

By: The Head of Audit & Risk

To: Governance and Audit Committee  
29 June 2007

Subject: **INTERNAL AUDIT REPORTING**

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 February and April 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** lists Audits and the assurance opinion completed since the last report (all audits completed in the year are shown in the Annual Report at agenda item 12). Twenty five audits were completed in this period, which are listed in the table below. Comments on the two follow-up audits (ICT Disaster Recovery and Libraries stock control) are also included in Annex B.

<b>Directorate</b>	<b>Audit Title</b>	<b>Assurance</b>
AW	Trading Companies	Limited
AW	BS57799	High
AW	Telephone PBX	Substantial
AW	Follow up ICT Disaster Recovery	Limited
CED	VAT (Provision of asylum services)	Substantial
CED	Physical Security & Environment Controls	Substantial
CED	VAT (Payments to providers of care)	Substantial
CED	Payroll	Substantial
CED	Technical administration of the Oracle Financials, HR and Payroll System	Substantial
CED Comm Services	CODA	Substantial
CED Comm Services	Insurance Funds	Limited
CF&E	Foster & Adoption Payments	Substantial
CF&E	Schools Advisory service	High
CF&E	Student Awards	High
CF&E	Attendance & Behaviour – Safer Schools	Substantial

<b>Directorate</b>	<b>Audit Title</b>	<b>Assurance</b>
CF&E	School Managed Capital Projects	Substantial
AS	Swift Pre Implementation Review	Substantial
AS	Domiciliary Care TDM	Limited
AS	Former Self Funders	Limited
AS	Residential Care – Mental Health Payments	Substantial
AS	Voluntary Organisations	Substantial
E&R	Transport Network Management	Substantial
E&R	KHS Coastal Protection	Limited
Communities	Youth & Community	High
Communities	Follow up Libraries	Substantial

**Annex C** contains brief details of the audits completed in this period.

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 to this Committee, 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 January eight 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 14

### **Performance of Internal Audit**

6. The performance of the Internal Audit team is detailed in the Annual Report at agenda item 12.

### **Recommendation**

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

**Andy Wood**  
**Head of Audit & Risk**  
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 19 June 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 February 2007 to April 2007

Report	Directorate	Audit Plan	Overall Opinion	Budget Mngmt	Payroll	Payment	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngmt	General Financial Control	Procuremnt	Governance	Business Process	Info System
	<b>Authority-wide</b>														
June 07	Trading Companies	✓	L											L	
June 07	BS57799	✓	H											H	
June 07	Telephone PBX	✓	S											S	
June 07	Follow up ICT Disaster Recovery	✓	L											L	
	<b>Chief Executive's Department</b>														
June 07	VAT provision of asylum seekers services	✓	S				S								
June 07	Physical Security & Environmental Controls	✓	S												S
June 07	VAT payments to providers of Care (Adult Social Services)	✓	S				S								
June 07	Payroll		S		S										
June 07	Technical Administration of the Oracle Financial, HR & Payroll System	✓	S												S
June 07	Commercial Services CODA	✓	S												S

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June 07	Commercial Services Insurance Funds	✓	L						L						
	<b><u>Children, Families &amp; Education</u></b>														
June 07	Foster & Adoption Payments	✓	S			S									
June 07	Schools Advisory Service	✓	H											H	
June 07	Student Awards	✓	H											H	
June 07	Attendance & Behaviour Safer Schools	✓	S											S	
June 07	Schools Managed Capital Projects	✓	S							S					
	<b><u>Adult Services</u></b>														
June 07	Swift pre Implementation Review	✓	S												S
June 07	Domiciliary Care TDM	✓	L			L									
June 07	Former Self Funders	✓	L											L	
June 07	Residential Care Mental Health Payments	✓	S			S									
June 07	Voluntary Organisations	✓	S			S									
	<b><u>Environment &amp; Regeneration</u></b>														

Audit Programme and Coverage by Directorate February 2007 to April 2007

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June 07	Transport Network Management	✓	S	S											
June 07	KHS Coastal Protection	✓	L						L						
	<b>Communities Directorate</b>														
June 07	Youth & Community	✓	H					H							
June 07	Libraries	✓	S											S	

