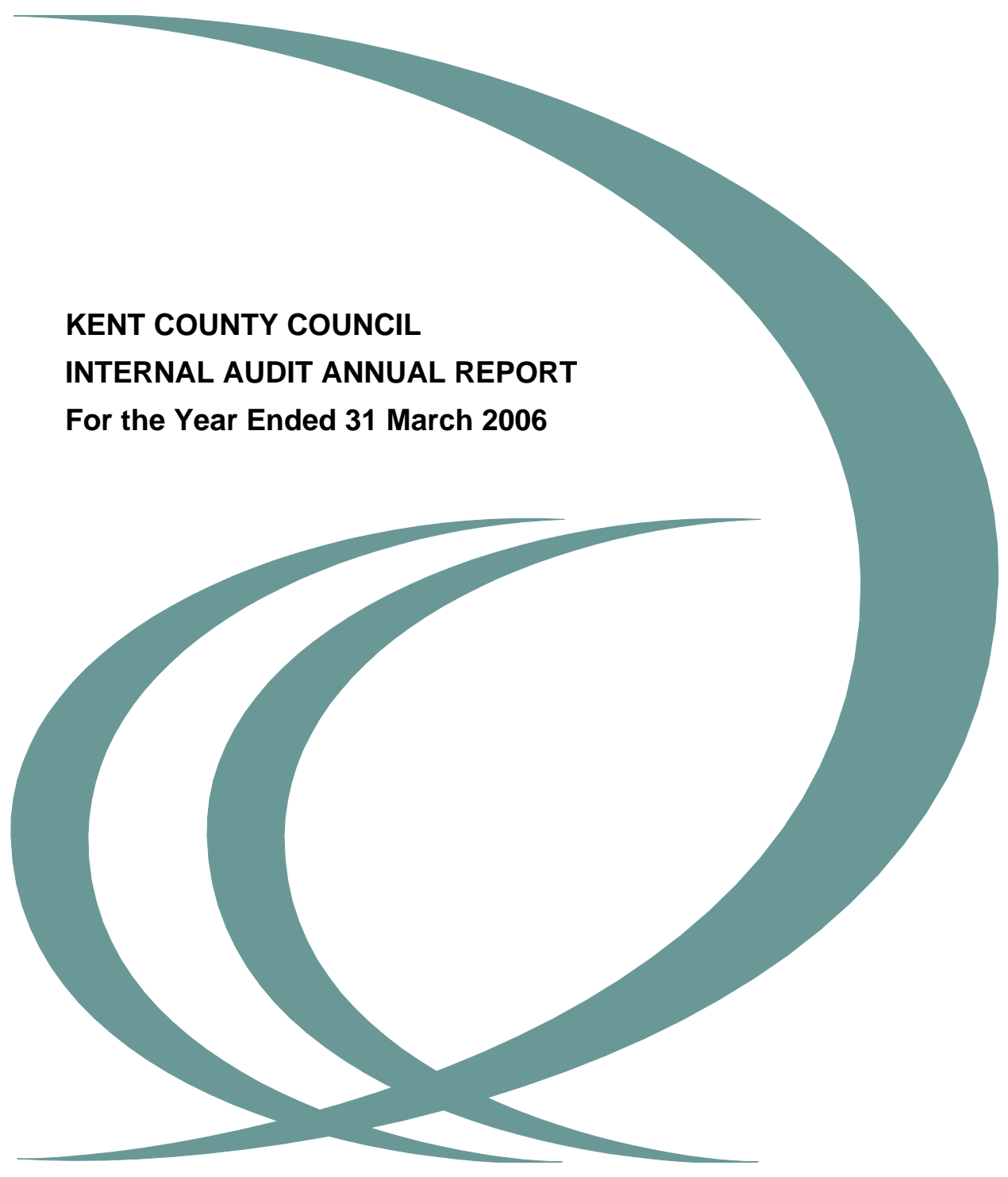


**KENT COUNTY COUNCIL
INTERNAL AUDIT ANNUAL REPORT
For the Year Ended 31 March 2006**



FOREWORD

Over the last year, Internal Audit has played an active role in the development of many processes, which have helped the County Council to respond appropriately to new legislation and initiatives. Not least of these have been contributions towards the restructure of the Council and the 2005 Comprehensive Performance Assessment.

