

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 24th April 2019

Subject: **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

Classification: Unrestricted

Summary: This report summarises the outcomes to date against the 2018/19 internal audit and counter fraud plan as well as tracking management's response to agreed actions from previous audits.

Recommendation: FOR ASSURANCE

Introduction

1. This report, and the enclosed Appendix A, summarises:
 - The key outcomes from completed Internal Audit reviews and Counter Fraud investigations since January 2019
 - An indicative Internal Audit opinion for 2018/19 based on audit outcomes to date
 - Progress against the 2018/19 Internal Audit Plan, proposed revisions and key performance indicators
 - Future plans and improvements

Outcomes and Opinion

2. From our coverage to date we have concluded that the County Council continues to have **adequate and effective controls and governance processes** as well as robust systems to deter incidences of material fraud and irregularity. We have based this opinion on the following:
3. Positives
 - 38% of systems and/or functions have been judged with a substantive assurance or better
 - The audit of the Council's underpinning values and behaviours was largely positive. The overwhelming majority of officers and Members involved in the audit displayed high standards of conduct. Effective systems are in place to re-enforce the integrity of decision making and protect the reputation of the Council and that it acts in the public interest
 - The governance review of the CYPE Directorate was also largely positive. The underlying culture is open and inclusive whilst embarking on a period of substantive change
 - A continuing pattern of general robustness of key financial systems is emphasised in this period including the 'High' assurance given to Treasury Management.
 - Satisfactory ICT project management is evidenced in relation to cloud navigation

- Effective data quality and control in relation to the Liberi system that underpins decisions on vulnerable children and families
- Positive progression in embedding GDPR changes across the organisation and raising awareness, although reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved.
- There have been no incidences of significant fraud, irregularity or corruption

4. Areas for Development

- 12% of audits completed to date have an opinion of limited or worse
 - Although the Values and Behaviours audit was positive, there were a number of unconnected areas for improvement including the need for better formal recognition of the Council's stated values, a number of responses to the Corporate Staff Survey or tailored surveys which may point to different cultures existing within Divisions and Teams (accepting that this is not necessarily wholly negative), better annual formal governance reporting from LATCO's and the need for improved take up of Member training and enhanced Member training when reaching Cabinet level.
 - The Governance Review of CYPE highlighted uncertainties over how savings would be delivered to meet the Council's medium-term financial plan and that there was an absence of a formal business case to underpin the change programme.
 - In relation to Developer Contributions the audit of the new SMS (Section 106) system evidenced enhancements and improvements on previous systems but testing showed there are still risks of omissions of planning obligations, including no automatic interface with finance systems
 - Risks of forfeiture of the new CIL system for developer contributions if there is continuing disengagement by the Districts
 - In relation to Property Statutory Compliance there are concerns that the Council is unable to identify its responsibilities and liabilities in relation to non TFM properties.
5. In making our opinion we also considered the outcomes from our more recent work in previous quarters including the last financial year.
6. In relation to Counter Fraud work there have been 276 irregularities reported and investigated since the start of 2018/19 of which 172 have been concluded. The total value of all irregularities reported to us is £482,000 to the end of March 2019. The highest areas of financial risk relating to fraud this year relate to false applications for financial support from families claiming to be destitute with no recourse to public funds (NRPF), misuse of direct payments and misuse of blue badges. In relation to blue badge fraud we secured the first conviction following persistent misuse.

Indicative End of Year Internal Audit Opinion for 2018/19

7. It is increasing good practice for an internal audit function to provide a year end opinion closer to the end of the financial year and in advance of the formal annual governance statement (AGS) and approval of the annual accounts.
8. For 2018/19, based on the audit work undertaken to date my interim opinion will be no less than "**adequate**". This reflects the increasing proportion of individual audits having this opinion including more significant / material audits. There are several reports in the 2018/19 audit plan still in progress and as such the final opinion may ultimately differ.

Member Challenge

9. In reviewing this report, Members might consider whether:

- audit findings and outcomes correlate with the interim overall opinion being given
- the audit judgements against selected corporate risks provide assurance that these risks are being adequately managed
- management actions and responses are appropriate for the issues raised by audit
- any areas of poor performance which warrant further review/ call in or follow up by this Committee

Recommendations

10. Members are asked to note:

- Progress and outcomes against the 2018/19 Audit and Counter Fraud plan
- The indicative Internal Audit opinion for 2018/19
- Amendments to the 2018/19 Audit plan

Appendices

Appendix A - Internal Audit and Counter Fraud Progress Report April 2019

Robert Patterson
Head of Internal Audit
(03000 416554)

Kent County Council

Internal Audit and Counter Fraud Progress Report

April 2019

Contents

Internal Audit and Counter Fraud Progress Report

1.	Executive Summary and Opinion	6
2.	Mapping Internal Audit Assessments and Outcomes against Corporate Risk	11
3.	Counter Fraud and Corruption	21
4.	Internal Audit and Counter Fraud Performance	24
5.	Work in Progress and Resources	25
6.	Conclusions	26

Annexes

Annex 1	Summary of Individual 2018/19 Internal Audits Issued January – March 2019	27
Annex 2	Internal Audit Assurance Levels and Definitions	43

1. Executive Summary and Opinion

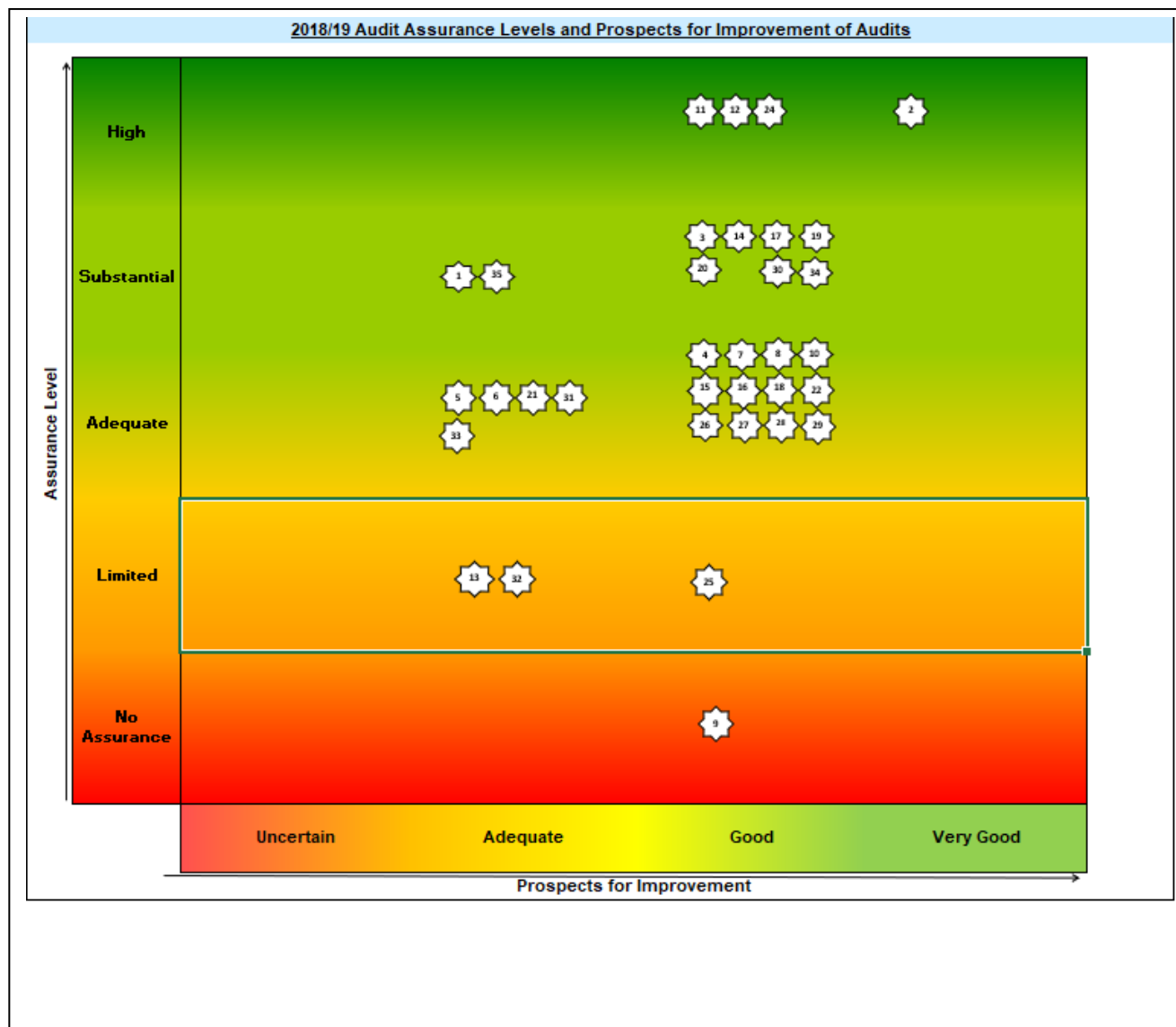
1.1 This report details the cumulative internal audit and counter fraud outcomes for 2018/19 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since January 2019. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.

1.2 From our work to date we have concluded that Kent County Council has:

- Adequate and effective financial and non-financial controls and governance processes including systems to deter incidences of material fraud and corruption

1.3 Figure 1 (right) maps the outcomes from the completed 2018/19 internal audits to date. Summaries of those audits completed since January are detailed in Annex 1.

1.4 Where audits have identified areas for improvement, management action is agreed. All audits are allocated one of five assurance levels together with four levels of prospects for further improvement, which represents a projected 'direction of travel'. Definitions are included in Annex 2.



