By: Roger Gough – Cabinet Member for Corporate Support
                Services and Performance Management

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To: Governance and Audit Committee – 15 September 2010

Subject: INTERNAL AUDIT PROGRESS REPORT

Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity.

FOR INFORMATION

Introduction

1. This report summarises progress against the 2010/11 internal audit programme, provides the results from reviews that have been completed in the period since the last report to the Governance and Audit Committee, and reports the achievement against Internal Audit's Key Performance Indicators.

Overview of Progress

2. This report contains the outcome of Internal Audit's work completed from April to July 2010, including audits started or at draft report stage up to 31 July 2010. During the period six audits were completed, six draft reports were issued and 12 audits had commended field work. Of the reports issued two gave high assurance, two substantial, one limited and one not applicable. There were no minimal assurances.

3. Progress against the audit plan for 2010/11 is listed at annex A, and a summary of each of the audits completed in the period is at annex B.

4. The directorates' progress against the implementation of agreed recommendations is shown at annex C.

5. Other information included in this report are amendments to the Audit Plan (annex E) and a detailed breakdown of Internal Audit Performance Indicators (annex F).

Irregularities

6. Since April 2010 four cases of suspected irregularity have been reported, each involving either KCC finances or business processes. These have all been investigated and concluded during the period which is summarised at annex D.

Implications for Governance

7. No significant control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year. All audits are allocated an assurance level which are defined in annex H. Of the six audits completed in the current reporting period, none were given the

lowest category of assurance (minimal) which could indicate a significant risk for the Council.

8. Annex G provides the cumulative assurance position for the Council from 2008/09 to present.

Recommendation

9. Members are asked to note:

- the amendments to, and progress against the 2010/11 audit programme

- the assurance provided in relation to the Council's control environment as a result of the outcome of the internal audit programme completed to date.

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06 September 2010

Directorate	Audit	Progress at 31 July 2010	Assurance
Authority Wide			
	Risk Management – Health & Safety	Final report issued	High
	Authority Wide – ISG Management /Strategy Development	Final report issued	Substantial
	Use of Consultants	Draft report issued	-
	Content Management (Web site Internet)	Audit in progress	-
	Data Protection	Audit in progress	-
	Handling Risk Information	Audit in progress	-
Chief Executive's			
	Virus Protection/Spyware	Draft report issued	-
	PC End User controls	Draft report issued	-
	Employment checks through Kent Top Temps	Audit in progress	-
	Accounts Payable	Draft report issued	-
	Accounts Receivable	Final report issued	High
	Year End Accounting	Final report issued	N/A
	Medium Term Planning	Audit in progress	-
	Commercial Services Accounts Payable	Audit in progress	-
	Operation of the Property Consultants Framework	Audit in progress	-
Children Families & Education			
	Cluster Funding	Draft report issued	-
	Direct Payments (for children)	Audit in progress	-
	Special Education Needs Transport	Draft report issued	-
Kent Adult Social Services			
	Residential Payments Data	Final report issued	Substantial
	Debt Management	Audit in progress	-
Communities			
	Fee Income	Audit in progress	-
	Libraries IT Renewal Project	Audit in progress	-
Environment, Highways & Waste			
			-
	Key financial controls in KCC establishments	Audit in progress	-
	Permit Scheme Application Audit	Final report issued	Limited

Risk Management – Health and Safety

Scope

The scope of the audit was to review the corporate framework of health and safety management in KCC; and communication across the directorates.

Overall Assessment – High

Generally, the audit found that the structure and processes are sound and appropriate for the organisation, although the Health and safety teams vary in size and structure.

There are effective processes in place to ensure that Health and Safety corporate policy, decisions, best practice guidance and legislation is communicated and applied across the directorates. We confirmed that there are monthly directorate meetings with regular monitoring and reporting of incidents and accidents. The Health and Safety Manager completes an annual report to the Corporate Management Team submitted through the Corporate Health and Safety board, followed by six monthly verbal updates.

