

**MID KENT AUDIT**

**Interim Internal Audit &  
Assurance Report**

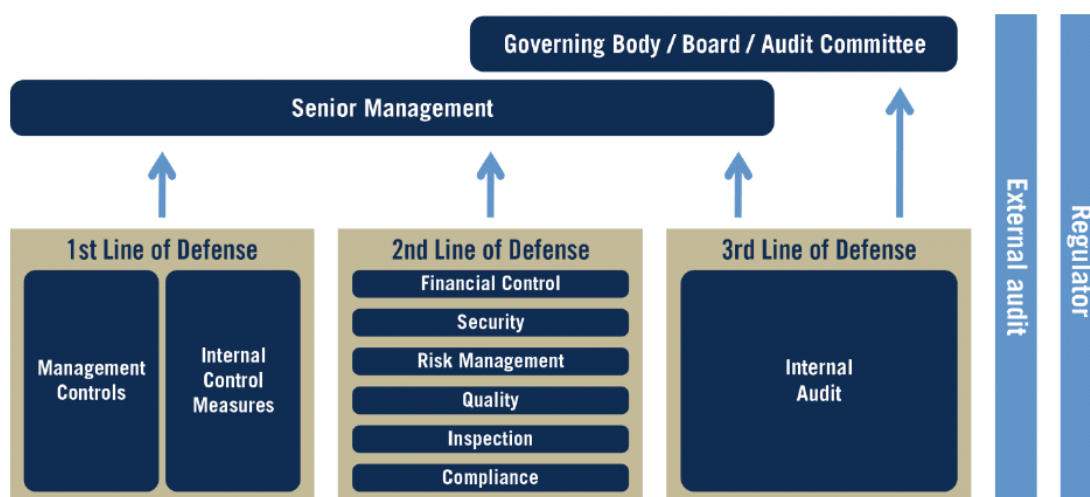
**November 2016**

**Swale Borough Council**



## Introduction

1. Internal audit is an objective and independent assurance and consulting service designed to enhance and protect the Council’s values and priorities. It helps the Council by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
2. Regulation 5 of the Accounts and Audit Regulations 2015 shows the authorities must keep an internal audit service. That service must “*evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”.
3. We base our work on the [Public Sector Internal Audit Standards](#) [the Standards]. These stem from, and extend, the Institute of Internal Audit’s Global Standards, Code of Ethics and International Professional Practices Framework. This means internal audit at the Council conforms to the same demands present across similar services throughout the world in public, private and voluntary organisations.
4. The Standards demand an annual opinion from the Chief Audit Executive (the Head of Audit Partnership fulfils this role at the Council). The Opinion considers internal control, corporate governance and risk management. It is a key part of the overall assurance Members and Officers of the Council draw on when evaluating governance. The diagram below<sup>1</sup> shows internal audit’s position alongside other sources of assurance:



5. This report updates Members on progress and findings so far as we complete the Audit Plan approved by this Committee in March 2016.

<sup>1</sup> Taken from the Institute of Internal Audit’s Professional Practices Framework. Like all IIA publications intended for a global audience, it uses US spelling.

## Internal Control

6. Internal control is how the Council ensures achievement of its objectives. In particular, internal control achieves and displays effectiveness and efficiency, reliable financial reporting and compliance with law, rules and policies. It incorporates both financial and non-financial aspects.
7. We gather evidence to support this part of the Opinion principally through completing the reviews set out in our audit plan. Besides considering the findings of each review individually we must assess whether there are any overall messages we need to report to Members and Senior Management.
8. In the first half of 2016/17 the Council has largely preserved its record of audit reviews identifying effective control environments with few minor recommendations for improvement. Notably this includes areas such as *Data Protection* where complex and technical legal demands often lead to weaknesses in control environments. We see this from each of our most recent reviews in this area elsewhere in the partnership returning a weak assurance rating. At Swale, however, we found good arrangements in place and offered a sound conclusion.
9. However, we also in this period recorded the first weak assurance rated review at the Council since March 2015. As reported in our 2015/16 Annual Report, a full year with no adverse audit conclusions was a significant measure of the overall strength of control but also attributable to circumstance. We use a risk-based planning approach and so focus on areas of potential weakness. Therefore we anticipate a handful of weak assurance ratings even in organisations with overall effective arrangements.
10. At Swale, our recently reported review of *Planning Enforcement* fell into this category. We give further details on the findings of this review later in this report, including information on management's response to the key recommendations. Our review did not suggest any broader concerns on the Council's control environment, but we will continue progress against the audit plan before reporting our final conclusions to Members next June.

## Audit Plan Progress

11. The table below shows progress in days delivered against the plans

| Type of work              | Plan Days  | To Oct 16  | To Oct %   | Forecast Y/E | Forecast %  |
|---------------------------|------------|------------|------------|--------------|-------------|
| Assurance Projects        | 345        | 125        | 36%        | 315          | 92%         |
| Concluding 15/16          | 0          | 28         | n/a        | 28           | n/a         |
| Other Work                | 95         | 81         | 85%        | 141          | 148%        |
| <b>Total (excl 15/16)</b> | <b>440</b> | <b>206</b> | <b>47%</b> | <b>456</b>   | <b>104%</b> |

