Agenda Item No:	7	
Report To:	Audit Committee	
Date:	5 December 2017	
Report Title:	Interim Internal Audit & Assurance Report 2017/18	
Report Author:	Rich Clarke – Head of Audit Partnership	

Summary:	The report summarises to the Committee progress and results so far against the Audit & Assurance plan for 2017/18 agreed earlier this year. Except for a couple of matters already brought to the Committee's attention, the results show the Council upholding an effective control environment.

Key Decision:	NO
Affected Wards:	All
Recommendations:	1. To **note** progress against the 2017/18 Internal Audit & Assurance Plan and findings so far.
Policy Overview:	N/A
Finance:	N/A
Risk Assessment	N/A
EIA	N/A
Other Matters:	N/A
Exemption Clauses:	N/A
Background Papers:	Interim Internal Audit & Assurance Report 2017/18 (attached as Appendix A)
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Report Title: Interim Internal Audit & Assurance Report 2017/18

Purpose of the Report

1.   The report provides to Members an update on progress so far towards completing the 2017/18 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.

2.   Our results so far in 2017/18 have yielded mainly positive assurance ratings except for of our work on the *Property Management* and *Business Continuity* as detailed in the report and previously reported to Members. In both instances officers have responded swiftly to begin addressing the matters raised and so there are no matters of broader concern we wish to bring to Members' attention.

Background

3.   The report provides an update for Members on progress against the 2017/18 Internal Audit & Assurance plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:

- Our audit charter,
- The independence of internal audit,
- Audit plan changes and progress against the plan,
- Resource needs of the audit service,
- Results of audit work so far,
- Affirming conformance with the Standards and Code of Ethics, and
- Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

4.   We have made good progress through the plan so far, although highlight to Members a continuing absence in the team which may result in a small under-delivery at year end. Nevertheless, by continuing to adjust our plans according to the Council's risk profile, we remain confident of delivering a robust audit opinion by year end.

5.   We note good levels of delivery for officers acting to address audit recommendations.

6.   We also report our continuing conformance with the Standards (including independence) and the Code of Ethics. We also show our continued strong results on performance measures and the recent award of *Swale Stars Team of The Year* received by Mid Kent Audit.

Risk Assessment

7.   N/A

Equalities Impact Assessment

8.   N/A

Other Options Considered

9.   N/A.

Consultation

10.   We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers who have accepted all recommendations made so far in 2017/18.

11.   We discussed the working draft of this report in full with the Cabinet Member earlier last month. We have reflected his comments in the attached report.

12.   The report builds on Committee comments from previous similar reports.

Implications Assessment

13.   N/A

Handling

14.   N/A

Conclusion

15.   Except for of a couple of matters already brought to the Committee's attention, the results show the Council upholding an effective control environment. The report also notes the continuing strong performance of Mid Kent Audit.

Portfolio Holder's Views

16.   N/A

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Interim Internal Audit & Assurance Report

December 2017

Ashford Borough Council

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Introduction

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

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

2060 Reporting to Senior Management and the Board

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

Interpretation:

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

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

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

Audit Charter

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

Independence of internal audit

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

5. Within Ashford BC during 2017/18 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.

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

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.

8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Requirements

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

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

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

11. However, we also continue dealing with long-term sickness absence of a senior member of the audit team. While in 2016/17 we were largely able to compensate for the absence through use of contractors and increased general productivity we are less able to cover the gap in 2017/18. In the spirit of greater resilience from working in partnership, no single authority will see a material loss but we do expect each will see some fall in available days.

12. Finally, we will look later in the year at our audit software. Originally through the efforts of the then Ashford team, Mid Kent have pioneered the use of "e-audit". We were one of the first local authority teams to adopt electronic working when we began using Teammate software in 2001. Since then, though obviously upgraded, we have stuck with Teammate.

13. However, the increasing need to examine our costs carefully – the licence fees are by far our largest non-staff expense – have led us back to market. We will seek to establish the market, possibly jointly with Kent County Council, early in the New Year. This exercise and associated training if we buy new software will impact on the 2017/18 audit plan. However, we are confident that we will realise efficiencies in both cost and auditor time from 2018/19 onwards.