The corporate and directorate action plans are complied from various sources to ensure all priority areas in KCC are included. The audit established that the directorates' action plans include certain elements of the corporate plan as well as incorporating priorities pertinent to directorates.

There are regular training activities and continuous professional development for the health and Safety Manager and advisors.

No recommendations were made.

Authority Wide – ISG Management /Strategy Development

Scope

The scope of the audit was to review the ISG Management/Strategy Development to ensure that it meets the need of the council.

Overall assessment – Substantial

The Strategy is directly informed by the objectives of the council and is an integral part of the council's strategy for the delivery of the 'Vision for Kent' and 'Towards 2010'. The core ICT initiatives to this include:

- The Kent Public Sector Network (KPSN),
- The £10.1m Capital Programme for the ICT investment;
- Provision of Broadband as part of the Digital Strategy' and,
- Connection to the government Connect Secure Extranet

The audit found that ISG is able to support the council and directorate requirements. There is a clearly defined organisation structure and documented terms of reference for the Programme Board with oversight for the ICT capital programme. There are also regular reviews of the Strategy. However, there was no regular consolidated reporting of key directorate projects which could have an impact on the achievement of corporate goals. In addition IT standard need to be finalised and formally communicated for adoption to ensure consistency.

Two recommendations have been made to address theses issues which have been accepted by management.

Accounts Receivable

Scope

The objective of the audit was to review the processes in place for billing, collection of income, debt recovery and write offs.

Overall Assessment - High

Exchequer Services raise invoices for income in excess of £97m. The audit found that in general Income was invoiced completely, accurately and promptly and that there is robust monitoring of debt to ensure high levels of debt collection. The audit excluded the billing, income collection and debt recovery for Kent Adult Social Services (ie residential and domiciliary care) as this will be subject to a separate audit.

No recommendations were made

Year End Accounts Closedown 2009/10

Scope

To review processes in place to ensure that payments and income are identified and accounted for in the correct financial year.

Overall Assessment – Not Applicable

At the end of each financial year the council's accounts are closed and financial statements are prepared prior to them being audited by the external auditors. Internal Audit carried out a review to ensure that payments and income are correctly accounted for in the correct financial year. Our testing confirmed that, payments above the de-minimus level (£500) were either processed correctly or were rectified during the audit; and all income above the de-minimus level was accounted for in the correct financial year.

The audit found that most of the invoices had been accounted for in the correct financial year. Where they had not been we found that appropriate debtors/creditors had already been set up.   We also found that where directorate staff were anticipating missing closedown deadlines that they had set up appropriate debtors/creditors.

No recommendations were made.

Kent Adult Social Services - Residential Payments Data

Scope

The scope of the audit was to review processes in place to ensure that data between the social care system SWIFT and the financial system Oracle correlate so that correct payments are made to residential providers for services supplied.

Overall Assessment – Substantial

In order to process payments, a Financial Activation Notice (FAN) must be completed and authorised. The FAN which is produced by SWIFT from information provide by case managers contains client information, including the details of the residential home, and the cost. This information is also used to complete individual client cards.

The audit found good processes in place to ensure that data between Swift and Oracle financials is accurate. Robust systems in place to forecast spend for residential care using a combination of data from Swift and finance activation notices.

There were instances when there were delays in making the initial payments to residential home providers. This occurred because the relevant documentation either did not reach the Area Payments Team in a timely manner, or was lost. A recommendation has been made to improve the process and this has been accepted by senior management.

Environment Highways and Waste - Permit Scheme Application

Scope

The objective of the audit was to review the software application used to manage the road permit scheme.

Overall Assessment – Limited

Kent County Council was the first county council to apply to the Secretary of State for Transport to operate a Permit Scheme. Under the Kent Permit Scheme, a company planning to dig up a road (eg utilities companies) must apply for a permit from Kent Highways Services (KHS). KHS must also comply with the scheme for the work that they carry out.

