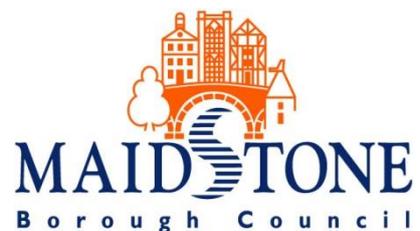


MID KENT AUDIT

Annual Internal Audit Report and Opinion

2016/17

**Maidstone Borough
Council**



Introduction and Background

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. That mission, and the [code of ethics](#) and [Standards](#) which underpin it, encompass more than 200,000 professionals in all areas of business across the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations specify services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more exacting version of the global standards. Those Standards set demands for annual reporting:

2450 Overall Opinions

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

Interpretation:

The communication will include:

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

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work with reference to a collaboration agreement.
4. Within Maidstone BC during 2016/17 we have enjoyed complete and unfettered access to officers, records and systems to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Head of Audit Partnership Annual Opinion

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

Scope of responsibility

7. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
8. The Council has described key aspects of its internal control and risk management within its Local Code of Governance and its Risk Management Framework.
9. Internal controls are designed to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, it can only provide reasonable and not complete assurance of effectiveness. Internal controls are a continuing process designed to identify and set priorities around the risks to the Council achieving its objectives. Internal controls also evaluate the likelihood of those risks coming about and managing the impact should they do so.

Basis of assurance and limits

10. I have drawn my opinion from the work completed during the year, as first set out in the plan approved by Members on 21 March 2016 and later developed in line with emerging risks and priorities. The rest of this report sets out the work and my findings in greater detail. I have not needed to place assurance on any other provider beyond those described in the original plan.
11. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes include working to an agreed audit manual with satisfactory supervision and review.
12. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Where risks identified by the Council do not fall within the scope of our coverage I am satisfied an assurance framework exists to provide reasonable assurance on effective management.

Overall opinion

13. I am satisfied that during the year ended 31 March 2017 the Council managed a system of internal control that offers sound assurance on control effectiveness.
14. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2017 comply in all material respects with guidance on proper practices¹.
15. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2017 are effective and provide sound assurance.
16. In my interim report presented to Members in November 2016 I included further commentary highlighting consistency in some of our findings on the strength and resilience of some internal controls. The common thread in these concerns is around the 'second line of defence'; controls designed to identify and correct any failures in the Council's direct management controls before they can expose the Council to risk or harm.
17. As the year continued we found some areas of those controls working effectively, and some further areas of weakness; so the inconsistency continued. While I am satisfied that the overall system offers sound assurance, I have raised these concerns with senior management at the Council separately (that is, in addition to recommendations in individual reviews) as they may expose the Council to extra risks, particularly on resilience and effective operation of existing controls. I am satisfied the Council's management recognises and acknowledges these areas of inconsistency and has appropriate plans in place to improve the position during 2017/18.

Rich Clarke CPFA ACFS
Head of Audit Partnership

26 June 2017

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

Internal Control

18. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
19. We gain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2016.

Summary of audit plan work in Maidstone 2016/17

20. Our plan presented in March 2016 continued the approach of dividing our work between audit days rather than a set number of projects. Among the advantages here is that we can be significantly more responsive to developing risks and priorities.
21. During 2016/17 this flexibility was most obvious in bringing forward a substantial review of Corporate Health & Safety requested by Corporate Leadership Team. Also we could take one-off work on advice and guidance, for example in developing a well-attended set of Member briefings.
22. Up to our end of May 2017 time recording data, the table below shows days against each work area identified in the plan.

Type of work	Plan Days	Actual days	Difference
Planned 2016/17 assurance projects	314	303	-11
Risk Management Support	40	32	-8
Counter Fraud Support	40	66	+26
Member Support	13	21	+8
Audit Planning	0	16	+16
Recommendation Follow Up	40	34	-6
Other Assurance Work	53	57	+4
Total	500	529	+29
Concluding 2015/16 projects	0	35	+35