## Audit Review Findings so far

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

|  | Review Type | Title                         | Plan Days | 16/17 Days | Report Issue | Assurance Rating | Notes                      |
|--|-------------|-------------------------------|-----------|------------|--------------|------------------|----------------------------|
| <b>2015/16 Assurance Projects Completed After 1 April 2016</b> |             |                               |           |            |              |                  |                            |
|  | Operational | ICT Network Controls          | 5*        | 5*         | Apr-16       | <b>STRONG</b>    | Reported to Members Jul-16 |
|  | Operational | Customer Services/CRM         | 15        | 6          | Apr-16       | <b>STRONG</b>    | Reported to Members Jul-16 |
|  | Finance     | Accounts Receivable           | 10        | 1          | Apr-16       | <b>STRONG</b>    | Reported to Members Jul-16 |
|  | Finance     | Payroll                       | 5*        | 4*         | May-16       | <b>STRONG</b>    | Reported to Members Jul-16 |
|  | Operational | Learning & Development        | 8*        | 7*         | May-16       | <b>SOUND</b>     | Reported to Members Jul-16 |
| I  | Governance  | Good Governance Framework     | 5*        | 4*         | Jul-16       | <b>n/a</b>       |                            |
| II   | Operational | Communications (Social Media) | 15        | 1          | Jul-16       | <b>STRONG</b>    |                            |
| <b>Planned 2016/17 Assurance Projects Completed to Date</b>    |             |                               |           |            |              |                  |                            |
| III  | Operational | Grounds Maintenance           | 15        | 16         | Jul-16       | <b>SOUND</b>     |                            |
| IV   | Operational | CCTV                          | 15        | 15         | Aug-16       | <b>SOUND</b>     |                            |
| V  | Finance     | Council Tax                   | 15        | 13         | Aug-16       | <b>STRONG</b>    |                            |
| VI   | Operational | Property Income               | 15        | 15         | Sep-16       | <b>SOUND</b>     |                            |
| VII  | Governance  | Data Protection               | 15        | 14         | Oct-16       | <b>SOUND</b>     |                            |
| VIII   | Operational | Planning Enforcement          | 15        | 21         | Oct-16       | <b>WEAK</b>      |                            |
| <b>Planned 2016/17 Assurance Projects In Progress</b>          |             |                               |           |            |              |                  |                            |
|  | Operational | Licensing                     | 18        | 9          |              |                  | Fieldwork stage            |
|  | Operational | Elections                     | 15        | 12         |              |                  | Fieldwork stage            |
|  | Operational | Building Control Partnership  | 15        | 3          |              |                  | Fieldwork stage            |
|  | Operational | Complaints                    | 15        | 1          |              |                  | Planning stage             |
|  | Operational | ICT Controls                  | 15        | 1          |              |                  | Planning stage             |

|  | Review Type | Title                   | Plan Days | 16/17 Days | Report Issue | Assurance Rating | Notes   |
|--|-------------|-------------------------|-----------|------------|--------------|------------------|---|
|  | Operational | Residents' Parking      | 8*        | 1*         |              |                  | Planning stage  |
|  | Governance  | Members' Allowances     | 10        | 2          |              |                  | Planning stage  |
| <b>Planned 2016/17 Assurance Projects Yet To Begin</b>           |             |                         |           |            |              |                  |   |
|  | Finance     | Accounts Payable        | 10        |            |              |                  |   |
|  | Finance     | General Ledger Journals | 15        |            |              |                  |   |
|  | Finance     | Bank/Treasury           | 10        |            |              |                  |   |
|  | Finance     | Payroll                 | 10        |            |              |                  |   |
|  | Finance     | Housing Benefits        | 10        |            |              |                  |   |
|  | Governance  | Corporate Governance    | 10        |            |              |                  |   |
|  | Operational | Environmental Response  | 15        |            |              |                  |   |
|  | Operational | Rent Deposit Scheme     | 10        |            |              |                  |   |
|  | Operational | Private Sector Housing  | 10        |            |              |                  |   |
|  | Operational | Leisure Centre Contract | 15        |            |              |                  |   |
|  | Operational | Developer Contributions | 15        |            |              |                  |   |
| <b>Planned 2016/17 Assurance Projects Postponed or Cancelled</b> |             |                         |           |            |              |                  |   |
|  | Governance  | Business Continuity     | 10*       |            |              |                  | Originally planned as a shared audit with Ashford BC, but postponed to 2017/18 following end of the ABC/SBC shared arrangement  |
|  | Operational | ICT Procurement         | 15        | 1          |              |                  | Likely to be postponed until 2017/18 to allow for recruitment of new Head of ICT and restructure within the service   |
|  | Operational | Channel Shift           | 15        |            |              |                  | Removed from audit plan owing to substantial overlap with work of the transformation team. To be replaced by anticipated review in 2017/18 on the transformation programme effectiveness. |
|  | Operational | Land Charges            | 6*        |            |              |                  | Postponed to 2017/18 to avoid overlap with review of planning support scheduled in early 2017   |

## I: Good Governance Framework Review

13. Our review against the Framework confirms all 4 Councils are on course to meet each of its 7 principles before preparing their 2016/17 Governance Statements. We also identified several notable examples of good governance at each Council.
14. However, some steps would further help each Council to bring their existing governance approaches up-to-date or raise their profile. One example is to consider the currency of corporate policies and update or recirculate where needed.
15. During the review, we identified the following areas of notable practices at each Council:

