By:	Roger Gough – Member for Corporate Support Services and Performance Management
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To:	Governance and Audit Committee – 16 March 2011

Subject: INTERNAL AUDIT PROGRESS REPORT

Classification: Unrestricted

Summary: This report summarises the progress against the 2010/11 internal audit programme.

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. Between November 2010 and January 2011 Internal Audit finalised seven reports, issued 11 draft reports and started the field work for 13 audits. Detailed progress against the audit plan for 2010/11 is listed at annex A. Summaries of the audits finalised in the period are at annex B. The directorates' progress against the implementation of agreed recommendations is shown at annex C.

3. The section has been working hard all year to ensure delivery of the 2010/11 audit plan, whilst at the same time going through a fundamental reorganisation and dealing with a legacy of delayed reports from the 2009/10 audit programme. As previously reported to the Committee the current year's audit plan has been behind schedule, and as set out in annex F this remains the case. Although additional resources have been commissioned to resolve this issue, a number of fraud investigations (see below) have required additional audit resource. Whilst it is disappointing that the plan is not currently on target, it is still expected that the audit plan will be completed to a sufficient degree to allow the Head of Internal Audit opinion to be issued to the June committee.

4. Amendments to the Audit Plan are shown at annex D and a breakdown of Internal Audit Performance Indicators are shown at annex F.

Irregularities

5. Since September 2010 seven cases of suspected irregularities have been reported involving KCC finances, all of which have required varying levels of investigation by audit staff, representing a . Three of the investigations have been completed and the others are ongoing. Details of the completed investigations can be found at annex E.

Implications for Governance

6. 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 G provides the cumulative assurance position for the Council from 2008/09 to present, while annex H provides the definition of these assurance levels.

Recommendation

7. 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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23 February 2011

Directorate/area	Audit	Progress at 31 January 2011	Assurance
Authority Wide			
	Risk Management – Health & Safety	Final report issued	High
	Authority Wide – ISG Management /Strategy Development	Final report issued	Substantial
	Vetting and Barring Scheme		
	Use of Consultants	Final report issued	Substantial
	Website Management	Final report issued	Substantial
	Data Protection	Draft report issued	
	Handling Risk Information	Draft report issued	
	Staff Expenses System	Draft report issued	
	Governance of Partnerships	Audit in progress	
	Corporate Governance	Audit in progress	
	Capital Contract Monitoring	Draft report issued	
	Performance Management Framework	Audit in progress	
	Risk Management -	Audit in progress	
Chief Executive's			
	Virus Protection/Spyware	Final report issued	Substantial
	End User controls	Final report issued	Limited
	Building Maintenance Contract	ToR issued and agreed	
	Employment checks through Kent Top Temps	Final report issued	High
	Procurement	ToR issued and agreed	
	Operation of the Property Consultants Framework	Final report issued	Substantial
	Medium Term Plan - income	Final report issued	High
	Accounts Payable	Draft report issued	
	Payroll		
	Accounts Receivable	Final report issued	High
	Year End Accounting	Final report issued	N/A
	Commercial Services Accounts Payable	Final report issued	Substantial
	Accounts Receivable (Commercial Services)	Final report issued	Substantial
	Pensions Contributions	Draft report issued	
	East Kent Payroll Services Contract	Audit in progress	
	General Ledger (Commercial Services)	Draft report issued	
	Schools' Personnel Service	Audit in progress	
	Pensions Investment Income	Audit in progress	
	General Ledger	Audit in progress	
	Corporate Purchase Cards	ToR issued and

Directorate/area	Audit	Progress at 31 January 2011	Assurance
		agreed	
	Data backup and data centres	Draft report issued	
	Treasury Management	Audit in progress	
Children Families & Education			
	Cluster Funding	Draft report issued	
	Direct Payments (for children)	Audit in progress	
	Out of County Placements		
	Financial Control in Schools		
	Special Education Needs Transport	Final report issued	Limited
	Unstructured data processing	Audit in progress	
Kent Adult Social Services			
	Transaction Data Matching		
	Residential Payments Data	Final report issued	Substantial
	Debt Management	Audit in progress	
	Swift Project Dependency Management	Draft report issued	
	Learning Disability Transfer	Audit in progress	
	Quality of Care in Residential Homes	Audit in progress	
Communities			
	Fee Income	Draft report issued	
	Libraries IT Renewal Project	Final report issued	Substantial
	Careworks Application	Draft report issued	
	Data Quality	Audit in progress	
	Revenue Budget Monitoring	Draft report issued	
	Pre implementation review of self issue kiosks in libraries	Draft report issued	
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	
	Highways Maintenance Programme - Traffic Light management contract	Audit in progress	
	Over 60s travel passes	Audit in progress	

Virus Protection and Spyware

Scope

The scope of the audit was to review the technical management of the Councils Anti Virus and Spyware provision to protect the Council from malicious software (Malware).

