

By: The Head of Audit & Risk

To: Governance and Audit Committee  
19 September 2007

Subject: **INTERNAL AUDIT REPORTING**

Accountable Officer: The Head of Audit & Risk

Classification: Unrestricted

**Summary:** This report summarises the outcomes of Internal Audit activity, providing assurance as to the operation of control within the Council.

## **FOR INFORMATION**

### **Introduction**

1. This report contains the outcome of Internal Audit's work completed during June, and July 2007. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Annex A.
2. The format of this report, which was agreed at a previous meeting, is as follows:

**Annex B** Audits completed to date. Audits appearing for the first time are shown in bold. Nine audits were completed in this period, which are listed in the table below:

<b>Directorate</b>	<b>Audit Title</b>	<b>Assurance</b>
AW	Follow up to the Procurement of Consumables	Limited
AW	Medium Term Planning	High
AW	Risk Management	High
AW	Virus Protection	Substantial
AW	Corporate Governance	Substantial
CED	Year end Accounting Processes	Substantial
CF&E	Sharing of Information on Children	Substantial
CF&E	Reimbursement of Schools Maternity Pay	Substantial
CSD	Community Safety Revenue Budget Management	Substantial

**Annex C** Summary information, with the directorates' response for all follow up audits where control was previously assessed as 'unsatisfactory/minimal'

**Annex D** Brief details of audit work completed in the period.

**Annex E** Summary of directorates' progress with the implementation of internal audit recommendations.

Members can see from Annex E that of the 36 recommendations due to be in place, 31 have been actioned and five remain outstanding. Three of the outstanding recommendations are due to be completed by the end of September 2007.

3. Members should note that the audit assurance expressed is at the time of issue of the audit report but before full implementation of the agreed management action plan. Directorates' progress with the implementation of recommendations is followed up and reported at Annex D, after the date by which it has been agreed that action will be undertaken. Where a 'minimal' assurance has been given, there will be further re-evaluation in a six-monthly review.
4. Furthermore, each audit does not carry equal weight when forming the overall assurance on the operation of control within the Authority. Whilst the key systems will have a major impact, other systems, for example establishment audits, become more significant when the outcomes of a number of similar audits have been obtained. In this instance, the key indicator is the trend in audit assurances within a directorate and across the Authority.

### **Irregularities**

5. Since the end of May seven cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Details of completed irregularity investigations are given in my separate report at agenda item x.

## Performance of Internal Audit

6. At the Audit Committee meeting on 3 March 2004, Members agreed to receive regular reports on Internal Audit's performance against a range of indicators. For those measures where information is available, performance is shown below:

Performance Indicator	Target	Actual (Apr – July)
<b><u>Productivity and Efficiency</u></b>		
<ul style="list-style-type: none"> <li>• % of available time spent on direct audit work</li> </ul>	80%	75%
<ul style="list-style-type: none"> <li>• % of draft reports completed within 10 days of finishing fieldwork</li> </ul>	89%	80%
<ul style="list-style-type: none"> <li>• Preparation of annual plan</li> <li>• Periodic reports on progress</li> </ul>	By March G&A Cttee meetings	Reported 7.3.07 Reported: 30.06.06 20 09.06 05.12.06
<ul style="list-style-type: none"> <li>• Preparation of annual report</li> </ul>	Prior to annual assurance statement	Reported 29.06.07
<b><u>Quality of Service</u></b>		
<ul style="list-style-type: none"> <li>• Average Client satisfaction score</li> </ul>	70%	93%
<b><u>Staff Management</u></b>		
<ul style="list-style-type: none"> <li>• Staff with professional qualifications (including trainees)</li> </ul>	60%	74%

## Recommendation

7. Members are asked to **note** the outcome of Internal Audit's work.

**Janet Dawson**  
**Head of Audit & Risk**  
 Ext: 4614  
 3 September 2007

## Definitions of Internal Audit Assurance Levels

Assurance Level	Summary description	Detailed definition
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Limited</b>	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, <b>or</b> there is significant evidence that they are not applied consistently and effectively.</p>
<b>Minimal</b>	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, <b>or</b> there is evidence that there is significant non-compliance with key controls.</p>