The value of Kent County Council's Governance & Audit Committee, in seeking independent, effective assurance about the adequacy of both financial management and management of other processes required to achieve the Council's service objectives, has been recognised as an example of best practice, in Cipfa's publication *Audit Committees – Practical Guidance for Local Authorities*. The Committee is focused on gaining assurance that the Council's governance, risk management and internal control arrangements are adequate and effective. Therefore, it receives regular internal audit reports culminating in this one, which provides an overall opinion on the robustness of the control framework. Indeed the annual assurance within this report is one of the sources of evidence for the statement of assurance to be published in the annual accounts

Targets for measuring Internal Audit's performance now provide a good basis on which to reflect upon previous activity and performance, build on the Section's many existing strengths, and challenge practices which could be developed further to ensure that Internal Audit achieves the right balance between fulfilling its statutory obligations and providing an economic, efficient and effective service to the organisation.

This annual report reflects upon the outcomes of internal audit activity during 2005/06. It includes:

- an overall opinion on the effectiveness of internal control for 2005/06.
- a summary of irregularities investigated;
- an analysis of audit time by directorate and activity;
- an analysis of Internal Audit performance;
- a summary of audits undertaken and opinions.

If you would like any additional information on this report or the work of Internal Audit, please do not hesitate to contact me.

Christine Webster
Chief Internal Auditor

INTERNAL AUDIT ANNUAL REPORT

For the Year Ended 31 March 2006

The assistance of the Authority's staff and management in providing help and information is gratefully acknowledged.

Report Distribution

This report has been distributed to:-

- All Members of Kent County Council
- Managing Directors and Directorates' Senior Management
- PricewaterhouseCoopers

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Kent County Council Internal Audit Annual Report 2005/06

I. Overview

1. Purpose

The purpose of the Internal Audit Annual Report is to:

- Report on key developments in both the Authority and the local government environment which have impacted upon the work and performance of Internal Audit in the year ended 31 March 2006;
- Highlight key challenges and priorities for the forthcoming year;
- Provide an assurance as to the adequacy and effectiveness of the Council's internal control, risk management and governance processes.
- Provide a review of internal audit activity, showing internal audit's objectives, performance and progress for the year ended 31 March 2006;

2. Key Developments in 2005/06

Comprehensive Performance Assessment

In December 2002, Kent was classified as 'Excellent' in the Audit Commission's assessment of the way in which the Council serves its local people. This classification was maintained in refreshes of the assessment in 2003 and 2004, but for 2005, the CPA got tougher under the new framework, *CPA – the harder test*. There was stronger focus on service users and value for money, and requirements for Councils to meet even higher standards to achieve the same rating. In addition, there was a 'direction of travel' statement, to supplement the single word rating system, to explain the extent to which the Council is improving.

Despite the harder test, the overall rating for the Council was again deemed to be the highest: 4 star, with a 'strongly improving' direction of travel. This is an excellent result. But we cannot afford to be complacent – it is a high standard to maintain, for which good governance, with effective and reliable control mechanisms will be essential factors.

Implementation of internal audit recommendations

An effective internal audit service positively contributes towards the Council's improvement by identifying areas where changes are required and recommending actions to address the potential risks.

Throughout 2005/06, Internal Audit has obtained assurances from managers as to the progress being made with the implementation of actions agreed during the audit process, and reported the outcome to the Governance & Audit Committee. Where sufficient action has not been taken, we have continued to follow up, until we have sufficient assurance that risks have been reduced.

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Fraud Awareness

In July 2005, Members of Governance & Audit Committee approved an Anti-Fraud Strategy for the Council. This was developed by Internal Audit with the aim of ensuring that policies in respect of fraud, corruption and money laundering, along with the Council's whistle blowing procedure, combined to provide a high standard of guidance to employees in line with best practice. Once approved, we began a programme of raising awareness amongst employees and members. The leaflet '*Fighting Fraud and Corruption within KCC*' was issued in January 2006 after which we launched a program of fraud awareness training to increase the counter-fraud culture throughout the authority. In addition to these new initiatives, the Section continued with other proactive anti-fraud work, through administration of the National Fraud Initiative and issue of bulletins, such as "Irregular Happenings" and mail shots.

