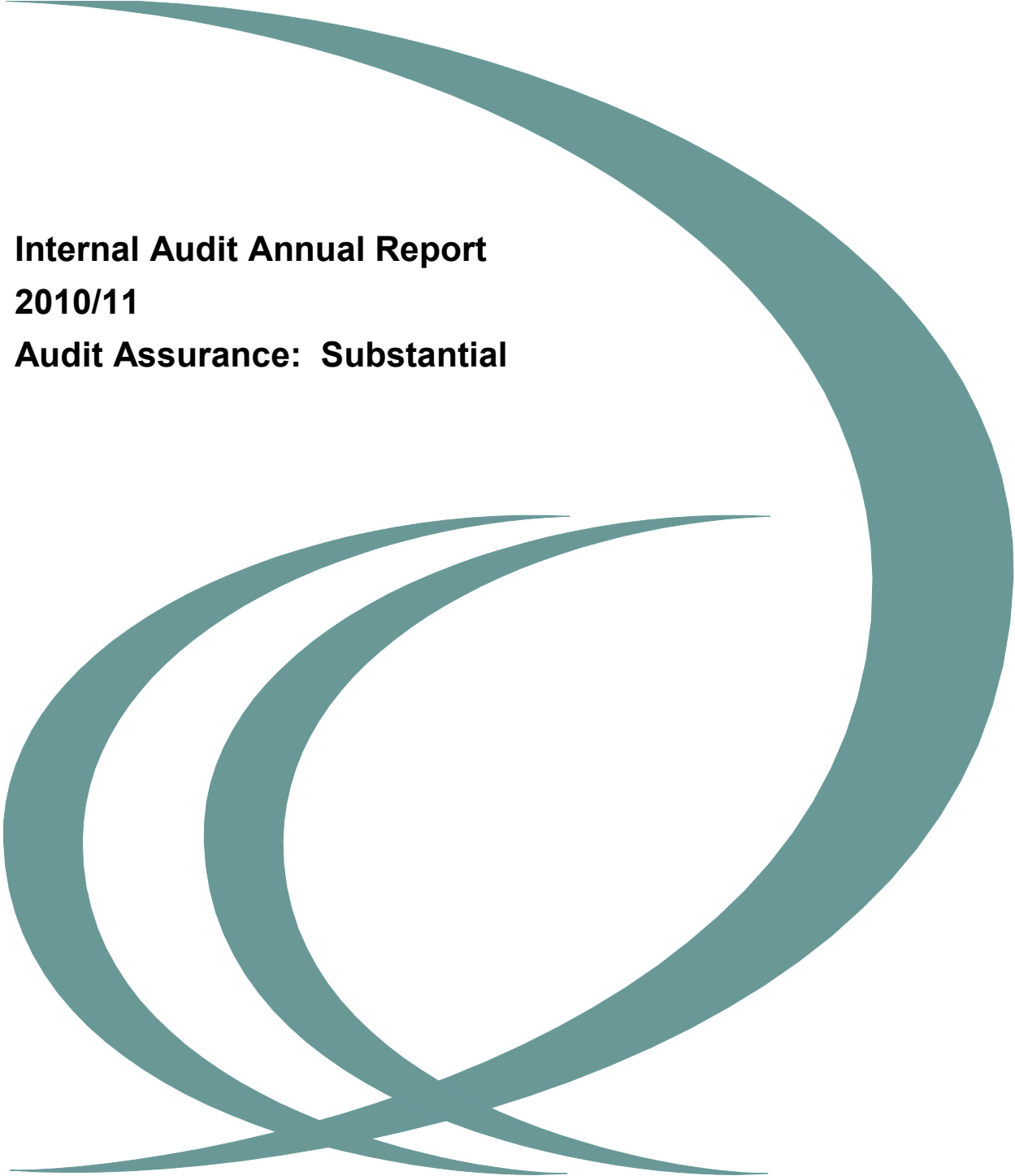


**Internal Audit Annual Report
2010/11
Audit Assurance: Substantial**



Contents

Section	
1.	Introduction
2.	Objectives, Scope, Responsibility and Assurance
3.	Summary of Internal Audit Work Undertaken <ul style="list-style-type: none">• Core work• Follow ups• Anti fraud work• Liaison with External Audit
4.	The review of the effectiveness of the system of internal audit
Appendix A: Summary of Minimal and Limited Assurance	
Appendix B: Summary of internal audit projects in 2010/11	
Appendix C: Internal Audit Charter	