14. The result of these changes is a good chance we will not deliver in full the number of audit days set out in the 2017/18 plan. However, by continuing to focus on productivity and risk, we are confident that we will be in a position to deliver a robust overall opinion at year end.

Audit Plan Progress

15. This Committee approved our *Annual Audit & Assurance Plan 2017/18* in March 2017. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2017 and expect completing enough to form our *Annual Opinion* by June 2018.

16. The table below shows progress in total number of days delivered against the plan (figures are to end of October 2017, about 42% through the audit year).

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Category	2017/18 Plan Days	Outturn at Interim	Days Remaining
2016/17 Assurance Projects	0	59	n/a
2017/18 Assurance Projects	290	109	181
Risk Management	35	10	25
Counter Fraud Support	5	2	3
Member Support	15	11	4
Recommendation Follow-Up	30	18	12
Audit Planning	10	4	6
Contingency and Consultancy	35	10	25
Totals (17/18 Work Only)	**420**	**164**	**256**

17. Based on resources available to the partnership for the rest of the year we forecast delivery of around 404 audit days. This is 96% of planned days.

18. We detail the specifics, and results, of this progress further within this report.

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Results of Audit Work

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

Completed Assurance Projects

	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2016/17 Assurance Projects Completed After 1 April 2017						
	Create Festival	8	9	Apr-17	Sound	Reported to Members June-17
	Property Management	12	12	May-17	Weak	Reported to Members June-17
	Appraisal System	12	12	May-17	Strong	Reported to Members June-17
	Bank Reconciliations	9	9	May-17	Sound	Reported to Members June-17
	Budgetary Control	14	14	May-17	Sound	Reported to Members June-17
	Social Media Access Controls	9	11	May-17	Sound	Reported to Members June-17
	ICT Network Controls	15	15	May-17	Sound	Reported to Members June-17
I	General Ledger Controls	9	9	Jun-17	Sound	
II	Accounts Payable	12	12	Jun-17	Sound	

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	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
III	HR Policy Compliance	15	15	Jul-17	Sound	
IV	Corporate Governance	5*	5*	Jul-17	Not Rated	
V	Business Continuity Planning	15	16	Aug-17	Weak	
VI	Counter Fraud Risk Assessment	10	12	Oct-17	Not Rated	
Planned 2017/18 Assurance Projects Completed so far						
VII	Housing Benefit	15	17	Sep-17	Strong	
VIII	Treasury Management	10	11	Sep-17	Sound	
IX	Residents' Parking	12	13	Sep-17	Sound	
X	Monitoring Centre	12	15	Oct-17	Sound	
XI	ABC Lettings	15	14	Nov-17	Sound	
XII	Rent Accounting	15	13	Nov-17	Strong	
Assurance Projects Added to the 2017/18 Plan and Completed						
	Mid Kent Audit Mid Term Review	n/a	4*	Aug-17	N/A	See "Standards Compliance" section

Assurance Projects Awaiting Completion

	Title	Plan Days	Days So Far	Expected Report Issue	Notes
Planned 2017/18 Assurance Projects In Progress					
	IT Disaster Recovery	15	7	Dec-17	Draft Report stage
	Freedom of Information	15	3	Feb-18	Fieldwork stage
	Recruitment	10	3	Feb-18	Planning stage

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	Title	Plan Days	Days So Far	Expected Report Issue	Notes
	Home Improvement Grants	15	4	Feb-18	Planning stage
	Accounts Receivable	10	2	Mar-18	Planning stage
	Payroll	12	2	Mar-18	Planning stage
	Development Management	15	1	Mar-18	Planning stage
Planned 2017/18 Assurance Projects Yet To Begin					
	Financial Planning	7*	0	Q4	
	Workforce Planning	15	0	Q4	
	Grounds Maintenance	15	0	Q4	
	Project Management	15	0	Q4	
	Building Control	12	0	Q4	
	Contract Management	15	0	Q4	
	Corporate Governance	5*	0	Q4+	
	Insurance	10	0	Q4+	
	Single Grants Gateway	15	0	Q4+	
Assurance Projects Added to 2017/18 Plan Not Yet Complete					
	Electrical DSO	15	0	Q4	
	Management Board Agenda Setting	10	0	Q4	

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

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Assurance Projects Removed from 2017/18 Plan

	Title	Plan Days	Days Spent	Postponed or cancelled?	Rationale and alternative assurance sources
Planned 2017/18 Assurance Projects Postponed or Cancelled					
	Food Safety	15	0	Postponed	At request of service as they manage staffing shortages. We have reviewed Food Safety Agency performance indicator data for interim assurance ahead of completing review in 2018/19.