1. Executive Summary and Opinion

Audit Opinion October G&A Committee

No	Audit	Judgement	Prospects for Improvement
1	Financial Assessments Follow-up	Substantial	Adequate
2	CART Follow-up	High	Very Good
3	Client Financial Affairs	Substantial	Good
4	Recruitment and Pre-Employment Checks	Adequate	Good
5	Coroners Service Financial Controls	Adequate	Adequate
6	Direct Payments - Adults	Adequate	Adequate
7	Youth Services Commissioned Contracts	Adequate	Good
8	Direct Payments - Childrens	Adequate	Good
9	Oakwood	No	Good

Audit Opinion January G&A Committee

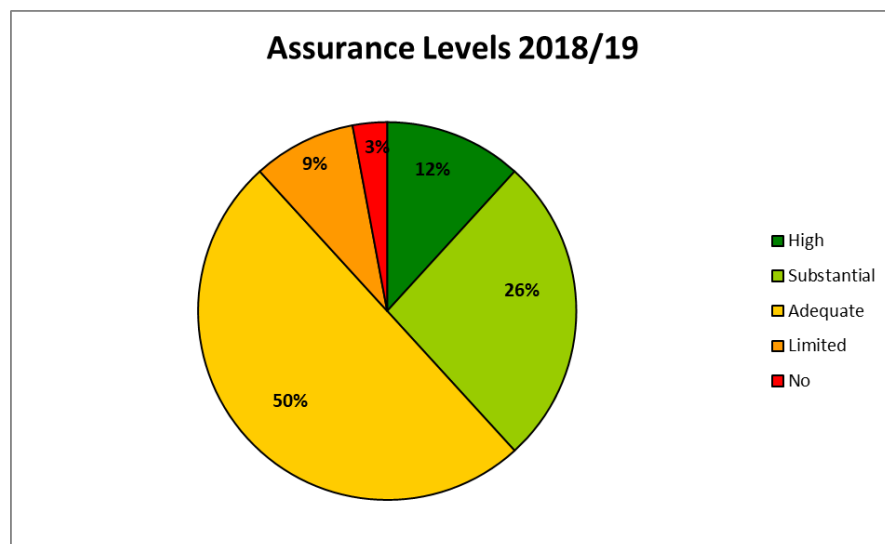
No	Audit	Judgement	Prospects for Improvement
10	Payments Process	Adequate	Good
11	Pension Contributions	High	Good
12	Risk Management	High	Good
13	SEND	Limited	Adequate
14	Deferred Payments	Substantial	Good
15	Lifespan Pathway Post Implementation	Adequate	Good
16	Virtual Schools	Adequate	Good
17	Concessionary Bus Fares	Substantial	Good
18	ICT Oracle Application	Adequate	Good
19	Troubled Families *	Substantial	Good
20	ICT SWIFT Replacement	Substantial	Good

Audit Opinion April G&A Committee

No	Audit	Judgement	Prospects for Improvement
21	IFA & Residential Placements	Adequate	Adequate
22	Property Income & K2	Adequate	Good
23	Safeguarding (Children) - Advisory **	N/A	N/A
24	Treasury Management	High	Good
25	Property Statutory Compliance	Limited	Good
26	ICT Cloud Navigation	Adequate	Good
27	CYE Governance *	Adequate	Good
28	Data Protection incl. GDPR	Adequate	Good
29	Values & Behaviours (Ethical Framework) *	Adequate	Good
30	Liberi Data Quality	Substantial	Good
31	Developer Contributions (Section 106)	Adequate	Adequate
32	Developer Contributions (CIL)	Limited	Adequate
33	Schools Themed Review - Safeguarding *	Adequate	Adequate
34	Establishments Themed Review	Substantial	Good
35	ICT Information Governance	Substantial	Adequate

* - Audits currently at Draft Report stage.

1. Executive Summary and Opinion



Assurance Level	No	%
High	4	12%
Substantial	9	26%
Adequate	17	50%
Limited	3	9%
No	1	3%

- 1.5** As at the start of April we had completed 35 substantive audits including 14 in this quarter This has included two pieces of significant work around the governance of the CYPE Directorate and the values and behaviours (ethics) across the Council. At the other end of the scale we have undertaken two thematic reviews involving audits of 20 schools and 4 establishments. Significant fieldwork is in progress for a further 9 audits.
- 1.6** The overall outcomes to date have been generally satisfactory but it is notable that for this year half the audits to date have received an 'adequate' assurance rating. This rise in the proportion of 'adequate' outcomes follows a consistent trend over the past 18 months and inevitably has an impact on the interim end year opinion work. (See below)

1. Executive Summary and Opinion

Positives	Areas for Development
<ul style="list-style-type: none"> • 38% of systems or functions have been judged with a substantial assurance or better • The audit of the Council's underpinning values and behaviours was largely positive. The overwhelming majority of officers and Members involved in the audit displayed high standards of conduct. Effective systems are in place to re-enforce the integrity of decision making and protect the reputation of the Council and that it acts in the public interest • The governance review of the CYPE Directorate was also largely positive. The underlying culture is open and inclusive whilst embarking on a period of substantive change • A continuing pattern of general robustness of key financial systems • adequate ICT project management is evidenced in relation to cloud navigation • Effective data quality and control in relation to the Liberi system that underpins decisions on vulnerable children and families • Positive progression in embedding GDPR changes across the organisation and raising awareness, • There have been no incidences of significant fraud, irregularity or corruption 	<ul style="list-style-type: none"> • 12% of audits completed to date have an opinion of limited or worse • Although the values and behaviours audit was positive, there were a number of unconnected areas for improvement including the need for better formal recognition of the Council's stated values, a number of responses to the corporate staff survey or tailored surveys which may point to different cultures existing within Divisions and Teams (accepting that this is not necessarily wholly negative), better annual formal governance reporting from LATCO's and the need for improved take up of training by Members and enhanced Member training when reaching Cabinet level. • Doubts over the CYPE Directorate to deliver savings required by the Council's medium-term financial plan • In relation to developer contributions the audit of the new SMS (Section 106) system evidenced enhancements and improvements on previous systems but there are still risks of omissions of planning obligations, particularly as there is no automatic interface with finance systems • Risk of forfeiture of income from the new CIL system for developer contributions if there is continuing disengagement from the Districts • In relation to property statutory compliance there are concerns that the Council is unable to identify its responsibilities and liabilities in relation to non TFM properties.

1.7 In relation to counter fraud work there have been 276 irregularities reported and investigated since the start of 2018/19 of which 172 have been concluded. The total value of all irregularities reported to us is £482,000 to the end of March 2019.

1.8 Overall the unit has reviewed systems or activities with a combined spend / turnover of an estimated **£1.06 billion** since the start of 2018/19


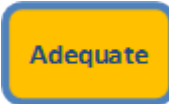








1. Executive Summary and Opinion

Interim End of Year Internal Audit Opinion

- 1.9** We normally produce the formal year end audit opinion in July in tandem with the annual accounts and ratification of the annual governance statement (AGS). This will continue for 2018/19 but it is increasing good practice for audit functions to endeavour to provide an opinion closer to the end of the financial year and in advance of the AGS. For example, we already provide an April opinion to Commercial Services.
- 1.10** For 2018/19, based on the work that has been undertaken to date, my interim overall opinion will be no less than “**Adequate**”. This reflects that the largest proportion of opinions to date (final or proposed) for individual audits has been “Adequate”. This includes assignments which will carry the most weight when formulating the overall opinion because of their significance on the organisation such as Values and Behaviours, GDPR and the CYPE Governance Review.
- 1.11** There have been several “Substantial” opinions and four “High” opinions. In the main however, these have been given where audits have focused on smaller areas within the organisation such as Client Financial Affairs, or financial controls such as Treasury Management. The exception is our risk management audit which received “High” assurance. A positive is the relatively small number of audits to date which have received a “Limited” (or “No”) assurance.
- 1.12** At this stage, the audit plan is still being completed and the interim opinion may change as work is completed and finalised. Our audit of Strategic Commissioning is in progress and we are about to start an audit of relationship management between KCC and all our LATCos. We will also be undertaking our annual review of controls around the preparation of the AGS.
- 1.13** It is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the year to date. As such, the following patterns of audits emerge against the County Council’s key risks:

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

RISK: Safeguarding – Protecting Vulnerable Children

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
IFA and Residential Placements	Adequate 	Adequate 	1	7	1
Schools Themed Review – Safeguarding (Final draft)	Adequate 	Adequate 	1	2	1
Child Safeguarding – quality assurance frameworks and case file audits	Advisory / consultancy				
CYPE Governance	Adequate 	Good 	1	5	0
Children's Data Quality – Liberi	See later section				
Special Educational Needs and Disability	Limited 	Adequate 	3	4	1
Virtual Schools Kent	Adequate 	Good 	1	7	2

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk



Lifespan Pathway Post-Implementation	Adequate 		1	3	0
Troubled Families – Earned Autonomy (Final Draft) (also relates to adult risk below)	Substantial 		0	2 - TBC	0
Children's Allowance Review Team (follow up)	High 		1	3	0
Direct Payments – Disabled Children	Adequate 		1	2	1

- 2.1** Our audit of Independent Foster (IFA) and Residential Placements found generally robust controls to mitigate financial and safeguarding risks. Where quality or safeguarding issues had been identified with a provider they had been appropriately resolved. Despite following appropriate commissioning practice KCC does not have strong purchasing power because of the low level of placements and we found of the top 5 providers in terms of spend, only one was on a preferred list. As a result, KCC has been unable to realise planned savings.
- 2.2** Our themed schools review this year related to safeguarding, where we audited 20 sites. Most schools sampled operated satisfactory safeguarding controls, demonstrating appropriate training arrangements, managing allegations and holding secure safeguarding records. However, we identified a number of areas for improvement such as the need to update safeguarding policies and site safeguards. Our one high risk issue related to vetting where currently schools are not directed to undertake regular cyclical DBS checking of staff
- 2.3** During this period we undertook an advisory review of the Council's Child Safeguarding quality assurance and case file monitoring processes. Overall, we found that the QA framework is a good evidenced based model and that good work is being undertaken in these areas. We found that currently there is an absence of a central point to capture and disseminate lessons learnt and good practice.
- 2.4** As part of the governance review of the CYPE Directorate we reviewed safeguarding issues. We found a strong independent chair of the Safeguarding Board, which is being further strengthened with the introduction of a Children's Assurance Board comprising Members and officers. The review of the safeguarding quality assurance framework concluded there was a culture of continuous improvement. Overall the Directorate placed a clear emphasis on stakeholder engagement with an over-arching focus on achieving best outcomes for children.

