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To: Corporate Policy Overview and Scrutiny Committee
– 24 September 2010

Subject: INTERNAL AUDIT PROGRESS REPORT

Classification: Unrestricted

Summary: This report summarises the Internal Audit Programme and how it impacts on CED.

FOR INFORMATION

Introduction

1. This is a new report for the Committee and provides an update on progress against the element of the 2010/11 Internal Audit Programme that impacts on CED. The report includes brief summaries of the work completed up to the end of July 2010.

Internal Audit Programme

6. The overall Internal Audit Programme consists of 71 individual reviews, plus time for Advice and Information and pro-active fraud work. Progress against the overall plan is reported quarterly to the Governance and Audit Committee. Four elements of the programme impact on CED:

- Authority wide– 12 reviews
- Corporate finance – 14 reviews
- CED specific – 11 reviews
- Kent Commercial Services – 4 reviews

The detail of this work, and status up to the end of July 2010, is set out at Annex A. Annex B summarises the work that has been finalised in the period, including two reports relating to the 2009/10 programme, while annex C provides definitions of the assurance opinions given.

Recommendation

7. Members are asked to note progress against the 2010/11 audit programme as it impacts on CED.

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Annex A
Progress against the 2010/11 Audit Plan

Authority Wide

| Audit | Scope/Comments | Status as at July 2010 |
|--|---|-------------------------------|
| Vetting and Barring scheme | To provide assurance as to compliance with the Independent Safeguarding Authority's (ISA) requirements in relation to the vetting and barring scheme. | Planned for quarter 3/4 |
| Employment Checks through Kent Top Temps | A review to ensure that appropriate pre-employment checks are carried out on staff recruited via Kent Top Temps. | Audit in progress |
| Corporate Governance | A review of the Council's Corporate Governance Framework supplemented by a detailed assessment of one of the six themes of governance (Members expenses) | Engagement Planning started |
| Risk Management | A review of the Council's risk management arrangements. | Planned for quarter 3 |
| Governance of Partnerships | A review of a sample of partnerships – Communities has requested that their key partnerships are included in the sample. | Engagement Planning started |
| Information sharing | To provide assurance as to the requirements for sharing sensitive and personal data. Also pick up sharing within directorates, with directorates and external bodies. | Planned for quarter 3/4 |
| Hypothecated funding | Review hypothecated funding - financial control & exit strategies. | Planned for quarter 3/4 |
| Performance Management Framework | A review of the Council's performance management arrangements. | Engagement Planning started |
| Capital contract monitoring | A review of monitoring arrangements for a sample of capital programmes to ensure that timely and sufficient information is available on which to base decisions. | Planned for quarter 4 |
| Schemes of delegation and limits on approval | To provide assurance that controls are in place to ensure decisions are made in line with the Councils intended scheme of delegation. | Planned for quarter 3/4 |
| Content Management (Web site (Internet)) | To provide assurance on the adequacy of controls introduced as part of the new implementation to manage the web site and web content. | Audit in progress |
| Data Protection | To provide assurance that Data Protection requirements are being complied with and how this is managed across the council. | Audit in progress |