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

Audit Project Review Findings 2016/17

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

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2015/16 Plan Projects Concluded After 2015/16 Annual Report Issued							
	Governance	Good Governance Framework	5*	4*	Jul-16	n/a	Reported to Members Nov-16
	Operational	Section 106 Agreements	15	17	Aug-16	Weak	Reported to Members Nov-16
Planned 2016/17 assurance projects completed							
I	Finance	Housing Benefits (MKS)	12*	11*	Oct-16	Sound	
II	Operational	Health & Safety	0	43	Dec-16	Weak	Brought forward at CLT request
III	Operational	Hazlitt Theatre	15	18	Dec-16	Weak	Additional days to follow up matters identified in testing
IV	Operational	Facilities Management	15	15	Dec-16	Sound	
V	Operational	Public Conveniences	15	15	Jan-17	Sound	
VI	Finance	Treasury Management	15	12	Jan-17	Sound	
VII	Operational	Elections & Registration	15	15	Jan-17	Sound	
VIII	Operational	Discretionary Housing Payments (MKS)	10*	8*	Jan-17	Sound	
IX	Operational	Park & Ride	15	21	Apr-17	Weak	Additional days to follow up matters identified in testing
X	Operational	Residents' Parking (MKS)	8*	10*	May-17	Sound	
XI	Governance	Performance Management	10	15	May-17	Weak	Additional days to follow up matters identified in testing
XII	Governance	Freedom of Information	15	13	May-17	Sound	
XIII	Finance	Payroll (MKS)	5*	6*	Jun-17	Strong	
XIV	Governance	ICT Controls & Access (MKS)	8*	7*	Jun-17	Sound	

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
XV	Operational	Crematorium	15	14	Jun-17	Sound	
Planned 2016/17 assurance projects underway							
	Finance	General Ledger	15	15			Draft report stage
	Operational	Public Health	15	14			Draft report stage
	Finance	Accounts Payable	10	2			Fieldwork stage
	Governance	Corporate Governance	10	2*			Fieldwork stage
Planned 2016/17 assurance projects not completed							
	Governance	Corporate Projects Review	10	0	Largely replaced by review of Mote Park café business case as separate consultancy review		
	Operational	ICT Procurement (MKS)	7*	0	Incoming Head of ICT plans substantial changes to procurement process, so review re-considered as potential advice or consultancy as plans develop		
	Operational	Tourism	15	0	Cancelled at request of service to allow planned updates to strategy		
	Operational	Parks & Open Spaces	15	0	Cancelled due to changes in service provision which meant that the scope was covered by other audits.		
	Operational	Community Safety Unit	15	0	Cancelled due to changes in service and scope covered in 2015/16 review.		
Planned 2016/17 assurance projects deferred							
	Operational	Building Control Operations	15	0	Deferred to 2017/18 due to resignation of Building Controls manager		
	Operational	HR Policy Compliance (MKS)	8*	1	Deferred to 2017/18 to alleviate pressure on Mid Kent HR during Head of HR Shared Service's secondment.		
	Operational	Land Charges (MKS)	6*	0	Deferred to 2017/18 as awaiting information on proposed national change to Land Charges process		

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

I: Housing Benefits (October 2016)

25. We conclude based on our audit work that Housing Benefit has **Sound** controls in place to manage its risks and support its objectives.
26. Our previous review of the Housing Benefit system in May 2015 found effective controls in operation. Since then the Council has made only minor updates and so design remains robust. Our testing in this review identified those controls also remain effectively operated.
27. One area of more significant change is allowing claimants to present more information online. We are satisfied design and operation of controls for online submission is effective.
28. We identified some areas for the service to improve, including clarifying the appeals process and in transferring claimants onto Universal Credit.

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

II: Health & Safety (December 2016)

29. We conclude based on our audit work that the Council's Health and Safety function has **Weak** controls in place to manage its risks and support its objectives.
30. The Council's general health and safety arrangements conform to proper practices, including a comprehensive policy and effective procedures. We also noted good use of emerging technology such as moving inspections on to an app platform. There are some areas to address, including engagement with the Health & Safety Committee and consistent recording and reporting of risk but the overall understanding of health and safety in core areas is sound.
31. However, we found arrangements have not kept pace with changes in the Council's service delivery. For example, where the Council has moved into commercial ventures or run services through a contractor. Here, lines of health and safety responsibility have become unclear, limiting the effectiveness of the Council's assurance and causing excess risk exposure.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	2	3	9	3

III: Hazlitt Theatre (December 2016)