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

- 2.5** During this quarter we also examined the Liberi system that provides data and management information feeding into decisions on child protection, children in need children in care and early help. The outcomes are detailed in a later section (below).

RISK: Safeguarding – Protecting Vulnerable Adults

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Deferred Payments	Substantial 	Good 	0	3	2
Client Financial Affairs	Substantial 	Good 	0	2	3
Direct Payments – Adults	Adequate 	Adequate 	0	4	1

- 2.6** During this quarter there has been no new audit work relating to this risk.

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

RISK: Evolution of KCC's Strategic Commissioning Approach

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Youth Services Commissioned Contracts	Adequate 		0	5	4
Oakwood House	No 		5	4	0

- 2.7** We did not undertake any new audits for this risk area in the period under consideration. However, there are related issues within the IFA and Residential Placements audit detailed above. An audit of Strategic Commissioning is in progress.


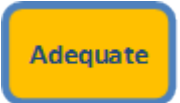

RISK: Resourcing Implications arising from Children's Services Demand

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
CYPE Governance (Final Draft)	Adequate 		1	5	0

- 2.8** The CYPE Governance Review showed there has been considerable progress in reconfiguring the Directorate with positive evidence surrounding leadership, culture and strategy. At the time of our fieldwork there was still considerable change with a move towards a new operating model including integration of early help and specialist children's services which has been wisely tested through four pilots. A significant challenge is the delivery of savings that build into the Council's medium-term financial plan. There were several gaps in how these savings would be delivered and an inability by senior managers to detail how the savings programme would be achieved. Indeed, there is no formal business case underpinning the complete Change for Kent Children programme. At the time of our audit there were funding pressures of £6.8 million including material overspends in areas such as Special Educational Needs.

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk








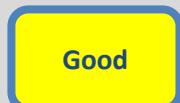

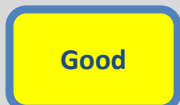

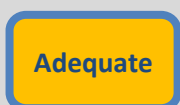
RISK: Access to Resources to aid Economic Growth and Enabling Infrastructure

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Developer Contributions (Sect 106)	Adequate 		2	3	3
Developer Contributions (CIL)	Limited 		1	3	0

- 2.9** One key source of infrastructure resource available to the County Council is derived from developer contributions. We examined the current Section 106 system as well as the new Community Infrastructure Levy (CIL) that is now being used by 4 Districts in the County.
- 2.10** In relation to Section 106, Members may recall that we undertook an audit that determined a limited assurance back in 2015 and this year's audit was effectively a follow up on the newly introduced Single Monitoring System (SMS) used to log and track contributions. In general, we found that it is now operational, is effectively tracking planning applications and obligations, and is used and updated across the Council. However, there are weaker controls governing the uploading of obligations and those that are manually transferred to finance spreadsheets. Our testing found a small number of omissions.
- 2.11** With the CIL, the key risk to the County Council is the sufficiency of funding from this source compounded by a lack of agreed principles between the Council and the charging (District) authorities. Currently for those Districts that operate CIL there are no agreed guidance, policies or procedures at present, largely due to disengagement by the Districts.

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

Critical Financial and Corporate Support Systems

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Property Income and K2 (follow up)	Adequate 	Good 	0	1	0
Treasury Management	High 	Good 	0	0	1
Payments Processing	Adequate 	Good 	1	4	2
Pensions Contributions	High 	Good 	0	0	2
Recruitment and Pre-Employment Checks	Adequate 	Good 	1	5	2
Financial Assessments (Follow up)	Substantial 	Adequate 	1	1	0






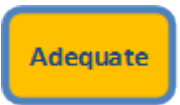



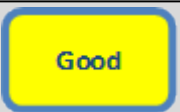


- 2.12** An interim report and opinion was delivered to January G&A relating to Property Income and the new 'K2' (property database) system. The full summary report is included in Annex 1. Members will recall that, in summary, we found the new system was being appropriately managed and the first phase of the property transfer had been successfully achieved with appropriate data cleansing and checking routines. Our testing found no material errors. Legacy issues do remain, including the transfer of data relating to properties held by other Directorates rather than the corporate landlord.

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

2.13 Our audit of Treasury Management determined that it was well managed and controlled, and the Council is performing well when benchmarked against other representative local authorities.

RISK: Cyber Attack Threats and their Implications / Information Governance


During this period, we have undertaken a series of ICT related audits with the following outcomes:

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
ICT Cloud Navigation (II)	Adequate 		0	3	0
Data Protection including GDPR	Adequate 		1	3	6
ICT Information Governance (Data Protection and Security Toolkit)	Substantial 		0	1	0
Liberi – Children’s Data Quality	Substantial 		0	1	2
ICT Oracle Application	Adequate 		1	0	1
SWIFT Application Replacement (Draft report)	Substantial 		0	2	0











2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

- 2.14** We examined the second phase of the Council's project management of Cloud based systems, and the outcomes were largely positive. Data migration procedures were well documented and tracked with comprehensive training manuals. Two recurrent issues remain from Phase 1 – namely a lack of transparency with financial management and the high turnover of programme managers.
- 2.15** The audit of Data Protection determined that there has been good progression in embedding the changes required under GDPR given the resources available and the size of the Council. At the time of our audit, there was still work to be completed through a competent project plan. Material issues to be resolved were the review and learning lessons from data breaches together with understanding and consistency of the application of Data Protection Impact Assessments (DPIA).
- 2.16** Associated with the above, we also undertook our annual independent examination of the Council's Data Security and Protection toolkit which is a necessary pre-requisite for information sharing with our NHS partners. As in previous years, we found a robust submission framework which is governed by a corporate grouping, and at the time of our audit sample testing of 48 tests (known as 'assertions'), found that 41 were complete and evidenced based. As in previous years, it is of moderate concern that insufficient evidence was available for the other areas so close to the submission date, but we are assured by management that deadlines will be met.
- 2.17** The Liberi system provides management information in relation to children's services and therefore is critical to the care of vulnerable children. Overall, the outcomes were positive as the audit evidenced good data input controls with regularly produced data quality reports and dashboards. Our testing provides confidence that systems allow KPI's to be a true reflection of practice and data quality is fit for purpose to support decision making processes.

Audit of Other Activities

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Values and Behaviours (Ethical Frameworks) <i>Final Draft</i>	Adequate 		1	10	0

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

Property Statutory Compliance	Limited 		2	1	2
Establishments Themed Review - Adults LD Respite Services	Substantial 		0	2	0
Concessionary Bus Fares	Substantial 		0	0	2
Risk Management	High 		0	1	0
CRC Energy Efficiency Scheme	Compliant	N/a	0	0	0
Coroners Service Financial Controls	Adequate 		0	4	0

- 2.18** There is now a good practice requirement for internal audit functions to periodically examine an organisations ethical frameworks and cultures. This year, we undertook this significant piece of work by independently examining the Council's underpinning values and behaviours. This is a major component of our opinion into the AGS. Overall, we concluded that the risk of a significant ethical / governance failure is being reasonably managed. It is evident that considerable investment is being made to ensure the organisation behaves with integrity and demonstrates an ethical commitment enshrined in the Council's 3 published core values. Appropriate strategies, policies and procedures were underpinned by the majority of officers and Members we interviewed, displaying high standards of conduct. Overall, the Corporate Staff Survey has reflected positive outcomes in relation to ethics and behaviours. We did find a number of unconnected areas for improvement, including a need for a better formal recognition of the Councils core values by officers and Members, a number of responses to the Corporate Staff Survey or tailored surveys we undertook may point to different cultures existing within Divisions and teams, the need for enhanced annual governance reporting from most LATCO's, and better take up of training from Members and the need for tailored training when Members take up Cabinet responsibilities.
- 2.19** Overall, we found the systems and controls to ensure statutory compliance in relation to the council's property responsibilities and liabilities were insufficient. A key deficiency was the inability by our managing agent (Gen2) to identify properties which are not covered by the existing

2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

TFM contracts and their compliance status. We found that when compliance certification checks and tests are carried out, resultant works are not being properly monitored. Furthermore, where KCC lets a property, we found material numbers of tenants do not provide confirmation to the Council that statutory compliance checks have taken place.

- 2.20** During the quarter we completed a thematic review of the three adults learning disability centres run by KCC. Overall, the outcomes were positive with the centres generally well run, controlled and operating appropriate safeguards. In total, 28 individual recommendations were made with high priority issues around staff training. We also had concerns over utilisation and take up of the service with only one centre achieving consistently high occupancy levels.

