



**Internal Audit Annual Report
2009/10
Audit Assurance: Substantial**



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1. Introduction

Purpose of this report

- 1.1. Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the Council's control environment. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom requires the "Head of Internal Audit" (hereafter referred to as the Head of Audit and Risk) to provide a written report to those charged with governance, timed to support the Annual Governance Statement. This report presents my opinion based upon the work of Internal Audit has performed and covers the period 1st April 2009 to 31st March 2010.
- 1.2. The scope of our work, management and audit's responsibilities and the basis of my assessment are set out in section 5.
- 1.3. This report builds on the matters reported throughout the year to the Governance and Audit Committee which have been subject to detailed reports to the Chief Executive, Cabinet Members, Managing and Executive directors and their senior management teams.

Overview of work done

- 1.4. The original Internal Audit Plan (the Plan) for 2009/10 included a total of 69 projects. We have communicated closely with senior management throughout the year, to ensure that the projects actually undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.
- 1.5. As a result of this liaison, some changes were agreed to the Plan during the year. Some projects have been added to or deleted from the Plan, including some carried forward from the previous year, the timing of a number of others has been changed and some of our planned audit work has been substituted for advisory work. Details of the changes to the audit plan were reported to the Governance and Audit Committee in December 2009 and April 2010. The total number of projects undertaken in 2009/10 was 61, excluding the advisory work. At the time of preparing this report (May), most substantive work had been completed, and the reporting position was as follows:
 - 40 – final report/assurance work completed
 - 21 – draft reports issued or in the process of being finalised.
- 1.6. Internal Audit also undertook 12 investigations relating to potential fraud by staff or third parties, none of which were significant to the control and risk framework for the Council.

Objectives of Internal Assurance Projects

- 1.7. The majority of projects we undertake are designed to provide assurance to management on the operation of the Council's internal control environment. Most projects include our recommendations and agreed actions with management that will, if implemented, further enhance the environment and the operation of the controls in practice.

- 1.8. Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.
- 1.9. Our work plan is derived from management's assessment and evaluation of risks as documented in the corporate and directorate risk registers. We prepared an internal audit plan based on the risk profile taking into account; discussions with the Chief Executive, Directorate Managing Directors and Resource Directors, Governance and Audit Committee Chair and Members and the External Auditors (Audit Commission).

2. Summary Assessment

Overall Assessment

- 2.1. The Head of Audit and Risk is required to provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council's:
 - Risk management
 - Internal Control
 - Governance processes.
- 2.2. This is collectively referred to as "the system of internal control".
- 2.3. Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, **substantial** assurance can be provided on the adequacy of the overall governance and risk management processes and the internal controls at KCC.
- 2.4. The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. We also noted that management accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in our Internal Audit reports. All these points are indicative of an improving system of internal control.
- 2.5. However, the Council still has some areas that if addressed, will further strengthen the system of internal control. We have summarised these, along with key areas of strength, for each of the three categories of the Council's 'system of internal control' at section 3 below.

Implications for the Annual Governance Statement

- 2.6. In making its Annual Governance Statement the Council should consider the Head of Audit & Risk's opinion in relation to its internal control environment, risk management processes and corporate governance. For 2009/2010, although there are improvements to be made these do not constitute a systematic failure of internal control.

The review of the effectiveness of the system of internal audit

- 2.7. The Council is required by regulation 6 of the Accounts and Audit Regulations 2003 (amended in 2006) to undertake an annual review of the effectiveness of its system of internal audit and to report the findings of this review to the audit committee. To clarify the term "system of internal audit", the Technical Audit Panel of the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance¹ which defines it as:

"The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation."

¹ Jan 2009

- 2.8. This guidance regards the Head of Audit and Risk as central to this framework of assurance and requires the role to acquire an understanding of both the council's risks and its overall whole control environment and also of the sources of assurance available to it.
- 2.9. As part of the development for the risk based plan for 2009/10 consideration was given to the assurance provided to the Council by external bodies, including the Audit Commission, Ofsted, the Commission for Social Care Inspection (now the Care Quality Commission) and internal assurances such as the Health and Safety Programme, the Schools Compliance and Statutory teams, the Business Continuity Programme and other commissioned work. As assurances were identified in year, the audit programme was amended.
- 2.10. The Audit Commission's Comprehensive Area Assessment for 2009 notes that this is a Council that is performing excellently. As part of their use of resources assessments, the Audit Commission considers the arrangements in place to enable the preparation of the Annual Governance Statement, including the degree to which the Council recognises the corporate ownership of its governance arrangements. Overall the Council was assessed as "exceeding the minimum requirements – performs well".
- 2.11. The Comprehensive Area Assessment included assessments from the Care Quality Commission and Ofsted. The Care Quality Commission rated the Council's social care services as performing well; the Council looks after vulnerable people well, including home safety checks. An Independence, Wellbeing and Choice service inspection was carried out during the year. Among a range of findings was excellent work done by the Council to promote the independence of older people through preventative services.
- 2.12. Ofsted has rated the children's services as performing well. The commentary from Ofsted found a number of strengths as well as areas for improvement. Performance against a very large majority of the national indicators for children's services, including those for staying safe and enjoying and achieving, was in line with similar areas.