1. Introduction

Purpose of this report

- 1.1. Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the Council's control environment. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom requires the "Head of Internal Audit" (hereafter referred to as the Head of Audit and Risk) to provide a written report to those charged with governance, timed to support the Annual Governance Statement. This report presents my opinion based upon the work that Internal Audit has performed and covers the period 1st April 2010 to 31st March 2011
- 1.2. This report builds on the matters reported throughout the year to the Governance and Audit Committee which have been subject to detailed reports to the Managing Director, Cabinet Members, Managing and Executive Directors and their senior management teams.

Overview of work done

- 1.3. The original Internal Audit Plan (the Plan) for 2010/11 included a total of 71 projects. We have communicated closely with senior management throughout the year, to ensure that the projects actually undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.
- 1.4. As a result of this liaison, changes have been agreed to the Plan during the year. A number of projects have been deleted from the Plan as the result of changes to government initiatives and priorities following the general election in 2010, or if other assurances are available to the Council. Details of the changes to the Audit Plan have been reported to the Governance and Audit Committee throughout the year. The total number of projects undertaken in 2010/11 was 60, excluding the advisory work. At the time of preparing this report, most substantive work had been completed, and the reporting position was as follows:
 - 35 – final report/assurance work completed
 - 25 – draft reports issued or in the process of being finalised.
- 1.5. Internal Audit also undertook 17 investigations relating to potential fraud or other irregularities by staff or third parties, one of which was considered significant in relation to the control and risk framework of the Council.

2. Objectives, Scope, Responsibility and Assurance

Objectives

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

- 2.2. Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.

Scope

- 2.3. In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.
- 2.4. For 2010/2011 we prepared our internal audit plan based upon a variety of key factors including:
- Evaluation of the Council's risks using risk registers.
 - Review of existing key data, for example:
 - The Council's overall strategy
 - Budgetary information
 - Departmental business and performance plans
 - Audit Commission's requirements.
 - Interviews with senior management across the Council.

Responsibilities of management and of internal auditors

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

Limitations to the scope of our work

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

Limitations on the assurance that Internal Audit can provide

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

Assurance (Opinion)

- 2.10. The Head of Audit and Risk is required to provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Council's:
- Corporate Governance
 - Risk Management
 - Internal Control.
- 2.11. This is collectively referred to as "the system of internal control".
- 2.12. Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, **substantial** assurance can be provided on the adequacy of the system of internal control at KCC. Audit testing has confirmed that the majority of key controls are working in practice, with some specific exceptions. Where improvements to control or compliance are required, we are satisfied that appropriate action has been taken by the relevant managers.

Basis of our assessment

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

Key issues and implications for the Annual Governance Statement

- 2.14. In making its Annual Governance Statement the Council should consider the Head of Audit & Risk's opinion in relation to its internal control environment, risk management processes and corporate governance. For 2010/2011, although the work completed identified a number of improvements to be made, these do not constitute a systematic failure of internal control. There have been a number of irregularities reported in year (see anti-fraud below), one of which was significant in scale and another which highlighted particular issues in one business unit. We have summarised the key themes to be developed for each of the three categories of the Council's system of internal control below, and section 3 provides more detail of the work completed in year.

Corporate Governance

- 2.15. The Council's approved and adopted code of corporate governance is consistent with the principles of governance set out in the CIPFA Good Governance Standard (2004). The code is kept under review by the Council's Monitoring Officer and amended as necessary. The outcome of the review and any resultant changes is reported to the Governance and Audit Committee.