The audit found that the application is well managed, with controls to ensure that data processed is accurate and timely. The Mayrise database is backed up nightly and the retention period allows rollback to a daily, weekly or monthly interval as required.

The primary reason for the limited assurance is because of the weak access controls to the application. However, we acknowledge that the software produced by Mayrise was developed from the original software used for notification and at that time the financial implications were much lower. As such the system is still being developed and management were aware of some of the weaknesses identified in the audit. We have been informed that management have already implemented the majority of the audit recommendations including the one that was considered to be a high risk.

Directorates' Progress with the Implementation of Agreed Recommendations

Where Internal Audit find instances of non compliance ie with policies, procedures and legislation and/or lack of internal controls recommendations are made to ensure compliance and/or improve controls. At the draft report stage of an audit, recommendations are discussed with responsible managers who decide how they will implement the recommendation and the timeframe.   The agreed action, date and name of the responsible officer are included in the final audit report. Internal Audit, either follow up the progress of the implementation of agreed recommendations or seek assurance from the relevant responsible manager that the recommendation has been implemented as agreed.

The annex is split into two tables showing the progress with the implementation of agreed recommendations.

Table 1 – This details the recommendations that were due to be actioned between April and July 2010. 37 actions' were due to be in place by the end of July 2010; 28 have been implemented and 9 actions are outstanding; six of which are high priority and three medium priorities. Revised dates for implementing the outstanding recommendations have been provided.

Table 2 - This details the outstanding high priority recommendations with revised implementation dates.

Directorates Progress with the Implementation of Audit Recommendations
(Covers April to July 2010)

Directorate	Total actions due to be in place by end of July 2010	Actions in place	Priority of outstanding actions as at 31 March 2010			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide and S151	1	1				General Ledger	All recommendations completed.	
	5	5				Payroll	All recommendations completed.	
	9	9				Business Continuity Planning	All recommendations completed.	
	2			1	1	Governance of Individual Partnerships	No response due to annual leave will be progressed in September 10.	September 2010
	3			3		Imprest Accounts	Due to resources & annual leave Rec. 2 points 2, 3 & 4 are being progressed but will not be completed until 31.10.10, Directorate heads of finance are progressing Rec.1 & point 1 of Rec.2 and are due to complete by end of September 10. No response to Rec. 5 as responsible manager on annual leave will be progressed in September 10.	September/October 2010
CED	1			1		Staffcare Services	SCS are awaiting a software provider to write a 'program' to allow this action. They are fully aware of the urgency but report difficulty in getting this done. Therefore SCS are unable to complete this action until this is done or a new software provider is sourced who are able to complete this action. SCS are presently in the process to identify a software provider to meet this need, amongst many others, however this has been delayed as a result of the number of 'organisational changes' / departmental moves within KCC. They are hopeful that they will be able to source a new provider before the end of the financial year.	March 2011

| Directorate | Total actions due to be in place by end of July 2010 | Actions in place | Priority of outstanding actions as at 31 March 2010 | | | Comments on recommendations | | |
			C	H	M	Audit		To be completed by
	1				1	Property Management System Security	Completion of planned change to the Enterprise application in May 2010 to mitigate the risks identified in the audit has now been put back to July 2010 as completion date.	September 2010
CFE	3	3				Contact Point – IT Security	All recommendations completed.	
	3	3				Building Schools for the future	All recommendations completed.	
	2	2				Asylum Imprest Accounts	All recommendations completed.	
KASS								
EHW								
Comm	6	4		1	1	Tribal EBS	One recommendation been progressed July/August so will follow up in September. Other rec. can not be completed as earliest release of updated security will not be until Dec. 10	September & December 10
	1	1				Internet Access by the Public Key Training	Recommendation completed.	
TOTAL	**37**	**28**		**6**	**3**			