3. Summary of internal audit work undertaken

Governance

- 3.1. In 2004, KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA Good Governance Standard (2004). A review of corporate governance was undertaken in 2005 which resulted in a “basket” of indicators being established and monitored to highlight any unusual trends in corporate governance performance. The performance indicators proposed by the 2005 review are annually reviewed and amended every year after discussion with the Governance and Audit Committee.
- 3.2. From 2007, Internal Audit’s governance reviews have focused on assessing whether the Council meets the requirement of the CIPFA/SOLACE guidance. An audit conducted in 2008 looked at an overview of the six principles of corporate governance and gave *high* assurance that the controls were in place. The corporate governance audit in 2008/09 focussed on the function of the Policy Overview and Cabinet Scrutiny Committees, the role of the Monitoring Officer and directorate action plans to introduce improvements identified in their individual annual governance statements.
- 3.3. The corporate governance audit for 2009/10 has focussed on the sixth principle of the CIPFA/SOLACE framework and assessed whether the Council meets the requirement of ‘engaging with local people and other stakeholders to ensure public accountability’. This is particularly relevant given the statutory “duty to involve” placed on public bodies from April 2009. We were able to give *high* assurance that KCC meets the requirement.
- 3.4. Recognising the importance to service delivery of partnerships, the Audit Plan also included a review on the Governance of Individual Partnerships. As well as looking at the corporate framework in place, this work reviewed two specific partnerships;-
 - Kent Safeguarding Children Board – Children, Families and Education’ and,
 - Kent and Medway Safety Camera Partnership – Kent Highways Services
 The assurance opinion of this audit was *substantial*.

Risk Management

- 3.5. Extensive work was completed in reviewing the Council’s Risk Management Framework in 2008/09. This included:
 - interviews with a range of Managing Directors, Directors and Heads of Service Areas, and;
 - reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

- 3.6. This work, combined with other external assessments, provided assurance that risk is generally well managed throughout the Council. During 2009/10 Risk Management has continued to evolve and improve. The Risk Group, formed in 2008/09, continues to meet and is now supplemented by a Strategic risk Forum that compiles the first draft of each iteration of the Strategic Risk Register on behalf of the Chief Officers Group.
- 3.7. Changes to the Strategic Risk Register are now reported quarterly to Cabinet as part of Core monitoring, and a full update of the register is considered by Chief Officers Group, Cabinet and the Governance and Audit Committee every six months.
- 3.8. Given that there have been no fundamental changes to the overarching framework for Risk Management, and that previous assurances remain valid, work in 2009/10 was focused on the corporate framework for Health and Safety, and important element of the management of risk.
- 3.9. Generally we found the structures and processes are sound and appropriate for the size of the Council, although the resources within Directorates may vary in size and structure. We confirmed that there are effective processes in place to ensure that the Health & Safety corporate policy, decisions, best practice guidance and legislation is communicated and applied across the directorates. Monitoring and reporting is also effective.

Internal Controls

- 3.10. Overall, our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, although there were some exceptions noted from our reviews during the year. Set out below are findings from our audits where actions were required to secure improvements to the control environment:
 - **Business Continuity Planning (BCP) and Disaster Recovery** has been the subject of audits in previous years and was raised in the 2006/07 Statement of Internal control and the 2008/09 Annual Governance Statement. It is acknowledged that the Emergency Planning team who are responsible for the development and co ordination of the plans have made considerable progress. However, the development of full working BCPs are still a long way from finalisation and the council and directorates do not as yet have formal tested BCPs in place. Progress will be followed up by Internal Audit during 2010/11.
 - **Kent Thameside Regeneration** relies on the majority of its funding from central government agencies or other external partners. However, there was limited long term financial planning, although this reflects the nature of the funding arrangements which are agreed on an annual basis. The partnership is to arrangements to undertake an options study on the future role of the Kent Thameside Regeneration partnership, which will help to determine the future direction. Once the outcome is known, if appropriate a three year budget will be commenced. Ashford Regeneration also relies on external funding, but has no contingency arrangements in place to determine what action would need to be taken in the event of funding being withdrawn.

