

By: David Tonks – Head of Audit and Risk
To: Governance and Audit Committee – 14 September 2011
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

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

FOR INFORMATION

Introduction

1. This report summarises the;-
 - key findings from Internal Audit reviews, including management responses where appropriate;
 - implementation of agreed high and medium priority recommendations;
 - progress against the 2011/12 Internal Audit programme since the last report to the Governance and Audit Committee,
 - reports the achievement against Internal Audit's Key Performance Indicators, and,
 - the number of potential irregularities reported and concluded.

Overview of Progress

2. This report contains the outcome of Internal Audit's work completed, at draft report stage or in progress for June and July 2011. During this period seven audits were finalised, six draft reports were issued and eight audits started. Further details of the final reports issued, including management's responses where appropriate, can be found at annex A.
3. Progress against the audit plan for 2011/12 is shown in annex C. Progress in the first quarter of the audit programme is traditionally slow, due to the finalisation of previous year's work (including preparation of the Annual Report) and the necessity of scheduling the new years audit's. The shift in emphasis for this year's audit plan, as well as the significant level of change taking place within the Council also means that it has proven harder to initiate audit reviews.
4. Annex D shows amendments to the Audit Plan. Three audits have already been added to the original 2011/12 Internal Audit plan, with the days required being drawn from the limited 'contingency' included in the original plan.

Irregularities

7. After the appointment of the Counter Fraud Manager all "live" cases of suspected irregularities that have been reported or identified involving KCC finances have been reviewed. Where sensible to do so, these cases have been closed or otherwise resolved. The details of these cases are set out in

annex E. Since April 2011 eight new cases of suspected irregularities have also been reported and are subject to review.

Implications for Governance

8. No significant control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year. All audits are allocated one of four assurance levels which are defined in annex G.

Recommendation

9. Members are asked to note:
 - the amendments to, and progress against the 2011/12 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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Fee Income

Scope

The audit examined the processes and controls that had been put in place by management with regards to income that is 'volatile', to ensure that actions can be taken to manage any variance in forecast income. The audit reviewed the following four units:-

- Kent Scientific Services;
- Kent Registration services;
- Regulatory Training services and,
- Community, Learning and Skills.

Overall assessment – Substantial

In general we found that the units' comply with the forecasting and monitoring controls put in place by management. This provides 'early warning' systems which enable them to forecast any variances in income. All four units are constantly reviewing their systems which contain the information used for budget monitoring and are working towards producing more accurate information where possible.

We made five recommendations to improve controls; these relate mainly to the records used to base forecasts on which management has agreed to implement. Two of the recommendations were medium priority and three were low priority.

Use of Corporate Credit Cards

Scope

The scope of the audit was to provide assurance that purchase cards are issued and used in accordance with guidelines and that the expenditure incurred is appropriate, authorised and accounted for correctly.

Overall assessment – Limited

Corporate credit cards provide a cost effective way for officers to purchase goods and services where there are no existing KCC procurement contracts for mandated items. The cards are particularly cost effective for smaller purchases, because of the savings in the cost of processing transactions. The expenditure through credit cards in 2010/11 was £1.1 million.

The audit found a number of key areas where controls were not in place or were not being applied effectively.

We found that some staff were bypassing the individual transaction limit contrary to the guidance by splitting a transaction in two parts.

Other issues identified during the audit, relate to cards being used for travel and subsistence and amounts paid are not always in line with the approved policy on expenses in the Kent Scheme. There are no limits defined for foreign travel.

Receipts were not always obtained and VAT was not always separately identified so could not be reclaimed from HM Customs and Revenue. We have calculated that the loss to KCC is approximately £14,000 per year.

In addition, cash advances were not always accounted for properly in a number of cases.

Transactions should be reviewed and approved. In 2010 the number of transactions that had not been approved and reviewed was significant (920) although this had reduced considerably from the 3,000 that had not been approved in 2009. By April 2011 the number not approved was down to 102. This was as a result of the work of the Exchequer Services Manager and her staff. However, it is important that card holders and approving officers should carry out their responsibilities in reviewing and approving transactions in a timely manner.

