

By: Roger Gough – Member for Corporate Support Services
and Performance Management
David Tonks – Head of Audit and Risk
To: Governance and Audit Committee – 30 November 2010
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

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

FOR ASSURANCE

Introduction

1. This report summarises the progress against the 2010/11 internal audit programme, provides the results from reviews that we have 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 during August, September and October and audits started, or at draft report stage up to 29 October 2010. During this period four audits were completed, five draft reports were issued and nine audits were started.
3. Progress against the audit plan for 2010/11 is listed at annex A, and the summaries of the audits completed in the period are 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 is amendments to the Audit Plan at annex D and a detailed breakdown of Internal Audit Performance Indicators (annex E).

Irregularities

6. Since August 2010 one case of suspected irregularity has been reported, involving KCC finances, which is under investigation. No investigations have been completed during this period.

Implications for Governance

7. Although issues have been identified from the ongoing work of the Audit Plan, no significant control weaknesses or failures of governance have been identified from the audits completed or the irregularities investigated in the financial year to date. Annex F provides the cumulative assurance position for the Council from 2008/09 to present, while annex G provides the definition of these assurance levels.

Recommendation

8. 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.

David Tonks
Head of Audit & Risk
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18 November 2010

Annex A
Progress against the 2010/11 Audit Plan

Directorate/area	Audit	Progress at 29 October 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	Final report issued	Substantial
	Website Management	Final report issued	Substantial
	Data Protection	Draft report issued	
	Handling Risk Information	Audit in progress	
	Staff Expenses System	Draft report issued	
Chief Executive's			
	Virus Protection/Spyware	Draft report issued	
	PC End User controls	Draft report issued	
	Employment checks through Kent Top Temps	Final report issued	High
	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	Draft report issued	
	Data Centre and Backups	Audit in progress	
	Pensions Contributions	Audit in progress	
	East Kent Payroll Services Contract	Audit in progress	
	Accounts Receivable (Commercial Services)	Audit in progress	
Children Families & Education			
	Cluster Funding	Draft report issued	
	Direct Payments (for children)	Audit in progress	
	Special Education Needs Transport	Final report issued	Limited
Kent Adult Social Services			
	Residential Payments Data	Final report issued	Substantial
	Debt Management	Audit in progress	
	Swift Project/Programme Management	Audit in progress	
Communities			
	Fee Income	Audit in progress	
	Libraries IT Renewal Project	Audit in progress	
	Careworks Application	Audit in progress	

Annex A
Progress against the 2010/11 Audit Plan

Directorate/area	Audit	Progress at 29 October 2010	Assurance
	Revenue Budget Monitoring	Audit in progress	
Environment, Highways & Waste			
	Key financial controls in KCC establishments Church Marshes - Waste Transfer Station	Draft report issued	
	Permit Scheme IT Application Audit	Final report issued	Limited
	Carbon Reduction Commitment	Audit in progress	
	Review of Roadworks Permit Scheme	Audit in progress	

Use of Consultants

Scope

The scope of the audit was to provide assurance over the adequacy and effectiveness of the council's procurement of consultants and that the requirements of the codes of practice incorporated in "Spending the Council's Money" were being properly followed.

Overall Assessment – Substantial

The audit focussed primarily on the Chief Executive's Department, as this was the area within the Council with the highest spend on consultants.

Our audit found that there were some examples of miscoded transactions on the subjective code for consultants that did not relate to consultancy arrangements. The Audit also identified that "Spending the Council's Money" does not provide any supplementary, specific guidance to inform staff of the issues that must be considered and procedures to be followed when seeking to engage consultants or consultancy firms.

We also identified that where expenses were included in invoices for consultancy services, the expenses were not always checked and details to support them were not requested. There were also examples where expenses were limited to capped amounts, but checks were not carried out to see whether actual expenses exceeded the agreed limit.

Four recommendations were made, all of which have been agreed by senior management.

Web Site Management

Scope

The scope of the audit was to review the technical management of the Councils new web site.