- **Databases and Spreadsheets** were reviewed during 2009/10 to determine the overarching corporate requirement and development standards for databases and spreadsheets. This use of bespoke databases and spreadsheets had been identified as a potential area of concern during a 'risk mapping' exercise carried out to identify ICT risk and controls in 2008/09. The audit found that there were no council wide policies, procedures or formally documented guidance for the development and maintenance of user developed databases and spreadsheets. To effectively manage such applications it is imperative that the user and council understands the type of data being processed and the purpose that data is being processed for. Because of this there are strong links between such applications and Information governance as this will need to provide the framework for management and security of data within such systems.

Investments in Icelandic Banks

- 3.11. The previous Internal Audit Annual report provided commentary on the financial exposure of the Council to the collapse of three Icelandic banks in October 2008, and subsequent improvements to the control environment. In a report to Governance and Audit Committee the following positive control improvements were reported:
- The appointment of a Treasury and Investments Manager at a senior level within Corporate Finance
 - New Treasury Management Practices and improved separation of duties
 - A revised approach to deposits, including a limit on both the amount and time of investment with any one counterparty
- 3.12. During 2009/10 a follow-up review of the Treasury Management function was completed. The original Review of Treasury Management in October 2008 made 13 recommendations. We have found that 10 recommendations have been fully implemented. In relation to the remaining 3 recommendations, we were satisfied that adequate steps have been taken to mitigate the risks highlighted and have been able to assign a high level of assurance to this report.
- 3.13. The table below provides a summary of the assurance opinions provided on our audit reviews (final and draft reports) during 2009/10.

Summary of Audit Reviews - Final and Draft Reports

Assurance	No. of Reviews
High	10 (19%)
Substantial	21 (40%)
Limited	9 (17%)
Minimal	0 (%)
Not Applicable	9 (17%)
Split assurances	4 (7%)
Assurance opinion subject to discussion	8
Total	61

3.14. Minimal and Limited assurances were given to:

- Use of Databases and spreadsheets – Limited (draft report)
- Business Continuity Planning – Limited (final report)
- Imprest accounts – High/Limited (final report)
- Income – Legal Department – Limited (final report)
- Staffcare Services – Substantial/Limited (final report)
- Special Educational Needs Transport – Limited (draft)
- Coroners’ imprest accounts – Limited (final report)
- KASS CRB checks for volunteers – High/Minimal (draft report)
- Direct Payments – Limited/ Substantial – (draft report)
- Kent Thameside Regeneration – Limited (final report)
- Ashford Regeneration – Limited (draft report)
- Review of Kent Highways Services – Limited (draft report)

3.15. Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits including those in draft and work in progress and the overall assurance rating (provisional where still in draft) for them.

Anti Fraud service

3.16. There were 12 suspected/potential irregularities were reported to Kent Audit in 2009/10 by staff or third parties. Kent Audit and/or directorate staff carried out the investigations. An analysis of the types of irregularities reported is shown below.

Type of Irregularity	Number
Cash theft/loss	3
Pension fraud	1
Client income	1
Procurement/Contractors	4
Inappropriate use of Equipment /facilities	1
Financial mismanagement	1
Planning permission	1
Total	12

- 3.17. Three cases were reported to the police and one to Trading Standards. One member of staff was dismissed, and one member of staff resigned. Of the 12 irregularities, four were unfounded concerns/allegations. Some of these irregularities are still undergoing investigation.
- 3.18. We have continued to deliver fraud awareness training during 2009/10. This has helped to highlight potential fraud risks to managers.
- 3.19. During 2009/10 Kent Audit with Risk Management and Insurance developed a joint publication entitled 'Risky Business', this replaced the previous Internal Audit publication 'Irregular Happenings'. Risky Business highlights 'scams' and provides general information about audit issues and risk management.
- 3.20. The Council takes part in the Audit Commission's bi-annual National Fraud Initiative (NFI), the purpose of which is to identify any potential frauds or errors. The Audit Commission was provided with a number of data sets which were then "matched" with other data from other public sector bodies, for example Housing benefits, payroll, pensions etc. Any "matches" were flagged in a report that was returned to Kent Audit for checking and investigation. No assumption can be made that because there are positive matches that fraudulent activity has taken place. Kent Audit also works closely with other local authorities who have matches to the Council's data sets.
- 3.21. Only one fraud was identified from the work on NFI. This related to the payment of a pension after the pensioner was deceased. Investigations identified that the pensioner's relative had falsified a life certificate and because they had a joint account with the pensioner, had continued to receive the pension. The matter was reported to the police and the person was prosecuted.