32. We conclude based on our audit work that there are **Weak** controls in operation within the service to monitor the Hazlitt Arts Centre contract. We cannot therefore currently say whether the provider (Parkwood Leisure) is managing and operating the Hazlitt in accordance with Contract.
33. Parkwood Leisure currently runs the Hazlitt Theatre on a contract awarded by the Council in 2013. The contract, which runs until 2028, includes comprehensive measures to allow the Council to survey and assess theatre management and performance. The measures include arrangements to deliver oversight of, among other areas, building maintenance, profitability, business planning and complaints handling.
34. However, our work identified these arrangements have limited effect in practice, severely weakening the Council's oversight into the theatre's management. For example, we found the Council has not sought a business plan for the Theatre, confirmed health and safety arrangements or settled how Parkwood should record and report its performance. Most significantly, we identified serious problems with regards to building maintenance. The Theatre's fire doors – assessed as unfit by ROSPA following an inspection in April 2016 – remained below required standards when we undertook fieldwork in October. This fact alone exposes theatre patrons to such significant risk that we raised it immediately with senior management as a critical recommendation.

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

IV: Facilities Management (December 2016)

35. We conclude based on our audit work that the Facilities Management service has **Sound** controls in place to support its objectives.
36. The service has a clear set of objectives which are well understood and articulated by officers within the team. The controls to help achieve the service objectives are generally well designed and operated, for instance, the process to administer and manage staff parking permits is effective and there is a clear drive to reduce printing and postage costs. We have, however, highlighted some opportunities for further enhancement of controls.
37. We are not convinced the Council reaps any substantial benefits from using the travel warrants process; for example, we receive no financial benefit by using a warrant

compared to purchasing a ticket on the day. Though the procedures are well embedded and operate well as an available benefit for staff, we have identified that there are limited defined rules and parameters in place to govern the process and ensure that the warrant system is used only for its intended purpose.

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

V: Public Conveniences (January 2017)

38. We conclude based on our audit work that there are **Sound** controls in operation within the service around the financial management and recharging process and the general management of cleansing public conveniences across the Borough. We provide the definitions of our assurance ratings at appendix II.
39. The service is maintaining good standards of cleanliness of all public conveniences. Procedures are in place to set expected levels of service however, our testing has identified areas for improvement with regards to the collection and allocation of costs, and over the inspection regime to check that the service is being delivered in accordance with agreed practices.
40. The Council has already identified some of the issues highlighted, and in recognition of these risks is currently running on open tender exercise to consider alternative options for delivery of the service. While entering into a contract for the service will seek to address potential resource limitations, the Council will still need to ensure that the appropriate measures have been taken to improve the allocation and monitoring of costs.
41. Our review of the Health and safety procedures in practice established that most of the expected and necessary controls are in place. However the controls to prevent toilet attendants from potential sharps (needles) injuries were insufficient, and agreed lone working practices are not being followed.

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

VI: Treasury Management (January 2017)

42. We conclude based on our audit work that there are **Sound** controls in operation around the management and reporting of the treasury management activities.
43. The Council administers its treasury management in line with the CIPFA Code of Practice. Transactions are processed consistently with the Council’s Treasury Management Strategy and Financial Regulations. All transactions are subject to appropriate review and authorisation with detailed records maintained of all transactions.
44. Officers undertaking treasury management duties are experienced and trained, with training also offered to Members. We identified some areas where the Council had used its discretion to tailor advice offered from its professional advisors. While there is no problem with doing so – it is advice received rather than instruction – we recommend that highlighting these areas in the treasury management strategy would assist with clarity and understanding of the Council’s approach.

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

VII: Elections & Registration (January 2017)

45. We conclude based on our audit work that Electoral Services has **Sound** controls in place to manage its risks and support its objectives.
46. We identified good arrangements within the Electoral Services team for managing elections and registration. Although the majority of procedures are set out in statute, the Manager complements those arrangements by maintaining additional folders describing individual stages in the process to act as a teaching and resilience tool.
47. The service completes extensive pre-election planning, including schedules and a risk register to monitor progress and address matters arising. However, we identified a need to strengthen arrangements on a secure room for postal vote opening and documenting post project review.