Management Action

Management has agreed to implement the six recommendations and the following will be initiated:

- assessing the practicality of publishing Purchase Card statements / spend on a separate area of Kent.gov linked to the transparency page
- a redraft of the guidelines (to be approved by CMT)
- a discussion at CMT (and / or Pioneer group) around Purchase cards (at the same time as approving the guidelines)
- An assurance piece to DAT in November around how the system for purchase cards is operating.
- facilitating the Leader in reviewing the purchase card spend of the pioneer group in November and May of each year.
- ensuring that authorisation for mew purchase cards is at an appropriate (i.e. Corp Dir) level
- the hierarchy of approvers to be mapped and assessed to see that it is appropriate

Internal Audit have also been requested to:

- review how members access or use purchase card facilities
- check that all listed purchase card users have a designated approver
- identify a review process that can provide real time audit assurance on purchase card usage

Financial Controls in the Gypsy Traveller Unit

Scope

The scope of the audit was to provide assurance that the financial controls within the Gypsy Traveller Unit (GTU) are operating effectively.

Overall assessment – Substantial

In general the controls were found to be operating effectively, although we have made recommendations to further improve controls. These include having a policy in place with regards the levels of cash that is held prior to banking.

Ensuring that electric cards are reconciled regularly to ensure that stock levels are as stated and that the income is as expected. Delegating the responsibility to site managers for ordering works up to a set limit, and ensuring that job completion records are checked and signed by a different person to the one who authorised the order.

All of the recommendations which management have agreed to implement were low priority.

English National Concessionary Travel Scheme Implementation

Scope

The scope of the audit was to examine the process of the transfer of responsibility for the English National Concessionary Travel Scheme (ENCTS) from the district councils to Kent County Council, particularly relating to the transfer of data and the quality of that data.

Overall assessment – Full

Following consultation in 2009, the department for Transport decided to move responsibilities for the ENCTS from the district councils to upper tier authorities. The aim was to realise efficiencies; make funding by formula easier; offer a more consistent scheme to residents; and harmonise concessionary travel responsibilities with those of the transport authority. This came into force from 1 April 2011.

We found that good communication links were put in place by the project team with the district councils which enabled the project to progress at an appropriate pace to meet the tight project deadlines.

The database provider (EUCLID) was unable to achieve the project deadline as they had been unable to complete sufficient testing on the functionality of the database. However, Kent Highways Services' project officers had foreseen this risk, identifying it in the risk register, and ensured that alternative arrangements were put in place should the need arise. The Council was still able to offer a full service to members of the public during the period of down time.

Data quality exercises were underway at the time of the audit on the ENCTS database, using information provided prior to the change of responsibilities to the district councils as part of the National Fraud Initiative. Going forward further data quality exercises will be undertaken to ensure that information within the database remains up to date.

We were able to give high assurance that the process had operated effectively. We did not make any recommendations.

Governance of Partnerships

Scope

The overall purpose of the audit was to support the Annual Governance Statement by reviewing a sample of 35 of the partnerships that were identified as strategic across the Council. We also followed up the progress on recommendations made in the previous audit

We reviewed the governance arrangements for the following partnerships:-

- Kent Drug and Alcohol Team;
- Supporting People Commissioning Body;
- Clean Kent Delivery Group;
- Kent and Medway Safeguarding Adults Board;
- Kent Strategic Forum, and
- Employment and Skills Board.

Overall assessment – Substantial

The Kent Partnership Team carried out a review of the strategic partnerships that the Council is involved in during 2009/10 at the request of the Deputy leader. Recommendations from the review are to be taken forward by senior management from each directorate.

Generally we found that the governance arrangements were in place.

We identified 12 key controls that we would expect the partnerships to have in place. These included up to date agreements that had been agreed by all partners; agreed budgets, detailing each partners' contribution; a risk assessment of the partnership and exit strategies.

However, three of the six partnerships we reviewed did not have an exit strategy in place to ensure that the Council could withdraw from the partnerships if necessary or where appropriate. Three of the partnerships had not completed a risk assessment and one partnership did not have a formal document detailing the financial arrangements with its partners.

The 2009/10 Governance of Partnership gave substantial assurance that partnerships are governed effectively and raised two recommendations to improve controls. One of the recommendations has been implemented but there is one recommendation that remains outstanding which we will continue to monitor as part of our follow up process.