3. Counter Fraud and Corruption

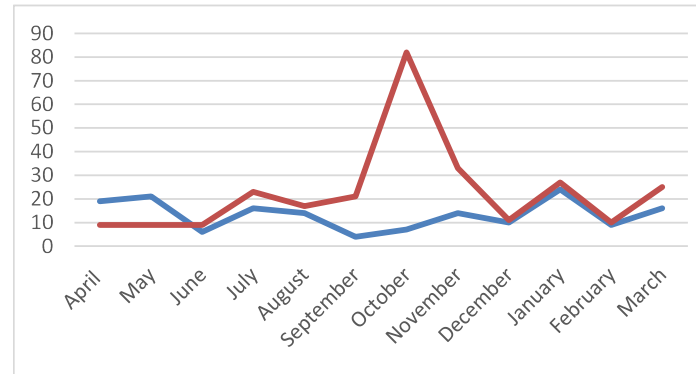
Fraud and Irregularities

3.1 The distribution and characteristics of the 276 irregularities reported to date show that the highest areas of financial risk so far this year are from false applications for financial support from families claiming to be destitute with no recourse to public funds (NRPF) (around £180k) and from misuse of Blue Badges (around £100k).

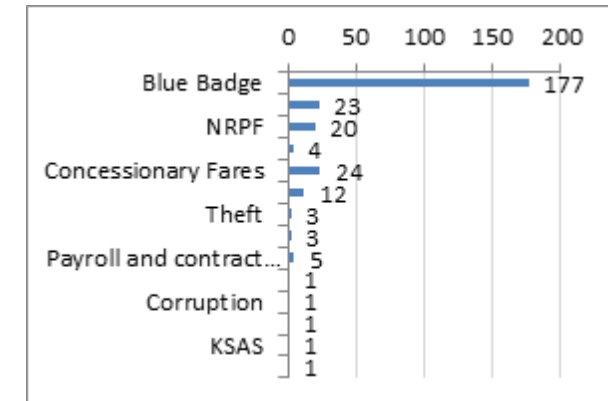
3.2 We continue to actively support Social Care in both areas. For example, counter fraud staff are now regularly accompanying social workers during interviews with families that present as NRPF.

3.3 The majority of the 276 irregularities reported relate to the misuse of the Blue Badge (177) and concessionary fare schemes (24). These types of fraud are low value, high volume activity. We have recently increased our capacity to manage these referrals quickly which is reflected in the increased volume of activity during October and November 2018.

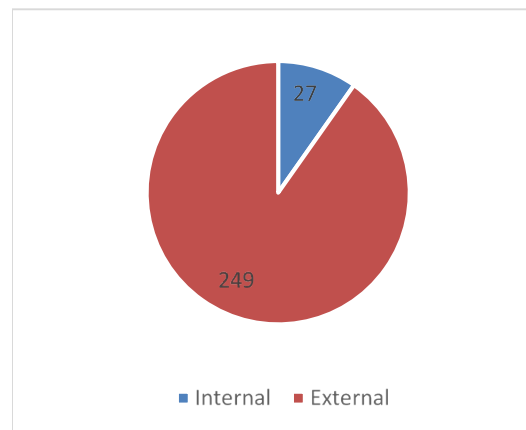
Number of Irregularities Reported by Month



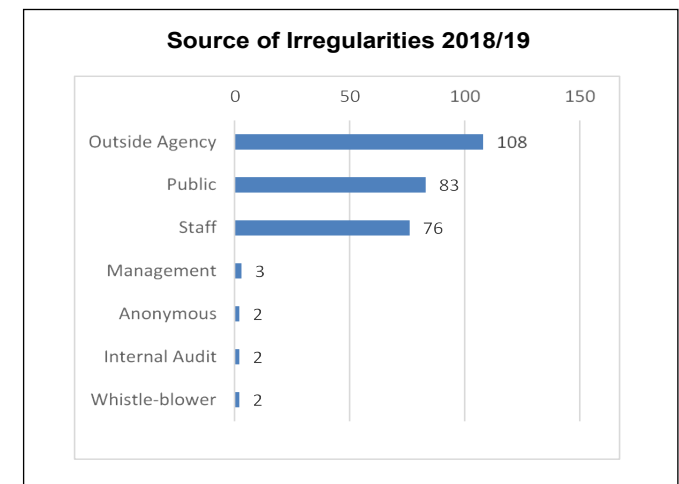
Irregularities by Type 2018/19



Split between Internal & External Fraud 2018/19



Source of Irregularities 2018/19



3. Counter Fraud and Corruption

Counter Fraud Partnerships with District Councils

Kent Intelligence Network (KIN)

- 3.4 In relation to the Kent wide data matching operation (Kent Intelligence Network) where KCC is a substantive partner, it is pleasing to note that after partnering with a new software provider (Destin Solutions) we have achieved cashable savings of £360,000 by removing small business rate relief from companies that were no longer entitled to the discount.

Fraud and Corruption Self-assessment

- 3.5 As part of the 2018/19 Internal Audit and Counter Fraud plan, we agreed to undertake an independently validated self-assessment of the Council's approach to countering fraud using CIPFA's Code of Practice - Managing the Risks of Fraud and Corruption. The results of the validated assessment were positive, albeit with some areas for development. The overall conclusion was as follows:

'The organisation has reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This means that the organisation has put in place effective arrangements across many aspects of the counter fraud code and is taking positive action to manage its risks. The organisation is performing well against the counter fraud code and is actively working to improve its resilience to fraud and to manage its fraud risks. There are some areas of weakness which could undermine resilience, and these should be reviewed. In addition, the organisation should consider further opportunities to develop and extend the effectiveness of its counter fraud arrangements'

The nine recommendations were:

- Anti-Fraud policies should specify the expected frequency of reviews to ensure they are updated on a regular basis and appropriately distributed to staff.
- The most recent version of the Anti-Fraud & Corruption Strategy should be added to the council website.
- The risk management policy should be updated to include guidance in the assessment of fraud risk and any specific fraud risks should be appropriately identified in the register.
- Project management templates should be updated to include consideration and assessment of fraud risks.
- References to how internal controls will be used to prevent fraud should be added to the Anti-Fraud Strategy.
- The anti-fraud strategy should be updated with details of how the council will publicise its counter fraud activity.
- The Council should take steps to ensure it publicises all 'good news stories' relating to counter fraud activity, such as successful prosecutions of those found to have committed fraud against the council.
- The anti-fraud strategy should be updated with the inclusion of a sanctions policy (or a separate policy produced) that broadly sets out the council's approach to determining the appropriate course of action for proven cases.

3. Counter Fraud and Corruption

- A mechanism for monitoring staff acceptance of key policies should be put in place to strengthen the council's position with regards to actions that may be taken in relation to non-compliance and fraud.

First Prosecution

3.6 In February this year we secured our first conviction for Blue Badge fraud. Laura Halford was convicted on four counts of fraud and was sentenced to a three-year conditional discharge (the maximum allowed) and ordered to pay £750 costs to the Council. The prosecution was reported favourably in the local press.

4. Internal Audit and Counter Fraud Performance

- 4.1 Performance against our targets to the end of March 2019 are shown below. Overall, the inputs, outputs and outcomes are in line with our plans for 2018/19

Performance Indicator	Target	Actual
Outputs		
90% of Priority 1 audits completed (by year end)	82%	80%
20% of Priority 2 audits completed	18%	21%
Draft audit reports issued within agreed date on the engagement plan	60%	25%
No of fraudulent incidents / irregularities recorded		
Outcomes		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues implemented	N/A	
% of all other issues agreed	N/A	100%
% of all other issues implemented	N/A	
Client satisfaction	90%	88%
Value for money / efficiency savings identified	N/a	£1000
Total number of occasions on which a) fraud and irregularity was identified	N/A N/A	118 54
Total monetary value of (a) fraud and (b) irregularity that was detected	N/A	£194,065* £19,465*
Total monetary value of (a) fraud and (b) irregularity that was recovered	N/A	£24,965 £18,202

* These figures include unsuccessful attempted frauds that resulted in no loss and therefore do not require recovery.

5. Work in Progress

- 5.1** The next period up to the July 2019 Governance and Audit Committee final reporting includes completion of the following substantive audits:
- Strategic Commissioning
 - Homecare
 - Home to School Transport
 - Intervention and Enablement
 - Education Psychology
 - Social Care Recruitment Incentives
 - Client-side Relationship Management of LATCO's
 - Governance Health Check and AGS work
- 5.2** The only substantive audit due in quarter 4 that we will delay until early 2019/20 is the review of Adults Social Care Transformation. As such, with this exception, completion of the above audits will see completion of the 2018/19 plan.
- 5.3** As detailed previously, we also have significant workloads across the Council's LATCO's (which are reported to separate Audit Committees) but this year we will be incorporating an opinion on LATCO's within our governance health check methodology and resultant end year opinion to the County Council.
- 5.4** In terms of audit and counter fraud resources we are losing Paul Rock, our Counter Fraud Manager who has gained the position of Head of Internal Audit / Counter Fraud and Risk at L B Tower Hamlets from early June. We have already commenced recruitment for his replacement.

6. In Conclusion

- 6.1** We are satisfied that sufficient Internal Audit and Counter Fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC's standards of control, governance and risk management.
- 6.2** In addition, line management have taken, or have planned, appropriate action to implement our issues and recommendations.
- 6.3** We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable challenge and change.

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

IFA & Residential Placements

Audit Opinion	Adequate
Prospects for Improvement	Adequate

We found that the process for placing children was robust in design to mitigate key financial and safeguarding risks and was generally working effectively in practice. Where quality or safeguarding issues had been identified with a provider, appropriate action had been taken.

However, KCC does not have strong buying power in the IFP or Residential market both because it does not make large volumes of placements and because other Local Authorities purchase placements in Kent.

Key Strengths

- The tender for the framework was based on a detailed analysis of the market and of KCC's needs
- There are processes for identifying issues with providers and any issues identified had been dealt with appropriately
- There are ongoing mechanisms in place to check the quality of providers.
- Authorisation to search externally had been appropriately given and there were valid reasons why the young person could not be placed in house
- Placement plans (sections prior to sending to providers) had been properly completed and quality assured by the Total Placement Team
- There was evidence to support the social workers' choice of placement which took into account the desired needs, risks and outcomes.
- Placement costs were in line with the contract cost (where applicable) and payments made were accurate.
- Social workers had visited young people in new placements. There was evidence that they ensure the placement is meeting the desired outcomes.