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

VIII: Discretionary Housing Payments (January 2017)

48. We conclude based on our audit work that the Revenues and Benefits Shared Service has **Sound** controls in place to manage its risks and support its objectives.
49. Our testing established that there is a well constructed DHP framework in place incorporating a policy, guidelines, calculation and letter template. The DHP application form is also a detailed document designed to obtain sufficient information at the first point of contact.
50. There were instances of decisions not being made within the stated policy timescales and claimants not being informed about their right to a final review, which can be addressed by the introduction of a separate quality assurance process. This will also ensure that there is a separation of duties within the process.
51. Additional controls need to be introduced to prevent officers from fraudulently amending creditor details and to protect against false requests regarding changes in bank detail being made.

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

IX: Park & Ride (April 2017)

52. Our opinion based on our audit work is that the Parking service has **Weak** controls in place to manage its risks and support achievement of its objectives in relation to monitoring the Park & Ride contract.
53. The roles and responsibilities for monitoring the Council's Park & Ride contract are clearly defined. There are appropriate mechanisms and sufficient resources to monitor the contract effectively.
54. However, we conclude that in practice the contract is not effectively monitored. We identified that the monitoring methods deviate from those outlined in the contract, with none of the five defined 'principal methods' operating as expected. Only some of the management information specified in the contract is sent by the Contractor. Not all of this information is received as a part of a monthly performance report required by the contract, which may make it difficult to sufficiently scrutinise performance. There are also opportunities for improvement over record keeping and minute taking.

55. The Council should also strengthen controls on reconciling financial information. During the audit the Parking service identified significant underreported income stemming from failure to include sales from the mobile app since its launch in January 2015.

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

X: Residents' Parking (May 2017)

56. Our opinion based on our audit work is that the controls over the administration and payment of Residents Parking Permits are **Sound**, and that the Parking Services partnership is managing the risks to support achievement of its objectives.
57. The Parking Service Partnership operates distinctly separate administration procedures with regards to the processing and issuing of residents' permits across Maidstone and Swale. Efficiencies are however gained through the use of a shared IT system and also through work conducted over time to harmonise procedures where practical to do so. Our review therefore tested the processes adopted at both sites, and while clear differences have been identified, the existing procedures being operated are well embedded, understood and result in the accurate and timely issue of residents' permits.
58. Testing of the income procedures identified no issues at Swale, with the controls over the handling, receipt and reconciliation of permit income being sound. However, we have identified that at Maidstone, income is not being reconciled fully. This has resulted in a variance between the parking income system and the Council's financial system. While we are satisfied that the variance is not material, it does present a level of risk that should be managed by implementing improved controls.

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

XI: Performance Management (May 2017)

59. Our opinion based on our audit work is that there are **Weak** controls in place to manage the risks surrounding the performance management system and support achievement of its objectives.
60. Our review confirmed the Council has in place a comprehensive performance management framework. The framework produces relevant and timely reporting to deliver key information to decision makers within the authority.
61. However, we found that the precise methodology and process is unclear, leading to a lack of consistency in target setting and linking indicators to service objectives across the authority. Moreover we found data quality to be an area of particular weakness, with few effective controls in place to ensure accuracy. Specific testing of reported performance information also found errors, some significant, that services were unable to adequately explain.

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

XII: Freedom of Information (May 2017)

62. Our opinion based on our audit work is that there are **Sound** controls in place to manage the risks and support achievement of the objectives around complying with the Freedom of Information Act (FOI).
63. We found that procedures are up to date and reflect the Information Commissioner's Office (ICO) guidance. The Council responds appropriately to requests and on time in the large majority (80%) of instances, although implementing an escalation procedure could help further in bringing responses in within statutory deadlines. Also, the Council has not maintained its disclosure log, potentially resulting in duplication of effort in responding to similar requests.
64. We are satisfied that where the Council refuses a request, it uses statutory exemptions properly. The Council also operates an effective and independent internal review process allowing respondents the opportunity to appeal a refusal.

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

XIII: Payroll (June 2017)

- 65. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.
- 66. Our work confirmed the Payroll process is materially unchanged from our last review in May 2016. Controls are well designed and the payroll continues to be managed effectively across the shared service.
- 67. Our testing confirmed that payroll payments made are accurate, authorised and processed in accordance with agreed procedures.

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

XIV: ICT Controls & Access (June 2017)

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

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

XV: Crematorium (June 2017)

71. Our opinion based on our audit work is that the Crematorium has **Sound** controls in place to manage its risks and support achievement of its objectives.
72. The service employs effective procedures around the cremations process which we found fully meet the requirements of the Crematorium Regulations. The service is performing above expectation with a favourable trend from increasing cremation numbers and revenue, supported by detailed management information.
73. However, we identified some improvements the service should make to improve aspects of its financial procedures. While these are generally sound, increased reconciliations between supporting systems will reduce the risk of error in accounting.