**Audit Programme and Coverage by Directorate February 2007 to April 2007****Authority Wide****Follow up of ICT Disaster Recovery****Assurance – Limited**

The original audit was to have focussed on the status of Disaster Recovery Plans (DRPs) for the computer-based systems that support KCC's business-critical services. However, the original audit found that arrangements for DRPs were sporadic and inconsistent and that this situation had been caused by the lack of formally devised and documented Business Continuity Plans (BCPs) that specified and prioritised each of the directorate's business-critical services. The original audit therefore made recommendations for the directorates to complete the creation of formal BCPs. These could then be used by ISG (and other ICT service providers contracted by KCC) to create prioritised DRPs of the computer systems that support those business-critical services. The directorates' BCPs could also be used to create a corporate (KCC-wide) BCP (and associated DRPs) which would prioritise the resumption of services should the disaster affect more than one directorate.

Shortly after the report of the original audit was issued (January 2006) KCC underwent a major restructure which resulted in the movement of a number of business units and consequently the required transfer of their respective Business Impact Analyses (BIAs) and Business Continuity Plans (BCPs). All efforts to ensure that the restructure did not impact the delivery of KCC's front-line services invariably reduced the focus on the production of the (new) directorates' BCPs.

As a result, this follow-up audit found that none of the recommendations made by the original audit could be considered to have been completed and, therefore, all of the recommendations, with the addition of one to cover the newly formed Communities Directorate, have been re-issued. Nevertheless, some progress has occurred and other developments, notably the implementation of the SWIFT system, have improved KCC's ability to cope in the event of a major disaster/incident causing disruption to the availability of computer-based systems.

**Directorate response**

The restructure of KCC's directorates inevitably took priority over the production of the directorates' and the corporate business continuity plans. However, now that the new directorates have 'bedded-in' the BCP process has restarted, with two directorates, Environment & Regeneration and Kent Adult Social Services, being almost complete.

A cross-directorate working group is to be established to expedite the process. This working party is to be facilitated by ISG and will include the Resource Director (or equivalent/representative) of each directorate as well as a Business Continuity officer of KCC's Emergency Planning Team. The objective of this working group will be to use the expertise and experience of the more advanced directorates to assist the others with a view to creating workable and testable directorate and corporate BCPs by the end of December 2007. These BCPs will then be used by ISG to create associated DRPs (depending upon the availability of resources/funding) and by KCC's Contact Centre to prioritise the services that it will support should the BCPs be invoked.

**Audit Programme and Coverage by Directorate February 2007 to April 2007****Communities Directorate****Library Stock Control follow-up****Assurance - Substantial**

In 2002/03, an audit of library stock control was conducted. The final report gave an opinion of unsatisfactory (now minimal) and included 13 recommendations for improvement. In accordance with Internal Audit policy of follow-up minimal reports, a further audit was carried out, and a further report was issued in May 2005, with another opinion of unsatisfactory. This identified that further work was required to implement 13 recommendations and action plans were agreed to achieve this.

The 13 recommendations focussed on 5 areas of weakness, all of which it was felt by Library Management, were likely to be addressed by the full automation of Libraries under the Transforming Kent Libraries (TKL) initiative. During the course of this audit testing was undertaken in eight libraries across the county, all of which had been automated and stock audited as part of TKL. Three were hub libraries responsible for the management of and stock distribution to, their surrounding satellites. The remaining five were smaller satellite libraries.

We recognized that the library team has put a tremendous amount of work into stock audits and data interrogation since our last report which has resulted in a clearer picture of the current stock and its use. Each stock item is easily identifiable and each library visited has an active plan for checking stock. We were advised that 79 libraries have been fully stock checked by library staff, to build a profile of the current book stock. However, stock checks are still required in the remaining libraries.

Further work is required to ensure that all libraries consistently record items that are temporarily removed from the shelf and for checking items that are in transit, and for using the quarterly missing items list. The Galaxy system cannot provide certain historical data but this is a national problem and is being pursued with the manufacturer.