Overall assessment – Substantial

The Council has in place an Anti-Virus Policy, covering the major points on virus protection, and guidance is provided to users. Procedure are in place for loading and updating anti-virus software and apply to all PCs, laptops and remote access usage.

Although user machines and servers are loaded with the latest anti-virus updates at connection to the network, network devices are not currently updated and patched and unauthorised software is not currently being identified in a sustainable manner; and the procurement policy around IT equipment and systems procured inside ISG needs to be strengthened.

Possible infection incidents are logged by the Service Desk, who have defined and documented procedures for virus handling. There is however, a need to further educate users about the risk of viruses and spyware

End User Controls

Scope

The scope of the audit was to review the technical management of the Councils IT systems to help protect data and manage end user behaviours when using IT systems or equipment.

Overall assessment – Limited

An end user is generally a person that uses IT hardware once it has been installed and is ready for use. End user devices include laptops, Personal Digital Assistants (PDA) and Smartphones. Some end user devices such as portable USB data storage devices, may be used solely for the purpose of transferring data from one device to another.

There was one critical rated recommendation relating to the regular patching of network devices including workstations, laptops, bridges, routers, switches and gateways.

Although the security configuration at the workstation/laptop level tended to be relatively strong, the key areas of weakness were around the more portable devices, such as portable data storage devices (e.g. external hard drives, writable CDs and USB drives) which can hold large volumes of data and be easily moved around.

There are three key areas which impact on this. The first is Information Governance which is now being developed within KCC. The second is the ability to monitor and manage portable devices' ability to connect to the Council's systems through end point security. The third area is relates to policy awareness and training for users which are key in providing the tools to make decisions around how to use end user equipment.

Operation of the Property Consultants Framework

Scope

The purpose of the framework is to enable Council sites to commission property consultants without the need of undertaking lengthy procurement processes each time. The scope of the audit was to review compliance with the framework.

Overall Assessment – Substantial

The audit found that consultants are being commissioned in compliance with the stipulations of the consultants' framework. However, there is no monitoring of compliance and as a result non compliance may not be detected and prevented by management. We found that the consultants' list is not being rotated as stipulated in the framework. We also found that insurance details of several consultants were out of date, but the suspension process (as stipulated within the framework) was not invoked. Since our review, the Contract Performance and Financial Monitoring team have written to all consultants with expired insurance details informing them that they will be suspended from the framework if up to date insurance is not received.

We have made three recommendations which have been accepted by management.

Medium Term Plan - Income

Scope

The purpose of the audit was to provide assurance that that income estimates in the budget for 2010/11 are based on up to date information and sound assumptions.

Overall Assessment – High

Our audit confirmed that accurate recording of Council Tax and Formula and Area Based Grants is carried out by the Strategic Finance team with the use of up to date information being provided directly from third parties, such as the districts or central government. Regular reviews takes place to ensure that the best possible estimate is included within the budget at the time of approval and to minimise change to the budgeted figures.

We did not make any recommendations.

Accounts Receivable (Kent Commercial Services)

Scope

The scope of the audit was to review the effectiveness of controls for accounts receivable in the following :-

- New customer accounts are appropriately authorised and credit checked;

- Income is correctly and completely recorded – our work was restricted to the interface controls of three key accounting systems, LASER, TRACE (Kent Fleet) and Oneoffice (Kent County Supplies) with the CODA system;

- Debt is appropriately managed;

- Risk of fraud and error is minimised.

Overall Assessment – Substantial

The Exchequer Manager has written procedures for the opening of new accounts for the CORE accounts. Overall our audit confirmed that new accounts are appropriately authorised and where relevant credit checked by the Exchequer Manager.

Accounts can be opened without a credit limit being applied to the account, but this is highlighted on a Credit Limits report received by the Exchequer Manager.

Transaction files are interfaced from the individual business units into the CODA system. The accounting systems tested are reconciled on a monthly basis, with any discrepancies resolved and documented. All tested income received was allocated to the correct codes in a timely manner. Unallocated cash is posted to a unique account code in the Accounts Receivable system and is reviewed on a daily basis. .

All debts are allocated to a named credit controller and debt collection procedures have been clearly specified and appropriately followed by credit controllers. The client base is predominately local authorities and schools so there are very few write offs. At the time of the audit there were over £1.5m of credit balances (excluding £1m of internal credit balances). Some are being offset against current invoicing but many are not. The inclusion of these credit balances provides bias in the reported debt figures and increases it by £2.5m.