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

Following Up Recommendations

74. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

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

Project	Total	High ² Priority	Medium Priority	Low Priority
Recommendations brought forward into 2016/17	38	7	16	15
Recommendations agreed in 2016/17	95	17	32	46
Total Recommendations Agreed	133	24	48	61
Implemented	112	18	41	53
Recommendations carried forward into 2017/18	21	6	7	8
Not Yet Due	11	0	4	7
Delayed Implementation but no additional risk	10	6	3	1
Delayed Implementation with risk exposure	0	0	0	0

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

² Including one recommendation rated as "Critical"

Project	Report Issue Date & Rating	Recs Agreed / bfwd	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Accounts Receivable	Jan-16 (Sound)	2				✓	Jul-16
Housing Options	May-14 (Ltd) Feb-15 (Sound)	1				✓	Jul-16
Members' Allowances	Nov-15 (Sound)	2				✓	Jul-16
Accounts Payable	Mar-15 (Sound)	1				✓	Oct-16
Community Safety	Apr-16 (Sound)	7				✓	Oct-16
Members' & Officers Declarations of Interest	Mar-15 (Weak) Sep-16 (Sound)	5				✓	Oct-16
Budget Setting	Feb-16 (Sound)	3				✓	Jan-17
Business Continuity	Mar-16 (Weak) Jan-17 (Sound)	9				✓	Jan-17
Mote Park Café	May-16 (Weak) Jan-17 (Sound)	14				✓	Jan-17

Project	Report Issue Date & Rating	Recs Agreed / bfwd	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Temporary Accommodation	Mar-16 (Sound)	4				✓	Jan-17
Garage	Jun-16 (Sound)	6				✓	Apr-17
Licensing	Apr-16 (Sound)	3				✓	Apr-17
Litter Enforcement	Jul-16 (Sound)	5				✓	Apr-17
Section 106	Aug-16 (Weak) May-17 (Sound)	7				✓	Apr-17
Treasury Management	Jan-17 (Sound)	1				✓	Apr-17
Discretionary Housing Payments	Jan-17 (Sound)	5			✓		Jul-17
Facilities Management	Dec-16 (Sound)	7			✓		Jul-17
Housing Benefits	Nov-16 (Sound)	4			✓		Jul-17
Procurement	Feb-16 (Sound)	2		✓			Jul-17
Safeguarding	Oct-15 (Weak) Sep-16 (Sound)	8			✓		Jul-17

Project	Report Issue Date & Rating	Recs Agreed / bfwd	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Elections	Jan-17 (Sound)	3			✓		Oct-17
Hazlitt	Nov-16 (Weak)	15		✓			Oct-17
Health & Safety	Nov-16 (Weak)	14		✓			Oct-17
Public Conveniences	Jan-17 (Sound)	4		✓			Oct-17

Delayed Implementation Details

Procurement *(1 Medium recommendation deferred)*

77. This relates to monitoring the compliance of procurement exercises which is tied into the introduction of a contracts module within Agresso. An extension was granted to allow for the implementation of this module.

Health & Safety *(2 High recommendations deferred)*

78. Both recommendations relate to the identification of contracts and ensuring compliance with the health & safety elements within these contracts. Work has started towards implementing these recommendations but the project to address the issues is larger than was initially anticipated.

Hazlitt *(4 High / 1 Low recommendations deferred)*

79. These recommendations relate to specific elements of monitoring the contract which have not yet been implemented due to delays in recruiting to the contract monitoring post. The post has now been filled temporarily and advertised permanently.

Public Conveniences *(2 Medium recommendations deferred)*

80. The inspection of public conveniences was delayed due to the anticipated outsourcing of the service. The service will be contracted out but in the meantime an extension was granted to allow inspections to be put in place until this happens. The other recommendation relates to the ability of service users to raise complaints at weekends. This forms part of the new contract and as such the recommendation has been extended to allow the contract to be put in place.

Corporate Governance

81. Corporate governance is the rules, practices and processes that direct and control the Council.
82. 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.
83. We attend the Council's Information and Corporate Governance Groups. We also help in upholding good governance by providing advice and training to both officers and Members.
84. During the year we also undertook a specific review examining the Council's compliance with the new Code of Corporate Governance published. That review is currently in progress but we have used early findings to inform our positive opinion.