Overall assessment – Substantial

The strategic management of the web function at the council is managed through the Communications and Media department where a web development team was formed in 2009. The current revenue budget for the team is £156k per annum which covers support, development and maintenance.

In 2009, the Central Web Team was awarded £1.1m from KCC's Capital Programme to replace the web systems used for the website and intranet which included a new Content Management System and web site.

The controls put in place as part of the implementation and ongoing management of the site are in line with good practice, allowing directorates to have pertinent information about the content on the site whilst providing a site which is user friendly, including improved accessibility for users with disabilities.

Three recommendations have been made which have been agreed by senior management.

Employment Checks through Kent Top Temps

Scope

The scope of the audit was to provide assurance that the pre-employment checks carried out by Kent Top Temps Ltd (KTT) to ensure that workers are genuine, eligible to work in the UK, that they possess the relevant and genuine qualifications required for the job, and have relevant police clearances and personal references are in place..

Overall Assessment – High

The audit found that there are effective controls in place to ensure that appropriate pre-employment checks are completed for every new worker set up by KTT before they are offered a relevant post. Extensive training is provided to staff in KTT and procedure notes and checklists are in place.

Other agencies that provide staff to KTT carry out their own checks. The General Manager of KTT is provided with the details of pre-employment checks made by these agencies and checks a random sample of agencies through re-performance of expected pre-employment checks.

As part of recruitment checks KTT should obtain two references for every worker prior to a position being offered to them. The audit identified three cases (from 30) where only one reference had been received. The General Manager stated that in these circumstances the recruiting manager is always informed so that they can make the final decision regarding employment. We have recommended that a third referee is obtained from the worker in cases where only one of the referees responds. We have also made a recommendation regarding the verification of National Insurance Numbers.

Both recommendations have been accepted by management.

Special Educational Needs – Home to School Transport**Scope**

The scope of the audit was to provide assurance that contracts with suppliers have been properly tendered, that payments made to suppliers are accurate and are only made for services provided, and that pupils transport needs have been identified and met.

Overall Assessment – Limited

Special Educational Needs (SEN) Home to School Transport is commissioned by the SEN Team. There are approximately 4,000 pupils provided with transport which is arranged via contracts arranged for multi occupancy taxi and bus journeys or sole occupancy taxis. The allocation of pupils to contracts with transport companies is co-ordinated by the Transport Integration Unit via the Routewise system.

We found that pupils are assessed against eligibility criteria and individual needs are considered. However, information about a child's disability, special requirements or contact details is not always provided to the Transport Integration Unit by the Area Education Office. The Transport Integration Unit requires this information to enable it to be passed to the transport supplier.

During the audit it was identified that any changes to contract details can be carried out by any user of the system. There is no independent checking procedure in the Transport Integration Unit for management to identify contract prices that may have been entered or amended within a given period and to identify any anomalies. Suppliers can therefore submit invoices with increased prices that may not be queried because the checking of invoices is done against the latest contract prices on Routewise. This finding was the main reason for the 'limited' assurance.

The Schools Transport Manager has arranged via the system supplier to limit access to add or amend contract costs to a restricted number of staff.

Six recommendations were made, all of which have been agreed by senior management.

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 August and October 2010.

29 actions' were due to be in place by the end of July 2010;

- 19 have been implemented
- 10 actions are outstanding; five of which are high priority and five medium priority.

Revised dates for implementing the outstanding recommendations have been provided.