| Notable practice   | Areas for improvement  |
|--|--|
| <b>ABC</b> <ul style="list-style-type: none"> <li>- Clear and financed approach for addressing fraud and corruption</li> <li>- Review of medium term financial plans</li> <li>- Good succession planning and officer development</li> </ul>  | <b>ABC</b> <ul style="list-style-type: none"> <li>- Limited benchmarking at corporate level</li> <li>- Broadening scope of risk management across the Council</li> </ul>   |
| <b>MBC</b> <ul style="list-style-type: none"> <li>- Well managed transition to Committee governance in 2015/16</li> <li>- Information governance approach</li> </ul>   | <b>MBC:</b> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Limited benchmarking at corporate level</li> <li>- Setting in risk management into decision making and defining risk appetite</li> </ul> |
| <b>SBC</b> <ul style="list-style-type: none"> <li>- Collaborative working with external groups and youth forum</li> <li>- Risk and performance management</li> <li>- Actively seeks benchmarking, peer review and external accreditation for continuing corporate learning.</li> </ul> | <b>SBC</b> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Increasing Member training attendance</li> </ul>  |
| <b>TWBC</b> <ul style="list-style-type: none"> <li>- Good external links.</li> <li>- Member skills gap analysis.</li> <li>- Project management approach.</li> </ul>  | <b>TWBC:</b> <ul style="list-style-type: none"> <li>- Counter fraud policies and approach</li> <li>- Service planning and operational risk management</li> </ul>   |

16. Before preparing the 2016/17 Governance Statement, each council should consider a more detailed self-assessment against the Framework's key principles

## II: Communications – Social Media

17. We conclude based on our audit work that there are **Strong** controls in place over the management and use of the Council's external and internal communications through the use of social media.
18. The Council has a clear Social Media Policy which is readily available to officers and members. The Council is making good use of its social media presence, for example in publicising stray dogs to the extent that stray dogs now has its own Facebook and Twitter accounts. We also noted that social media compliance is good, with sound controls and effective monitoring serving to minimise the risk of reputational damage by unauthorised posting.
19. We did however identify some areas where minor improvements can be made to further strengthen existing controls, including a need to review and update the social media risk register and an opportunity to consider better definition around aims and objectives of Social Media engagement.

## III: Ground Maintenance

20. We conclude based on our audit work that the Contracts Monitoring Team has **Sound** controls in place to monitor the Grounds Maintenance contract.
21. We have established that the Contracts Monitoring Team have clearly defined roles and adequate resources to monitor the Grounds Maintenance contract and that the Contract Monitoring Officers (CMOs) demonstrate a good understanding of the key areas of the contract for monitoring.
22. However, we were unable to verify that all areas of the contract are monitored according to the expected frequency due to the functionality of the new tracking system and we have established that the CMOs do not consistently close down job requests on the CRM system. There are plans to introduce new software in the autumn which will allow management to more effectively track and close job requests.
23. Regular contract monitoring meetings are taking place, providing an effective forum to discuss emerging issues. There is also regular communication between the contractor and the Contract Monitoring Team as the need arises. We have also established that complaints made against the contractor are dealt with efficiently and effectively in accordance with the Council's corporate complaints policy.
24. We have also established that monthly contractor payments are being made in accordance with agreed procedures, are correct, and have been appropriately authorised, with only one non rectifiable default being issued since April 2015.

#### IV: CCTV

25. We conclude based on our audit work that the Economy and Community Service has **Sound** controls in place to manage its risks and support its objectives in relation to the monitoring of the CCTV contract.
26. In April 2016 the organisation monitoring the Council's CCTV changed from the Medway Control Centre to the Medway Commercial Group, which is now a local authority trading company owned wholly by Medway Council.
27. We established that the controls around contract and non-contract payments were sound with adequate separation of duties and payments being made in a timely manner.
28. Our testing further showed that there is effective communication between the Council and the Medway Commercial Group with regular meetings being held to discuss the outcomes of contract monitoring and performance. While we are satisfied that the monitoring arrangements are sound, a few administrative improvements have been identified that will assist with the effective monitoring of the Contract for the foreseeable future.
29. Our review found that there is a lack of written procedures to set out the contract monitoring and default payment processes; this could pose a resilience risk if experienced officers were to leave the Council.

#### V: Council Tax – Valuation, Liability, Billing

30. We conclude based on our audit work that Council Tax has **Strong** controls in place over valuation, liability and billing.
31. Our review found only trivial changes to the Council Tax system we reviewed it in January 2015, meaning control design remains strong.
32. Our testing confirms controls on valuation, liability and billing work effectively. These controls work to ensure the information held on the Council Tax system is valid and to deliver accurate and timely annual billing.
33. We found the Valuation Office Agency (VOA) is experiencing delays at present which means there can be several weeks between creation or modification of a liability and a valuation that allows billing to begin. Although the Council has limited influence, it is using that influence with the VOA to ensure new and amended properties are reviewed and updated promptly.



## VI: Property Income

34. We conclude based on our audit work that the Property Services team has **Sound** controls in place for the charging, collection, banking and recovery of income due from rental property.
35. The Council has effective and embedded processes and procedures to ensure that income derived from rental and leased properties is correctly charged and collected in full. Our testing found that procedures are well understood and applied in practice, in particular there is effective communication between departments to inform the Property Services team of changes to lease arrangements as and when they occur.
36. Income due to the Council is recorded within a Rent Schedule spreadsheet maintained by the Property Services team. Our testing identified that this record was not up to date e.g. costs centres missing/incorrect, not all properties included. Without a complete and accurate record of all of rental properties there is a risk that the Council may not receive all of the rental income due. The likelihood of this risk is currently increased as there is currently no reconciliation of income between the Rent Schedule and the main financial system (Agresso) completed by Property Services.