We noted that there is a separation of duties in the raising of invoices (at business units) and in the collection and accounting for income (In Exchequer).

We have made three recommendations which have been accepted by management.

Accounts Payable (Kent Commercial Services)

Scope

The purpose of the audit was to review the effectiveness of controls in the following:-

- Payments should only be made to bona-fide suppliers;

- Inappropriate or duplicate payments should not be paid;

- Payments should be accounted for accurately and completely;

- Payments should be made on a timely basis.

Overall Assessment – Substantial

Invoices are properly authorised, accurately input and paid on a timely basis with proper segregation of duties in place. Cheques and BACS payments had been reconciled to payment runs and paid on a timely basis. Signatory lists at the units reviewed were up to date with the exception of Landscape Services.

Data from systems such as Trace, Oneoffice and Astea are interfaced on a daily basis to the main accounting system, CODA. Any errors identified are corrected, however, there is no full reconciliation of the totals of records interfaced.

Access to systems are appropriately controlled although there is no regular job families' access review; and we were unable to verify that only the appropriately authorised staff have access to the system areas.

We have made seven recommendations which relate mainly to the authorisation of new suppliers and the management of inactive suppliers; the reconciliation of feeder files and reviewing on a regular basis the approved signatory lists.

The recommendations have been accepted by management.

Libraries IT Renewal Project

Scope

Kent Libraries and Archives joined the South East Library Management Services (SELMS) consortium the aim being to improve the management and service capabilities of all participating local authorities improving customer service, accessibility and efficiency. The purpose of the audit was to assess whether the replacement of the Galaxy library management system with the Spydus system has delivered the aims of both the SELMS specification and any additional requirement as stated by KCC.

Overall Assessment – Substantial

The audit established that the majority of the specifications of the new system had been delivered, although at the time of the audit there were still some aspects of the system in development. A major requirement of the new system was to move away from generic log - ins to enable all transactions by all members of staff to be traceable. However, only financial transactions can be traced in this way and the process for this is very time consuming. A system called Smart – Lock is currently in development to address this.

Where the aims of the new system have not yet been achieved, there was evidence to support that action is being taken to put them in place as soon as possible.

We have made not made any recommendations.

Directorates' Progress with the Implementation of Agreed Recommendations

Where Internal Audit find instances of non compliance i.e. 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 November 2010 and January 2011.

38 actions' were due to be in place by the end of January 2011;

- 34 have been implemented
- 4 actions are outstanding; one of which is high priority and three 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.

Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

Directorate	Total actions due to be in place by end of January 2011	Actions in place	Priority of outstanding actions as at 31 January 2011			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide and S151	2	2				Employment checks through Kent Top Temps	All recommendations relating to this audit have been completed.	
	2	1			1	Governance of Partnerships	All recommendations for the Kent Safeguarding Children Board – Performance Monitoring are completed. Kent and Medway Safety Camera Partnership are currently rewriting their Memorandum of Understanding to make it a legally binding document. This has not yet been agreed with the partners.	31st March 2011
	1	1				Imprest accounts	Recommendations complete	
Chief Executive's Department	1				1	Property System Management Security	The technical solution, which was hoped would avoid having to put in place a manual procedure, has finally proved too difficult to implement. A policy and procedure is being drafted to be approved by Property SMT.	31st March 2011
Children, Families & Education	6	4		1	1	Childcare Resource Systems	The outstanding recommendations are currently in progress and are awaiting the implementation of version 3.37a of eStart.	31st March 2011
Kent Adult Social Services	5	5				Client Billing	All recommendation relating to this audit have been completed or superseded.	
Environment, Highways and Waste	8	8				Kent Highways	All recommendations relating to this audit have been completed or the accountable	

Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

Directorate	Total actions due to be in place by end of January 2011	Actions in place	Priority of outstanding actions as at 31 January 2011			Comments on recommendations		
			C	H	M	Audit		To be completed by
						Services Road Permit	manager considers that the existing controls are sufficient for the risks involved.	
	4	4				Kent Thameside	All recommendations relating to this audit have now been completed or no longer apply as the Company's activities will cease at the end of the current financial year.	
	3	3				Ashford Regeneration	All recommendations relating to this audit have now been completed or no longer apply as the Company's activities will cease at the end of the current financial year.	
Communities	6	6				Tribal EBS System	All recommendations relating to this audit have been completed or superseded.	
TOTAL	**38**	**34**		**1**	**3**			