Liaison with External Audit

- 3.22. We have continued to work very closely with the External Auditors (the Audit Commission) and have developed a very good working relationship with them. A protocol was developed in 2008/09 and updated during 2009/10. The external auditors have, as appropriate, relied upon our audit work as part of their external audit of the Council.

4. Internal Audit Performance

- 4.1. The outputs of our audit work have been reported in detail to the senior management teams of individual service areas throughout the year. The key internal control improvements required are reported in section 3 above, and Appendix A sets out the summary of each audit where a limited or minimal assurance opinion has been given. Appendix B lists all internal audits completed in year with the overall assurance rating for them.
- 4.2. In fulfilling its duty to consider the performance of the Audit Service, the Governance and Audit Committee will be interested to understand the performance of Kent Audit and its compliance with expected standards

Internal audit performance

- 4.3. Members of the Governance and Audit Committee receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Internal Audit's performance against those targets are shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	99%
% of recommendations implemented	90%	95%
CPA/CAA score for Internal Control	Level 4	Level 3
Efficiency		
% of plan delivered	95%	90%
% of available time spent on direct audit work	80%	90%
% of draft reports completed within 10 days of finishing fieldwork	89%	65%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score	70%	90%

Compliance with the Code of Practice for Internal Audit

- 4.4. Each year Kent Audit carries out a self assessment using the CIPFA Code of Practice for Internal Audit. The Code is divided into 11 sections, covers the expected standards to which Internal Audit should be working and is mandatory. In addition an assessment has been completed against the more comprehensive International Standards for the Professional Practice on Internal Auditing issued by the Institute of Internal Auditors (IIA). Unlike the CIPFA standards those issued by the IIA are not mandatory. Both sets of standards are available from the Head of Audit and Risk on request.
- 4.5. The assessment, completed by the Head of Audit and Risk, confirmed compliance with the CIPFA Code of Practice in most material respects. Inevitably there were a few exceptions highlighted through the self assessment process and these are summarised as follows:
- Where internal audit staff have been consulted during system, policy or procedure development, they cannot always be precluded from reviewing and making comments during routine or future audits. There has to be a balance between meeting the auditee's requirements to field knowledgeable staff and maintaining a fresh perspective. As a safeguard, the audit opinion is always reviewed by an independent manager prior to release.
 - In order to maintain their objectivity audit staff should be rotated on areas that are subject to annual or regular audits. Due to the size of the section some staff are deployed across multiple areas and therefore do tend to be rotated, (on audits such as year end and accounts payable). In other cases, it is helpful to ensure continuity to make best use of audit and clients' time.
 - Currently where services are provided in partnership there is no formal mechanism for identifying how assurances will be sought in relation to the governance of the partnership, or for ensuring rights of access other than those described in the Audit Charter.
 - The Head of Audit and Risk has not sought to establish a dialogue with all regulatory and inspection agencies that interact with the Council. In practice, responsibility for liaison of this nature falls to the Audit Commission in their capacity as the Local Government lead regulator.
 - Although the Head of Audit and Risk has defined a standard for audit documentation and working papers there are no independent quality reviews undertaken to monitor adherence with this standard and therefore limited scope to ensure due professional care is achieved and maintained. However, manager review processes on individual assignments and reviews of audit reports by the Senior Audit Manager are designed to ensure compliance with the standard.
 - There exists no formal definition of the skills and competencies for each level of auditor. This is in part mitigated by the existence of Job Descriptions and Person Specifications for each grade.

Internal Audit Charter

- 4.6. Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter was last amended in 2007. Following the triennial review by the External Auditors and Kent Audit's self assessment, a section has been added to the Charter regarding the assessment of available resources to enable the annual plan to be completed. The Charter can be seen at Appendix C.

5. Scope, responsibility and assurance

Scope

- 5.1. In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.
- 5.2. For 2009/2010 we prepared our internal audit plan based upon a variety of key factors including:
 - Evaluation of the Council's risks using risk registers and the risk mapping exercise.
 - Review of existing key data, for example:
 - The Council's overall strategy
 - Budgetary information
 - Departmental business and performance plans
 - Audit Commission's requirements.
 - Interviews with senior management across the Council.