## VII: Data Protection

37. We conclude based on our audit work that there are **Sound** controls in place to manage the risks of non-compliance with legal Data Protection requirements.
38. The Council materially conforms with all eight of the Data Protection principles set out by the Information Commissioner's Office (ICO). We noted a strong policy (although awaiting final issue), good levels of awareness, and comprehensive key officer training. We also found strong arrangements for keeping knowledge current and responsive to regulatory changes. We also found that, although the Council recorded 15 breaches in the past two years, none were grave enough to warrant ICO sanction.
39. The next steps involve expanding this strong core of guidance and knowledge across the Council. We found mixed levels of take-up for the e-Learning training, which saw some correlation to those services in breach most often.

## Planning Enforcement (Swale)

40. We conclude based on our audit work that the Planning Enforcement Service has **Weak** controls in place to ensure that the objectives set out in the Council's Planning Enforcement Strategy (the Strategy) are met.
41. The Strategy sets out how the Council intends to investigate and resolve planning complaints and breaches of planning conditions. The Strategy itself is a clear and comprehensive document and has recently been updated. The 15/16 version is due to be adopted at the end of the year.
42. We found that the Planning Enforcement service, while often operating in accordance with the strategy, has a number of issues and inconsistencies with regards to the completeness and integrity of case files and follow-up and evidence of compliance action, such that we cannot be confident of its overall effectiveness. A number of the cases tested had missing or incomplete evidence, or had been closed without explanation or sign-off. We identified examples of complaints that had not been input into the system, and cases where files had been missing altogether. These examples existed in our sample testing, which was only a relatively small proportion of the overall number of complaints received each year. We are therefore unable to say with surety that they are isolated cases.
43. The audit also identified that there are no quality assurance checks in place, and that the service has a significant backlog of historic open cases. Current performance indicators for the service do not reflect the monitoring and reporting arrangements in accordance with the Strategy, and as a result performance information may not reliably and accurately reflect real performance of the service.

## Audit Recommendations

44. Our approach to recommendations means at the end of each report we agree with management an action in response and a date for implementation. We then follow up recommendations individually when they fall due, compiling results together each quarter in a report to Senior Management.
45. Where we originally reported a **Weak** assurance rating, we also revisit this rating each quarter. Note that we have issued no **Poor** assurance rating reports at the Council. We consider whether management has made enough progress through fulfilling recommendations to resolve concerns behind the adverse assurance rating. When we believe management have made enough progress to materially minimise the risk, we alter our assurance rating to **Sound**. However we continue following up outstanding recommendations until completed.
46. During this period we have issued one report at weak assurance rating, on Planning Enforcement. This included two high priority recommendations, detailed below:

| <b>R1: Planning enforcement complaint files</b>   | <b>Priority 2: High</b>                             |
|---|---|
| <p><b>Implement quality standards for planning enforcement case files to ensure consistency in the completeness and integrity of files and evidence.</b></p> <p>Improving the information and evidence retained on planning enforcement complaint case files will ensure that all case information is recorded on Uniform; that there is comprehensive evidence that complaints have been adequately investigated and whether these investigations were completed in accordance with agreed service standards; that the outcomes / conclusions on complaints can be substantiated retrospectively and that case files are being closed in accordance with agreed procedures.</p> <p>Additionally introducing a document retention policy would ensure that planning enforcement documents are being retained in accordance with an agreed retention period.</p> |   |
| <b>Management Response</b>  |   |
| <p>Agreed. A quality standard for planning enforcement case files will be incorporated into the revised Planning Enforcement procedures manual. This will incorporate how long planning enforcement case files should be retained for.</p> <p>The Development Manager has previously spoken to Mid Kent Legal Services to request that the Council's Document Retention Policy be updated to reflect that all Planning Enforcement case files should be retained for 10 years.</p>  |   |
| <p><b>Responsible officer:</b><br/>Development Management Manager</p>   | <p><b>Implementation date:</b><br/>1 April 2017</p> |

| <b>R2: Evidence of enforcement action and compliance</b>   |  | <b>Priority 2: High</b>                        |
|--|--|--|
| <b>Follow-up the outcomes of enforcement notices issued and ensure evidence is maintained to demonstrate compliance action has been taken.</b>   |  |  |
| <p>Improving the evidence / records on planning enforcement case files of actions taken, visits completed and when compliance is achieved (or not) will ensure cases are managed more consistently in line with agreed procedures. This will also identify whether key stages of the process have not been completed. It will also provide more evidence that the Council is taking enforcement action where needed and that cases are being monitored to ensure that compliance is being achieved. It will also ensure that planning enforcement cases are only closed on final conclusion of the case.</p> |  |  |
| <b>Management Response</b>   |  |  |
| <p>Agreed. Management instruction will be sent to the Planning Enforcement Officers setting out expectations in terms of completing and evidencing follow ups on enforcement notices issued. These expectations will also be incorporated into the revised Planning Enforcement Procedures manual.</p>   |  |  |
| <b>Responsible officer:</b><br>Development Management Manager  |  | <b>Implementation date:</b><br>1 November 2016 |

47. We have highlighted these two as the most notable matters arising from our weak assurance rated report. The table below summarises all recommendations raised in this period. We raised no **critical** rated recommendations. We are pleased to note all recommendations raised by audit were accepted by management and we will track their implementation as they fall due.