Counter Fraud & Corruption

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

Investigations

86. We are undertaking a significant counter fraud investigation at the Council on a matter which arose following a referral. The investigation is in progress but potentially involves criminal conduct and so we have liaised with police and sought to interview individuals under caution to provide evidence. We have kept the Council's leadership team updated throughout, including offering advice on control weaknesses identified as we gather evidence.
87. As the investigation is in progress we cannot share details now, but hope to include further information for Members in future updates.

Whistleblowing

88. Following support and approval from this Committee, the Council's new Whistleblowing Policy applied from September 2016. This new policy brings the Council up-to-date with current legislation and best practice, addressing the concerns detailed in our report of January 2016.

89. The Policy is now available online and the dedicated anonymous reporting site and telephone line described in the Policy are active.
90. We launched the Policy to staff by Wakey Wakey (the Council's newsletter delivered weekly to all staff) and at Staff Forum in mid-November. We have also updated the relevant section within the Staff Handbook given to all new starters and will be following up with review presentations at Unit Manager meetings later in 2017/18
91. So far we have had no formal reports come through the official, anonymous channels. We expect that as awareness grows from a low base. We also note the point, raised clearly by Members, that trust in the confidentiality and competence of reporting and investigation is key, and only truly established through experience and observation. Therefore we will keep these channels under review and expect to see some results once trust is build through effective management of issues raised elsewhere.
92. Those issues raised with us during 2016/17 have come principally through personal contact and face to face discussions. Leaving aside matters raised and resolved in the course of an initial discussion, there were three declarations that led to some measure of further work. One is the investigation referred to above. One matter, related to the Council's financial reporting, was resolved satisfactorily without any suggestion of error or wrongdoing. A third matter is still being examined, though does not involve any suggestion of criminal conduct.
93. We will keep reporting feedback on whistleblowing matters to Members under review depending on the number and nature of matters raised with us. So far we are content the new arrangements are providing a channel for people to raise concerns and will look to raise their profile further in the new year.

National Fraud Initiative

94. We have continued to co-ordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project, and we must send in various forms of data to the Cabinet Office, who administer the exercise.
95. We have now examined all relevant matches arising from the 2014/15 exercise. In doing so, the Council has identified 13 cases of customer error, leading to recovery of £11,572. This gives a fraud or error rate of around 1 in every 163 matches, with an average return of £5.46 for every match examined.
96. The Cabinet Office started collecting data to form its 2017 matches in autumn 2016. We worked with data owners across the Council to ensure they sent information in the correct format. We also helped make sure each authority had in place Fair Processing Notices to safeguard individual rights under the Data Protection Act.
97. The table below sets out the number of matches identified in 2015 compared with those released to authorities in 2017. We have now embarked on a review of the 2017 matches starting with those identified by the Cabinet Office as 'high risk' with the aim of meeting Government expectation to review all matches within two years.

Type of Match	2015 Matches	2017 Matches
Housing Benefit		689
Council Tax Reduction Scheme	1,229	779
Creditors	870	768
Housing Waiting List	n/a	55
Procurement	0	10
Payroll	11	17
Insurance Claimants	4	2
Residents' Parking	0	0
Licensing	5	11
Total	2,119	2,331