**Directorate response**

We are happy to see such positive recognition of the hard work that has been invested in recent years in improving library stock control. We recognise that the new measures need to be sustained in order to continue to improve and then maintain the quality of our stock records for the benefit of staff and customers.

We will continue to reinforce the need for staff to follow agreed best practice processes that will allow us to maintain accurate stock records. This will be supported by the creation of 4 new Quality and Performance Officer posts in our new structure which will be implemented 1st September. These staff will take local responsibility for stock collection management, performance data collection and analysis, and coordinating staff training, so they will be uniquely positioned to ensure that stock control is an ongoing priority.

**Audit Programme and Coverage by Directorate February 2007 to April 2007**

We are also now starting the process of selecting and procuring the new Library Management (IT) System which will be implemented from April 2009, so we will be able to ensure that current stock control needs are supported by the system selected.

**Cath Anley**  
**Head of Libraries and Archives**  
**June 2007**

## Completed audits

Directorate	Audit	Description	Audit Assurance
Authority Wide	Trading Companies	A review of KCC's trading companies' compliance with the Trading Order	Limited
	BS7799	A review of compliance/best practice with BS7799	High
	Telephone PBX	A review of the Private Branch Exchange (PBX) telephone systems	Substantial
	Follow Up ICT Disaster Recovery	A review of the Authority's ICT disaster recovery process.	Limited
Chief Execs Dept	VAT Asylum seekers	A review to ensure VAT for payments to providers of asylum services is properly accounted for.	Substantial
	Physical Security & Environmental Controls	An audit of arrangements and mechanisms for physical security and environmental controls	Substantial
	VAT (care payments)	A review to ensure VAT for payments to providers of care is properly accounted for.	Substantial
	Payroll	A review to ensure that overpayments are identified, recovered, correctly accounted for, and correct write-backs of tax are calculated	Substantial
	Technical administration of the Oracle Financial, HR and Payroll System	A review to ensure the administration of the KSSIP Oracle modules is managed effectively	Substantial
	CODA	A pre implementation review of the upgraded CODA system.	Substantial
	Insurance Funds	A review of the arrangements in place for the Commercial Services Insurance Fund.	Limited
CF&E	Foster & Adoption Payments	A review to ensure accurate and timely payments are made, parental contributions are collected and over payments are identified and recovered.	Substantial
	Schools Advisory Service	A review of the School Improvement Partner (SIP) national initiative.	High
	Student Awards	A review to ensure only eligible students receive appropriate loans and awards.	High

<b>Directorate</b>	<b>Audit</b>	<b>Description</b>	<b>Audit Assurance</b>
CF&E	Attendance & Behaviour Safer Schools	A review of the management of the Kent Safe Schools Projects.	Substantial
	Management of Devolved Capital Funding in Schools	An audit of schools' use of the devolved capital funding grant	Substantial
Adult Social Services	Swift Pre Implementation review	A review to test and evaluate the governance and management arrangements of the Swift project.	Substantial
	Domiciliary Care Transaction Data Matching (TDM)	An audit to give assurance that payments are accurate, made promptly, only in respect of services that have been supplied and are recorded in the Authority's underlying accounts.	Limited
	Former Self Funders	To provide assurance that there are processes in place to minimize the cost to KCC of former self funders.	Limited
	Residential Care – Mental Health Payments	An audit to give assurance that accurate and timely payments are made for eligible clients.	Substantial
	Voluntary Organisations	To give assurance that contracts are awarded to voluntary organisations on the basis of business plans and strategy, contracts are regularly monitored and reviewed, and that accurate payments are made on the basis of evidence that expected outcomes have been achieved	Substantial
Environment & Regeneration	Transport Network Management	A review of the budget management process to ensure that expenditure and income is properly recorded and reviewed to provide forecasts, which can be relied upon to identify potential problems in time for corrective action to be taken.	Substantial
	KHS Coastal Protection	A review of the coastal protection loans process.	Limited
Communities	Youth & Community	A review of budget management arrangements for the Learning Skills Council (LSC) funded projects	High
	Follow up Libraries stock	A follow up audit on management of libraries stock.	Substantial