| <b>Project and assurance rating</b> | <b>High</b> | <b>Med</b> | <b>Low</b> | <b>Advisory</b> | <b>Implementation Period</b> |
|-------------------------------------|-------------|------------|------------|-----------------|------------------------------|
| Communications: <b>Str</b>          | 0           | 0          | 2          | 1               | Sep 16                       |
| Grounds Maintenance: <b>So</b>      | 0           | 0          | 3          | 1               | Jul-Nov 16                   |
| CCTV: <b>So</b>                     | 0           | 1          | 3          | 1               | Sep – Dec 16                 |
| Council Tax: <b>Str</b>             | 0           | 0          | 1          | 1               | Aug 16                       |
| Property Income: <b>So</b>          | 0           | 1          | 4          | 1               | Sep 16 – Mar 17              |
| Data Protection: <b>So</b>          | 0           | 3          | 3          | 1               | Nov 16 – Jul 17              |
| Planning Enforcement: <b>W</b>      | 2           | 5          | 3          | 1               | Nov 16 –Apr 17               |
| <b>Totals</b>                       | <b>2</b>    | <b>10</b>  | <b>19</b>  | <b>7</b>        |                              |

48. Our most recent reporting considered recommendations due before 1 October 2016. So, the table below does not include progress on either of the Planning Enforcement recommendations above, but these will form part of our next follow up exercises. The table below summarises progress.

| Project and original assurance rating (W/So/Str)                                  | Agreed Actions | Falling due before 1/10/16 | Actions Completed | Outstanding Actions past due date | Actions Not Yet Due |
|---|----------------|----------------------------|-------------------|-----------------------------------|---------------------|
| <b>Projects with actions completed during 2016/17</b>                             |                |                            |                   |                                   |                     |
| Communications: <b>Str</b>  | 2              | 2                          | 2                 | 0                                 | 0                   |
| ICT Network Controls: <b>Str</b>  | 1              | 1                          | 1                 | 0                                 | 0                   |
| Learning & Develop: <b>So</b>   | 3              | 3                          | 3                 | 0                                 | 0                   |
| Waste Contract: <b>Str</b>  | 3              | 3                          | 3                 | 0                                 | 0                   |
| Disc. Housing Pay: <b>So</b>  | 4              | 4                          | 4                 | 0                                 | 0                   |
| Homelessness: <b>So</b>   | 2              | 2                          | 2                 | 0                                 | 0                   |
| Safeguarding: <b>W</b>  | 10             | 10                         | 10                | 0                                 | 0                   |
| Council Tax: <b>Str</b>   | 1              | 1                          | 1                 | 0                                 | 0                   |
| <b>Projects with actions to carry forward into the rest of 2016/17 and beyond</b> |                |                            |                   |                                   |                     |
| Cemeteries: <b>So</b>   | 5              | 3                          | 3                 | 0                                 | 2                   |
| Corporate Projects: <b>So</b>   | 3              | 2                          | 2                 | 0                                 | 1                   |
| Performance Mgmt: <b>So</b>   | 5              | 5                          | tbc <sup>2</sup>  | tbc                               | tbc                 |
| Grounds Maint'nce: <b>So</b>  | 3              | 2                          | 2                 | 0                                 | 1                   |
| Freedom of Info: <b>So</b>  | 6              | 4                          | 4                 | 0                                 | 2                   |
| Property Income: <b>So</b>  | 5              | 1                          | 1                 | 0                                 | 4                   |
| Housing Services: <b>So</b>   | 2              | 1                          | 1                 | 0                                 | 1                   |
| CCTV: <b>So</b>   | 4              | 1                          | 1                 | 0                                 | 3                   |
| <b>TOTAL</b>  | <b>59</b>      | <b>45</b>                  | <b>40</b>         | <b>0</b>                          | <b>14</b>           |
|   |                | <b>76%</b>                 | <b>68%</b>        | <b>0%</b>                         | <b>24%</b>          |

49. Note the table above excludes reviews which did not feature recommendations for action (such as the *Good Governance* review). The table also excludes reviews issued before this report but where no recommendations were due in or before quarter 2 2016/17 (such as *Planning Enforcement*).
50. We reported previously to Members in our 2015/16 annual report that officers had made sufficient progress on the *Safeguarding* review to revise the assurance rating from **weak** to **sound**. During 2016/17 officers continued progress and have now implemented all recommendations.

<sup>2</sup> Awaiting completion of follow up work at time of writing. We will provide a verbal update to the Committee if we have matters of concern.

## Corporate Governance

51. Corporate governance is the system of rules and practices that direct and control the Council.
52. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
53. We attend the Council's Information Governance Group and have representation on the Procurement Group. We also comment on other decisions and papers according to the Council's governance practices.
54. During the year we also undertook a specific review examining the Council's position for compliance with the new Code of Corporate Governance published by CIPFA/SOLACE in April 2016. We report the main conclusions of that review earlier in this report.

## Counter Fraud & Corruption

55. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking direct work to assess and support the Council's arrangements.
56. The Cabinet Office is preparing a set of Counter Fraud Standards similar to the Public Sector Internal Audit Standards (PSIAS). Unlike the PSIAS, these standards will not be compulsory in local government. However they will represent a significant signal of 'best practice' for counter fraud arrangements in the broader public sector.
57. Once published, we will review the Counter Fraud Standards and use them as part of an exercise to refresh the breadth of the Council's counter fraud policies as requested by Council Management.
58. Policies to be refreshed include the overall Counter Fraud Strategy, plus approaches to tackling bribery, corruption, money laundering and whistleblowing. We expect to bring those policies to this Committee as a set sometime in the new year dependent on the timing of the Cabinet Office publishing its standards.

## Investigations

59. We have undertaken no counter fraud or corruption investigations in the first half of 2016/17.

## Whistle-blowing

60. Internal audit is one route for members of staff and others to raise concerns under the Council's whistleblowing policy. We received no matters arising under this policy in the first half of 2016/17.