C = Critical risk, H – High risk, M = Medium risk

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
CED – Commercial Services	Staffcare Services	The Finance & Information Officer will regularly cross reference and document a random sample of the yellow questionnaires with the counsellor invoices to ensure that there is parity in the number of sessions provided.	SCS is awaiting a software provider to write a 'program' to allow this action. They are fully aware of the urgency but report difficulty in getting this done. Therefore SCS is unable to complete this action until this is done or a new software provider is sourced who is able to complete this action. SCS is presently in the process to identify a software provider to meet this need, amongst many others. However this has been delayed as a result of the number of 'organisational changes' / departmental moves within KCC. They are hopeful that they will be able to source a new provider before the end of the financial year.	March 2011
Communities	Tribal EBS	The Systems Manager and Head of Finance should request if the software can be updated to apply the EBS Agent security function to EBS 4.	The earliest release of updated security will be December 2010	Dec 2010
Section 151	Imprest Accounts	Directorates should carry out a review of the use of all of their imprest accounts to determine if a different method of payment can be used (e.g. purchase cards) and therefore the account closed. Where directorates consider that the use of an imprest account is essential, a request must be submitted to the Director of Finance to allow the account to remain open.	Progressed to be checked with Directorate heads of finance other than CFE who are progressing with this and are due to complete by end of September 10 and CMY who have completed the review and are using purchase cards where possible	Sept. 2010
		Management should explore the feasibility of using the data uploader to upload imprest schedules on to the General Ledger. If found to be viable then appropriate action should be taken to roll it out across the directorates.	Delay due to annual leave, to be progressed by the end checked of August 10.	Aug. 2010

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
		1-All dormant cost centre account codes for imprest accounts no longer needed should be disenabled on Oracle. 2-All surplus bank accounts that do not relate to the active imprest accounts should be identified and closed. 3-Regular monitoring should be introduced at the corporate/directorate level to identify Oracle accounts that are no longer used and bank accounts that are not being operated. This should be carried out on a regular basis, at least once annually. 4-To facilitate the monitoring, management should consider including the Natwest account details in the BHA (imprest) account narrative on the General Ledger, for easier identification and reconciliation of accounts in the future.	Point 1 completed by CFE, CMY will complete by 01 October 10 progress to be checked with other heads of finance. Points 2, 3 and 4 are being progressed by the Treasury and Investment Manager and are due to be completed by end of October 10.	Nov 2010
Authority Wide	Governance of Individual Partnerships	The KSCB should request summary performance reports from its Partners on a quarterly basis to enable a more regular monitoring of their activities and should introduce a mechanism to obtain assurance on data quality of those reports.	Delay due to annual leave of responsible manager, to be progressed, followed up in September 10.	Sept. 2010

xx792 Overpayment to a contractor

A contractor engaged to provide repair and maintenance duties at a number of sites, submitted invoices for his time and materials used. He substantiated his invoices to KCC with the invoices from suppliers for goods that he had purchased to enable him to carry out maintenance and repairs.

A check of his invoices revealed that he had not always submitted the number of documents that was stated on his invoices, and he had used delivery notes and invoices so that he claimed and received payment more than once for the same supplies. Senior management decided that KCC would no longer engage him as a contractor. The overpayment was recovered.

Internal Audit has made recommendations to improve controls, including the thorough checking of documentation that is used to substantiate the payment of invoices, and ensuring that the number of documents submitted with invoices, matches the number itemised on invoices.

xx 794 Expenses Claims

A member of staff submitted claims for mileage that were suspected of being inflated and for journeys not carried out. In addition claims had been made for home to work mileage that the member of staff was not entitled to.

Over a period of one year the member of staff claimed for over 13,000 miles, however, the claims had not been subjected to checks and the details contained in the claims was vague. It was a new line manager who queried the high mileage being claimed.

An investigation was carried out jointly with Internal Audit and the manager of the unit. Since the details on the claims were vague the investigation was unable to establish how much had been over claimed. However, home to work mileage had been claimed and an estimate of £2,679 has been made which is the amount paid with regards to this element.