Payments made for responsive building maintenance

Scope

The purpose of the audit was to review payments made to contractors for building maintenance services to ensure that payments are for services provided and are properly authorised.

Overall assessment – Substantial

The Council has a multi Provider Framework Agreement for the provision of reactive and planned maintenance services. The Council's Property Group is responsible for the effective management of the Council's property assets. The portfolio comprises more than 1,800 properties. A total of £1.9 million was spent on carrying out responsive and emergency building maintenance during the financial 2010/11 financial year.

The audit found that there are processes and controls in place to ensure that requests for maintenance are dealt with promptly and assigned the relevant priority ie, emergency, urgent or routine. Of the invoices tested as part of the audit we found that they had been appropriately checked and authorised.

The main areas highlighted during the audit relate to the accuracy of recording requests in terms of responsive maintenance; the information recorded from Job Completion Certificates relating to the mechanism for monitoring performance and the performance monitoring of contractors, including investigation completed works.

Five recommendations all with a low priority ranking have been made which management has agreed to implement.

Commercial Services – General Ledger

Scope

The purpose of the audit was to review the controls in Commercial Services General Ledger to ensure that all transactions are accurately identified, recorded, and processed accurately and promptly.

Overall assessment – Substantial

The financial records for Commercial Services are maintained on CODA Financials. The General ledger is held within CODA and has integrated Accounts payable and Accounts Receivable ledgers. Other non CODA applications such as payroll feed into the General Ledger and data is also manually input.

In general we found that there were satisfactory controls over input, access and data transfers into the General Ledger and that there was regular monitoring to ensure that input is accurate, valid and completed. We have made recommendations which include reviewing the frequency of reconciliations of the Sales and Purchase ledger accounts; and the access levels of staff to ensure that they suit the job function of each member of staff and that an adequate segregation of duties is maintained. The three recommendations have been assigned a 'medium' priority ranking and have been agreed by management.

Directorates' Progress with the Implementation of Agreed Recommendations

Where Internal Audit finds instances of non compliance ie with policies, procedures and legislation and/or lack of internal controls; recommendations are made to ensure that compliance and/or to improve controls. At the draft report stage of an audit, recommendations are discussed with responsible managers who decide how they will implement the recommendations and the timeframe. Each recommendation is allocated a 'priority' ranking (high, medium or low) which relates to the seriousness of the control failure/non compliance and how quickly the agreed action should be implemented. In general we would expect high priority recommendations to be implanted within one month 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 (or an appropriate alternative) has been implemented as agreed.

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

Table 1 – This details the recommendations that were due to be actioned between April and July 2011.

25 actions were due to be in place by the end of July 2011:-

17 have been implemented

Eight actions are outstanding, one of which is a high priority and seven medium priority.

Revised dates for implementing the outstanding recommendations have been provided.

**Directorates Progress with the Implementation of Audit Recommendations
(Covers April 2011 to July 2011)**

Directorate	Total actions due to be in place by end of July 2011	Actions in place	Priority of outstanding actions as at 31 October 2010			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide	1	1				Handling Information Risk	The recommendation was implemented at time of audit	
Authority wide	1				1	Use of Consultants/ Consultancy firms	The recommendation relating to updating the subjective code list and guidelines has not yet been completed. This may be superseded by the ERP project and an update will be provided in November 2011.	November 2011
Children, Families and Education	4	4				SEN transport	All recommendations relating to this audit have now been completed.	
Section 151	1	1				Accounts Payable	The recommendation relating to this audit has now been completed	
Section 151	2	1			1	Pensions Investment Income	The recommendation that is currently outstanding relates to reconciliation of balances in the General Ledger to those on Shareholder on a quarterly basis. At the time of follow up, the posting of the June returns had not yet been completed and therefore the reconciliation will only take place after those returns have been posted.	August 2011
Chief Executive's Department	4	3			1	Data Backup & Data Centres	The outstanding recommendation relates to the backup of data. As ICT are currently in the process of migrating all KCC data to a new location, the backup requirements of that data will change and this is being covered by the Netbackup 7 environment.	December 2011
Commercial Services	2			1	1	Accounts Payable	The outstanding recommendations relate to reports being produced to identify duplicate and inactive suppliers. The reports have been produced but the first was not appropriate and has	October 2011