Responsibilities of management and of internal auditors

- 5.3. It is management's responsibility to maintain systems of risk management, internal control and governance. Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Auditors cannot be held responsible for internal control failures.
- 5.4. Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, Internal Audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 5.5. Internal Audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review. We have met with each of the Managing/Executive Directors and their team, seeking specific feedback on the adequacy of the Internal Audit service and identifying future directorate risk areas arising through their service planning process.

Basis of our assessment

- 5.6. My opinion on the adequacy of control arrangements is based upon the result of Internal Audit reviews undertaken and completed during the period in accordance with the plan approved by the Governance and Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 5.7. There have been no limitations to the scope of our work.

Limitations on the assurance that Internal Audit can provide

- 5.8. It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of control are adequate. The most that Internal Auditors can provide to the Director of finance, as S151 Officer, and the Governance and Audit Committee is a reasonable assurance based on the work performed.

Summary of Minimal and Limited Assurance

Databases and Spreadsheets

Scope

The objective of this audit was to review the use of databases and spreadsheets within the council and how access and security of data is managed.

Overall Assessment – Limited (Subject to management discussions)

The audit focussed on overarching council requirements and development standards for spreadsheets/database applications developed by or on behalf of directorates and which have not passed through the council's software procurement procedures and ISG testing requirements.

The audit identified that there were no council wide policies, procedures or formally documented guidance for the development and maintenance of user developed applications such as spreadsheets and databases. However, there are a number of initiatives to ensure the confidentiality availability and integrity of data held and processed.

There was no current register of critical user developed spreadsheets and databases in use across the directorates and no requirements for the maintenance of records indicating the classification and sensitivity of the data held. In the absence of standards the minimum documentation for spreadsheets and databases have not been specified, nor have procedures for the proper maintenance and management of this data been developed and communicated.

Recommendations have been made to address the issues identified.

Business Continuity Planning

Scope

The objective of this audit was to assess progress against the implementation of recommendations made in the audit carried out in 2008/09 which had a 'minimal' assurance.

Overall Assessment – Limited

Progress is being made towards the development of the business continuity plans (BCPs). This includes the recruitment of an external consultancy organisation to complete an analysis of business continuity, with emphasis on carrying out a business impact analysis (BIA) and continuity requirements analysis. From the report that was produced interim BCPs have been drawn up for the directorates.

Data gathered from this exercise has also been stored in a database to help identify users that may be affected by adverse conditions and provide a basis to aid the continuity process. To assist in this process further and to allow the Council to use data more effectively, a software solution is being developed. It is planned that this software will be used to assist in the development and maintenance of the council's BCPs.

The development of full working BCPs are still a long way from finalisation, and although some areas audited have regressed during the transition period, this was to be expected whilst the new BCP requirements are developed and communicated.

Appendix A

Summary of Minimal and Limited Assurance

It is acknowledged that the Emergency Planning team have made considerable progress since the previous audit. However, the council and directorates as yet do not have formal and tested BCPs in place.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Imprest Accounts

Scope

The objective of this audit was to review all imprest accounts within the Council, assessing monitoring, reconciliation and reimbursement; and also to identify if any accounts were surplus to requirements.

Overall Assessment – High/Limited

There was **high** assurance that imprest accounts are reconciled and reimbursed on a monthly basis, but **limited** assurance that there is effective monitoring of imprest accounts with respect to the appropriateness of the expenditure as well as the expenditure limits and the identification and closing of surplus accounts.

The Council has over 140 imprest accounts that are used to make cheque and cash payments at a local level. Quarterly expenditure processed through the accounts is approximately £1.2m. As part of the audit we identified 40 accounts which had a monthly average expenditure of £500 or less where purchase cards could be used (given the nature of expenditure being incurred) instead of imprest accounts.

We found that expenditure limits for a large number of accounts were substantially higher than their actual usage, indicating cash tied up surplus to requirements and may be open to misuse.

The guidance available to staff on the operation of imprest accounts was inconsistent reducing the effectiveness of the control environment. However, a corporate procedure note on imprest accounts is being developed and will be issued with the updated Financial Regulations and other Financial Procedures by July 2010.

Recommendations have been made which have been accepted by management.

Legal Services - Income

Scope

The objective of the audit was to review the processes in place to ensure that all income due is identified, that charges are correct, invoices are raised promptly and accurately, income is banked completely and promptly and debts are recovered.

Overall Assessment – Limited

Legal Services income for 2008/09 was over £6.1m, the majority of which was for legal services provided to internal clients (£4.7m), with £1.3m received from external clients.