A recovery of £1,218 has so far been made and the employee who has since resigned will be invoiced for the balance.

Internal Audit has sought amendments to the standard expense claim. However this will not remove the requirement for managers to correctly check all claims submitted for authorisation.

xx796 Stolen/lost laptops and other items

A number of items have either been stolen or lost from an office. This includes three laptops; a trolley bag, handbag and keys to pedestals that contained laptops. Two of the laptops went missing during periods of annual and sick leave. When an investigation took place it was found that one of the laptops had been left out on a desk unsecured. The police have been informed but there was no evidence of any forced entry.

Staff have been advised to lock laptops and other valuables away. Spot checks will be carried out in the office building to check that laptops have not been left unattended and unsecured.

xx 797 Application for a Blue Badge

In May 2010 an application was made for the renewal of a Blue Badge via the Contact Centre. However, when checks were made by the Contact Centre staff, including a check on the register of deaths, this confirmed that the subject of the application was deceased indicating an attempt had been made to fraudulently obtain a Blue Badge.

The actual details of the person attempting to obtain the Blue badge fraudulently was not known, and therefore the Contact Centre was initially unable to pursue the issue further. However, when the 'applicant' made contact asking why they had not received the Blue Badge the Contact Centre staff obtained their details and contacted the police. The person who had made the application was the deceased person's daughter, and was given a police caution.

Amendments to Plan

This table identifies necessary amendments to the agreed 2010/2011 audit programme.

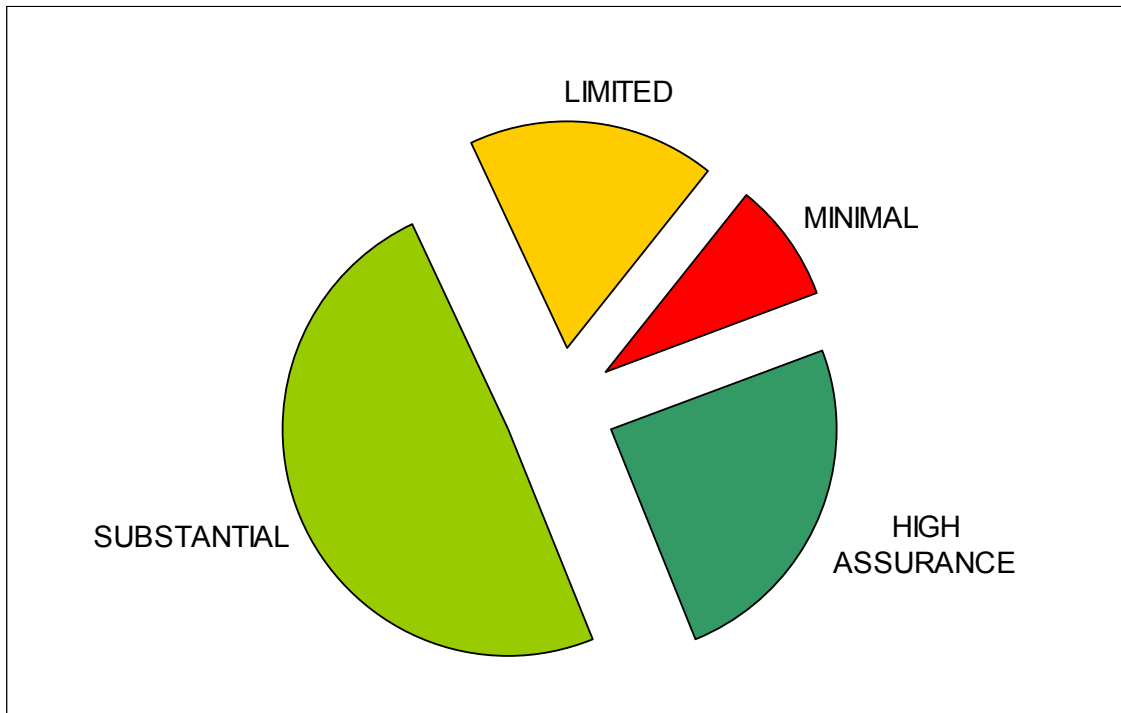| Audit	Comments	Days
CFE05 - ContactPoint	Central Government has scrapped the ContactPoint database and therefore the audit is no longer required.	-20
KASS02 - FAME	The original audit (deferred from 2009/10) was to provide assurance on the arrangements for project management in relation to this project. As the project is now in its latter stages it was considered that assurance obtained would be of limited value, and alternative assurance can be obtained by a QA review performed by ISG.	-25
Net total		**-45**