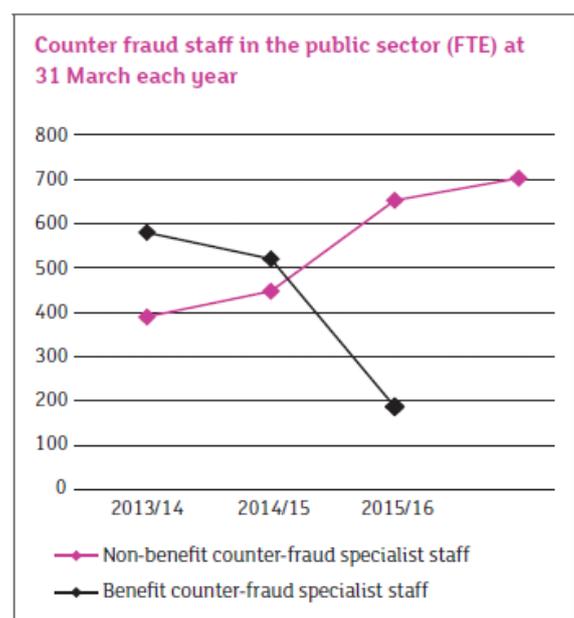
CIPFA Fraud and Corruption Tracker

98. Early in 2016/17, as members of the CIPFA Counter Fraud Centre, we contributed to a national survey to gauge the fraud and response across local government. In all, most local government organisations replied, including almost 40% of District Councils, giving a reasonably reflective set of results.
99. The [full report](#) notes the continuing threat from fraud, with authorities identifying almost 90,000 cases in 2015/16, with an estimated value of £324.7m. The table below breaks those numbers down further.

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

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

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



102. Also, there is an increasing shift towards using intelligence and data matching alongside applications to prevent fraud before it occurs. In addition, widespread publicity of these measures helps deter would-be fraudsters.

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

Risk Management

104. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
105. 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.
106. During 2016/17 we have twice provided updates to Policy & Resources Committee on the key risks facing the council. Both in terms of the Corporate Risks and the high level Operational Risks.
107. The most recent report to Policy & Resources Committee, in April 2017, included updates to the Council's Corporate Risks. Amendments were made to ensure the risks remain relevant to the Council and to capture the controls planned to mitigate the risks where necessary. The Corporate Risks, as reported, are:
 - Lack of progress on infrastructure delivery,
 - Recruitment & retention,
 - Failure to deliver commercial strategy,
 - Not having an adopted local plan,
 - Shared services / combined working,
 - Financial restriction / pressure,
 - Over cautious administration,
 - Growing population,
 - Informed decision making, and
 - Technology.
108. In order to further embed the risk management arrangements during 2017/18 the Risk Appetite Statement, which was drafted with the Corporate Leadership Team during 2016/17, will be disseminated. Furthermore, a workshop will be run with senior officers and members in June 2017 to identify any gaps in the Corporate Risks, and align them to the Council's key priorities for the year.
109. Mid Kent Audit will continue to coordinate this process, using the additional flexibility for providing second line of defence services set out in the *Audit Charter* agreed by this Committee in March 2016.
110. We will continue to report outcomes and progress to the Audit, Governance & Standards Committee and substantive output to Policy & Resources Committee through the year.