**Directorates Progress with the Implementation of Audit Recommendations
(Covers April 2011 to July 2011)**

Directorate	Total actions due to be in place by end of July 2011	Actions in place	Priority of outstanding actions as at 31 October 2010			Comments on recommendations		
			C	H	M			
							therefore been referred back to the report writer for amendment and the second is being worked on currently. These were mentioned in the Head of Audit Annual Report.	
Communities	7	5			2	Careworks Application	There are two outstanding recommendations on this audit due to be implemented within this period. The first relates to the lack of a disaster recovery plan. Due to the restructure in Kent YOS, this has not yet been created and tested. The second relates to the logical access control as weak password parameters are currently used. Kent YOS accept the residual risk but will address this when the new version of the system is released.	November 2011
Kent Adult Social Services	1	1				Swift Application controls	Compensating controls have been implemented, due to the current restructure, and the recommendation relating to a project portfolio / programme office will be considered within the future structure.	
Environment, Highways and Waste	1				1	Roadworks Permits	Due to the reorganisation of Kent Highways and the new Enterprise contract, the training on the management of the debt recovery process has been postponed until October 2011.	October 2011
Business Strategy & Support	1	1				Pension Contributions	All recommendations relating to this audit have now been completed.	
TOTAL	25	17		1	7			

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

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 31 July 2011	Assurance
Authority Wide			
	Kent County Council Elections	Audit fieldwork complete	
	Governance of Partnerships	Draft report issued	High
	Corporate Governance	Planning in progress	
	Schemes of Delegation and Limits on Approval	Initiation Document agreed	
	Annual Governance Statement	Planning in progress	
	Performance Management Framework	Planning in progress	
	Risk Management	Planning in progress	
	Business Continuity Planning	Planning in progress	
Core Systems			
	Pensions Payroll	Draft report issued	
	Responsive Building Maintenance	Draft report issued	
	Commercial Services – Services Tender Costing	Draft report issued	
	Oracle Database Audit	Draft report issued	
	Transaction Data Matching	Draft report issued	
	Key financial controls – Gypsies and Travellers Unit	Completed	Substantial
	Implementation of the English National Travel Concessionary Scheme	Completed	High
	Oracle – General Ledger	Initiation Document agreed	
	Oracle – Accounts Payable	Initiation Document agreed	
	Oracle – Accounts Receivable	Audit in progress	
	Oracle – i Procurement	Initiation Document agreed	
	Use of Corporate Purchase Cards	Completed	Limited
	Oracle Payroll & HR	Audit in progress	
	Treasury Management	Planning in progress	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 31 July 2011	Assurance
	Cashiering and Bank Reconciliations	Planning in progress	
	Medium Term Planning	Initiation Document issued	
	Revenue Budget Monitoring	Initiation Document issued	
	Swift – Social Care System (Domiciliary & Residential)	Planning in progress	
	Transaction Data Matching (TDM)	Planning in progress	
	Client Billing	Planning in progress	
	Capita One – Children’s Social Care System	Planning in progress	
	Pensions Contributions	Planning in progress	
	Pensions Investment Income	Planning in progress	
	Enterprise & Interprise (Property Information databases)	Planning in progress	
	Routewise	Planning in progress	
	WAMS	Planning in progress	
	Financial Controls in Schools	Planning in progress	
	Oracle Modules	Planning in progress	
	Firewalls and Firewall Management	Planning in progress	
	Network Security and Infrastructure (LAN)	Planning in progress	
	Exchange Server and e-mail	Planning in progress	
	IT Support Arrangements (ITL)	Planning in progress	
	IT Compliance	Planning in progress	
Policies			
	Data Protection Act	Planning in progress	
	Freedom of Information Act	Planning in progress	
	Equalities Act	Initiation Document issued	
	Complaints, Comments and Compliments Policy	Initiation Document issued	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 31 July 2011	Assurance
	Blue Book – Job Evaluation	Audit in progress	
	Blue Book – Recruitment and Selection	Audit fieldwork completed	
	Blue Book – Total Contribution (TCP)	Audit in progress	
	Blue Book – Employment Contracts	Audit in progress	
	Blue Book – Equalities Act/Fairness at Work	Audit in progress	
	Blue Book – Health and Safety at Work	Audit in progress	
	Blue Book – Performance and Conduct	Audit fieldwork completed	
	Communications Toolkit	Initiation Document issued	
	Procurement	Initiation Document issued	
	Information Security	Planning in progress	
	Managing Change	Planning in progress	
Emerging Issues			
	Carbon Reduction Commitment	Audit in progress	