Restructure of the Council

In response to legislation requiring Councils to re-organise the way in which Children's services are delivered, the Authority restructured its services with effect from 1 April 2006. Additionally, a decision was made to return the payroll service to in-house provision.

Internal Audit was closely involved with the preparation for these changes; specifically, with the restructuring of the accounts and reorganisation of the payroll service. It is fair to say that both of these transitions were managed extremely well.

Audit Committees

In December 2005, CIPFA published its '*Practical Guidance for Audit Committees in the Public Sector*'. Kent's Internal Audit Section contributed to the content of this publication, with detailed information as to the workings of our Governance & Audit Committee, which is regarded as an example of best practice. Following this publication, I gave a presentation at a CIPFA conference on the subject, and subsequently to Heads of Audit from Kent's district, borough and unitary councils. This gave me additional opportunities to further publicise Kent's experience, and advise others wishing to set up similar arrangements.

My involvement with this at a national level is continuing, as I am a member of a small panel formed to critique an Audit Committee Toolkit that the CIPFA Better Governance Forum is preparing. The idea behind the toolkit is that it should build on and complement the guidance on Audit Committees issued by CIPFA and should give more practical help and examples.

Statement of Accounts

The Accounts & Audit Regulations 2003 require that the Authority's statement of accounts for 2005/06 must have Committee approval by 30 June 2006. Compliance with this deadline has required the Council's financial statements to be prepared one month earlier than last year. To establish the procedure for this, the accounts for the last two years were prepared earlier than previously, with Internal Audit contributing to the process in two ways: we initially provided an assurance, through an audit of year-end transactions, that payments were accounted for in the correct financial year. Subsequently, we acted as a critical friend for Corporate Services' statement of

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accounts, by questioning elements of the statement in advance of the external auditor's formal review. We have undertaken similar assurance work for the 2005/06 statement.

Improvements in Service Delivery

As the Council strives to improve the way in which its services are delivered, Internal Audit has been proactive in identifying potential risks, and advising on controls that need to be built into new processes to prevent materialisation of these risks.

During the year, we advised on the management of risks relevant to the payroll's transition process and undertook an audit of the general controls necessary for the service, prior to its move from Capita back to KCC. In addition, we continued to advise upon the ongoing Finance Business Solutions program and the Systems Renewal Project for Social Services.

3. Key Challenges and Priorities for the Forthcoming Year

Restructure of KCC's Finance Function

Following the departure of the Strategic Director (Resources) and the transfer of his responsibilities for internal audit to the Director of Finance, a restructure of the finance group has brought together the functions of Internal Audit, Risk Management and Insurance. A new Head of Audit & Risk will be appointed to manage two previously separate Sections and develop a strategic approach to risk management in the Authority. My responsibilities for reporting to members on the adequacy and effectiveness of control within the Council will transfer to this post.

Of course, the strategic direction for Internal Audit in the future will depend upon the vision of the person who is appointed as Head of Audit & Risk. However, the following summarises my view of the key challenges facing the Council in the next year and the potential role of Internal Audit in helping to meet those challenges.

Accounts & Audit Regulations 2006

With effect from 1 April 2006, amendments to the Accounts & Audit Regulations require that an annual review of the Council's system of internal control must be undertaken. The findings of this review must be considered by "a committee or members of the Council meeting as a whole", following which they must approve a Statement on Internal Control. A new requirement will be an annual review of the effectiveness of Internal Audit, the findings of which must be considered, by the same member group, as part of their consideration of the system of internal control.

Current thinking on the best way to review of Internal Audit's effectiveness is that it should be undertaken as a self-assessment, the outcome of which can be independently verified, either by a peer group or an external assessor. Although we are confident that our practices and procedures are of a high standard, we are willing to make improvements if the outcome of this review suggests that any are needed.