Audit Project Summary Results

I: General Ledger – Journals (June 2017)

20.   Our opinion based on our audit work is that there are **Sound** controls in place to manage the Council's Journals and its risks to support achievement of its objectives.

21.   Access to process journals on the eFinancials System (the System) is appropriately restricted to officers in Finance Team. The System captures details of journals raised and sequentially numbers them. Our testing confirmed that journals raised contain sufficient information, and are processed appropriately. Furthermore adequate documentation is kept in support of the journals. However, there is no segregation of duties in the processing of journals, so the system could be enhanced through the introduction of periodic reviews or spot checks.

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

22.   The Council has since acted to address both matters arising. This report is now closed.

II: Accounts Payable (June 2017)

23.   Our opinion based on our audit work is that the Council has **Sound** Accounts Payment controls in place to manage its risks and support achievement of its objectives.

24.   Roles and responsibilities for processing payments to creditors are defined and understood. New suppliers are set up on receipt of valid requests and completion of appropriate checks, with further checks completed during pay run.

25.   Requests to change supplier bank details are verified via telephone or email with the supplier. However, changes to supplier contact details are not checked creating the risk that requests to amend bank account details may be verified to incorrectly amended contact details.

26.   Our testing confirmed that invoices were supported by valid purchase orders, and appropriate segregation of duties was evidenced, goods were appropriately certified and invoices were paid in a timely manner. We confirmed that refunds/credit notes were processed on receipt of appropriate notification and

an appropriate segregation of duties was evidenced. Although we identified one instance where a temporary increase in authorisation limit was granted, without any documented approval of this increase.

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

27. The Council has acted to address five of the six matters identified. The sixth is on track for completion in December 2017 and we will follow-up early in 2018.

III: HR Policy Compliance (July 2017)

28. Our opinion based on our audit work is that the Human Resources service has **Strong** controls in place to ensure compliance with the three Council policies examined: Sickness policy, the Managing Poor Performance (Capability) Procedure and the Disciplinary Procedure.

29. We found that the Human Resources team offer significant support to managers and employees to ensure that the policies are complied with. Our testing confirmed that, in practice, the procedures set out in the policies are followed. We also found that the records maintained allows for the decisions and actions taken to be understood.

30. Human Resources are planning to review these policies in 2017/18, after which they intend to produce toolkits for management. These will encompass and add to the existing document templates and include step by step guides to supplement the policies. This continued development of the service will help to ensure that the Council's HR Policies are complied with.

31. We raised no matters for improvement from our review, so this report is closed.

IV: Governance Review (July 2017)

32. The purpose of this review was to focus on the transparency arrangements in place at Ashford, Maidstone, Swale and Tunbridge Wells Borough Council, against the requirements set out in Principle G of the Good Governance Framework (the Framework) and the Local Government Transparency Code 2015 (the Code).

33. Our review has confirmed that all 4 Councils are fulfilling all transparency requirements. However, we have identified some areas where further consideration is needed to ensure full compliance with the Framework and Code.