- 2.16. From 2007, Internal Audit's governance reviews have focused on assessing whether the Council meets the requirement of the CIPFA/SOLACE guidance. An audit conducted in 2008 looked at an overview of the six principles of corporate governance and gave *high* assurance that the controls were in place. The corporate governance audit in 2008/09 focussed on the function of the Policy Overview and Cabinet Scrutiny Committees, the role of the Monitoring Officer and directorate action plans to introduce improvements identified in their individual annual governance statements. The corporate governance audit for 2009/10 focused on whether the Council meets the requirement of 'engaging with local people and other stakeholders to ensure public accountability'. This is particularly relevant given the statutory 'duty to involve' placed on public bodies from April 2009. We were able to give *high* assurance that KCC meets the requirement.
- 2.17. For 2010/11 our work assessed how Members and Officers worked together to achieve a common purpose, including clarity of functions and roles, and the taking of informed and transparent decisions which are subject to effective scrutiny and the management of risk. Although there were some medium and low priority recommendations made as a result of the review, we are able to give *substantial* assurance that Corporate Governance is operating effectively.
- 2.18. Recognising the importance to service delivery of partnerships, the Audit Plan again included a review on the Governance of Individual Partnerships. This work is nearing completion but it is likely the opinion will be *substantial* assurance.
- 2.19. During 2010/11 the Council embarked on an organisation-wide transformation project called Change to Keep Succeeding. The underlying design principles of the programme, whilst enabling changes to the Council's culture and service provision, will have a direct impact on the Council's governance. A new internal management control framework has been put in place, and during 2011/12 a series of Statements of Required Practice (SORPs) will be implemented. These will specify the minimum requirements to be achieved by Kent staff across a range of areas, including Performance Management, Business & Financial Planning, Procurement and Risk Management. We will monitor the development and implementation of these SORPs, to help ensure that they deliver the anticipated improvements to operational governance.

Risk Management

- 2.20. There have been no fundamental changes to the overarching framework for Risk Management during 2010/11, and therefore previous assurance work remains valid. However, it was decided to commission a review of the risk management framework to inform the changes that are needed to increase the sophistication and maturity of risk management across the Council. The work was completed by Deloitte and reported directly to the Acting Corporate Director of Finance and Procurement to avoid any conflicts of interest with the Head of Audit and Risk. The review, whilst recognising the changes that were intended to be implemented, provided *substantial* assurance that the controls around the risk management processes were effective.

Internal Controls

2.21. Our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, although there were some exceptions noted from our reviews during the year. Set out below are key themes from our audits where actions were required to secure improvements to the control environment:

- **Information governance:** During 2010/11 six Internal Audit reports have been issued with “Limited” assurance in the area of information management and governance. The most common theme within these reports is the lack of central co-ordination and over reliance on local arrangements to ensure sound information governance. Early steps have been taken to improve the situation, including the formal appointment of the Director of Governance and Law as the Senior Information Risk Officer, or SIRO and the establishment of an Information Governance Group
- **Commercial Services:** Work completed in Commercial Services during 2010/11 highlighted issues around the governance arrangements in place and the level of assurance that was being provided back to the Council, either through management reporting lines or from internal audit. An independent governance review of the service will be completed during 2011 and changes to the control environment have already been implemented. It has also been agreed that a more commercially based internal audit presence will be put in place that will be professionally accountable to the Head of Audit and Risk. For the energy brokering service provide by Commercial Services there will also be an annual assurance statement based on *ISAE 3402 Assurance Reports on Controls at a Service Organisation*.
- **Performance Management:** Our Audit Plan included a review of the Council’s Performance Management framework. At management request this work was significantly reduced in its scope when it was identified that the Performance Management framework was being reviewed. The changes are designed to support the design principles set out in Change to Keep Succeeding. From the limited work that we did complete we did not find anything of significant concern to report.

3. Summary of Internal Audit Work Undertaken

Core work

- 3.1. The table below provides a summary of the assurance opinions provided on our audit reviews (final and draft reports) during 2010/11.

Summary of Audit Reviews - Final and Draft Reports

Assurance	No. of Reviews
High	10
Substantial	26
Limited	9
Minimal	1
No opinion given	3
Assurance opinion pending completion of work	11
Total	60

- 3.2. For the eleven audits in progress at the time of writing the report there are no indications of serious control weaknesses.
- 3.3. Minimal and Limited assurances were given to:
- Payroll - East Kent Shared Service (draft report) – Minimal
 - Databases and Spreadsheets (draft report) – Limited
 - End User Controls – (final report) – Limited
 - Building Consultants Framework–(final report) –Limited
 - Unstructured Data Processing – KASS & CFE (draft reports) - Limited
 - Handling Information Risk – Information Governance Follow Up (draft report) - Limited
 - Permit Scheme Application – (final report) - Limited
 - Highways Maintenance Programme (draft report) - Limited
 - Data Protection (draft report) – Limited
- 3.4. Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits, including those where the report is draft or where the audit work is still in progress, together with their respective overall assurance rating (provisional where still in draft).