We found that charges for work carried out are costed, reviewed approved and communicated to clients annually. There are guidelines for recording chargeable

Appendix A

Summary of Minimal and Limited Assurance

time spent on cases. Charges for internal clients are recovered each month via journal transfers and for external clients invoices are raised each month for legal costs incurred.

There was however, a lack of control over the identification, recovery and monitoring of costs due from third parties. No formal invoicing process was in place, and we found examples where clients' invoices comprised an email/letter by the 'fee earner'. This meant that debts were not identified resulting in an increased risk that debts may not be recovered. We also found examples where the 'fee earner' had sent emails requesting payment and had received the cheque, giving rise to a lack of segregation of duties.

We also found examples where further legal work had been carried out after the conclusion of cases (for example enquiries, correspondence and clerical duties) which were not always charged, resulting in a potential loss of income.

Five recommendations have been made which have been accepted by management.

Staff Care Services – Commercial Services

Scope

The objective of the audit was to review the controls in relation to the recruitment of external consultants and payments made to them for services provided.

Overall Assessment – Substantial/Limited

There was **substantial** assurance that external consultants are appropriately qualified and there are legally binding contract with them for the services they provide. However, there was **limited** assurance that payments to consultants are supported by evidence of service provision.

Staff care services became part of Commercial Services in April 2008. The audit found that generally there is compliance with procedures relating to the recruitment and management of external consultants; and the processing and authorisation of invoices (from consultants).

The audit found only limited, infrequent checking of feedback forms returned by clients to get independent confirmation of service delivery by counsellors. For administrative functions there is limited separation of duties between the setting up of new clients on the Occupational Health Software System (OPAS), entering invoices relating to those clients on OPAS and payment of those invoices. However, we acknowledge that Staff Care Services have ensured that all team members can undertake all administrative activities because the team is small and they want to ensure that all processes can be continued whilst allowing for any staff absences. Therefore, the recommendation made with regards to this finding was not accepted but management continually review their processes to ensure accuracy and efficiency.

Three other recommendations have been made which have been accepted by management.

Summary of Minimal and Limited Assurance

Special Educational Needs (SEN) Transport

Scope

The objective of this audit was to review the processes in place for procuring, and paying for transport for Special Educational Needs (SEN) pupils and for the monitoring and forecasting of the SEN transport budget.

Overall Assessment – Limited

Expenditure against the budget for SEN transport is monitored and management information is exchanged between the Transport Integration Unit in Commercial Services and the Special Educational Needs and Resources Unit in the Children, Families and Education directorate.

When a contract is tendered for the provision of transport and more than one bid is received for the same amount; and they are the lowest bids received, the reason for the selection of the provider is not documented on the tender evaluation form which is signed of by the Transport Manager. It is therefore, not clear why a provider was selected over others who bid the same amount.

Invoices are checked for accuracy of amounts, dates transport provided and suppliers; and are paid promptly. We did however, identify a lack of management controls and separation of duties when contracts are entered or amended on the Routewise database by the SEN transport section of the Transport Integration Unit. This means that any user with access to the contract information can amend a contract price on Routewise. Although Routewise shows details of who has the price and the date it was entered, there is no independent checking process for management to identify contract prices that have been entered or amended within a given period and to investigate any anomalies.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place

Summary of Minimal and Limited Assurance

Follow up Coroners' Imprest Accounts

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit.

Overall Assessment – Limited

Following the original audit, eight recommendations were made to improve controls. Four of those had been implemented. Although all of the previous recommendations had not been implemented, the involvement of the Finance Project Officer has acted as a 'compensatory' control and therefore the operation of the accounts has improved since the previous audit.

Whilst we found that controls regarding the payments through the accounts had improved, our testing showed that only one of the four accounts had been reconciled during the 2009/10 financial year and reimbursements were not occurring on a regular basis; and at the time of the audit two of the accounts were overdrawn. This increases the risk that unauthorised or incorrect payments made not be identified.

Five recommendations (four relating to the previous audit) have been made and accepted by management.

Follow up Criminal Records Bureau (CRB) Disclosure Checks for Volunteers

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 audit which gave a 'high' assurance for agency staff and 'minimal' assurance for volunteers.