Amendments to Plan

Audit	Comments	Days
AW07 Kent County Council Elections	Audit undertaken as a result of management concerns in relation to election expenses. Audit in progress	+20
POL15 Blue Book - Managing Change	This audit was requested by the Deputy Leader of the Council because of the changes occurring in the Council. This is scheduled for the last quarter of 2011/12	+20
Emerging Issues – Carbon Reduction Commitment	This audit was deferred from 2010/11 this is scheduled for the second/third quarter of 2011/12.	+15

xx803 Change of Suppliers Bank Details

A genuine supplier's bank details were changed at the request of an unknown fraudster purporting to be the supplier. When a valid invoice for £245k was received the payment went to the fraudster's bank account. Details reported to the police who were able to secure the majority of the payment (£235k). The genuine supplier's valid invoice has been paid. A member of KCC staff has been disciplined for failing to follow the existing procedures. The Counter Fraud Manager is working with Exchequer Services to improve procedures further and reduce the risk of this occurring in the future.

xx804 Financial Mismanagement

A Headteacher was alleged to have deliberately misled the School's Governing Body about its financial position, which included 'lending' the school his own money to cover up a deficit; and letting the Governing Body believe that the that money the school was entitled to, was a personal donation.

Staff in the Schools Financial Services unit who provided financial support, also failed to report the financial mismanagement.

An investigation was carried out by Internal Audit. However, the Headteacher who had at that stage worked beyond retirement age, resigned.

xx806 Missing Laptop

In March 2011 a laptop allocated to a senior member of staff went missing. The same senior member of staff was found to be using a laptop allocated to a member. The missing laptop has not been recovered. IT confirm it does not appear to be in use. The senior member of staff has now left the organisation. The Counter Fraud Manager is meeting with the ICT security officer to discuss how to minimise future losses.

xx 807 Appointment

It was alleged that a consultant had appointed another consultant inappropriately. There was no evidence to support or disprove the allegation, and by the time it was reported both the consultants had left and the manager who had recruited the original consultant.

No further action taken.

xx 808 Theft/loss of cash

An amount of cash was stolen from Apollo House. The amount is £1,430 which was drawn to provide cash for FIP project purchases. Managers were advised and the incident reported to the Police.

xx 809 Theft/loss of cash

An allegation was made that income received at a Children's Centre was not banked. An investigation was carried out but nothing was proven, although a member of staff resigned. Internal Audit will be carrying out some work in the future to ensure that appropriate controls are either in place, or put in place to prevent a similar occurrence.

xx 811 Inappropriate bonus payments

An allegation was made that a school had been paying inappropriate bonuses to teaching and non teaching staff.

Internal Audit carried out an investigation and found that the allegation was unfounded. All payments that had been made had been appropriate, authorised and in line with the expected salary rates for the staff concerned.
No action taken.

xx 813

A school's cheques were intercepted and cashed. cheques from a school that had not been countersigned. The payee was not a member of staff. The bank is carrying out an investigation.

Annex F
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 – July 2011)
<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>80%</p>	<p>94%</p> <p>80%</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>95%</p> <p>85%</p> <p>90%</p> <p>By March</p> <p>G&AC meetings</p> <p>By May</p>	<p>12%</p> <p>84%</p> <p>50%</p> <p>Achieved</p> <p>Achieved</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	<p>90%</p>	<p>-</p>

* Percentage of plan delivered as at 31 July 2011

Assurance Level	Detailed definition
Full	The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives.
Substantial	Whilst the controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively, weaknesses have been identified that require management attention. These issues increase the possibility that objectives may not be achieved.
Limited	Some controls are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues identified, if unresolved, mean that objectives may not be achieved.
No Assurance	Expected controls are absent, or where evaluated are flawed in design, scope or application. The auditor is unable to form a view as to whether objectives will be achieved.