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

Annex C: Table 1

Directorates Progress with the Implementation of Audit Recommendations (Covers August, September & October 2010)

Directorate	Audit	Total actions due to be in place by end of October 2010	Actions in place	Priority of outstanding actions as at 31 October 2010			Recommendations outstanding	Revised date for implementation
				C	H	M		
Authority wide and S151	Governance of Individual Partnerships	2	0		1	1	<p>Recommendation 1 (H) - 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</p> <p>Recommendation 2 (M) - The Kent and Medway Safety Camera Partnership should ensure it is subject to an independent review on an annual basis.</p>	January 2011
	Imprest Accounts	3	1		2		<p>Recommendation 1: 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, and 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</p> <p>Recommendation 2: (1) All dormant cost centre account codes for imprest accounts no longer needed should be disabled 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.</p> <p>(4). To facilitate the monitoring, management should</p>	November 2010

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Directorates Progress with the Implementation of Audit Recommendations (Covers August, September & October 2010)

Directorate	Audit	Total actions due to be in place by end of October 2010	Actions in place	Priority of outstanding actions as at 31 October 2010			Recommendations outstanding	Revised date for implementation
				C	H	M		
							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.	
Authority wide and S151	Partial Exemption	1	1					N/A
Chief Executive's Department	Property Management System Security	1	0			1	The password settings enforced within the Enterprise system should be formally documented and reviewed by management, to determine whether they are considered appropriate to mitigate the potential impact of unauthorised users gaining access.	December 2010
	Staffcare Services	1	1					N/A
Children, Families & Education	Cage Green School Follow Up	4	4					N/A
	Children's Centre Resource Systems	6	3		1	2	<p>Rec. 1 (M) The possibility to configure the eStart system to enforce required password controls should be investigated with the system supplier.</p> <p>Rec. 4 (H) Audit trails should be adequately enabled on the eStart system to allow for changes to the system to be identified. A process should also be established to periodically report and review any changes made to user profiles and critical or master data changes.</p> <p>Rec. 5 (M) Effective Disaster Recovery and Business</p>	January 2011

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Directorates Progress with the Implementation of Audit Recommendations (Covers August, September & October 2010)

Directorate	Audit	Total actions due to be in place by end of October 2010	Actions in place	Priority of outstanding actions as at 31 October 2010			Recommendations outstanding	Revised date for implementation
				C	H	M		
							Continuity Procedures should be established and tested. ISG Should also ensure that documente3d restore procedures have been established for the eStart application and that the eStart backup data and tapes are regularly tested for integrity.	
Kent Adult Social Services	Data Quality	5	5					N/A
Communities	Tribal EBS	6	4		1	1	<p>Rec 3 (H)The KAES MIS Team and Tribal should strengthen the existing password controls to reduce the likelihood of unauthorised access to the EBS system and data.</p> <p>Rec 4 (M) KAES should work with Tribal to consider whether it is necessary to perform a vulnerability assessment on an annual basis (in accordance with commonly accepted good practice). and that KAES works closely with ISG and Tribal to determine the most cost effective approach for performing these assessments and whether they should be performed on an ongoing basis.</p>	December 10
TOTAL		29	19		5	5		

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

Annex C: Table 2

Outstanding high priority recommendations with revised implementation dates (Covers April to October 2010)

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
Children, Families & Education	Children's Centre Resource Systems	Audit trails should be adequately enabled on the eStart system to allow for changes to the system to be identified. A process should also be established to periodically report and review any changes made to user profiles and critical or master data changes.	We have raised the need for an Audit Trail with Capita and this is something they are looking to provide in future updates, the upgrade is due to begin shortly and we will be looking to see if the ability to create an audit trail has been included.	Jan 2011
Chief Executive's Department	Property Management System	The password settings enforced within the Enterprise system should be formally documented and reviewed by management, to determine whether they are considered appropriate to mitigate the potential impact of unauthorised users gaining access.	A planned change to the Enterprise application in May 2010 will mitigate the risks identified in the audit. Completion of this now put back to July 2010. Further delays until end of September 2010, go live date 30.09.10 so will follow up again in October to check went ahead. More involved than first thought so target date now for completion is mid Nov.10	Dec 2010
Communities	Tribal EBS	The KAES MIS Team and Tribal should strengthen the existing password controls to reduce the likelihood of unauthorised access to the EBS system and data.	All parts of the recommendation implemented other than a request that the EBS Agent security function to apply to EBS 4 as well - earliest release of updated security will be Dec 10.	Dec. 2010
Section 151	Imprest Accounts	<p>1-All dormant cost centre account codes for imprest accounts no longer needed should be disabled on Oracle.</p> <p>2-All surplus bank accounts that do not relate to the active imprest accounts should be identified and closed.</p> <p>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.</p> <p>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</p>	<p>Point 1 completed by CFE and Communities. Progress ongoing within other Directorates but ongoing work pressures has caused slippage.</p> <p>Points 2, 3 and 4 are in progress by the Treasury and Investment Manager and due to be completed by end of November due to work constraints.</p>	Nov 2010