Overall Assessment – High/Minimal (Subject to management discussions)

The audit tested compliance with corporate policy in relation to CRB checks for volunteers working in Kent Adult Social Services. The judgement given is determined by this verification of compliance, and reflects the fact that some gaps in expected procedure were identified, and not all volunteers had a valid CRB in place at the time of the audit. Management have taken steps to ensure all volunteers have now been subject to the required checks. In addition the Directorate are confident that controls existing at the time of the audit were sufficient to mitigate any risks to vulnerable adults that may have arisen from the gaps in compliance with the corporate policy.

The detail of the report and the recommendation made are still subject to final agreement.

Summary of Minimal and Limited Assurance

Direct Payments

Scope

An audit to review the processes for authorising, paying and monitoring Direct Payments.

Overall Assessment – Limited / *Substantial* (Subject to management discussions)

Direct Payments enable clients to arrange and manage their own care. Clients who wish to have Direct Payments should agree to the terms and conditions by signing a Direct Payment Agreement. Detailed work is still ongoing with Directorate management in KASS to validate the evidence upon which the overall assessment has been made. At the point of drafting this report the key areas where the audit has identified potential for improvement are the:

- consistency in obtaining signed agreements for all clients, and;
- consistency in the timing of a client annual review (including financial reviews). These reviews also enable the service to identify where funds are not being used to meet assessed needs and where relevant reclaim any unused monies.

Kent Thameside Regeneration

Scope

The scope of the audit was to review the arrangements in place for the Kent Regeneration Partnership to ensure that KCC's interests are properly managed.

Overall Assessment – Limited

The audit found that there are clearly identified roles and responsibilities within the partnership which include KCC officers. However, involvement of KCC directorates is irregular, which could lead to projects being initiated without the necessary support from relevant officers. The audit found that there is an annual budget in place which reflects the short term nature of the funding agreements for the partnership. However, there is no formal long term budget which could result in the partnership focussing on the delivery of short term priorities with long term priorities not being achieved. There are no contingency plans in place in the event of district or other external partners withdrawing their funding, or firm arrangements in place to ensure the long term sustainability of the partnership.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Summary of Minimal and Limited Assurance

Ashford Regeneration

Scope

The scope of the audit was to review the arrangements in place for the Kent Partnership Board to ensure that KCC's interests are properly managed.

Overall Assessment – Limited (Subject to management discussions)

Ashford's Future Company was incorporated with effect from November 2008 as a public/private company to obtain a greater degree of funding for regeneration.

There was evidence of KCC involvement within the relevant committee structure and KCC officers attend meetings of the partnership Board, the Company Board and the Senior Executive Liaison Group. However, KCC is not currently represented on the Finance Committee.

Ashford Regeneration relies on funding from central government but there is no contingency arrangement in place to determine what action would need to be in place in the event of the funding being withdrawn.

At the time of the audit there was a revenue gap of £814k. Although a possible solution had been discussed this would involve a change in the charging arrangements between Ashford Borough Council and the Company which could reduce funding available for other capital projects.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Kent Highways Services

Scope

The objective of the audit was to review processes in place to ensure that actual costs are understood and therefore the 'pain/gain' mechanism can be effectively utilised to drive efficiency and to ensure that KCC is not being overcharged.

Overall Assessment – Limited (Subject to management discussions)

This audit established that all jobs examined in the sample had a target cost applied and that jobs are closed 13 weeks after completion. Not all costs committed into a target cost were challenged sufficiently, although some good examples were identified. Efforts are being made to understand the costs being applied and this information is being drawn into reports which should lead into the calculation of the pain/gain calculation. Whilst work has commenced (in the third quarter of the financial year) on the "open book audit" to examine these costs, this work will not conclude until after the year end (31 March 2010) and therefore it was not possible at the time of the audit to provide an assurance level. This work should have been in place since the implementation of the contract and explains why recommendations have been made where action has already been taken to ensure that the processes started continue.

Summary of Minimal and Limited Assurance

Assurance Definitions

Limited Assurance

The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.

Minimal Assurance

The council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non compliance with key controls.