Follow ups

- 3.5. At the end of each audit we make recommendations to improve the control environment. To ensure that the suggested improvements are realised we also follow up those issues that we deem as more important.

3.6. The tables below provide a summary of our follow up activity for 2010/2011.

	Critical	High	Medium
Number of recommendations made	2	6	36
Recommendations implemented by the deadline		3	13
Recommendations monitored but not yet due	2	2	22
Recommendations overdue		1	1

3.7. The two overdue recommendations relate to the audit of the Accounts Payable system in Commercial Services. The original deadline for implementation of both recommendations was January 2011; this has been deferred to 30th June 2011.

3.8. The critical recommendations made in 2010/11 are set out below. -

Audit	Finding
Databases & Spreadsheets	There is no requirement for directorates to apply the development standards established by Information Services Group (ISG) when implementing bespoke applications such as spreadsheets and databases. This could result in data being compromised through weak development or design, and decisions being made on low quality data. There is also the increased risk of inappropriate storage and data handling, leading to a breach of statutory duties <i>To be resolved by 31 October 2011</i>
End User Controls	Microsoft patches, updates and fixes are not applied to all network devices in a timely manner, increasing the risk that vulnerabilities may be exploited for malicious purposes. <i>To be resolved by 30 September 2011.</i>

Anti-fraud work

3.9. There were 17 suspected/potential irregularities reported to and investigated by Kent Audit in 2010/11. An analysis of the types of irregularities reported is shown below.

Type of Irregularity	Number
Theft/loss of cash and equipment	6
Fraudulent attempt to obtain/use of Blue Badge	2
Overtime and Mileage claims	2
Contract fraud by an employee	1
Change of supplier bank details by third party	1
Financial mismanagement	4
Conflict of interest	1
Total	17

- 3.10. Four of these cases were reported to the police. One member of staff has resigned, one has been dismissed and another is subject to an ongoing investigation and disciplinary procedure. This last case is significant in scale and has been separately reported to the Governance and Audit Committee. A member of the public received a caution for attempting to fraudulently obtain a Blue Badge; while another has been arrested for obtaining cash by purporting to be a KCC supplier and diverting monies from a genuine supplier payment. The majority of this money has since been recovered.
- 3.11. We have continued to deliver fraud awareness training during 2010/11. This has helped to highlight potential fraud risks to managers.
- 3.12. The Council is required to take part in the Audit Commission's bi-annual National Fraud Initiative (NFI), the purpose of which is to identify any potential frauds by matching data sets from other public sector bodies (for example housing benefits, payroll, pensions etc). Any 'matches' are flagged in a report that is returned to the Council for checking and investigation. No assumption can be made that because there are positive matches that fraudulent activity has taken place. The audit section work closely with other local authorities who have matches to the Council's data sets. This exercise is still in progress for 2010/11 and so far no potential frauds have been identified.

Liaison with External Audit

- 3.13. We have continued to work very closely with the External Auditors (the Audit Commission) and enjoy a good working relationship with them. A paper was presented to the November 2010 Governance and Audit Committee which acknowledged that although the relationship continues to work well, there is potential for External Audit to increase the reliance they place on internal audit work. In particular aspects of the work of Internal Audit on financial systems could be tailored to provide assurance required by External Audit. Authority wide reviews could be utilised by the External Auditors to better inform their risk assessment of the Council.

4. The review of the effectiveness of the system of internal audit

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

'The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.'
- 4.2. This guidance regards the Head of Audit and Risk as central to this framework of assurance and requires the role to acquire an understanding of both the Council's risks and its overall whole control environment and also of the sources of assurance available to it.

