Administration Penalties	(2)
Decrease no; of Prosecutions	(-4)
Decrease in (£) value of overpayments	(- £301,391.72)

This year because of changes in the way The Department of Work and Pensions have set their Prosecution limit it has resulted in a reduction in the number of prosecutions, and cases that they have actually investigated, but have referred to their own Compliance Team. Any case that was below their prosecution limit of £5,000 was referred to Compliance and any overpayment figure identified was not included in their fraud figures. This has had a knock on effect on our figures. This is also because any DWP Welfare Benefit cases that were referred to the shared service were passed to DWP to deal. The need to refer more cases to DWP and the lower number of cases investigated by the shared service can be attributed to the reduction in staff across the shared service.

### 2.4 Return on Investment 2014/15

The following demonstrates the contribution made by the team in terms of 'return on investment' and protecting the public purse. The return on investment is treated as the recoverable overpayments divided by all costs expressed as the amount of recoverable overpayment for every pound spent.

#### Swale Investment 2014/15

Swale Housing Benefit overpayments identified = £225,660.70  
Total salary costs incurred by Swale for the team = £79,460

Return on Investment = 2.8

#### Shared Service Investment 2014/15

Shared Service HB overpayments identified = £652,150  
Total salary costs incurred for the shared service = £198,650

Return on investment = 3.2

Although the figure showing return on investment has reduced from last year's figure of 7.5 for Swale, it is similar to previous years and reflects the reduction in team numbers and the time spent in starting the shared service.

## **2.5 Mid Kent Partnership Shared Service.**

The current staffing of the Mid Kent fraud shared service is as follows:-

- Fraud Manager
- Two full time and one part time Investigator
- Two Compliance Officers
- Part time Admin Assistant

Since the shared service was started there has been a further reduction in staff of a part time manager and one investigator to the staffing as shown above. The idea of the shared service was not to save money but to try to give some resilience to the local authorities during the introduction of the Single Fraud Investigation Service by the DWP.

## **2.6 The Introduction of The Single Fraud Investigation Service DWP.**

All of the Local Authorities within the shared service , Maidstone, Swale and Tunbridge Wells are due to be incorporated into the Single Fraud Investigation Service on 16 March 2016 and as such will be the last authorities in Kent to transfer.

From experience from other authorities that have already transferred their fraud teams, six months prior to transfer date HR are contacted to see which staff are in scope to transfer. Approximately 3 months prior to the transfer date the local authorities are told to cease any new investigations into welfare benefit cases and then current cases being investigated are migrated to the DWP.

Those staff that are not retained by the local authorities will then transfer to the DWP on 16 March 2016. Staff that remain within the local authorities are no longer empowered to investigate any welfare benefit claims.

The local authorities are still responsible for the management of housing benefit claims until universal credit is further expanded to encompass all claims. As such the local authorities will still have responsibility to reduce fraud and error entering the system. They will also maintain the review of the NFI data matches, HBMS



matches and any other notifications of changes or anomalies within the claim. If fraud is suspected they will then refer the claim to The Single Fraud Investigation Team to deal.

### **3 Proposals**

3.1 That the report is accepted.in relation to past performance and the present situation of the Fraud Team.

3.2 It is also intended to retain the team, if not in its present numbers, to deal with Council Tax Support claims, Single Person Discounts and other exemptions for Council Tax and Non Domestic Rates.

As the majority of any Council Tax savings are paid to KCC an application for funding for retention of staff has been made to KCC. The outcome of this bid is not yet known.

A report is being prepared so that a decision can be made upon the viability of retaining some, if not all of the current team after March 2016. All members of the current team have expressed a desire to remain at the local authorities rather than transfer to DWP. This decision may also be affected by the result of any KCC funding.

### **4 Alternative Options**

The Council could take the option not to accept this report. It could also take the option to transfer all staff that are within scope, to the Department for Work and Pensions on 16<sup>th</sup> March 2016.

### **5 Consultation Undertaken or Proposed**

A review is currently underway regarding the financial and reputational viability of retaining staff. A report has also been submitted to KCC for funding to assist in the retention of staff for dealing with council tax fraud.

### **6 Implications**

Failure to plan for the forthcoming changes, work with partners, embed a clear anti-fraud culture or provide adequate resources to combat fraud and corruption could leave the authority more susceptible to financial abuse and reputational damage.

The shared fraud service will offer some resilience in these times of change. It is hoped that it will be possible to retain all staff within the shared service after 16 March 2016, but this will be dependant on finances and the viability of such retention.

The decision on the future of the team and staff members is a priority, as uncertainty may persuade other team members to seek more secure employment. The team and staffing for all three councils in the present circumstances is minimal, and any further reductions will create problems in being able to undertake its responsibilities.