Authority	Notable practice	Areas for improvement
Ashford	- Compilation of Annual Performance Report and Governance Statement - Ability to download & view individual elements of the constitution - Clear and well understood reporting cycle to Management and Members	- Completeness of contract register information and garage data - Some information out of date – in particular social housing assets
Maidstone	- Centralised approach to consultations and analysis of results	- Inconsistent monitoring of transparency compliance - Some information incomplete or missing
Swale	- Good knowledge and monitoring of transparency requirements - Central transparency webpage - Benchmarking of performance data - Annual Governance Statement and Annual Performance Report	- Consultation - Publication of tender opportunities over £5k and the contracts register - Publication of local authority land information, parking spaces, staffing and Trade Union
Tunbridge Wells	- Consultation framework	- Co-ordination and monitoring of transparency obligations - No central transparency webpage

34. The following table summarises some of the good practice and areas for improvement identified during the audit:

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

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

V: Business Continuity Planning (August 2017)

36. Our opinion based on our audit work is the Council has **Weak** controls in place for Business Continuity across the Council as a whole. This means the arrangements place the Council in excess risk and need remedial action to consistently perform effectively.

37. During our work we recognised the Council has recently had practical experience in dealing with business continuity events, such as the generator failure in January 2016. While the Council had some success in managing recent events, we found this is more down to goodwill and dedication of staff than application of an effective business continuity approach.

38. In reviewing the Council's plan, we identified it is out of date from July 2015 and not connected to any policy statement. While some of the needed updates are mechanical, the plan is also defective in describing some arrangements that no longer work, for instance in IT recovery. The result is the Council has a plan which would fail if put into place as written.

39. At a service level we found a more mixed picture, with some detailed and tested plans. However, there are some key services, such as housing, whose plans lack testing or important detail. We also found that, despite extensive efforts of the resilience team, general awareness of business continuity arrangements through the Council remains limited.

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

40. Only one recommendation has so far become due for action. In our most recent review we confirmed the Council had created new templates and guidance on completing business continuity documents. Management presented revised implementation following the last Audit Committee, including three now due in our next follow-up exercise early in 2018.

41. We are satisfied with the initial early progress the service has made in implementing the audit recommendations and have no ongoing areas of concern.

VI: Counter Fraud Risk Assessment (October 2017)

42. The Council has a proven and widespread anti-fraud culture and good arrangements for dealing with fraud when it occurs. It displays this culture within a suite of policies available and a strong anti-fraud message in high-level documents such as its constitution.

43. However, the Council does not separately assess or document fraud risks. The strategy is also out of date and does not reflect the current counter fraud arrangements within the Council. The table below summarises the review:

Section	No. of Criteria	Fully Demonstrates	Partially Demonstrates	Does Not Demonstrate	Not Applicable
Acknowledge Responsibility	11	4	6	1	0
Identify Risks	13	1	4	8	0
Develop a Strategy	15	4	8	3	0
Provide Resources	10	5	2	0	3
Take Action	19	14	4	1	0
Total	68	28	24	13	3

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

44. Our recommendations begin to fall due for action in early 2018 will full completion anticipated by the summer. We will follow up actions as part of our usual process.

VII: Housing Benefit Payments (September 2017)

45. Our opinion based on our audit work is the Housing Benefit service has **Strong** controls in place to manage the risks and support achievement of its objectives when making payments.

46. The Council has designed its payment and overpayment approach to militate significant risks and help achieve efficiency. Notable controls include comprehensive settlements between information sources and separate review

of large individual payments. We found in our testing that controls work successfully to deliver accurate and timely payments to claimants.

47. Where overpayments occur, we found the Council's software helps correct classification. When seeking recovery we identified notable practice, including engaging specialist companies to trace large debtors.

48. We raised no matters for improvement from our review, so this report is closed.

VIII: Treasury Management (September 2017)

49. Our opinion based on our audit work is the Treasury Management service has **Sound** controls in place to ensure overall compliance with CIPFA's Code of Practice and the Council's Treasury Management Strategy.

50. The Service has a Treasury Management Strategy in place which sets out the Council's strategy in relation to investments and borrowing, and also defines the roles and responsibilities of those with authority to conduct transactions. Our testing of investment transactions confirmed the appropriate authorisations were in place.

51. We have however, identified instances where the counter party limits detailed in the strategy had been breached. These instances had not been identified and reported at the time, and occurred as a result of a lack of real-time monitoring and no defined reporting process. The introduction of a clearer process for reporting breaches, along with a newly implemented Treasury Management system, will provide the level of control that had been previously lacking.