Areas for Development

- In nearly half of cases, there was no evidence that Safe Care Plans (or risk assessments for Residential Placements) had been completed.
- The success of the preferred provider arrangements has been mixed. Of the top five providers in terms of spend, only one is a preferred provider. As a result, KCC has been unable to fully realise the planned savings.

Areas for Development (cont)

- The framework contract contains provisions for quality assurance visits to each provider throughout the duration of the contract however it is likely that provider visits will only be made where there are quality issues.
- The six monthly performance questionnaire sent to Lot 1 providers seems to be limited in terms of outcomes. There are no links between this and outcomes for the actual children in placement.
- Some IFP spot providers had not signed up to KCC's terms and conditions. The standard terms and conditions used for Residential placements is out of date and no longer fit for purpose.
- For 11% of placements tested, a placement planning meeting had not been held within the statutory 5 working days. For a further 9 placements the placement planning section on Liberi was incomplete or missing.
- In two thirds of cases sampled where an out of county placement had been made, KCC had not notified the host authority within 5 days.
- For 60% of residential placements tested, the weekly provider report was not consistently recorded on Liberi.

Prospects for Improvement

- KCC is reviewing the approach to residential placements in order to obtain better value.
- The Commissioning Team are beginning a review of the new contractual framework which, contractually, is due to be undertaken annually
- KCC's ability to influence the market is limited as the market is not reliant on KCC business and as such it is difficult to see how any material value for money savings will be made

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	NA
Medium Risk	7	7	NA
Low Risk	1	1	NA

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Schools Themed Review - Safeguarding (Final Draft)

Audit Opinion	Adequate
Prospects for Improvement	Adequate

The majority of schools sampled are operating satisfactory controls around safeguarding, demonstrating adequate training arrangements to school staff, managing allegations and holding safeguarding records securely. However, we identified areas for further improvement such as updating safeguarding policies, site safeguards and the vetting processes in place.

Currently school are not directed to undertake regular DBS checks as a policy decision though schools have daily interactions with some of the most vulnerable children in the County.

Key Strengths

- The majority of schools reviewed had Child Protection policy in place which was reflective of the revised safeguarding guidance for schools (Keeping Children Safe in Education (KCSIE) 2018).
- All schools visited had robust controls in place to manage safeguarding concerns. Records are held securely with access restricted. Some schools visited had either moved to an electronic system or were considering this.
- The schools visited had adequate procedures for managing allegations. Where an allegation been made within the last 12 months appropriate action was taken and advice sought from the LADO where necessary.
- The vast majority of schools had appropriate safeguards for online safety.
- Staff interviewed were aware of local arrangements for raising safeguarding concerns and whistleblowing procedures.
- We found that Designated Safeguarding Leads (DSL) at each school regularly disseminate safeguarding information to staff, parents and pupils.
- Safeguarding training had been completed at each school reflective of KCSIE 2018 with only small pockets of non-completion. However, where this was the case plans were already in place to rectify.

- Appropriate safeguards are in place for drop off and collection of children.

Areas for Development

- Our visits identified a number of schools where employees had commenced employment before a DBS check had been completed.
- Schools are currently not directed to undertake renewals of DBS checks. Only 15% of schools visited had a process for rechecks in place.
- 20% of schools visited had not undertaken adequate vetting checks.
- We found each DSL had the responsibilities included within their job description however the vast majority had not made explicit their responsibilities in relation to online safety.
- We found that 25% of the schools visited did not have adequate safeguards in place to prevent unauthorised access.
- Though each school had a Child Protection Policy in place reflective of KCSIE 2018 we found that a number of schools associated safeguarding policies required ratification and had not been reviewed timely.

Prospects for Improvement

- TBC
- TBC

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	TBC	TBC
Medium Risk	2	TBC	TBC
Low Risk	1	TBC	TBC

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Children, Young People & Education Directorate Governance (Final Draft)

Audit Opinion	Adequate
Prospects for Improvement	Good

Evidence shows there has been considerable progress in reconfiguring the governance of the CYPE Directorate. Officers interviewed were positive about the leadership, culture and strategy of the Directorate. There was a clear emphasis on stakeholder engagement and partnership working and this extended to senior managers, front line staff and external agencies. At the time of fieldwork, the Directorate was undergoing significant change and inevitably there were some structural issues associated with the transition to the new operating model. It is evident there is a clear and sustained focus on achieving the best outcomes for children.

A significant challenge for the Directorate was delivery of the financial savings built into the Council's medium-term financial plan prior to the current Corporate Director coming into post. At time of fieldwork we found a number of material gaps in delivering this priority including an inability of senior managers to detail how the savings programme would be realised. However, this amount was seen as unrealistic through integration alone and subsequently a plan to achieve the savings has been agreed. The decision to integrate SCS and EH was made and then reported to full Council early in 2018 and pilots were undertaken with analysis of benefits realised however there is no detailed, formal business case underpinning the whole Change for Kent Children programme. At the time of our audit there was a funding pressure of £6.8 million including material overspends in areas such as Special Educational Needs and £2 million originally identified from staffing budgets as part of the integration programme.

Key Strengths

- Feedback indicated a positive cultural change over the last few months Functions.
- Senior managers are using the management information effectively and feel they have what they need, with performance information provided at worker level in many cases.

Key strengths (cont)

- There is a more strategic approach to the management of the Directorate resulting in a recognition that the previous 96-page vision and priorities document was unworkable and needed streamlining.
- The mission statement for the Directorate evolved through active engagement with staff at roadshow events hosted by the new Corporate Director.
- Assistant Directors across the Directorate demonstrated engagement in the Change for Kent Children.
- Integration of Early Help and Specialist Children's Services have been tested through four pilots and nine completed workstreams.
- There has been good communication about the integration works through multiple channels.
- The current Cabinet Member has detailed knowledge of the work of the Directorate and is actively engaged in pursuing successful delivery of services.
- There is a strong independent chair of the safeguarding board, with reporting lines to support independence including presentation of the Annual Report to Full Council.
- Independent safeguarding governance will be further strengthened with the introduction of the Children's Assurance Board comprising of Members and Officers.
- Our concurrent review of the Safeguarding Quality Assurance Framework concluded that there is a culture of continuous improvement and that good work is being undertaken to identify potential issues
- A wealth of management information is available to support service delivery produced by well-respected Management Information
- There are Performance, Outcome and Challenge meetings in place and work is under way, with the input of internal audit, to review the Quality Assurance Framework.
- There is a strong relationship between Integrated Children's Services (ICS) and Strategic Commissioning, with their roles clearly understood in the management of commissioned services.
- The positive relationship that exists with strategic commissioning has allowed ICS to engage with providers and the market more effectively.

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

- Extended DMT is embedded and working well as a team; officers agreed that this added value and enabled better collaboration

Children, Young People & Education Directorate Governance

Page 2

Key strengths (cont)

- CYPE are genuinely trying to develop and work in effective partnerships with other stakeholders. This was evidenced through positive feedback we received from external stakeholders.
- Where contracts are poorly performing there is evidence that these are being robustly managed. There is also awareness and participation on corporate contract review groups.
- Generally budget pressures are understood, and good working relationships exist with finance colleagues

Areas for Development

- Key to delivering the £4.5 m financial savings is the integration of Early Help and Specialist Children's Services. Although this has been successfully tested in pilots and workstreams and analysis has been undertaken, there is no substantive business case confirming that the benefits and planned outcomes including savings can be replicated across the county.
- At the time of fieldwork there was a lack of clarity from senior managers about how much of the £4.5m savings will be achieved. Since this time the directorate are on course to achieve savings of £1.6m through re-structuring and plans are being developed to achieve the remaining savings.
- We noted that formal financial information is not shared at DMT level and a case study of SEN showed that insufficient early action was taken when budget overspends occurred.
- There are teething troubles linked to the creation of two geographically-based divisions, as a result some of the messaging has been inconsistent
- There currently no terms of reference governing the CYPE Cabinet Committee, and a separate assurance group has been set up *Issue 3*
- Risk registers are not used to manage risks but are used to record risks centrally. Risk registers are updated through individual discussions with corporate colleagues. As a result, risks are not discussed as a collective

Areas for Development (cont)

- Strategic Commissioning is not embedded across the directorate. Education, Planning and Access conduct their own procurement and contract management.
- There was also some fragmentation of approach between Disabled Children (who sit in Adult Social Care) and CYPE.

Prospects for Improvement

Our overall opinion for Prospects for Improvement is based on the following factors:

- Scrutiny by the Cabinet Committee will be supplemented by an Assurance Board comprising of both Members and officers.
- The strategy is currently being reviewed so that it focuses on key objectives.
- The ICS Quality Assurance Framework is also being reviewed in furtherance of the objective to move towards outstanding. Internal Audit are currently providing consultancy work on the design of this framework. This does not include Education Planning and Access.
- We understand there have recently been two visits from Ofsted and the outcomes of these are awaited.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	TBC	
Medium Risk	5	TBC	
Low Risk	0	TBC	

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

management team. The impact of some risks may therefore not be understood and actioned timely.

- Performance functions are not currently integrated.

Developer Contributions – S106 Planning Obligations

Audit Opinion	Adequate
Prospects for Improvement	Adequate

Several teams across the Council analyse planning applications to identify site specific s106 planning obligations. Under the current regulatory regime, a maximum of five s106 planning obligations can be used to fund a specific infrastructure project, for example a school. To get around the restriction, some infrastructure developments are phased, with each phase treated as a separate project. To maximise funding, the limit means that developer contributions to fund school projects tend to come from larger developments. The Single Monitoring System (SMS) is now operational and is used to track individual s106 planning obligations, including the Council's obligation to repay unspent funds. There are, however, few controls that ensure that all obligations are uploaded and that the input data is accurate.