## Audit Programme and Coverage by Directorate June and July 2007

Report	Directorate	Audit Plan	Overall Opinion	Budget Mngment	Payroll	Payment	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngment	General Financial Control	Procurement	Governance	Business Process	Info System
	<b>Authority-wide</b>														
	<i>Brought forward from 2006/7 Plan</i>														
June 07	Trading Companies	✓	L												
June 07	BS57799	✓	H												
June 07	Telephone PBX	✓	S												
June 07	<i>Follow up ICT Disaster Recovery</i>	✓	L											L	
Sep 07	<b>Follow up to the Procurement of Consumables</b>	✓	L									L			
Sep 07	<b>Medium Term Planning</b>	✓	H							H					
Sep 07	<b>Risk Management</b>	✓	H										H		
	<b>2007/08 Plan</b>														
Sep 07	Virus Protection	✓	S												S
Sep 07	Corporate Governance	✓	S										S		
	<b>Chief Executive's Department</b>														
	<i>Brought forward from 2006/07 Plan</i>														

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June 07	VAT provision of asylum seekers services	✓	S				S								
June 07	Physical Security & Environmental Controls	✓	S												
June 07	VAT payments to providers of Care (Adult Social Services)	✓	S				S								
June 07	Technical Administration of the Oracle Financial, HR & Payroll System	✓	S												S
June 07	Commercial Services CODA	✓	S												S
June 07	Commercial Services Insurance Funds	✓	L						L						
Sep 07	2007/08 Plan														
	Year end Accounting Processes	✓	S						S						
	<b>Children, Families &amp; Education</b>														
	<i>Brought forward from 2006/07 Plan</i>														
June 07	Foster & Adoption Payments	✓	S			S									
June 07	Schools Advisory Service	✓	H												
June 07	Student Awards	✓	H												

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June 07	Attendance & Behaviour Safer Schools	✓	S											S	
June 07	Schools Managed Capital Projects	✓	S							S					
Sep 07	Sharing of Information on Children	✓	S												S
Sep 07	2007/08 Plan Reimbursement of Schools' Maternity pay	✓	S			S									
	<b>Adult Services</b>														
	<i>Brought forward from 2006/07 Plan</i>														
June 07	Swift pre Implementation Review	✓	S												S
June 07	Domiciliary Care TDM	✓	L			L									
June 07	Former Self Funders	✓	L												
June 07	Residential Care Mental Health Payments	✓	S			S									
June 07	Voluntary Organisations	✓	S			S									
	<b>Environment &amp; Regeneration</b>														

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June 07	<i>Brought forward from 2006/07 Plan</i> Transport  Network Management	✓	S	S											
June 07	KHS Coastal Protection	✓	L						L						
	<b>Communities Directorate</b>														
June 07	<i>Brought forward from 2006/07 Plan</i> Youth & Community	✓	H					H							
June 07	Libraries	✓	S											S	
Sep 07	<b>Community Safety Revenue Budget Management</b>	✓	S	S											

**Audit Work Completed in the Period  
June 2007 – July 2007**

**Matters Arising from Previous Reports**

**Authority Wide**

**Follow up to The Procurement of Consumables**

**Audit Assurance - Limited**

An audit of the procurement of consumables was carried out during 2003/04 and report 22/04 was issued on 30 June 2004, the audit opinion was unsatisfactory. Internal Audit requires a follow up of all unsatisfactory (now minimal) audits to evaluate the effectiveness of agreed actions taken to improve controls.

The follow up audit was delayed because of the anticipated changes to the Council's procurement arrangements arising from the implementation of a new Procurement Strategy and 'Spending the Council's Money' which will replace the Contracts and Tenders Code of Practice. The Procurement Strategy was endorsed by the Chief Officer's Group and presented to the Cabinet on 11 July 2005, however, the Code had not yet been implemented.

A key risk identified in the last audit was that excessive procurement of consumables may be diverted to external suppliers and benefits to the Authority may be lost. The new Procurement Strategy and new Code aim to clarify the Council's buying policy for all spending on goods, services and works and the procurement structure should ensure their implementation.

During the course of the follow up audit our review of five payment codes comparing expenditure over a similar eight month period in 2005/06 and 2006/07 showed that officers with purchasing responsibilities continued to spend a greater proportion of their consumables budget, approximately 72%, with external suppliers compared to internal purchases.