52. The agreement with Arlingclose, the Council's treasury management advisors, ended in November 2014, however since that time the service has continued on a rolling basis. The current arrangements therefore are not compliant with the Council's Contract Standing Orders which requires that a new procurement exercise is undertaken or a single supplier sourcing form is approved to demonstrate the Council has secured appropriate value for money.

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

53. The Council has acted to address the one matter falling due to date, with the remainder expected for action early in 2018. We will follow-up on that action in line with our usual process.

IX: Residents' Parking (September 2017)

54. Our opinion based on our audit work is that the service has **Sound** controls in place for the administration of and payment from residents' permits.

55. We found that the service has well documented procedures. Our testing confirmed that these procedures are embedded, understood and result in the accurate and timely issuing of residents' permits. Furthermore, our review and testing of the payments procedures found these to be sound.

56. Evidence to support applications (i.e. proof of residence and vehicle ownership) was obtained and retained for all the cases we tested. However, we identified that access to this information is not appropriately restricted, and data retention processes need to be introduced to ensure compliance with the Data Protection Act.

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

57. All of our recommendations on this review fall due for action before the end of 2017. We will follow-up early in 2018 in line with our usual process.

X: Monitoring Centre - Telecare and Private CCTV (October 2017)

58. Our opinion based on our audit work is that the Monitoring Centre has **Sound** controls in place to manage its risks and support achievement of its objectives for the areas we have considered (Telecare and private CCTV monitoring). This means we believe they are designed and operate effectively, although we have identified areas for improvement.

59. Our work found the service has well defined procedures for the administration of private client telecare applications, and testing confirmed operational effectiveness. The Council holds full accreditation with the Telecare Services Association, including maintaining a comprehensive Quality Management System.

60. While we note progress to date in establishing full contractual terms and charging arrangements for private clients, though, the Council still needs to make progress on these exercises. At present the Council retains some vulnerability in unclear contract terms and potentially a loss of income, but the risks involved are relatively minor when considered within the Council's overall risk appetite.

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

61.   Our recommendations on this review fall due for action over the course of the next year. We will follow-up during 2018 in line with our usual process.

XI: ABC Lettings

62.   Our opinion based on our audit work is that the Housing Service has **SOUND** controls in place over the operation and management of ABC Lettings.

63.   We found that there are sufficient procedures in place for the administration and management of properties. Our testing confirmed that adequate property and tenancy records are maintained and that relevant checks are carried out in accordance with agreed procedures. We also note that management fees and charges are applied in accordance with the terms and conditions.

64.   Our testing established that financial controls over the receipt and banking of income are operating effectively as designed, and landlords are accurately and promptly paid. However, procedures over the reconciliation of management fees should be improved to identify and resolve any discrepancies.

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

65.   The recommendations in this review fall due for action in February 2018. We will follow up their implementation next spring.

XII: Rent Accounting

66.   Our opinion based on our audit work is that there are **Strong** controls in place within the Rents system to manage its risks and support achievement of its objectives.

67.   The controls within the Rents system are well designed and operate effectively. The process as a whole is well controlled to properly account for housing rents and to manage the risk of fraud and error.

68.   Our testing confirmed that the controls work successfully to properly record and account for income from housing rents. In particular we identified notable practice with regards to the reconciliation processes.

Recommendation Follow Up Results

69. 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 Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

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

Project	Total	High Priority	Medium Priority	Low Priority
Recommendations brought forward into 2017/18	15	1	8	6
New recommendations agreed in 2017/18	72	8	31	33
Total Recommendations Agreed	**87**	**9**	**39**	**39**
Fulfilled by 30 September 2017	34	1	19	14
Recommendations cfwd past 30 September	**53**	**8**	**20**	**25**
Not Yet Due	48	7	19	22
Delayed Implementation but no extra risk	5	1	4	0
Delayed Implementation with risk exposure	0	0	0	0