Key Strengths

- The SMS is operational and facilitates tracking of planning applications and agreed s106 planning obligations.
- The Economic Development Team cross checks its own reviews of each District Council's weekly list of new planning applications.
- Economic Development reviews planning applications on behalf of several teams across the Council.
- The Education Planning and Access Team and the Highways Team both forecast future need based on each district council's Local Plans.
- The close, locally-focused engagement between Principal Planners in Highways and their counterparts in District Councils promotes identification of highway related infrastructure needs linked to developments.
- There is a comprehensive user manual that describes the procedures for storing, administering and tracking s106 planning obligations.
- The unique planning application number is consistently used to identify the potential and actual s106 planning obligations linked to the application.

Areas for Development

- Not all administrators of the SMS have received appropriate training.
- There are inadequate procedures to reduce the risk of omissions and errors in the records of s106 planning obligations in SMS.
- There has not yet been a formal review of SMS.
- Tariff-based requests for s106 planning obligations (used for libraries, social care, youth services and community learning & skills) that are not clearly linked to infrastructure needed to mitigate the impact of additional demand may be turned down by Local Planning Authorities.
- For larger infrastructure developments funded through s106 developer contributions, the Council divides such infrastructure into phases and seeks five planning obligations for each phase. There is no documented risk-based policy supporting this practice.
- Using the "expiry date" facility to track automatically the status of individual payment triggers for s106 planning obligations.
- There are no procedures for tracking and reporting the receipt and expenditure of s106 contributions.

Prospects for Improvement

- Proposals to use the SMS to track and monitor payment triggers, allocate planning obligations, record payments received and expended, and monitor repayment obligations.
- A Single Communications Channel to establish a single, clear and specific response to District Councils and Developers about the Council's total infrastructure need.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	2	2	0
Medium Risk	4	3	1

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued

January – March 2019

- In SMS, there is the facility to store documents relevant to the Council's request for developer contributions.

Low Risk	5	3	2
----------	---	---	---

Developer Contributions – Community Infrastructure Levy

Audit Opinion	Limited
Prospects for Improvement	Adequate

There is uncertainty and concerns regarding the sufficiency of funding which will be made available through Community Infrastructure Levy (CIL) and a lack of agreed principles governing the collaboration between the CIL Charging Authorities and KCC. The Council does not yet have any guidance, policies or procedures for managing its engagement with CIL Charging Authorities. There is currently no structured way for the Council to record and apply the lessons from its engagements with CIL Charging Authorities. Even though KCC feels largely disempowered in the CIL process, it should use the collected lessons to make its relationships with CIL Charging Authorities as effective as possible. Currently, there is a notable risk that the Council will not secure the level of funding through CIL receipts that it needs to meet the cost of infrastructure that is necessary for the Council to meet its statutory duties e.g. provision of school places.

Key Strengths

- The Council has obtained legal advice about its influence in the setting of CIL charges and the list of infrastructure projects funded by the charge.
- The Council actively exercised its right to participate in the consultation process when Maidstone Borough Council (MBC) adopted CIL.

Areas for Development

- The Council does not have any formal guidance, policies or procedures for managing its engagements with CIL Charging Authorities with the objective of securing CIL funding for priority infrastructure.
- There is no mutually agreed memorandum of understanding (MoU) between the Council and any of the CIL Charging Authorities setting out the principles necessary to support effective engagements in CIL related matters.
- The Council has not established a forum for capturing lessons associated with CIL and for feeding them back to teams.
- We noted that some of the services which have a lower level requirement for CIL funding (such as Libraries, Youth Services and Community Learning & Skills) are not consulted when the Council is planning and evidencing infrastructure future needs to be funded under the CIL charge.

Prospects for Improvement

- There is scope through the Single Communications Channel project to establish a single, clear and specific response to CIL Charging Authorities about the Council's total infrastructure need to offset the increased demand linked to developments.
- KCC has joined the Kent CIL Officer group email, which was recently established by Maidstone Borough Council as a forum to discuss CIL related issues.
- The underlying risk of disengagement by the CIL Charging Authorities remains a core issue

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

- The Strategic Planning and Policy Team has the knowledge and expertise to work effectively in representing the Council's interests in the CIL charging processes.
- The Strategic Planning and Policy Team has district liaison meetings with representatives from three of the four CIL Charging Authorities to discuss Local Plans and major site applications.
- Regarding the fourth CIL Charging Authority, Dartford Borough Council, KCC has a representative on the Leader's Advisory Board, which monitors CIL income and funded infrastructure.
- There is understanding of the potential for funding gaps under CIL.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	0	0	0

K2 Property Management System – Follow up

Audit Opinion	Adequate
Prospects for Improvement	Good

Our audit testing identified there are now up to date policies and procedures within Infrastructure Commissioning as well as Gen2. Accurate central records are now being developed for all assets, including tenant information for KCC owned properties. A data cleanse exercise has been completed whereby each record under the corporate landlord portfolio has been scrutinised for accuracy.

We found that significant steps have been made towards establishing robust reliable data and queries / errors from the data cleanse exercise completed by Gen2 have been reported and are being actively investigated.

The plans to bring together properties previously held within other Directorates rather than the corporate landlord are being progressed and is the next phase for the development programme and data cleanse. This is currently on schedule.

At the time of our follow up audit material legacy elements of the previous systems remain and the rectification plans are still 'works in progress'. Nevertheless, we consider management is doing the right things in the right way at the right time to rectify these shortfalls. From our review and associated

- From our testing of 30 assets we found rent and service charges invoices are accurate.
- Regular monthly meetings are held between Infrastructure Commissioning and GEN2 and the oversight of GEN2 in relation to property income now appears robust.
- A new system is in place for rent and lease reviews which triggers such reviews and renewals 18 months in advance.

Areas for Development

- Legacy issues from previously defective systems remain - particularly in anomalies highlighted through the K2 data cleanse process which need to be resolved.
- Inaccuracies still exist in relation to properties held within other Directorates rather than the corporate landlord. These properties are not currently managed by Infrastructure who are gathering information and undertaking work to ensure that the information held on these properties is accurate and complete.

Prospects for Improvement

- Management have fully supported the previous issues that have been raised and have implemented actions to rectify these.
- Appropriate resources have been utilised to improve the processes and controls around property income management.

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued

January – March 2019

testing, it is evident that significant work is being carried out to address the issues. A positive is that those areas we have subjected to testing have resulted in positive outcomes

Key Strengths

- There are now up to date policies and procedures within Infrastructure Commissioning and GEN2.
- Accurate central records are now being developed for all assets including tenant information re. KCC owned properties. A data cleanse exercise has been completed on the K2 system.

Our testing of 30 assets from the Corporate Landlord portfolio found no material issues, with relevant statements and lease agreements in place.

- Plans are in place to data cleanse the school estate and properties currently sitting within the Directorates – this is clearly still a significant challenge.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	1	1	0
Low Risk	0	0	0

Treasury Management

Audit Opinion	High
Prospects for Improvement	Good

There is a clear strategy and a strong framework of risk management and control. As a result, we found the Treasury Management activity to be well managed and controlled. Investments and borrowings had been made in line with the strategy and the Council is performing well when benchmarked with other local authorities. We have raised one minor issue to further enhance the overarching governance arrangements.

Key Strengths

- There are appropriate governance and reporting arrangements in place to enable oversight and scrutiny of treasury management activities.
- There is a comprehensive Treasury Management Strategy with sufficient detail to provide a structure for borrowing and investment activity. It conforms to CIPFA and MHCLG guidance. Objectives are clearly set out and the strategy had been appropriately approved.
- Staff are qualified for the roles that they undertake and there are suitable arrangements in place to maintain and update skills.
- Information presented in committee reports is aligned to the source data.
- Key risks have been identified and are understood, with appropriate responses in place.

- Investment returns are monitored and reported, including benchmarking with other authorities. Benchmarking data shows that the Council is performing well in terms of return on investment.
- Reconciliations between Treasury Live and Oracle had taken place monthly and had been completed by the end of the following month.
- Cash flow forecasts are maintained and regularly reviewed.
- Appropriate Prudential Indicators had been set. and these are regularly monitored. Review of the indicators highlighted that as at the end of November 2018, performance was within the measures set for 2018/19.

Areas for Development

- The respective roles of Cabinet and the Treasury Management Advisory Group are not completely clear as their remit as set out in Financial Regulations does not fully align to their functions in practice.

Prospects for Improvement

- Comments made during the course of the audit have been accepted by management
- There is a culture within the team of commitment to performing well
- Previous audits of Treasury Management have received consistently substantial or high assurance
- The current systems, whilst robust, are heavily paper-based. It is likely that efficiencies and opportunities for staff to work more flexibly could be found if processes became more electronic.

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

- There is segregation of duties within the Treasury Management team and between the Treasury Management team and wider Finance with many key controls enforced by the systems.
- System access is appropriately restricted and controlled (although please see comment below regarding Treasury Live).
- Policies and procedures are largely compliant with the CIPFA Code.
- All investments reviewed had been appropriately approved and were in line with the Council's Treasury Management Strategy. CHAPs payments had also been appropriately authorised.
- Interest costs are regularly monitored and are reported to Cabinet as part of the budget monitoring process.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	NA	NA
Medium Risk	0	NA	NA
Low Risk	1	1	0

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Cloud Navigation Phase II – Modern Workplace

Audit Opinion	Adequate
Prospects for Improvement	Good

The majority of Phase One work streams have been completed and Phase Two work has begun. The contract with Microsoft runs until March 2019 and although the bulk of the work will have been completed by this time, a one month contract extension is in the process of being agreed, at an additional cost. Whilst an overrun on a programme of this size is not uncommon, the departure of a third Programme Manager during the course of the work increases the risk of disruption. As a positive, the last Programme Manager implemented a number of governance procedures to ensure awareness and oversight of the technical aspects of the Programme as it progresses.