¹ Jan 2009

- 4.3. As part of the development for the risk based plan for 2010/11 consideration was given to the assurance that could be provided to the Council by external bodies, including the Audit Commission, Ofsted, the Care Quality Commission and internal assurances such as the Health and Safety Programme, the Schools Compliance and Statutory teams, the Business Continuity Programme and other commissioned work. As assurances were identified in year, the audit programme was amended.
- 4.4. The Council was the subject of three inspections from Ofsted during 2010/11, two of which focussed on Children's Services and one on Community Learning and Skills. In Autumn 2010 an unannounced inspection of safeguarding and looked after children services was completed by Ofsted. This inspection was formally reported in November 2010, and concluded that the overall effectiveness of services in Kent to ensure that children and young people are safeguarded and protected was inadequate, and that the capacity to improve was also inadequate. The report identified 13 areas for improvement, four of which were for immediate action, six to be completed within three months and three within six months.
- 4.5. In November 2010 the outcome of the performance analysis of the Council's Adult Social Services for 2009/10 was announced by the Care Quality Commission. The Council was awarded 'Excellent' in three of the seven outcomes and was judged as 'Good' in the other four outcomes. A performance rating of 'Performing well' was awarded overall.

Internal Audit Performance

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

Performance Indicator	Target	Actual
<i>Effectiveness</i>		
% of recommendations accepted	98%	100%
<i>Efficiency</i>		
% of plan delivered*	95%	87%
% of available time spent on direct audit work	80%	86%
% of draft reports completed within 10 days of finishing fieldwork	89%	75%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
<i>Quality of Service</i>		
Average Client satisfaction score	70%	88%

- 4.7. During 2010/2011 a redesign of the internal audit service was initiated, the first stage of which was to restructure the section. This process did reduce the capacity for about half the year, and the section is only now moving towards full establishment. This issue, combined with a number of resource intensive irregularity investigations has meant that the section has been unable to deliver the expected level of work. However, key elements of the plan have been delivered in sufficient depth to enable the overall audit opinion to be given.

Compliance with the Code of Practice for Internal Audit

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

- Although the Head of Audit and Risk has defined a standard for audit documentation and working papers there are no independent quality reviews undertaken to monitor adherence with this standard and therefore limited scope to ensure due professional care is achieved and maintained. However, manager review processes on individual assignments and reviews of audit reports by the Senior Audit Manager are designed to ensure a good quality output is achieved.
- There exists no formal definition of the skills and competencies for each level of auditor. This is in part mitigated by the existence of Job Descriptions and Person Specifications for each grade.

Compliance with the CIPFA Statement on the role of the Head of Internal Audit in public service organisations

4.10. In March 2011 the Governance and Audit Committee were updated on the level of compliance against the above statement, which highlighted the following gaps:

- There is no mechanism in place to ensure that the Head of Audit and Risk is consulted on all proposed major projects, programmes and policy initiatives.
- Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Audit and Risk.
- The terms of reference for Internal Audit have not been agreed with CMT.
- The Head of Audit and Risk prepares the draft Annual Governance Statement.
- The basis on which the Head of Audit and Risk can give assurances to other organisations and the basis on which the Head of Audit and Risk can place reliance on assurances from others has not been documented or agreed.
- The Head of Audit and Risk 's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.

As part of the process to develop the Council's Annual Governance Statement the above issues were reviewed by Corporate Management Team. The areas of non-compliance were not considered significant and will therefore be developed when appropriate.

Internal Audit Charter

4.11. Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter will be redrafted during 2011 to reflect the redesign of the Internal Audit Section, and will be submitted to Governance and Audit Committee for approval. The current version of the Charter can be seen at appendix C.

Summary of Minimal and Limited Assurance

Payroll – East Kent Shared Service

Scope

The objective of this audit was to review the implementation and subsequent operation of the shared payroll service operated by KCC Employee Services for East Kent Human Resource Partnership member councils (Thanet, Dover, Shepway district councils and Canterbury City Council).

Overall Assessment (Draft) – Minimal

The audit was carried out against a constantly changing and developing situation and discussions were held with Employee Services staff and the Corporate Director of Human Resources throughout the audit. The response to these discussions has been positive, with immediate action either taken or planned to resolve the issues identified.

The original timetable for the payroll project was for a staged implementation with all payrolls live by April 2010. There were delays in completing the necessary legal agreements and the software solution was not procured until December 2009. Development work did not start until January 2010. The original project plan was based on a high degree of harmonisation of working practices between the constituent councils. This was not the responsibility of KCC. This harmonisation was not achieved and different conditions of service, extensive local agreements, differing treatments of pay elements and other inconsistencies complicated the system build.

The problems and delays experienced with the system development increased the project costs and impacted on the subsequent payroll administration.