Appendix B

Detailed Analysis of internal audit projects in 2009/10

Audit - Directorate	Progress at May 2010	Overall Assurance
Authority Wide		
Corporate Governance - Engagement with local people and other stakeholders	Completed	High
Risk Management – Health and Safety	Work in progress	Expected to be High
Governance of Partnerships	Completed	Substantial
Use of Consultants	Work in progress	
Premises Security	Completed	Substantial
Handling Risk Information	Work in progress	
ICT Management/Strategy	Draft	Substantial
Use of databases and spreadsheets	Draft	Limited
Business Continuity Planning	Completed	Limited
Chief Executive's Department/S151		
Year End Accounts Closedown (2008/09)	Completed	Substantial
Bank Reconciliations	Completed	High
General Ledger	Completed	High
Imprest Accounts	Completed	Split assurance High/Limited
Accounts Payable	Completed	Substantial
Accounts Receivable	Draft	High
Treasury Management	Completed	High
Payroll	Completed	Substantial
Capital Monitoring	Draft	High
Pensions Contribution	Completed	High
Revenue Budget Monitoring (CFE)	Completed	High
Partial Exemption	Completed	Substantial
Management Review for Year end closedown	Completed	N/A
Overtime Payments - Follow up	Completed	Substantial
Income – Legal Department	Completed	Limited
Public Service Agreements	Completed	N/A
Property Management System Security	Completed	Substantial
Building Consultants Framework	Work in progress	
Staffcare Services (Commercial Services)	Completed	Split assurance Substantial/Limited
Axis Pensions System	Completed	Substantial
Children, Families & Education		
Data Quality	Completed	High
SEN Transport	Draft	Limited
Student Awards Transition Plan	Completed	High
Personal Allowances for Looked After Children	Draft	Substantial
ContactPoint IT Security – interim review	Completed	N/A
ContactPoint IT Security	Completed	Substantial
Building Schools for the Future	Completed	Substantial
Appledore sub imprest account Follow up	Completed	Substantial

Appendix B

Detailed Analysis of internal audit projects in 2009/10

Audit - Directorate	Progress at May 2010	Overall Assurance
Children's Centres (eStart) Application	Completed	Substantial
Cluster Funding - Follow up	Draft	Substantial
Cage Green School - Follow up	Completed	Substantial
Use of Corporate Purchase Cards in Schools	Draft	Assurances for each school
West Kent Learning Federation	Work in progress	
Communities		
Thanet Gateway Plus	Completed	N/A
Turner Contemporary Trust	Completed	N/A
Coroners' imprest accounts	Completed	Limited
Libraries – IT Renewal Project	Work in progress	
Key Training – part 1	Completed	N/A
Key Training – part 2	Completed	N/A
Apprenticeship Scheme	Completed	N/A
Kent Adult Social Services		
CRB - checks for volunteers	Draft	Split assurance High/Minimal
Residential Payments	Work in progress	
Direct Payments	Draft	Minimal
Performance and data quality	Completed	Substantial
Swift Client Billing – post implementation review	Completed	N/A
Client Billing Process – Interfaces	Completed	Substantial
Environment, Highways and Waste		
Review of Kent Highways Services	Draft	Limited
Kent Thameside Regeneration	Completed	Limited
Ashford Regeneration	Draft	Limited
Kent Freedom Pass	Draft	Substantial
Performance and Data Quality	Work in progress	
KHS Road Work Permit Scheme IT system	Work in progress	Limited
Allington Incinerator	Completed	Substantial

Appendix B

Assurance Levels

Key	
High	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.
Minimal	The Council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.
Not Applicable	Internal audit advice/guidance no overall opinion provided.

Appendix C

Internal Audit Charter

Introduction:

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council.

Purpose:

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Source: CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

KCC's mission statement is, "To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively".

Authority:

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2003 (amended 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Director of Finance.

Responsibility

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement audit recommendations or accept the risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC's Internal Audit activity will conform to standards and guidance contained in CIPFA's 'Code of Practice for Internal audit in Local government in the UK' (2006). This is structured around eleven organisational and operational standards, including minimum standards for the performance and conduct of internal auditors.

Independence and Objectivity

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

Appendix C

Internal Audit Charter

The Head of Audit and Risk will have free and unrestricted access and freedom to report in his/her own name to the Director of Finance and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc.

Audit Scope

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and the Governance and Audit Committee as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

- Reviewing the soundness, adequacy and application of financial and other management controls;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
 - Fraud and other offences
 - Waste, extravagance and inefficient administration, poor value for money and other causes
- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems
- Promote and raise fraud awareness

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

Appendix C

Internal Audit Charter

The Head of Audit and Risk will provide an annual audit opinion as to the adequacy of the Councils internal controls and risk management processes. This will be used to support the Statement of Internal Control.

Fraud and Irregularity

Internal Audit does not have to investigate all cases of potential frauds and irregularities; however they must all be reported to the Head of Audit and Risk or the Senior Audit Manager. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

Right of Access

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed necessary in the course of its duties.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Audit and Risk to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan.

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit, this is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Audit and Risk will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Audit and Risk will arrange for an independent review to be carried out, at least every three/five years which will be reported to the Governance and Audit Committee.