The following table is designed to provide Members with Internal Audit's performance against Key Performance Indicators.
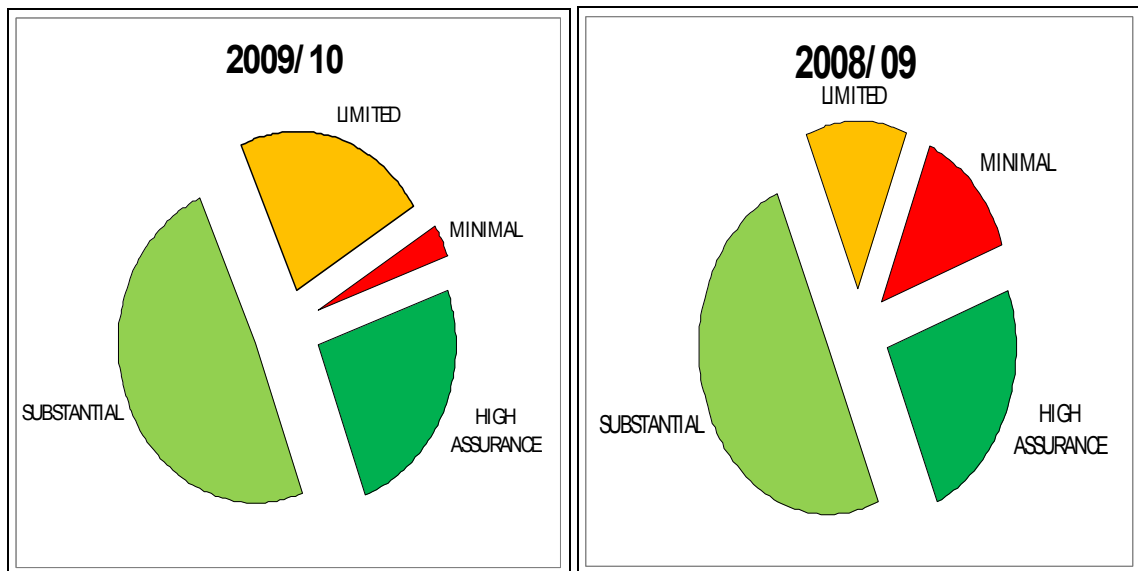
Performance Indicator	Target	Actual (Apr – July 2010)
Effectiveness		
• % of recommendations accepted	98%	97%
• Compliance with the CIPFA Code of Practice for Internal Audit	90%	79%
Efficiency		
• % of plan delivered (note 1)	30%	20%
• % of available time spent on direct audit work	80%	94%
• % of draft reports completed within 10 days of finishing fieldwork	80%	79%
• Preparation of annual audit plan	By March/April G&AC meetings	April G&AC meetings
• Periodic reports on progress		
• Preparation of annual report and Annual Governance Statement	By May	May
Quality of Service		
• Average Client Satisfaction Score –	70%	84%

1) Percentage of plan delivered as at 31 July 2010

Cumulative Assurance Position:

Assurance Position by Year

Assurance Level	Summary description	Detailed definition
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	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	Improvements in controls or the application of controls required.	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	Urgent improvements in controls or the application of controls required.	The authority 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.