The inability to provide a working general ledger interface with Employee Services, Midland Consultancy and the constituent councils until late in the financial year and several months after the system went live is of particular concern. While working files are now being produced, some issues remain and not all councils have signed off on the content of the interface file. The considerable delay in resolving the issue created problems for budget monitoring of salary costs by the constituent councils and resulted in a loss of confidence in the payroll system.

However, the provision of new payroll systems for four councils (five payrolls) within the changed ambitious timescales was a substantial achievement for all concerned. It is important that this is recognised whilst accepting that the development process and the subsequent payroll operation were flawed.

Six recommendations have been made which have been accepted by management who have put in action plans to address the issues.

Summary of Minimal and Limited Assurance

Databases and Spreadsheets

Scope

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

Overall Assessment (Draft) – Limited

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

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

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

We also carried out reviews in two of the directorates looking at their arrangements to manage unstructured data processing. Work is still required to identify the applications in use and assess their use, much of which will be dependent on any Information Governance Policy to be implemented at Council level.

Recommendations have been made to address the issues identified.

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 (Final) – 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.

Summary of Minimal and Limited Assurance

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 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.

Building Consultants Framework

Scope

The objective of the audit was to review the process involved in setting up the framework to ensure that legislation was complied with and that the tendering process as published was correctly followed.

Overall Assessment (Final) - Limited

The Property Group has set up a four year consultancy framework contract which commenced in April 2009, with 153 consultants covering nine Property Services related disciplines. The purpose of the framework contract is to enable KCC sites to commission consultants without having to undertake a lengthy procurement process for each commission. We found that there was a lack of clarity on the role of the Project Manager as well as the Contract Performance and Financial Monitoring Manager regarding their responsibilities to ensure the accuracy and completeness of the tendering process. This had resulted in incomplete monitoring of the tendering process.

Recommendations have been made which have been accepted by management.

Handling Information Risk – Information Governance Follow Up

Scope

The scope of the audit was to review the progress of the implementation of the recommendations made in the 2008/09 Information Governance audit which gave a limited assurance.

Overall Assessment (Draft) – Limited

Although a follow up is usually only undertaken where a minimal level of assurance is given, the risk of political and reputational damage which may be caused through the loss of, or unauthorised distribution of restricted or sensitive data is seen as high.

Initial work undertaken indicated that the progress towards the implementation of recommendations made in the original audit was minimal, and subsequent audits

Summary of Minimal and Limited Assurance

around Data Protection and End User Controls also backed up these findings. There are some good practises being adopted within parts of the Council, but the key stumbling block appears to be a lack of responsibility or appetite at corporate level to manage information risk consistently throughout the Council. Until the area of responsibility is adequately addressed it will be far more difficult to implement the remainder of the recommendations.

Since the audit took place the Director of Law and Governance has been appointed as the Senior Information Risk Officer (SIRO). This should ensure that there is a corporate responsibility to manage risk consistently throughout the Council. Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Permit Scheme Application

Scope

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

Overall Assessment (Final) – 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 (e.g. 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 Mayrise application is well managed, with controls to ensure that data processed is accurate and timely. The 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.

Summary of Minimal and Limited Assurance

Highways Maintenance Programme

Scope

The scope of the audit was to provide assurance that the KHS maintenance programme is consistent with the County's obligation under the Highways Act 1980.

Overall Assessment (Draft) – Limited

The audit found that there were inconsistent practises across Highways in respect of recording data, prioritising maintenance and the inspection process. These inconsistencies provide challenges to the Insurance Section when assessing the suitability of a claim as the information they require may be held in the Works and Asset Management System (WAMS) or held as a paper copy.

The audit reviewed the inspection and repair time processes; we found from our sample that the majority of the roads are inspected in time/within accepted tolerances. However, our sample indicated that 42% of repairs are completed outside of the scheduled timeframe. KCC could potentially be liable for any claims where it is found that there has been a breach of KCC policy.

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

Data Protection 2010/11

Scope

The scope of the audit was to review KCC's compliance with the eight principles of the Data Protection Act (1998).

Overall Assessment (Draft) Limited

At the time of the audit, the Council had not formally appointed a Senior Information Risk Officer (SIRO) and therefore the corporate responsibility for data protection at a senior management level had not been clearly defined and assigned.