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

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Data Protection	Feb 2016 (Weak)	9	0	0	0	9	October 2017
Procurement	Aug 2016 (Sound)	10	0	2	0	8	December 2017
Street Cleansing	Oct 2016 (Sound)	2	0	2	0	0	December 2017
IT Developments	Dec 2016 (Sound)	3	0	1	0	2	December 2017
Public Sector Equalities Duty	Jan 2017 (Sound)	6	0	0	2	4	March 2018
Customer Services	Feb 2017 (Sound)	2	0	0	1	1	December 2017
Business Rates – Recovery and Write Off	Mar 2017 (Strong)	1	0	0	0	1	July 2017
Create Festival	Apr 2017 (Sound)	4	0	0	1	3	December 2017
Property Management	May 2017 (Weak)	9	0	0	4	5	December 2017
Social Media Access Controls	May 2017 (Sound)	5	0	0	5	0	March 2018
Bank Reconciliation	May 2017 (Sound)	5	0	0	0	5	October 2017
ICT Network Controls	May 2017 (Sound)	4	0	0	0	4	July 2017

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Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Budgetary Control	May 2017 (Sound)	2	0	0	1	1	December 2017
General Ledger	Jun 2017 (Sound)	2	0	0	0	2	October 2017
Accounts Payable	Jun 2017 (Sound)	6	0	0	1	5	December 2017
Business Continuity Planning	Aug 2017 (Weak)	10	0	0	9	1	March 2018
Treasury Management	Sept 2017 (Sound)	4	0	0	3	1	March 2018
Residents Parking	Sept 2017 (Sound)	4	0	0	4	0	December 2017
Counter Fraud Risk Assessment	Oct 2017 (N/R)	8	0	0	8	0	July 2018
Monitoring Centre	Oct 2017 (Sound)	9	0	0	9	0	December 2018

Delayed Implementation Details

72. Members will note that our *Data Protection* review, previously reported to this Committee in detail, is now complete. We are satisfied the remaining delayed recommendations are in hand and have no matters of concern to report. For instance, on the high priority recommendation (within the *IT Development* review) the Council decided to first develop an overarching digital strategy – approved by Cabinet recently – before embarking specifically on an IT Development strategy.

Other Audit Activity Results

Risk Management Update

73.   Risk management is how the Council identifies, quantifies and controls the risks it faces as it seeks to achieve its objectives.

74.   The Council set up a new risk management approach, approved by this Committee in September 2015. Since then, the Committee has received regular update reports from Officers on managing specific strategic risks. This creates a greater understanding of key risk issues, and allows robust challenge of how the Council responds.

75.   The Committee considered the strategic risks most recently in **March 2017**. Strategic risks inherently have a greater impact on the Council, and potentially affect multiple services. They are the key risks that link direct to achieving Council priorities. The Council continuously oversees these risks, including reports on their management and updates to reflect actions the Council takes. Also, our audit work (and audit plans) considers key risk issues.

76.   The table below shows a summary of the strategic risks for the Council with the overall risk score, when considering likelihood and impact:

Ref.	Risk Heading	Score
a	Organisational skills and capacity to deliver	6
b	Housing infrastructure	6
c	Key project failure	15
d	Resource limitations	9
e	Collaborative working	4
f	Community capacity	4
g	Reputation	6

77.   We have an advisory role in the Council's arrangements. Most recently we have worked with Officers to review and update the risk management guidance, and this will come to the Committee later in the year. This work seeks to better connect strategic and operational level risks across the Council. We will continue to work with Officers over the coming year to provide risk support where needed.

Counter Fraud Update

78. The Council keeps a well-regarded investigative team who undertake the direct work in managing its fraud risks. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

79. The most prominent work we have undertaken here is our review of the Council's Counter Fraud approach as reported earlier in this document. However, we also have roles in Anti-Money Laundering Reporting and Whistleblowing.

80. In our Anti-Money Laundering role we have worked with the Council to help adapt its approach in examining how applicants finance Right To Buy applications. We have worked with the Council, including seeking advice from authorities across England, to lessen the risk of people using Council assets in money laundering schemes.

81. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. So far we have had no matters of concerned raised with us. However, we know others have examined matters raised by complainants. We believe the Council has looked into the concerns suitably.

Other Audit and Advice Work

82. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include advising on creation of an Information Governance Group, developing briefing sessions for Members and as part of the Management Team.

83. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

Code of Ethics and Standards Compliance

84.   On 1 April 2017 the RIASS[1] published a changed set of Public Sector Internal Audit Standards (the "Standards"). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.

85.   All auditors working in the public sector (including, for instance, health and central government too) must work to these standards for 2017/18. One specific change is the new demand to report to Senior Management and the Board (Audit Committee) on conformance with the Code of Ethics and the Standards.

Code of Ethics

86.   We include the full Code at Annex 2. Although a new document, similar codes were already part of the profession especially for people holding membership of professional institutions. We have included the Code within our Audit Manual and training for some years.

87.   We can report to Members we remain in conformance with the Code. For further assurance, the chart below describes some of the working practices and controls we use to encourage and oversee continuing adherence.

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

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

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

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

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

**Public Sector Internal Audit Standards**

88. 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.

89. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 6 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.

90. In 2017 we undertook a self-assessment against the Standards and confirm to Members we remain in full conformance. We will undertake a new self-assessment in 2018 alongside our annual opinion. However, including considering the changes to Standards published for 2017/18, we are confident we remain in full conformance. Our next external assessment is due before 2020.

Mid-Term Review

91. The collaboration agreement between the four authorities demands the service undergo a 'mid-term review' before January 2018. The aim of the review is to ensure the authorities continue to draw the benefits they expect from working together and point towards how the partnership can continue to improve.

92. We undertook this review principally as a self-assessment during late summer 2017. However, we also sought a wide range of qualitative and quantitative evidence including a survey sent to more than a hundred members and officers and face-to-face discussions with key individuals.

93. The overall picture of Mid Kent Audit that emerged from the review is of a service working well and delivering above expectations. Several participants also remarked how much those expectations have risen in recent years, focusing on the clarity of our reporting and the increasing value of advice and wider governance work. Authorities place great value in Mid Kent Audit as a template of how partnership working can deliver improved expertise, resilience and learning unavailable from a single-authority enterprise. As a result, all four authorities show a strong wish to continue the arrangement beyond 2019. They also encourage Mid Kent Audit to take on extra roles and work outside the partnership where doing so can continue delivering benefits to the authorities.

94. We found the current collaboration agreement contains various sections related to the detail of service delivery that do not work as intended. However, we noted councils did not consider the variations important and most were unaware of them. Essentially, while satisfaction is high, councils have not inquired deeply into the detail. This gives strong support for the future agreement to focus more narrowly on governance with questions of service delivery for agreement with individual authorities through audit plans and charters.

95. The full report goes into detail on the governance and survey results but we'd like to highlight one area. The final question of the survey invited participants to score on a scale of 0-100 the question of how likely they would be, if asked, to recommend Mid Kent Audit to another authority. The results showed a strong positive response to the audit service remaining consistent across members, officers and authorities.
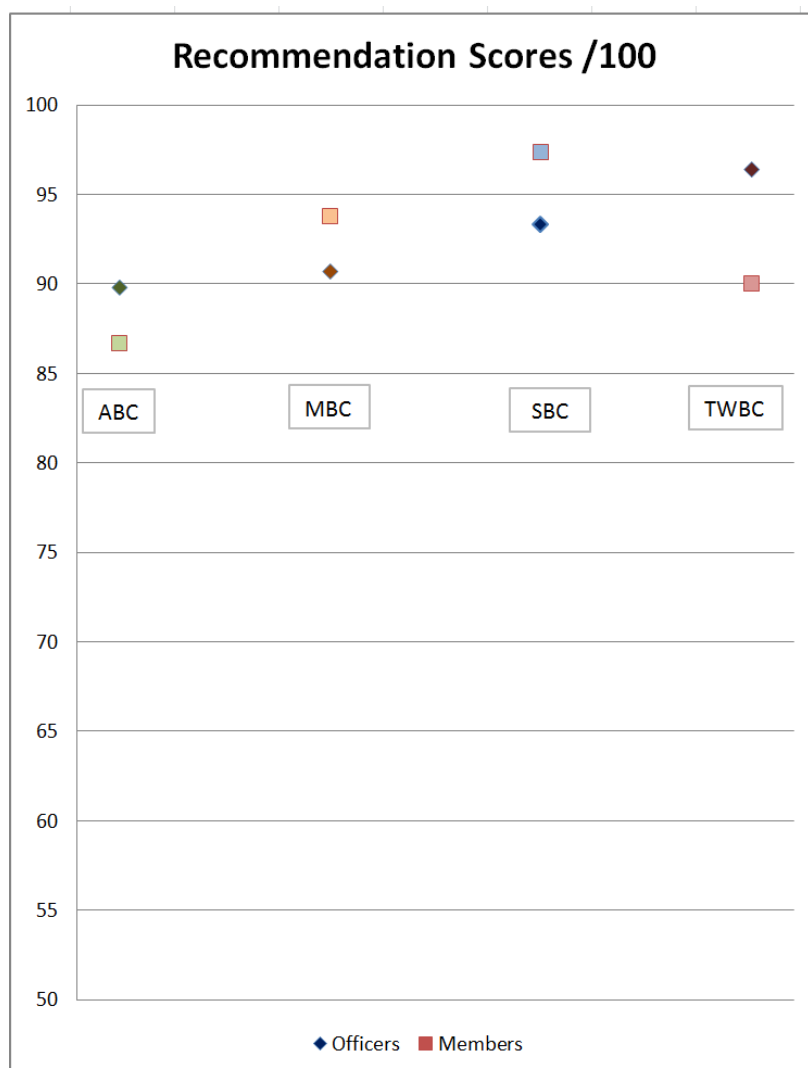
Performance Indicators