Annex C: Table 2

Outstanding high priority recommendations with revised implementation dates
(Covers April to October 2010)

Directorate	Audit	Outstanding recommendation	Reason for non-completion	Date to be completed by
		accounts in the future.		
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	'Due to an unannounced Inspection and a serious case review, this was deferred for consideration by the Executive. This is due to be discussed by the Board in December 2010.	Jan. 2011

Amendments to Plan

Audit	Comments	Days
CFE05 - ContactPoint	Central Government has scrapped the ContactPoint database therefore the audit is no longer relevant.	-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
S09 - Construction Industry Scheme	This is part of the process for paying suppliers so will be included in a future Account Payable audit.	-10
CED08 – Telecoms/Voice Over Internet Protocol (VOIP)	As this is an ongoing key project a member of staff from Internal Audit will join the project team to provide advice and information.	-
KASS03 – Self Directed Support	Continuing advice and information will be provided as this process is implemented instead of an audit.	-
KASS04 – Kent Card	This audit will be deferred to 2011/12 as the key contact is on maternity leave.	-10
AW13 – Staff Expenses System	A review of the system for paying staff expenses	+15
		-50

Annex E

Internal Audit Performance

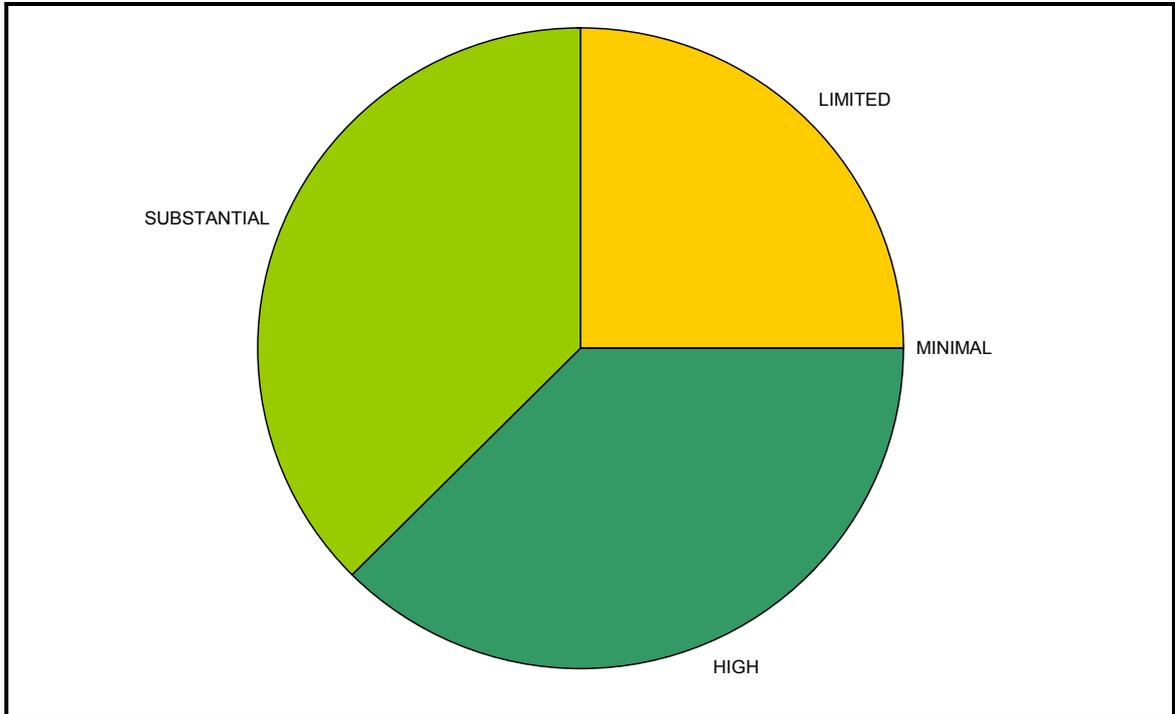
The following table is designed to provide Members with Internal Audit's performance against Key Performance Indicators.