The data processing systems within the Council had not been formally reviewed to ensure that data is being processed in compliance with the Act; and there is no formally documented and approved Data Protection policy at a corporate level.

The audit found that data protection notices are well managed and that the ISO/IEC27001:2005 Information Security Management system (ISMS) standard had been adopted within the council to help ensure that data is adequately protected. However, there are not periodic compliance checks undertaken to help provide assurance that the standards are being appropriately applied.

Since the audit took place the Director of Law and Governance has been appointed as the SIRO. Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Appendix B

Summary of Internal Audit Projects in 2010/11

Audit - Directorate	Progress at May 2011	Overall Assurance
Authority Wide		
Corporate Governance	Completed	Substantial
Governance of Partnerships	Work in progress	Expected to be substantial
Authority Wide – ISG Management /Strategy Development	Completed	Substantial
Website Management	Completed	Substantial
Use of Consultants	Completed	Substantial
Data Protection	Draft	Limited
Website Management	Completed	Substantial
Performance Management Framework	Completed	N/A
Handling Risk Information	Draft	Limited
ICT Management/Strategy	Draft	Substantial
Use of databases and spreadsheets	Draft	Limited
Risk Management	Completed	Substantial
Chief Executive's Department/S151		
Year End Accounts Closedown (2009/10)	Completed	N/A
Pensions Investment Income	Completed	Substantial
Pensions Contribution	Completed	Substantial
General Ledger	Completed	High
Accounts Payable	Completed	Substantial
Treasury Management	Completed	High
Pensions Payroll	Work in progress	
Payroll – East Kent Shared Service	Draft	Minimal
Capital Monitoring	Completed	High
Building Consultants Framework	Completed	Limited
Operation of the Property Consultants Framework	Completed	Substantial
Building Maintenance Contract	Work in progress	
Employment checks through Kent Top Temps	Completed	High
Medium Term Plan - income	Completed	High
Commercial Services - Accounts Payable	Completed	Substantial
Commercial Services - Accounts Receivable	Completed	Substantial
Commercial Services - General Ledger	Draft	Substantial
Commercial Services – Tender Costing	Work in progress	
Corporate Purchase Cards	Work in progress	
Data backup and data centres	Completed	Substantial
Oracle Database	Work in progress	
Schools' Personnel Service	Draft	Substantial
End User Controls	Completed	Limited
Virus Protection/Spyware	Completed	Substantial

Appendix B

Summary of Internal Audit Projects in 2010/11

Audit - Directorate	Progress at May 2011	Overall Assurance
Children, Families & Education		
Financial Control in Schools	Completed	High
Unstructured data processing	Draft	Limited
Cluster Funding - Follow up	Draft	Substantial
Communities		
Fee Income	Draft	Substantial
Careworks Application	Completed	Substantial
Data Quality	Work in progress	
Libraries – IT Renewal Project	Completed	Substantial
Revenue Budget Monitoring (CMY)	Completed	High
Pre implementation review of self issue kiosks in libraries	Completed	N/A
Kent Adult Social Services		
Transaction Data Matching	Work in progress	
Residential Payments	Completed	Substantial
Unstructured data processing	Draft	Limited
Debt Management	Completed	High
Swift Project Dependency Management	Completed	Substantial
Learning Disability Transfer	Completed	Substantial
Quality of Care in Residential Homes	Draft	Substantial
Key financial controls in KCC establishments – Gypsy & Travellers Unit	Work in progress	
Environment, Highways and Waste		
Key financial controls in KCC establishments	Completed	Substantial
Church Marshes - Waste Transfer Station		
Review of Roadworks Permit Scheme	Completed	High
KHS Road Work Permit Scheme - IT system	Completed	Limited
Highways Maintenance Programme	Draft	Limited
Traffic Light management contract	Completed	N/A
Over 60s travel passes	Work in progress	
Performance and Data Quality	Completed	High

Appendix B

Assurance Levels

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

Appendix C

Internal Audit Charter

Introduction:

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

Purpose:

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

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

Authority:

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

Responsibility

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

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

Professional Standards:

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

Independence and Objectivity

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

Appendix C

Internal Audit Charter

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

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

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

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

Audit Scope

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

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

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

Appendix C

Internal Audit Charter

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

Fraud and Irregularity

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

Right of Access

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

Internal Audit Resources

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

Review of the Effectiveness of the System of Internal Audit

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