

MID KENT AUDIT

Interim Internal Audit & Assurance Report

January 2020

Swale Borough Council



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Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

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

Interpretation:

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

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

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

Audit Charter

3. This Committee approved our *Audit Charter* in September 2019 and it remains in place through the audit year.

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Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Swale BC during 2019/20 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 2019 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

...we believe we have enough resource to deliver the 2019/20 plan
10. Since that plan we have had considerable changes in staffing, including losing two members of the team to other internal audit services in Kent. However, considering extra contractor support available to us through the Apex Contract managed by LB Croydon, new recruits to the team and people returning from maternity leave we remain content we have enough resource to deliver the plan.

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Audit Plan Progress

11. This Committee approved our *Annual Audit & Assurance Plan 2019/20* on 13 March 2019. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2019 and expect completing enough to form our *Annual Opinion* by June 2020.
12. The table below shows progress in total number of days delivered against the plan (figures are up to end of December 2019, about 45% through the audit year).

Category	2019/20 Plan Days	Outturn at Interim	Days Remaining
2018/19 Assurance Projects	0	19	n/a
2019/20 Assurance Projects	319	118	201
Non project assurance work ¹	121	64	57
Unallocated contingency	45	19	26
Totals (19/20 Work Only)	485	201	284

13. Based on resources available to the partnership for the rest of the year we forecast delivery of around 263 further audit days. This creates a forecast total of 464, or 95% of planned days.
14. We detail the specifics, and results, of this progress further within this report.

¹ Non-assurance project work includes our work in the fields of Risk Management, Counter Fraud and Investigative Support, following up recommendations and annual audit planning.

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Results of Audit Work

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

Completed Assurance Projects Since Annual Report in June 2019

	Title	Days Spent	Report Issue	Assurance Rating	Notes
2018/19 Plan Projects Issued after 1 June 2019					
	Asset Management	15	Jul-19	Sound	Reported to Members July 2019
	Revenues & Benefits Compliance Team	9*	Jul-19	Sound	Reported to Members July 2019
	General Data Protection Regulations	6*	Jul-19	N/A	Reported to Members July 2019
I	Sittingbourne Town Centre	17	Jul-19	Sound	
II	Cyber Security	8*	Oct-19	Sound	
III	Licensing Compliance	25	Dec-19	Sound	
2019/20 Plan Projects Issued up to Report Date					
IV	Discretionary Housing Payments	11	Sep-19	Sound	
V	Recruitment	8*	Oct-19	Sound	
VI	Civil Parking Enforcement	10*	Dec-19	Sound	

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Assurance Projects Underway

Title	Days So Far	Expected Final Report	Notes / Stage
Declarations of Interest	12	Jan-20	Draft report issued
Health & Safety	29	Jan-20	Draft report issued
Planning Enforcement	12	Jan-20	Fieldwork complete
Social Media	7	Mar-20	Fieldwork underway
Council Tax Recovery & Write Offs	2	Mar-20	Planning
Home Improvement Grants	3	Mar-20	Planning
Budget Setting & Monitoring	1	Mar-20	Planning
Homelessness	1	Apr-20	Planning
Strategic Planning	1	Apr-20	Planning

Assurance Projects Yet to Begin But Scheduled

Title	Expected Start	Expected Report	Notes
Universal Credit	Quarter 3	Apr-20	
ICT Technical Support	Quarter 3	Apr-20	Joint with MBC & TWBC
Information Management	Quarter 4	Apr-20	Cross partnership
Emergency Planning	Quarter 4	May-20	
Network Security	Quarter 4	May-20	Cross partnership
Planning Administration	Quarter 4	May-20	Joint with MBC

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

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Audit Project Summary Results

I: Sittingbourne Town Centre (July 2019)

16. Our opinion based on our audit work is that the Council has **SOUND** controls in place to manage its risks and support achievement of its objectives in delivering the Sittingbourne Town Centre Project.
19. The Sittingbourne Town Centre regeneration project has sound governance arrangements. These include a Project Board and Key Officer Group to ensure the Council keeps proper oversight. These groups receive progress reports and have access to effective specialist resources to help control delivery of project milestones.
20. Our review of financial controls for Site 6 showed compliance with the development funding agreement. We have identified some minor actions to strengthen governance, including updating group terms of reference.

Recommendation summary

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

21. Both agreed actions were due for completion in the final months of 2019 and so form part of our currently underway follow up review.

II: Cyber Security (October 2019)

22. Following recent cyber-related attacks experienced by well-established organisations including Councils and the NHS, cyber security has become a high-profile risk at many organisations concerned about suffering a similar attack themselves.
23. The HMG Cyber Essentials framework has been developed by Government and industry to provide a clear statement of the basic controls that all organisations should implement to mitigate the risk from internet-based threats, within the context of the 10 Steps to Cyber Security. The Cyber Essentials scheme defines a set of controls which, when correctly implemented, will provide organisations with basic protection from the most prevalent forms of threats derived from the Internet. In particular, it

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focuses on threats which require low levels of attacker skill, and which are widely available online.