Corporate Finance

| Audit | Scope/Comments | Status as at July 2010 |
|---|--|--|
| Year End Accounting | To provide assurance that payments and income are accounted for in the correct financial year. | Audit concluded |
| General Ledger | To provide assurance on the adequacy of input controls including feeder system interfaces into the General ledger; and reconciliation of control and suspense accounts. | Planned for quarter 4 |
| Corporate Purchase Cards | A review to provide assurance that purchase cards are used in accordance with corporate guidance, including an assessment as to the appropriateness of the types of expenditure incurred. | Engagement Planning started |
| Accounts Payable | To provide assurance that accurate and timely payments are made to bona fide creditors; for goods and services provided for the benefit of KCC. | Draft Report Issued |
| Accounts Receivable | To provide assurance that all income due is identified, invoiced, collected and recorded accurately and promptly. | Final Report Issued – High Assurance |
| Treasury Management | To provide assurance that all investments are properly authorised and procedures are complied with and new Governance arrangements introduced in 2009 are effective. | Planned for quarter 3 |
| Payroll | To provide assurance that payments are made accurately, to the correct staff and in a timely manner. This will include pension payments. | Planned for quarter 4 |
| Construction Industry Scheme | A review of the arrangements for the correct identification and deduction Income Tax (and NI?) under the Construction Industry Tax Scheme. | Planned for quarter 4 |
| Medium Term Planning | A review of the income and expenditure estimates, and the assumptions upon which they are built included in the current MTP. | Audit in progress |
| Revenue Budget Monitoring | Cyclical directorate revenue budget monitoring audits undertaken annually, to provide assurance that budgets are monitored and controlled. | Audit in progress |
| Procurement (includes directorate work) | To provide assurance that procurement is managed in accordance with KCC's 'Spending the Council's Money'. The sample will include contracts in the CFE directorate as requested by the Managing Director | Planned for quarter 4 |
| Pensions contributions | To provide assurance that contributions for pensions are being correctly deducted and paid over to the Pension Fund. The work will be jointly delivered with Medway UA and Kent districts. | Audit in progress |
| Pensions investment income | To provide assurance that investment income derived from Pension Funds investments is correctly accounted for. | Audit in progress |
| IFRS | To provide assurance on how IFRS requirements are being managed | Planned for quarter 3 |

Annex A
Progress against the 2010/11 Audit Plan

CED

| Audit | Scope/Comments | Status as at July 2010 |
|--|---|-----------------------------|
| Payroll Services contract with East Kent | A review of the operation of the Payroll Services contract with East Kent, to provide assurance that the service being provided meets the specified standards. | Engagement Planning started |
| Carbon Reduction Commitment Energy Scheme. | To provide assurance as to: (i) the accuracy of the data used for measuring carbon usage and reduction in relation the Carbon Reduction Energy Scheme (ii) the compilation of the document pack to support the Council's assertions in relation to participation in the scheme. | Engagement Planning started |
| Operation of Property Services Consultants Framework | Stage two of the review of the Property Consultants' Framework to provide assurance that individual procurement exercises undertaken are complying with the processes specified in the Framework. | Audit in progress |
| Building Maintenance contract | A review of payments to ensure that all payments made are for services provided, are properly authorised and are at rates agreed in the contract. . | Planned for quarter 4 |
| Schools Personnel Service | A review to provide assurance that the services provided by the Schools' Personnel Service meet the requirements of the Service level Agreement | Planned for quarter 4 |
| Regeneration Fund / Regeneration framework | To review the operation of the framework across KCC and integration with directorates. | Audit in progress |
| Virus Protection / Spyware | A review of controls designed to protect KCC from computer viruses. | Draft Report Issued |
| Telecoms/Voice Over Internet Protocol (VOIP) | To provide assurance over the development of the project and deployment of the chosen solution at key stages in the life cycle of the project. | Planned for quarter 3 |
| PC End User Controls | A review to provide assurance that end users protect data they have access to. | Draft Report Issued |
| Data Backup and Data Centres | To provide assurance over the adequacy of backup arrangements to enable recovery of data and the physical and environmental controls over data processing. | Planned for quarter 4 |
| Oracle Modules (2) or Oracle Database Security audit | To provide ongoing assurance over the application controls and support arrangements. | Planned for quarter 4 |

Commercial Services

| Audit | Scope/Comments | Status as at July 2010 |
|-------------------------|---|------------------------|
| General ledger | An audit to test the adequacy of input controls including feeder system interfaces into the General ledger; and reconciliation of control and suspense accounts. | Planned for quarter 4 |
| Accounts Payable | To provide assurance that accurate and timely payments are made to bona fide creditors; for goods and services provided for the benefit of KCC. | Audit in progress |
| Accounts Receivable | To provide assurance that all income due is identified, invoiced, collected and recorded accurately and promptly. | Planned for quarter 3 |
| Services tender costing | Review of a sample of tender bids submitted by Commercial Services to assess whether the bids have been prepared after taking into account all reasonable costs including KCC overheads. This will include a review of the overall costing process. | Planned for quarter 4 |

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 compiled 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 these 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.

Annex C
Internal Audit Assurance Levels

| 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. | <p>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.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> |
| Minimal | Urgent improvements in controls or the application of controls required. | <p>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.</p> <p>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.</p> |