96. 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 Ben Lockwood, Director of Finance and Economy, as the Council's representative) considers these measures at each quarterly meeting. We also have monthly update meetings with management to discuss service performance and audit results.

97. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Q2 Results
Cost per audit day	Met target	Met target ➔←	Beat target ⬆	Beating target ⬆
% projects completed within budgeted number of days	47%	60% ⬆	71% ⬆	77% ⬆
% of chargeable days	75%	63% ⬇	74% ⬆	75% ⬆
Full PSIAS conformance	56/56	56/56 ➔←	56/56 ➔←	58/58 ⬆
Audit projects completed within agreed deadlines	41%	76% ⬆	81% ⬆	85% ⬆
% draft reports within ten days of fieldwork concluding	56%	68% ⬆	71% ⬆	77% ⬆
Satisfaction with assurance	100%	100% ➔←	100% ➔←	100% ➔←
Final reports presented within 5 days of closing meeting	89%	92% ⬆	94% ⬆	100% ⬆
Respondents satisfied with auditor conduct	100%	100% ➔←	100% ➔←	100% ➔←
Recommendations fulfilled as agreed	95%	98% ⬆	98% ⬆	95% ➔←
Exam success	100%	100% ➔←	85% ⬇	67% ⬇

Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Q2 Results
Respondents satisfied with auditor skill	100%	100% ➔←	100% ➔←	100% ➔←

98. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.

99. While we seek comments from a broad range of sources, the driver for the satisfaction numbers is responses to the surveys we circulate with each final report. Response rates to the surveys have varied over the years, but never been high. The response rate at this authority is 60% for 2017/18, the highest in the partnership by some way. We continue working with audit sponsors, recognising the many draws on their time, developing ways to gain comments on our work.

100. On exam success, we continue to see the influence of the IIA's change to its qualification that has depressed pass rates across the country. Our results remain above the national average and our people continue to gain success at a retake.

Swale Stars Team of the Year 2017

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

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

MID KENT AUDIT

Acknowledgements

103. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.

104. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.

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

Annex 1: Assurance & Priority level definitions

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

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

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

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

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

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

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

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

Annex 2: Institute of Internal Audit Code of Ethics

{ CODE of ETHICS... }

// PRINCIPLES

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

- **Integrity**

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

- **Objectivity**

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

- **Confidentiality**

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

- **Competency**

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

// RULES OF CONDUCT

1. Integrity

Internal Auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.

1.2. Shall observe the law and make disclosures expected by the law and the profession.

1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal Auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal Auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal Auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

The Institute of Internal Auditors

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[i] Photograph of the Great Stour near Victoria Park from http://www.geograph.org.uk/photo/1279115