Performance Indicator	Target	Actual (Apr – September 2010)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • Compliance with the CIPFA Code of Practice for Internal Audit 	<p>98%</p> <p>90%</p>	<p>97%</p> <p>79%</p>
<p><u>Efficiency</u></p> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	<p>50%</p> <p>80%</p> <p>80%</p> <p>By March/April G&AC meetings</p> <p>By May</p>	<p>35%</p> <p>94%</p> <p>79%</p> <p>April G&AC meetings</p> <p>May</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	<p>70%</p>	<p>84%</p>

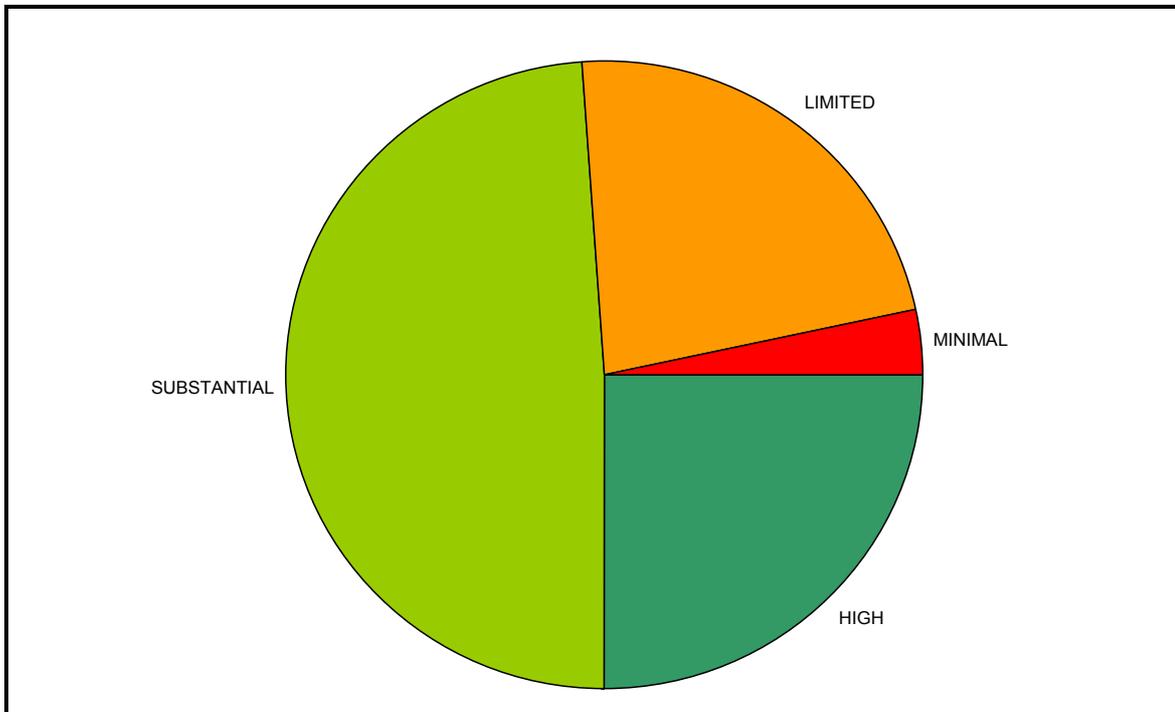
All of the above to be updated

* Percentage of plan delivered as at 29 October 2010

Assurance Position:
2010/2011



2009/2010



Annex G
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>