Directorates Progress with the Implementation of Audit Recommendations November and December 2010 and January 2011

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.	31st March 2011

Amendments to Plan

Audit	Comments	Days
CFE05 – ContactPoint	Central Government has scrapped the ContactPoint database therefore the audit is no longer relevant.	-20
CFE06 2011 – LSC Transfer	Audit removed due to change / uncertainty as to the requirements of central government.	-25
CFE07 2011 – Kent Children's Trust	Assurance in this area provided through work of OFSTED.	-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
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 until the key contact returns from maternity leave.	-10
KASS-07 Client Billing	Merged with KASS debt management.	-
S09 – Construction Industry Scheme	This is part of the process for paying suppliers and will be included in a future Account Payable audit.	-10
CED06 – Regeneration Fund/Regeneration Framework	This has been deferred as a result of the Council-wide restructure.	-15
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.	-
AW06 – Information Sharing	Assurance now provided by the audit on information governance and data protection	-30
AW07 2011 – Hypothecated Funding	The in year and future reduction of government funding has had a significant impact on the level of Hypothecated Funding received by the Council, reducing the need for this audit.	-15
AW10 2011 Schemes of delegation	This work has been carried forward to 2011/12 plan as a result of the light of Council-wide restructure.	-10
AW13 – Staff Expenses System	A review of the system for paying staff expenses.	+15
CMY02 2011 Protection of Children and Adults	Assurance in this area provided through work of OFSTED.	-25
CMY05 – Business Continuity	This has been deferred as a result of the Council-wide restructure.	-15
CMY06 Self Issue Kiosks	Pre implementation review of self issue kiosks in libraries	+10
Total		-195

Irregularities: Investigations completed November 2010 to February 2011

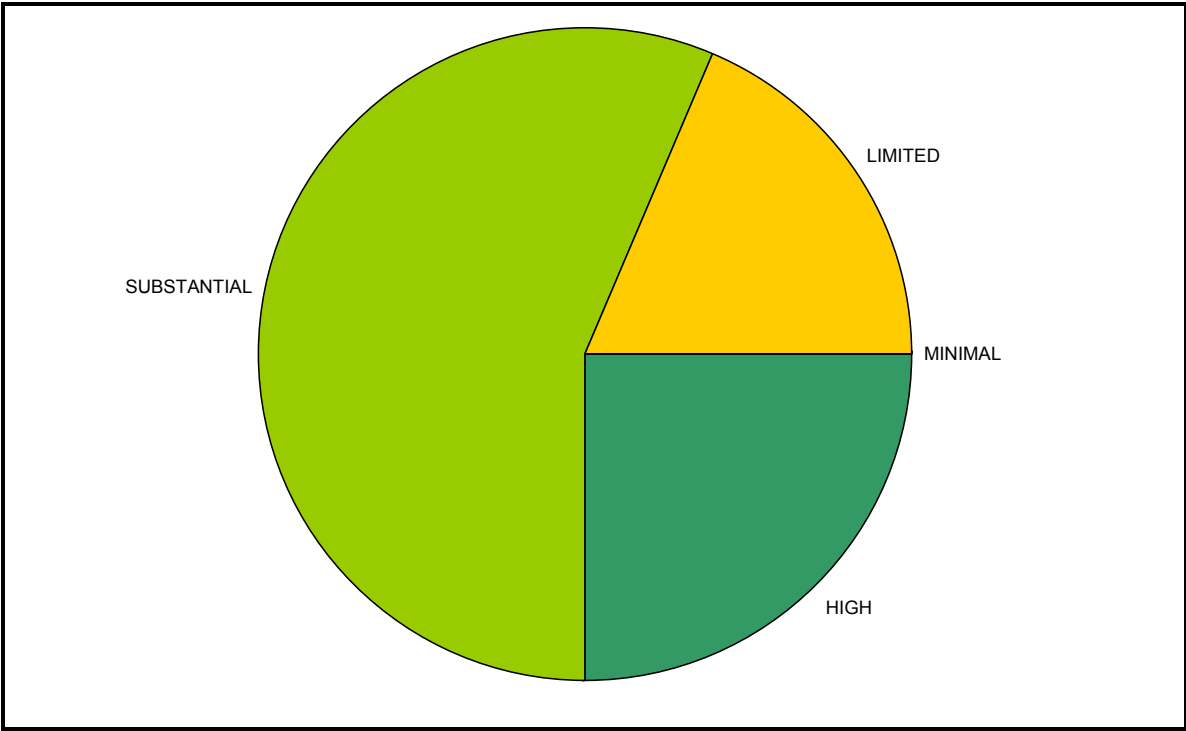| Ref	Value	Details and Outcome
xx 798	Unknown	An allegation was made by a person(s) who wished to remain anonymous via another local authority, that an individual was using a cloned Blue Badge. Although the allegation was about someone who lives in the county, the Council had not issued a badge. Despite investigations we are unable to identify the issuer or if the badge was cloned. No further action taken.
xx799	N/A	A Head teacher at a school had authorised the overtime claim for a member of staff. The Head teacher believed that the claim was excessive, but did not identify that until after the claim had been paid. In addition large sums of money were being kept in the school's safe contrary to the limit specified in the school policy. The Head teacher had concerns that the member of staff was not complying with school policy and had falsified overtime claims. Internal Audit carried out an investigation, but could find no evidence that the member of staff had falsified their claim, or failed to comply with school policy. We have made a number of recommendations to generally improve financial controls at the school.
xx800	£485	There was a theft from the safe of a care centre in which a ring and money belonging to a client, as well as income collected by the centre was stolen. The keys to the safe were not held securely so the culprit could not be identified. The police were informed although were unable to carry out an investigation because several people had access to the keys to the safe. Internal Audit have made recommendations to improve controls.