## National Fraud Initiative

61. The National Fraud Initiative (NFI) is a compulsory national exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Previously, the Audit Commission ran NFI but, following its abolition, responsibility passed to the Cabinet Office.
62. The NFI works on a two-year cycle which involves the release of matches (most recently in January 2015) for local authorities and others to look into. Each match represents a finding which could, potentially, point to a fraud or error but needs further investigation to confirm. The table below shows progress so far on matches from the 2015 release.

| Dataset                   | Matches      | Complete     | In Progress | % Examined |
|---------------------------|--------------|--------------|-------------|------------|
| Creditors                 | 734          | 734          | 0           | 100%       |
| Housing Benefit Claimants | 1,294        | 1,223        | 67          | 95%        |
| Insurance Claimants       | 5            | 5            | 0           | 100%       |
| Payroll                   | 170          | 170          | 0           | 100%       |
| Council Tax SPD           | 1,409        | 1,409        | 0           | 100%       |
| <b>Total</b>              | <b>3,612</b> | <b>3,541</b> | <b>67</b>   | <b>98%</b> |

63. We have already reviewed all 'high priority' matches identified by the Cabinet Office (those viewed, from their experience, as being particularly likely to identify fraud or error). The remaining matches are lower priority but we will still examine them with the aim of completing the exercise before release of new data.
64. From review of the 3,541 matches completed so far we have identified **2** cases prosecuted as fraud. These two cases involved a total value of **£2,580**. In both cases the Council is recovering the money fraudulently claimed and one case resulted in a formal caution.

65. We also found **288** cases of error with a total value of **£110,182**. This is an average of £383 per error, or a return of £31.84 for every individual match examined.
66. The Cabinet Office plan to release the next set of matches in January 2017 and we are co-ordinating the Council's approach to collecting and uploading data. This work includes ensuring the Council publishes proper fair use notices so it can lawfully upload personal data.
67. In November 2016 the Cabinet Office published its [NFI National Report](#). The report summarises findings from the exercise across the UK and includes data submitted by the Council. The national picture it describes, across the areas relevant to the Council, we summarise in the table below:

| Dataset         | Example match                                  | # Outcomes    | £ Recovered   |
|-----------------|--|---------------|---------------|
| Creditors       | Trader submits duplicate invoice               | 3,448         | £4.5m         |
| HB Claimants    | Failing to declare a change of circumstance    | 6,606         | £39.2m        |
| Payroll         | Working while claiming sickness                | 109           | £5.0m         |
| Council Tax SPD | Failure to qualify as living with other adults | 37,825        | £37.4m        |
| <b>Total</b>    |  | <b>47,988</b> | <b>£86.1m</b> |

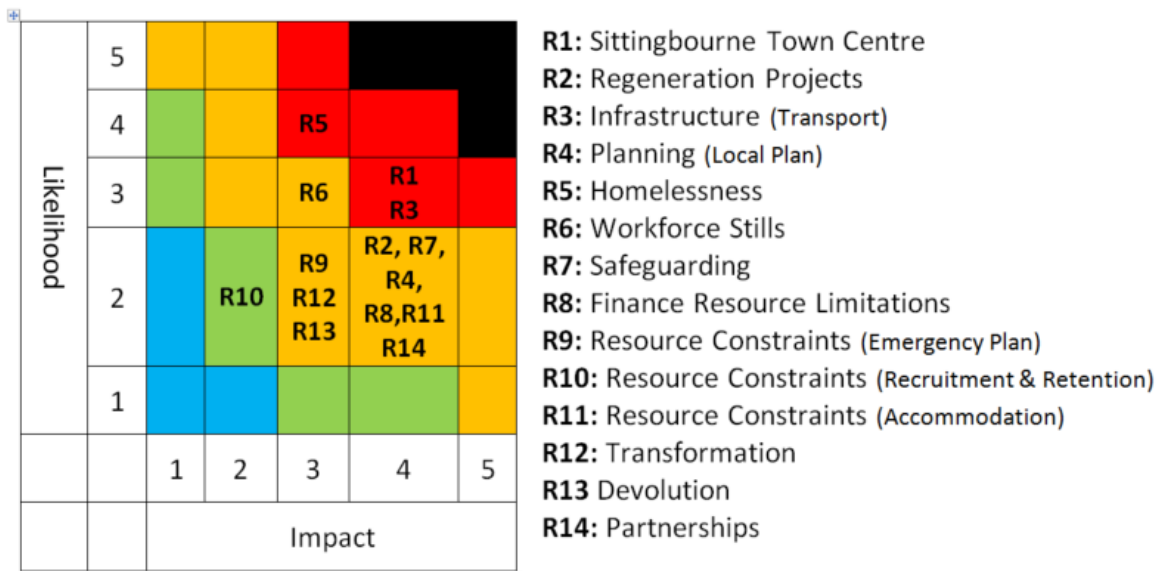


## Risk Management

68. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
69. The Council recognised the need to improve its risk management arrangements last year, and in May 2015 approved and adopted a refreshed risk management framework, incorporating detailed procedures and clearer guidance on how to define impact and likelihood levels for risk. Following that approval, we have been working with the Council to implement, embed and coordinate the effective running of the risk process.
70. The *comprehensive risk register* collates in one place, and in one format all of the Council's operational and corporate level risks. Since our last update to this Committee in June 2016 we have been meeting with risk owners across the Council and working with services to update the *comprehensive risk register* and to improve the quality of risk information available to the Council. A key part of this work has been to update and assess the Council's corporate level risks.
71. For the time being, in accordance with the framework, risk updates are being reported to Senior Management Team quarterly, with the last update going in October. This report included an update on the assessment of corporate level risks, along with an update of significant risks identified through operational risk assessments. However, in order to maintain effective management and oversight of risks, it is important that both Members and the Audit Committee are involved. We are currently working with Officers and Members on how best to progress the communication of risks at this level.
72. The risk management process is still being developed however there has been good progress to implement the updated risk management arrangements and enable the Council to better understand, manage and monitor risks. As this work progresses, we will hope to move to separate risk updates to Cabinet and Audit Committee to ensure that significant risks are being managed appropriately.
73. Further work planned this year includes working with the Council's Policy Team to integrate risk and service planning, working with SMT to formulate a risk appetite statement, and updating risk information and reporting across the Council.