Mid Kent Audit Service

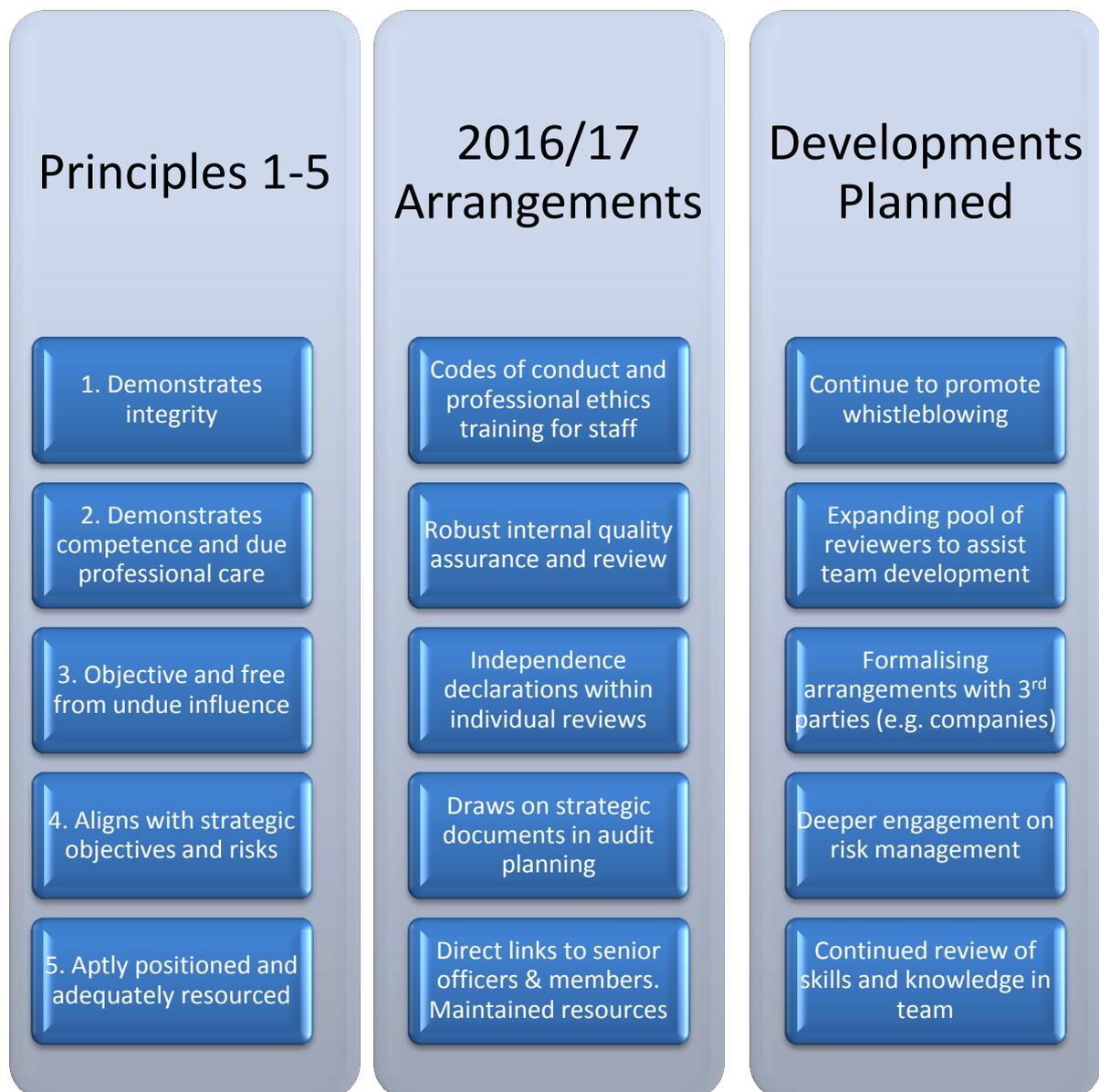
Team Update

111. During 2016/17 we were, on average, 1.4fte short of establishment owing to a combination of long term sickness absence and vacancies at trainee and administrator level. Nevertheless, we could complete the audit plan in record time; 61 weeks compared with 84 weeks to complete the 2013/14 plan. We achieved this through the hard work and dedication of our team with the resilience that comes from working a shared service across four authorities.
112. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through 2016/17.
113. We also, following a competitive tender, received more support during spring 2017 from Mazars in completing some reviews of key financial systems. While we have no current plans to seek contractor support in 2017/18, the external tender showed there exists a high-quality low cost market for audit support should we need it in future.
114. We have continued to support the team in learning and development through 2016/17. This includes professional qualifications, with five of the team currently working towards accreditation in internal audit, accounting and risk management.
115. We have also continued to seek opportunities to take up commercial work where we can do so without compromising the quality of service to our local authorities. In 2016/17 this included the Head of Audit Partnership working with CIPFA to deliver training to Heads of Audit across the country on managing effective audit teams.
116. More locally, we have also developed and delivered training on Introduction to Internal Audit, aimed specifically at those with a counter fraud background. As well as producing income, this training also received exceptional response from delegates. With ever more authorities creating combined audit and counter fraud teams, we continue to receive expressions of interest for this training and may deliver more sessions during 2017/18.

Quality And Improvement Plan

117. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.

118. We underwent an external independent assessment from the Institute of Internal Audit (IIA) in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA's recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
119. In 2017 we have undertaken a self-assessment against the Standards and confirm to Members we remain in full conformance. Our next external assessment is due before 2020.
120. While the full standards comprise more than fifty demands, the IIA sums them up in ten principles. Below, we describe the principles, note our current performance and highlight further initiatives to continue development.





Performance Indicators

121. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Audit Board (with Mark Green as Maidstone's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKIP Board (which includes the Council's Chief Executive and Leader).
122. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Outturn	2015/16 Outturn	2016/17 Outturn
Cost per audit day	Met target	Met target →←	Beat target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑
% of chargeable days	75%	63% ↓	74% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑
Satisfaction with assurance	100%	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←
Recommendations implemented as agreed	95%	98% ↑	98% ↑
Exam success	100%	100% →←	85% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←

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

Acknowledgements

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

Assurance & Priority level definitions

Assurance Ratings 2016/17

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

Recommendation Ratings 2016/17

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.