As previously identified by Internal Audit, there remains an issue regarding the transparency of the financial management of the Programme. Our first audit of the Programme governance in early 2017 identified a lack of budgets for resources, with further issues noted in early 2018 where approval and monitoring of costs were vague - specifically there was a lack of transparency relating to payments made to BSC (now Cantium).

We found that the completion dates for some individual work streams (OneDrive Office 365 Onboarding assistance) have been delayed. The impact of these delays on the Programme have not been assessed, nor has a dependency assessment been performed.

Key Strengths

- The data migration procedures at KCC are well documented and tracked. All relevant stakeholders are informed on a timely basis regarding system downtime and their approval is sought to not have an impact on day-to-day business of the council.

Training manuals are being designed by KCC and Cantium Solutions for Phase 2 work streams. These will be delivered to the employees as soon as the work streams are complete and ready to use.

Areas for Development

- There is a lack of transparency regarding the financial management of the Programme with KCC unable to evidence formal budget approvals and ongoing monitoring regarding the overall costs relating to the Programme.
- There has been movement of work streams between Phases without a dependency assessment being completed and payment for work streams have been made without the work being fully completed.
- A number of key project governance principles and practices had not been undertaken during the course of the programme to date.

Prospects for Improvement

- The Programme is nearing completion and is due to finish by end of April 2019 against the original timeline of March 2019.
- The Programme is on its fourth programme manager, which brings challenges in consistency of approach and oversight.
- Despite the issues identified with the transparency of financial management, we believe the resources allocated to the programme are appropriate.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	3	3	0
Low Risk	0	0	0

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Data Protection incl. GDPR

Audit Opinion	Adequate
Prospects for Improvement	Good

There has been good progression in embedding the changes required by GDPR within the organisation, given the resources available and size of the Council. However, it has not reached 'business as usual' yet – there is a project plan in place outlining the work that still needs to be completed.

Key Strengths

- Work continues on the review of Records of Processing Activity (ROPA) to ensure that all services have completed them, and relevant privacy notices are in place. The next step will be to record where there are information sharing agreements in place against the ROPA.
- Awareness of what a data breach is and how to report them has been improved through additional training of Members and officers across the organisation.
- Where Data Protection Impact Assessments (DPIA) are produced these are robustly assessed within the Office of General Council. However, coverage of DPIA's is only partial due to mixed levels of understanding over the need for such screening.

Areas for Development

- The reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved. This is to ensure sufficient information is captured to understand the risk to the data subject, the investigation and closure of data breaches is done in a timely manner and that all actions/controls implemented to prevent further breaches are captured
- Accurate records need to be held of data sharing and where an Information Sharing Agreement is required
The reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved to better understand the risk to the data subject, the investigation and closure of data breaches is done in a timely manner and the action taken to prevent further breaches.

Areas for Development (cont)

- Sign-posting within project management and commissioning guidance needs updating to reflect the need to complete a DPIA screening tool.
- The exercise to ensure contracts are varied to take into account the changes of GDPR is still to be completed, there is also a need to establish how the Council will audit and inspect data processors compliance to GDPR.
- A number of low risk issues were also identified to enhance public facing and internal guidance, procedures and record

Prospects for Improvement

- A cross directorate working group is in place to move the GDPR project forward and this reports to a new strategic GDPR group.
- The Office of General Council has expert officers who can advise KCC on data protection implications and impacts.
- Five of the seven issues raised in our 2017/18 GDPR audit have been addressed and action plans are in place for the remaining issues.
- Issues raised have been accepted and management action plans developed.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	6	6	0

Summary of Issues from previous audit (Ref CA18-2018)

	Number of issues raised	Implemented and issues closed	Further actions agreed
Medium Risk	7	5	2

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Data Security & Protection Toolkit Compliance Review

Audit Opinion	Substantial
Prospects for Improvement	Adequate

Overall, from our audit we have determined that there is an effective submission framework and organisational control for completion of the toolkit and the associated 'assertions'. Our testing of a sample of 10 assertions (and the 48 associated sub-assertions) was generally positive, although at the time of the audit there were still a number that had insufficient and / or incorrect evidence against them.

Management was confident that these would be completed by the 31/3/2019 deadline but there is clearly a risk in having such areas open or incomplete so close to the submission date. However, on 8 March 2019 a further briefing was issued by the NHS regarding arrangements for the submission. In this first year of the DSP Toolkit Standard, relevant bodies (including Local Authorities) will be allowed to publish a DSP Toolkit if they are approaching a level of 'Standards Met' in all but a few areas. They will be required to provide an Improvement plan of how they going to meet the DSP Toolkit standards. This effectively provides an extension of up to 6months to ensure all the mandatory assertions are met.

Key Strengths

- The Council has established Corporate Information Governance Group (CIGG) and a Corporate Information Management Team, which replaced the Information Governance Steering Group. The CIGG meets on a regular basis, with the DSP Toolkit being a standing agenda item
- There is a robust toolkit submission framework, approved and authorised by the CIGG, which is supported by a detailed action plan, incorporating all the assertion required by the toolkit, assigned to appropriate departmental teams.
- The submission framework explains the agreed actions expected of named officers, functions, or services in respect of the annual submission of evidence to the NHS Digital.
-

Key Strengths (cont)

- The Council has achieved Public Services Network (PSN) Connection Compliance Accreditation, which automatically demonstrates compliance with all technical IT security assertions in the DSP Toolkit.
- The 10 assertions tested in the audit contained 48 sub-assertions. The evidence provided for 41 of the 48 sub-assertions included in our sample was found to be satisfactory and in line with the requirements of the DSP Toolkit.

Areas for Development

- There was insufficient evidence provided to support the completion of seven of the 48 sub-assertions included in our testing sample.

Prospects for Improvement

- The Council started work on completing the DSP Toolkit self-assessment return several months ago and we noted that a large number of assertions have been appropriately completed.
- Insufficient evidence for a number of Toolkit assertions at a late stage appears to be a recurrent theme, carrying on from previous audits of the IG Toolkit.
- Further work was undertaken to address the gaps identified. In this first year of the new Toolkit Standard, relevant bodies will be allowed to publish a DSP Toolkit with an Improvement plan of how they going to meet the DSP Toolkit standards.
- A meeting has been arranged with all assertion owners to ensure lessons are learned and to start planning for the March 2020 Toolkit submission.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	1	1	0
Low Risk	0	0	0

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Children's Data Quality (Liberi and EHM)

Audit Opinion	Substantial
Prospects for Improvement	Good

The audit evidenced that good data input validation controls are built into the systems and these prevent the entry of erroneous data. Rigorous processes are in place to identify, monitor and rectify any errors or incomplete data through the use of regularly produced data quality reports and dashboards. These processes allow operational teams to efficiently manage their own data ensuring that KPI's are a true reflection of practice. Clear accountability and access to regular monitoring reports demonstrates confidence in the accuracy and validity of the data which is used to support decision-making processes.

Key Strengths

- Confidence in the accuracy of the data allows for a clear decision-making process and reliance can be placed on upward management reporting of the data.
- Directorate roles and responsibilities for managing data are defined in the Council's Data Quality Policy and included in relevant staff job descriptions.
- Clear system in place to identify, monitor and escalate data quality issues, with evidence of appropriate actions taken in line with agreed SLA's.
- There is sufficient management oversight of system data quality issues.
- Training requirements are robust with good controls in place to ensure training is appropriate to the role and access to systems only granted after completing the relevant training.

- Trend analysis of users input to the systems is completed regularly identifying any further staff training requirements or amendments to the system with evidence of management oversight.
- There are a comprehensive range of procedure notes and guidance documents available to help staff accurately enter data onto the system. (See also areas for development below)

Areas for Development

- There are no checks carried out on system access rights to help identify any existing users who no longer need access following a change of role.
- Minor inconsistencies were identified in the EHM Issues Request Log and Liberi Data Quality Support Request Log.
- Procedure notes and guidance documents for users are not consistently version controlled. Some Liberi guidance documents require review.

Prospects for Improvement

- There is robust governance, data validation, training and processes in place to monitor issues through to completion.
- Issue 2 (Record Keeping) has now been resolved.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	1	1	0
Low Risk	2	2	0

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

County Council Values and Behaviours (Final Draft stage)

Audit Opinion	Adequate
Prospects for Improvement	Good

The risk of a significant ethical / governance failure is being reasonably managed. It is evident that considerable investment has been made in order to ensure the Council behaves with integrity and embraces an ethical commitment enshrined in the 3 core values. This was independently tested not only through review of; policies and procedures but through staff surveys and interview of key stakeholders.

Key Strengths

- It is apparent that the majority of councillors and officers demonstrated the need to maintain and display high standards of conduct.
- There is a strong officer cadre and Corporate Management Team with a robust but constructive relationship with Members.
- The proportion of opposition parties on Scrutiny and G&A Committee has been increased to enhance greater challenge.
- The General Counsel has a clear role as Monitoring Officer and champions ethical awareness and decision making.
- The status of the Corporate Director of Finance as statutory Section 151 officer and relevant financial reporting and internal audit arrangements are robust.
- The constitution is regularly reviewed and refreshed (most recently in July 2018 - addressing and defining the "Member led, not Member managed" culture)
- Guidance on Member / officer relationships has also been enhanced with informal governance arrangements and decision making now more formally documented,
- The Council has an integrated structure of policies and procedures that formally maintain values and behaviours. We found them fit for purpose.
- Equalities are re-enforced through the setup of a Corporate Equalities Group.
- Levels of Ombudsman's complaints are decreasing from 2017/18 and the proportion upheld (at 39%) is also reducing and is below the national average of 57%.