24. Risk management is a vital starting point for organisations to act to protect their information and data. However, given the nature of the threat, the government believes that action should begin with a core set of security controls which all organisations – large and small – should implement. However, it does not offer a solution to remove all cyber security risk; for example, it is not designed to address more advanced, targeted attacks and hence organisations facing these threats will need to implement additional measures as part of their security strategy.
25. There is a Cyber Essentials Assurance Framework that offers a mechanism for organisations to demonstrate to customers, investors, insurers and others that they have taken these essential precautions. The level one Cyber Essentials certification is awarded on the basis of a verified self-assessment. An organisation undertakes their own assessment of their implementation of the Cyber Essentials control themes via a questionnaire, which is approved by a senior executive such as the CEO. This questionnaire is then verified by an independent accredited Certification Body to assess whether an appropriate standard has been achieved, and certification can be awarded. The level two (Cyber Essentials Plus) certification requires an independent vulnerability assessment to validate the effectiveness of controls declared in the self-assessment questionnaire.
26. Please note this audit was carried out based on the cyber essential principles.
27. Our opinion based on our audit work is that the IT service has **SOUND** controls in place to manage its risks and support achievement of its objectives.

Recommendation summary

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

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III: Licensing Compliance (December 2019)

28. Our opinion based on our audit work is that the Licensing & Resilience service has **Sound** controls in place to manage its risks and support achievement of its objectives.
29. Our review found the Council has comprehensive licensing policies in place which provide a sound framework for enforcement activities. Compliance inspections are mainly undertaken in response to complaints. However, inspections are carried out consistently using a templated approach. Our testing also confirmed that enforcement action is taken in accordance with the enforcement strategy and enforcement action is duly authorised.
30. However, our review also established that the introduction of a risk-based inspection assessments and programme in May 2018 is not yet fully embedded and inspections due are not always completed on time. Improvements to inspection monitoring are needed to ensure timely completion and prompt follow up work. A plan for random vehicle inspections also needs to be established and monitored.
31. We also established improvements are needed for expired and surrendered licenses to ensure they are promptly identified and evidenced on Uniform. We also make recommendations to improve the monitoring of penalty points and record keeping.

Recommendation summary

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

32. This audit engagement took some considerable time to finalise such that 5 of the 8 agreed actions were already complete when we issued the final report. The Council plans to complete the remaining actions over the next couple of months. We will review progress as part of our routine follow up exercise.

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IV: Discretionary Housing Payments (September 2019)

33. Our opinion based on our audit work is that the service has **Sound** controls in place to manage its risks and support achievement of its objectives relating to the processing of Discretionary Housing Payments (DHP).
34. During the 2018-19 financial year a total of 460 DHP claims were processed for Swale Borough Council. A further 158 claims have been processed for the 2019-20 financial year to date (July 2019).
35. We found up to date guidance for staff and information regarding DHP entitlements on the Council's website. Our testing for a sample of cases returned positive results which confirmed that all claimants met the criteria for being awarded a DHP with the relevant supporting documentation retained.
36. Our work identified a couple of area to address; the DHP application form does not contain a privacy statement as required under the Data Protection Act 2018 and the control to check claims exceeding £1,500 could be strengthened to evidence these approvals.

Recommendation summary

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

37. Both agreed actions were due for completion in the final months of 2019 and so form part of our currently underway follow up review.

V: Recruitment (October 2019)

38. Our opinion based on our audit work is that there are **Sound** controls in place to manage risks and support achievement of objectives in relation to Recruitment.
39. We found the majority of the council's controls, to mitigate the risk of being unable to recruit staff with the right skills to deliver priorities, are well designed and fully operating.

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40. Our testing established the service maintains a workforce strategy at each council and joint recruitment and selection policy/procedures, which are regularly reviewed. These key documents provide a framework upon which the recruitment process is based.
41. Recruitment roles are clearly defined and both Council's offer extensive staff rewards, which are continuously reviewed for appropriateness and adequacy.
42. Our testing of the recruitment process established compliance with procedures in all areas apart from training and retention of interview notes. Not all interview panels have an officer who has received recruitment and selection training. It is also unclear if they have instead satisfied the training requirement based on their experience.
43. Evidence of interview notes were not always saved, without these we could not establish if the selection process was completely fair and transparent. We have made recommendations to address these areas.

Recommendation summary

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

44. The Council plans to carry out both agreed actions at year end. We will follow up on action early in the new financial year.

VI: Civil Parking Enforcement (December 2019)

45. Our opinion based on our audit work is that the Council has **SOUND** controls in place to manage its risks and support achievement of its objectives. We provide the definitions of our assurance ratings at appendix II.
46. We found the majority of controls mitigating the risks surrounding parking enforcement are well designed and fully operating for both Maidstone and Swale.
47. The service is undertaking all functions as specified by the agency agreement with Kent County Council to provide on-street enforcement and the contract with Apcoa ensures adequate coverage. Our testing also confirmed that parking enforcement activities comply with the Traffic Management Act 2004.