The following table is designed to provide Members with Internal Audit's performance against Key Performance Indicators.
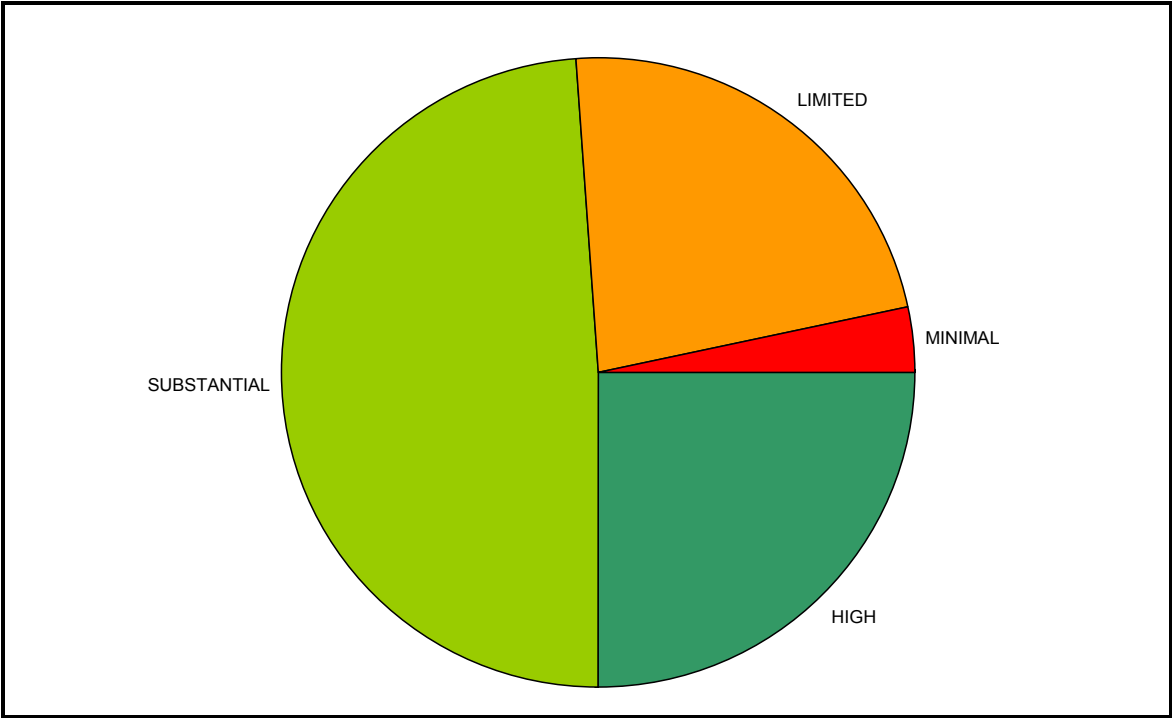
Performance Indicator	Target	Actual (Apr – January 2011)
Effectiveness • % of recommendations accepted • Compliance with the CIPFA Code of Practice for Internal Audit	 98% 90%	 91% 79%
Efficiency • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement	 83% 80% 80% By March G&AC meetings By May	 65% 86% 62% March G&AC meetings May
Quality of Service • Average Client Satisfaction Score –	 70%	 97%

* Percentage of plan delivered as at 31 January 2011

Assurance Position:
2010/2011

2009/2010

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.