Key Strengths (cont)

- A clear Complaints and Compliments policy is in place and the Council has invested in a new corporate complaint recording and managing system. Approximately one in four complaints are upheld, and cases we sampled had been investigated properly.
- The corporate staff survey was generally positive with three of the four topic areas centred around values and behaviours receiving positive scores of 70-80%.
- Annual declarations are requested from staff and Members are required to publicly declare interests and gifts and hospitality in line with legislation. Authenticity of declarations is periodically tested through national and local counter fraud data matching initiatives.
- Breaches of the code of conduct are low – of 48 reported staff breaches, 26 resulted in sanctions. The cases we sampled were skewed towards incidents around inappropriate data or information sharing.

Areas for Development

- A considerable proportion of stakeholders could not identify or did not recognise the Council's declared values. This included Members we interviewed who were generally not aware of the Council's values or specific code of conduct
- There is very little formal preparation or induction for Members who are promoted to Cabinet level
- Unlike the officer's code of conduct, the Members code does not require Members to abide to KCC's values and there is no reference to equalities
- Induction, development and training programmes for Members, which includes links to ethics and standards, are not compulsory. Take up on induction and training for Members is currently 60%
- Several key Members and officers felt that the added value of Scrutiny is limited. This was evidenced by there being no examples of Cabinet requested to re-consider a decision
- The staff survey questions relating to leadership and management of change received a lower positive recognition rating of 48% with a further 29% of staff remaining "neutral" on the topic overall. As part of this set of questions, nearly 40% of respondents gave neither a positive or negative response to the question about Members setting a clear vision for the future of KCC,

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

County Council Values and Behaviours

Page 2

Areas for Development (cont)

- A concern from a significant minority of Members and officers interviewed was the setup of LATCO's and the perceived lack of transparency of their governance despite the potential financial and reputational impact on the County Council. In 2017/18 the Council / Head of Paid Service received no formal assurance or feedback from the Shareholder Board in relation to the annual governance statement and similarly only one of the three LATCO's provided an end year assurance statement to the Shareholder Board
- There are limited actions taken to ensure that contractors perform duties and activities on conformance with the Council's values
- Despite good awareness levels, actual whistleblowing incidents are very low and at the middle manager focus group (T200) over a third said they doubted that whistleblowing incidents would be dealt with seriously and confidentially
- Differences in responses to the staff survey and focus groups organised for the audit around challenging inappropriate behaviour in the workplace may point to different cultures existing across divisions or teams
- Equality Impact Assessments (EQIA's) were completed for all key decisions reviewed, however consistency and quality are variable with a view corporately that EQIA's are not always completed in relation to decisions made through informal governance processes
- Compared to induction controls for officers, there is little resource devoted to 'exit' interviews and understanding why staff leave the Council

Prospects for Improvement

Our overall opinion for Prospects for Improvement is based on the following factors:

- Top level management fears the biggest risk to maintaining and monitoring checks and balances relating to values and behaviours across the Council is a reduction in staff capacity
- The Council has undertaken a pro-active review on the outcomes of the Northamptonshire CC inspectors report and has concluded that with one or two exceptions KCC compares favourably
- The Council is self-aware of the inherent risks
- The robustness of the Governance and Audit committee is being enhanced through several good practice measures, including the creation of an independent Member
- There is continual refreshment of the constitution in line with underlying risks
- Top level management are keen to promote feedback and challenge through forums such as the T200 grouping
- Top level management was open with staff over the results of the 2018 survey and gave prompt feedback

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk Accepted and No Action Proposed
High Risk	1	TBC	TBC
Medium Risk	10	TBC	TBC
Low Risk	0		

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Property Statutory Compliance

Audit Opinion	Limited
Prospects for Improvement	Good

Overall, we found that the systems and controls to ensure statutory compliance on properties were insufficiently robust and are continuing to be developed. There are a number of key risks present, in particular a key deficiency from our testing was the inability of Gen2 to identify which properties are not covered by the TFM contracts. As such it would appear KCC's managing agent Gen2 is not actively tracking the compliance status of non-TFM properties and whether the council's responsibilities and liabilities are being met.

Key Strengths

- KCC Infrastructure have a 'hands on' approach to monitoring compliance via regular dip testing, logging issues with Gen2 on the issues log, raising issues at the Operations meetings and attendance at H&S boards and other strategic forums where compliance issues are raised.
- There are regular meetings between KCC and Gen2 where performance is monitored. This is mirrored by performance reviews between Gen2 and TFM contractors.
- System improvements have been implemented in Gen2 to track statutory compliance work and any remedial action required.
- Policies and procedures have been produced and are available on KNET.
- Comprehensive contract documents are in place between KCC and with TFM contractors detailing the requirement for the performance of the property management function

Areas for Development

- Work needs to be done to establish a shared, accurate log of properties not covered by the 3 TFM contracts (non TFM properties) and their compliance status.
- Resultant works arising from compliance certification checks and tests are not adequately monitored by Gen2 and there are delays in resolving these.

Areas for Development (cont)

- Where KCC has let a property, we found that many tenants do not provide confirmation to KCC that statutory compliance checks have taken place.
- One policy was not version controlled and therefore may not be up to date. This policy falls under Health & Safety, not Infrastructure.
- Supporting procedural notes for statutory compliance are being drawn up by Gen2. However, these are not yet complete.

Prospects for Improvement

- KCC Property Commissioning are aware of the compliance issues and are actively seeking resolution.
- Ad hoc systems developments are taking place to improve the data management of property statutory compliance, particularly concerned with resultant works.
- A project is in progress to bring non-Corporate landlord properties into Corporate Landlord and the TFM contract if relevant.
- Management and staff were receptive to the issues raised and have developed appropriate action plans.
- Minor areas for improvement to procedures were addressed during the audit as they were identified.
- The Property Commissioning team has been strengthened and additional support resources are being added to focus on Facilities Management.
- A review of FM provision has started as part of the wider review of the Gen2 agreement with KCC.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	2	2	0
Medium Risk	1	1	0
Low Risk	2	2	0

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

Adults LD Respite Services Themed Review

Audit Opinion	Substantial
Prospects for Improvement	Good

We can therefore provide Substantial assurance that both financial and non-financial controls are operating effectively.

Across the three Centres that were audited, 28 recommendations were raised:

- High priority 1 (4%)
- Medium priority 15 (53%)
- Low priority 12 (43%)

The high priority recommendation relates to staff training while the majority of medium priority relate to maintaining complete and accurate asset registers, health and safety controls and procurement of goods. There were also concerns over take up / utilisation of two of the centres we reviewed.

Overall this mirrors many of the findings from other establishment audits we have undertaken over the past few years.

Key Strengths

- Building Security at all establishments is well managed to safeguard users.
- Expenditure approval was in line with KCC's scheme of delegation.
- Fire tests and drills are occurring on a frequent basis with any actions identified through drills recorded and acted upon.
- Accident reporting is well recorded, with actions being identified and implemented to prevent accidents recurring.
- DBS checks for staff are up to date.
- Personnel, financial and client files are stored securely and all storage cupboards and filing cabinets are locked when not in use.
- All complaints reviewed had been resolved appropriately and promptly.
- Each centre was clutter free and visibly clean.
- There is clear evidence that expenditure is for the benefit of service users.

Areas for Development

- Review of the utilisation of the Respite Services found that there is a common issue surrounding the take up of the service, with only one of the four Centres (Southfields) achieving consistently high occupancy.
- Two of the Centres consistently overspend their budgets, although these overspends are being reduced each year.
- A theme surrounding health and safety was identified particularly around the need for prompt health and safety inspections.
- There were instances where training records were not maintained, and we found gaps in some mandatory and essential training.
- Maintaining complete and accurate asset registers.
- Two of the three Centres required more comprehensive recording within fuel records to mitigate against the risk of fraudulent fuel transactions.
- Two of the three Centres visited had procured non-contracted goods valued at between £1k and £50k, and therefore Indirect Procurement should have been consulted.

Prospects for Improvement

- Managers at the establishments visited have responded positively to the issues raised in their individual audit reports and have either implemented actions immediately or developed appropriate action plans to address them.
- Similar issues re-occur within our establishment audits each year which does not reflect well on wider organisational learning.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	2	2	0
Low Risk	0	0	0

Annex 2 – Internal Audit Judgement Definitions



High

Internal control, Governance and the management of risk are at a high standard. The arrangements to secure governance, risk management and internal controls are extremely well designed and applied effectively.

Processes are robust and well-established. There is a sound system of control operating effectively and consistently applied to achieve service/system objectives.

There are examples of best practice. No significant weaknesses have been identified.



Substantial

Internal Control, Governance and management of risk are sound overall. The arrangements to secure governance, risk management and internal controls are largely suitably designed and applied effectively.

Whilst there is a largely sound system of controls there are few matters requiring attention. These do not have a significant impact on residual risk exposure but need to be addressed within a reasonable timescale.



Adequate

Internal control, Governance and management of risk is adequate overall however, there were areas of concern identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

There are some significant matters that require management attention with moderate impact on residual risk exposure until resolved.



Limited

Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied.

Certain weaknesses require immediate management attention as there is a high risk that objectives are not achieved.



No Assurance

Internal Control, Governance and management of risk is poor. For many risk areas there are significant gaps in the procedures and controls. Due to the absence of effective controls and procedures no reliance can be placed on their operation.

Immediate action is required to address the whole control framework before serious issues are realised in this area with high impact on residual risk exposure until resolved.

Annex 2 – Internal Audit Judgement Definitions

Prospects for Improvement

Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