<b>Issue</b>	<b>Implications</b>
Corporate Plan	With the introduction of SFIS the focus of the team will change to council tax support claims and discounts and exemptions both for council tax and non domestic rates.
Financial, Resource and Property	Research is being undertaken to confirm the financial viability of the retention of the team and staff numbers after 16 March 2016. Funding is also being sought from KCC.
Legal and Statutory	With the introduction of SFIS local authorities will not be authorised to investigate welfare benefits. Local authorities are empowered to investigate council tax support and associated discounts/exemptions
Crime and Disorder	There should be no crime and disorder implications arising from the recommendations contained in this report.
Sustainability	As previously stated this is being addressed in regard to retention of the fraud team after 16 March 2016 and will be dealt with in a separate report.
Health and Wellbeing	There should be no health implications arising from this report
Risk Management and Health and Safety	Staff are being kept fully informed of any known changes as it is realised that the future uncertainty may cause some health issues.
Equality and Diversity	There are no equality and diversity issues arising from this report.

## **7 Appendices**

None

## **8 Background Papers**

None

**SWALE BOROUGH COUNCIL**

# **AUDIT COMMITTEE**

**Draft Work Programme**

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Agenda Item 9

## Statement of Purpose:

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, including approval of the annual statement of accounts.

## Audit Committee Members:

	<p><b>Chair: Councillor Nicholas Hampshire</b> <b>Party:</b> Conservative <b>Ward:</b> Borden and Grove Park <b>Phone:</b> 01795 477560 (evening only), 07739 108756 (daytime) <b>Email:</b> nicholashampshire@hotmail.com</p>		<p><b>Councillor Andy Booth</b> <b>Party:</b> Conservative <b>Ward:</b> Minster Cliffs <b>Phone:</b> 07912 464213 <b>Email:</b> andybooth@swale.gov.uk</p>
	<p><b>Councillor Mike Baldock</b> <b>Party:</b> UKIP <b>Ward:</b> Borden and Grove Park <b>Phone:</b> 01795 471139 <b>Email:</b> tbc</p>		<p><b>Councillor Mick Galvin</b> <b>Party:</b> UKIP <b>Ward:</b> Sheerness <b>Phone:</b> 01795 666903 <b>Email:</b> tbc</p>
	<p><b>Councillor Angela Harrison</b> <b>Party:</b> Labour <b>Ward:</b> Sheerness West <b>Phone:</b> 01795 665029 <b>Email:</b> angelaharrison@swale.gov.uk</p>		<p><b>Councillor Alan Horton</b> <b>Party:</b> Conservative <b>Ward:</b> Homewood <b>Phone:</b> 01634 375332/07447 925760 <b>Email:</b> alanhorton@btinternet.com</p>

	<p><b>Councillor Nigel Kay</b>  <b>Party:</b> Conservative  <b>Ward:</b> St Ann's  <b>Phone:</b> 01795 531298/07710 487129  <b>Email:</b> tbc</p>		<p><b>Councillor Samuel Koffie-Williams</b>  <b>Party:</b> Conservative  <b>Ward:</b> Murston  <b>Phone:</b> tbc  <b>Email:</b> tbc</p>
	<p><b>Councillor Peter Marchington</b>  <b>Party:</b> Conservative  <b>Ward:</b> Queenborough and Halfway  <b>Phone:</b> 01795 661960 (evenings only)  <b>Email:</b> petermarchington@hotmail.co.uk</p>		

### **Audit Committee Terms of Reference**

1. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
3. Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Internal Audit
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
10. Approve the Annual Statement of Accounts.
11. Present an annual report to the Executive on exceptions and highlights throughout the year.

## Work Programme:

<b>Date of Meeting</b>	<b>Title of Report</b>	<b>Key Officer Contact</b>
<i>10 June 2015</i>	<b>Internal Audit Annual Report 2014/15</b>	Rich Clarke
	<b>Annual Governance Statement</b>	Nick Vickers
	<b>Audit Committee Annual Report</b>	Rich Clarke
	<b>Fee Letter 2015/16</b>	External Audit
	<b>Benefit Fraud Annual report 2014/15</b>	Ginny Wilkinson
	<b>Work Programme</b>	Democratic Services
<i>30 September 2015 – date to change</i>	<b>Annual Governance Report and Annual Accounts 2014/15</b>	Nick Vickers
	<b>Treasury Management Annual Review</b>	Nick Vickers
	<b>Audit Committee Work Programme</b>	Democratic Services
<i>9 December 2015</i>	<b>Treasury Management Half Year Review</b>	Nick Vickers
	<b>Annual Audit Letter</b>	External Audit
	<b>Internal Audit Interim Report</b>	Rich Clarke
	<b>Audit Committee Work Programme</b>	Democratic Services

<i>9 March 2016</i>	<b>Internal Audit Plan 2015/16</b>	Rich Clarke
	<b>Strategic Risk Register and Action Plans</b>	Rich Clarke
	<b>Certification of Claims and Returns</b>	External Audit
	<b>Audit Plan and Progress Report</b>	External Audit
	<b>Audit Committee Work Programme</b>	Democratic Services

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