**Corporate Risk Profile**

74. The risk matrix below shows the corporate level risk areas and plots them onto the risk matrix based on the impact and likelihood. The total risk score takes into account the action already being taken by the Council to address the risk (residual this score):



75. By definition, these risks are broader and are directly linked to the Council’s overall objectives to be a Borough, Place and Council to be proud of. We will continue to take a lead with regards to risk management for the Council and work to continue to embed the processes and procedures over the remaining year.

## Mid Kent Audit Service Update

### Team Update

76. In the first half of 2016/17 we bade farewell to one of our trainee auditors who left the partnership to change career into healthcare. However, following a full recruitment exercise drawing 37 applications we appointed Louise Taylor, previously our team administrator, to the Trainee position. Louise originally joined the team as part time administrator in November 2015 and has integrated well and shown great enthusiasm for continuing her career in audit. She will now work full-time as a trainee, beginning professional qualifications with the Institute of Internal Audit.
77. As a result, the Team Administrator role has fallen vacant. Previously we could not join in the Council's apprentice scheme as none of the roles covered audit responsibilities; however we can shape our administrator role to meet the scheme. Early in November Shahbaz Rehman joined as our audit administrator and will work with us as an apprentice while completing a qualification at Mid Kent College.

### Quality Assurance and Improvement

78. We continue to develop our Quality and Improvement Plan including, for 2016/17 a revision and refresh to our audit manual. See appendix A for an extract, summarising our audit approach. Our manual and approach is now on a par, or even ahead of, leading practice in the public sector. Leading on from this CIPFA invited the Head of Audit Partnership to prepare and present national training to around 50 other local authority audit services on Insights into Internal Audit Professional Standards.
79. We have also kept ahead of changes to Audit Standards through the role the Head of Audit Partnership has as Local Government Representative on the Internal Audit Standards Advisory Board (IASAB). The IASAB is the body that recommends changes applicable across the UK public sector. The forthcoming changes to Standards include those consulted by the Global Institute for Internal Audit in autumn 2016. Although the revisions will not apply in the public sector until 1 April 2017 (subject to consultation and agreement with devolved governments) we already show conformance. This includes with Standards 1320 and 2060 which the IIA has adapted to extend and clarify matters for reporting to Members.

*Standard 1320: Reporting on the Quality Assurance and Improvement Plan*

| <b>Reporting Requirement</b>                             | <b>Comments</b>   |
|--|---|
| Scope and frequency of internal and external assessments | We gained an external quality assessment considering conformance across the Public Sector Internal Audit Standards in April 2015. We will seek another before April 2020.<br>We undertake a full internal assessment against the Standards each year. |
| Conclusions of assessors                                 | The IIA decided we fully conform with standards. Our self-assessments since conclude we have upheld conformance.  |
| Corrective action plans                                  | Not applicable.   |
| Qualifications and independence of assessors             | The IIA team all held suitable professional qualifications and experience. They were also fully independent of the audit service and the authorities.   |

*Standard 2060: Reporting To The Board*

| <b>Reporting Requirement</b>   | <b>Comments</b>   |
|--|---|
| The Audit Charter  | Reported in March 2016. We will consider the need for a revision as part of our 2017/18 planning in March 2017.   |
| Independence of internal audit                                       | We can confirm the continued utility of independence safeguards described in the Charter. The internal audit service works independently and reports free from any inappropriate pressure or influence from management.       |
| Audit Plan and Progress  | Reported earlier in this document.  |
| Resource requirements  | Reported in our 2016/17 plan in March 2016. We continue to receive strong support from the authorities who provide sufficient resources to complete plans agreed by Members.  |
| Results of audit   | Reported earlier in this document.  |
| Conformance with the Standards                                       | As above, we work in full conformance with the Standards.   |
| Risks accepted by management that may be unacceptable to the Council | We are aware of no risks currently accepted by management that we feel would be unacceptable to Members. See the section in this report on Risk Management for information on the significant risks recognised by management. |

## Performance

80. Aside from progress against our audit plan we report on several specific performance measures designed to oversee the quality of audit service we deliver to partner authorities. The Audit Partnership Board (with Mark Radford, Director of Corporate Services representing Swale) considers these measures at each quarterly meeting. Our performance also features in reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).