Subsequent to the issue of this report, the Procurement Unit undertook a review of the expenditure data used as the basis of our 2006/07 analysis. Their findings supported our report of miscodings and they have suggested adjusting for additional errors. Nevertheless, using their base figures, the overall adjusted leakage to external suppliers would still remain high at over £2.1m.

We noted that some improvements had been made in shifting the directorates buying preferences for printing, stationery and office expenses to Commercial Services but general leakage of business to external suppliers could be further reduced if the strategy is strictly implemented. We appreciate that since the audit, and in line with our recommendations, further strong guidance has been given to staff with responsibility for purchasing consumable items which should, if actioned improve matters further.

*Management Response*

*The figures included in the audit considerably overstated the external spend on the headings covered and Internal Audit were made aware of this. All the findings relate*

**Audit Work Completed in the Period  
June 2007 – July 2007**

*to the period before the issue of the spend mandate in March 2007. for the first time this explicitly stated that for the following headings spend had to be via Commercial Services of county wide contracts ,which have been put in place.*

- *Stationery*
- *Computer Consumables*
- *IT*
- *Mobile phones*
- *Recruitment advertising*
- *Office equipment*
- *Vehicles*
- *Furniture*
- *Cleaning supplies*
- *Energy*
- *Sports equipment*
- *Fire extinguishers*

*We are putting arrangements in place through Exchequer Services to monitor compliance and PwC will be undertaking an exercise to ensure that we are getting best value through those contracts.*

*Nick Vickers  
Head of Financial Services*

**Audit Work Completed in the Period  
June 2007 – July 2007**

**Completed audits**

<b>Directorate</b>	<b>Audit</b>	<b>Description</b>	<b>Audit Assurance</b>
AW	Medium term Planning	A review of the medium term planning process.	High
AW	Risk Management	An audit of the Authority's risk management arrangements	High
AW	Virus Protection	A review of the arrangements in place to protect KCCs systems and data from viruses and malware.	Substantial
AW	Corporate Governance	A review of corporate governance in relation to the promotion and demonstration of ethical standards and values.	Substantial
CED	Year end accounting processes	An audit to ensure all payments and income are accounted for in the correct financial year.	Substantial
CF&E	Sharing of Information on children	An examination of controls over electronically held data on children within Impulse, CAPITA-EMS and Swift.	Substantial
CF&E	Reimbursement of schools' maternity pay	A review of the processes in place for reimbursing schools' maternity pay	Substantial
CSD	Community Safety revenue budget management	An audit of revenue budget monitoring	Substantial

**Audit Work Completed in the Period  
June 2007 – July 2007**

**Advisory and other work**

<b>Directorate</b>	<b>Audit work</b>	<b>Description</b>
Chief Executive's Department	JP Morgan	An interim review of control processes operating to provide assurance as to the custody of assets on behalf of the Kent Pension Fund.
Community Services Directorate & CED (Commercial Services)	Health & Safety	Advice and information provided to both these areas at a time when Commercial Services were without an overall Health and Safety Adviser and Community Services were a newly formed directorate. Both areas have put together an Action Plan to ensure full coverage of Health and Safety issues in their respective areas. A full audit of compliance with the Health and Safety Policy in Commercial Services and the Communities Directorate is planned for March 2008.

**Directorates Progress with Implementation of Audit Recommendations  
(covers period June to July 2007)**

Directorate	Total actions due to be in place by end of July 2007	Actions in place	Outstanding actions (priority)			Progress with outstanding actions	
			VH	H	M	Audit	Comments
Authority Wide	5	5					
Chief Executive	9	8			1	Network Management Review	Partial Progress: Funding is being requested for suitable network management tools. Tender specification is being produced. And the unit is still in the process of seeking funding
Children and Families	5	4		1		VAT on Asylum Seekers Accomodation	This recommendation will be completed by the end of September 2007
Adult Social Services	11	9	2			VAT on Care Payments	These recommendations will be completed by the end September 2007
Environment & Regeneration	4	4					
Communities	2	1		1		KDAAT - Partnership Arrangements	This recommendation has been deffered and will be implemented during November 2007
	<b>36</b>	<b>31</b>	<b>2</b>	<b>2</b>	<b>1</b>		