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48. There is a known compatibility issue between the cash receipting system at Maidstone and the parking system which increases the risk of enforcement action being taken when PCNs have been paid. The service has implemented reconciliation controls to promptly identify errors between the systems but there are no such controls in place at Swale. We recommend controls are adopted at Swale to ensure all income due is received and accounted for.
49. We have also identified some actions that will improve existing arrangements. These include implementing procedure notes to support processes and reviewing workflow functionality to ensure all correspondence is handled.

Recommendation summary

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

50. The agreed actions fall due largely in the early months of 2020 for conclusion by 30 April. We will follow up the actions when they fall due.

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Agreed Actions Follow Up Results

51. Our approach to agreed actions is that we follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions). In total, we summarise in the table below the current position on following up agreed actions:

Project	Total	High Priority	Medium Priority	Low Priority
Actions brought into 2019/20	16	2	7	7
New actions agreed in 2019/20	37	0	20	17
Total Actions Agreed	53	2	27	24
Fulfilled by 31 December 2019	27	2	12	13
Actions cfwd past 31 December	26	0	15	11
Not Yet Due	19	0	9	10
Delayed but no extra risk	7	0	6	1
Delayed with risk exposure	0	0	0	0

52. The table below shows distribution of outstanding actions across the Council (filtered to show only those relevant to Swale). Note the numbers will not tally with the table above because this includes actions raised in draft reports and therefore not yet final.

	Mid Kent Audit Universe				
	Ashford Borough Council	Maidstone Borough Council	Swale Borough Council	Tunbridge Wells Borough Council	Shared Services
Accounting & Finance	-	-	-	-	-
Communications	-	-	-	-	-
Community Safety	-	-	3	-	-
Corporate	-	-	-	-	8
Culture & Economy	-	-	3	-	-
Democracy	-	-	-	-	-
Environment	-	-	-	-	-
Environmental Health	-	-	-	-	-
Estate Management	-	-	1	-	-
Housing & Landlord	-	-	-	-	-
Human Resources	-	-	17	-	9
Information Technology	-	-	-	-	3
Parking	-	-	-	-	6
Planning	-	-	2	-	-
Revenues & Benefits	-	-	2	-	-
Parish Councils	-	-	-	-	-

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Other Audit Service Work

Risk Management Update

53. We will present a full update on risk management at the next meeting of this Committee.

Counter Fraud Update

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

Investigations

55. We have completed one full investigation and helped with another matter drawn to our attention by management. There are no findings from investigations that we wish to draw to Members attention, save to note the importance of ensuring swift and thorough work to resolve allegations as they arise. To that end, we thank Council officers for helping us to report in good time.

Whistleblowing

56. 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.
57. We have so far had no matters raised with us through the Whistleblowing Policy this year.

National Fraud Initiative

58. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.

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59. We have looked into matches from non-revenues datasets. The Cabinet Office assigns a 'risk' rating to each match on a percentage scale. Our approach is to review all matches in sets with less than 20 to examine, and to look at first to matches rated over 50% risk in larger data sets. The Cabinet Office does not expect authorities to look into every match.

60. The table below sets out results so far for the data sets within Mid Kent Audit's scope:

Dataset	Matches to investigate	Completed	Frauds	Errors	Value
Creditors	62	62	0	0	0
Payroll	14	13	0	0	0
Housing Waiting List	66	62	0	9	£29,160
Procurement	16	16	0	0	0
Totals	158	153	0	9	£29,160

61. For the Housing Waiting List data set, the NFI exercise has identified nine people who were on the housing waiting list inappropriately (for instance because they were also on the waiting list at another authority). The Cabinet Office estimates a saving to authorities of £3,240 for each person identified as ineligible and so removed from the housing waiting list.

62. We are working towards completing the investigations by the end of the financial year. The Cabinet Office plans to issue a new data set in January 2021.

Other Audit and Advice Work

63. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance as part of the Wider Management Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers.

64. We have also led and contributed to a series of Member briefings at the Council on issues of governance interest. We are keen to hear from Members on any other areas of interest which may form future briefing sessions.

65. 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.

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Code of Ethics and Standards Compliance

Code of Ethics

66. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. Also the Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life's *Seven Principles of Public Life* (the "Nolan Principles").
67. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.
68. We can report to Members we remain in conformance with the Code.

Public Sector Internal Audit Standards & External Quality Assessment

69. 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.
70. As described in previous updates, 2019/20 is the fifth year since we underwent an external independent assessment and so we require a fresh review. We successfully put the assessment out to tender in December 2019. The winning bidder, CIPFA, will begin their review in February and report to Members in late March.
71. Based on our self-assessments we continue to work in full conformance with the Standards.

Acknowledgements

72. 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.
73. 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.
74. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex: Assurance & Priority level definitions

Assurance Ratings 2019/20 (Unchanged from 2014/15)

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>

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Recommendation Ratings 2019/20 (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.