81. The table below shows our most recent outturn on these performance measures. Note that data is for performance across the partnership rather than council specific (but there are no significant variations from authority to authority).

| Measure  | 2015/16<br>Outturn | 2016/17<br>Target | Q2 16/17<br>Outturn |
|--|--------------------|-------------------|---------------------|
| Cost per audit day                               | On target          | n/a               | 5% ahead of target  |
| % projects completed within budgeted days        | 60%                | 75%               | 75%                 |
| % of chargeable days                             | 63%                | 70%               | 74%                 |
| Full PSIAS conformance                           | 56/56              | 56/56             | 56/56               |
| Audit projects completed within deadlines        | 76%                | 80%               | 88%                 |
| % draft reports within ten days of fieldwork end | 68%                | 80%               | 81%                 |
| Satisfaction with assurance (score /4)           | 3.2                | 3.4               | 3.7                 |
| Final reports presented within 5 days of closing | 92%                | 90%               | 93%                 |
| Satisfaction with auditor conduct (score /4)     | 3.5                | 3.75              | 3.86                |
| Recommendations implemented as agreed            | 98%                | 95%               | 89%                 |
| Exam success                                     | 100%               | 75%               | 75%                 |
| Satisfaction with auditor skill (score /4)       | 3.2                | 3.4               | 3.7                 |

82. We continue on a positive trend for performance across the measures, meeting all but one target in Quarter 2. Notably, this continues the strong upward performance in completing projects to budget (from 18% in 2013/14, rising to 47% in 2014/15 and now at 75%) and to agreed deadlines (up from 41% in 2014/15 to 88% now). We have achieved this result while keeping costs below target per audit day, enhancing audit quality and improving satisfaction scores measured through our post-audit surveys.

83. As always, we could not have achieved this performance without the dedicated expert support of the entire audit team, and the management of Mid Kent Audit offer profound thanks for their skill and hard work. We also thank the Members and Officers who continue to inform, support and guide our work.

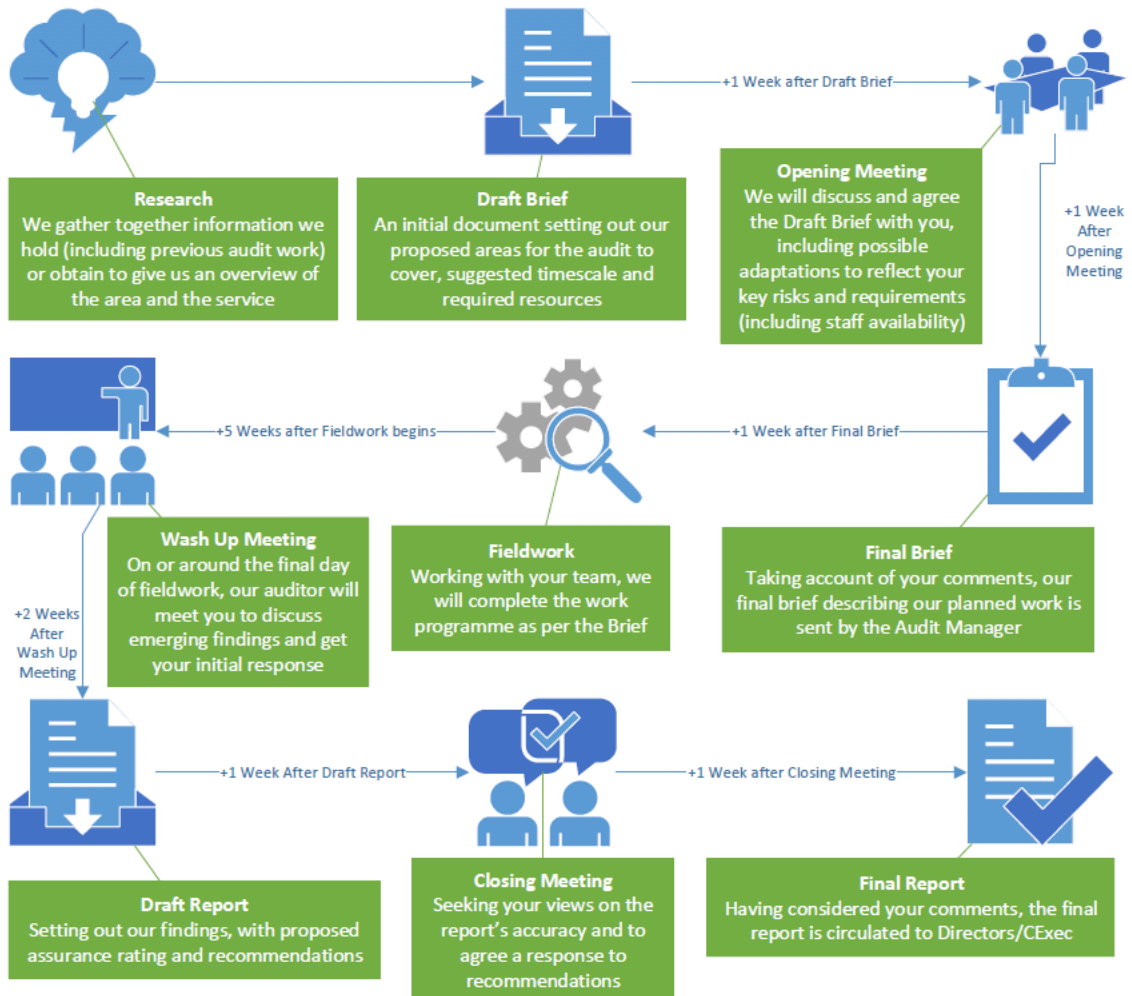
# Mid Kent Audit

MKIP: April 2016

## Audit Project Process Map

There is no single set audit process or timeline; in reality we can and do adapt to circumstances as suits the service and its objectives. However, we hope it is helpful to set out a 'typical' approach to give you an idea of the key stages and possible timings, especially if you want to link in discussion of findings to your service management meetings. This 'typical' approach runs from brief to final report in 12 weeks.

We will discuss and agree a detailed timeline with you when finalising the audit brief.



## Post Audit Project Processes