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Comprehensive Performance Assessment (CPA)

Under the overall 'use of resources' category, scores were awarded for each of five 'key lines of enquiry'. A breakdown of the scores shows:

Key line of enquiry	Score (1 – 4)
financial reporting	3
financial standing	4
financial management	3
internal control	3
value for money	3

The challenge will be to maintain and improve upon these scores for the 2006/07 assessment and beyond. This will be especially difficult with some of the key lines of enquiry, especially internal control, given that additional factors have been added to the list of mandatory requirements. Although Internal Audit cannot be held responsible for the implementation of controls, as this would compromise our independence of operational processes, we can do much to encourage control improvements through proactive auditing, raising awareness and assurance work.

Freedoms and Flexibilities, and Towards 2010

Excellent status leads to a significant reduction in the number of statutory plans that the Council is required to submit for approval and a reduction in the number of external inspections. It also opens the door to negotiations with central government over a range of other possible freedoms and flexibilities, including opportunities to influence national debate. There is no doubt that this, and the vision encompassed within Towards 2010, will encourage greater risk taking among Chief Officers and senior managers of the Council. The challenge for Internal Audit associated with this, will be to ensure that risks are taken in the full knowledge of the possible consequences, with the greatest level of mitigating steps in place to limit any potential financial loss or damage to reputation. Our early involvement in new initiatives, and campaigns to raise awareness of risk management will be essential.

Partnerships

An audit of partnerships, undertaken by Internal Audit in conjunction with the Audit Commission during 2005/06, revealed that the Council has in excess of 200 arrangements with other bodies, where the shared aim is to improve services.

Partnership working is very much the way things are done in KCC, and this is another example of good practice for which we have been commended. However, whilst there is much to be gained from a release from the bureaucracy of the normal way of doing things, there is increasing risk of losing accountability, financial mismanagement and fraud. The challenge will be to get the right level of governance in place, commensurate with the risks posed by each partnership arrangement. Internal Audit has already begun to rise to this challenge through facilitation of risk workshops for the Kent Agreement.

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New Code of Practice for Internal Audit

At the time of writing, consultation on a new Code of Practice for Internal Audit was being undertaken. The new Code should be ready for publication in the Autumn 2006, and is likely to recommend a more risk-focussed approach. We anticipate little change for our Section, as we have undertaken a risk-focussed approach for the last four years, but it will provide a good opportunity to review are practices to check that we continue to operate in line with best practice.

Improvements in Services Delivery:

Value for money review. In recognition of the unique contribution that the Section can make because of its objectiveness and methodologies, the approved audit plan for 2006/07 includes a modest number of reviews to evaluate value for money. In preparation for this, internal auditors were trained in the techniques of value for money auditing during 2005/06. In addition, we will evaluate management's arrangements for securing value for money, wherever it is practical and sensible to do so, as part of our normal review work.

From our own perspective, we will increase the number of audit days that can be achieved for the same cost, by improving our performance in respect of published performance indicators and working with the private sector to deliver the internal audit plan.

Fraud Awareness Training. We will continue to roll out a programme of training sessions to raise awareness of fraud and its control, to both finance and non-finance staff.

Proactive Auditing. With the objective of securing improvements in the Council's internal control framework, Members of the Governance & Audit Committee approved our proposal to introduce a more proactive auditing approach for 2006/07. This will include two main features:

- Significant forewarning to managers of the controls we expect to be in place for audits in the 2006/07 audit plan, giving sufficient time to implement improvements before our testing and evaluation takes place;
- Greater involvement in new initiatives and developing systems, to advise upon control requirements before changes 'go live'. Where appropriate, this will take the form of facilitated risk workshops, aiming to encourage participants to identify, prioritise, own and manage risks that could prevent achievement of their service objectives.

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II. Internal Audit Assurance

1. Background

The Importance of Internal Control and Risk Management

KCC's objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends upon a thorough and regular evaluation of the nature and extent of the risks to which the Council is exposed. The purpose of internal control is to help manage risk appropriately, rather than to eliminate it, and thereby ensure that the Authority effectively and efficiently achieves its objectives.

Responsibilities

It is a management responsibility to develop and maintain the most appropriate internal control framework and to ensure that resources are properly applied in the manner and on the activities intended. The Council has formalised this by requesting all Managing Directors to annually review and report upon the adequacy of controls in their directorates and submit controls assurance statements to the Head of Financial Management.

It is the responsibility of Internal Audit to form an independent opinion, based on audit reviews performed, on the adequacy and effectiveness of the system of internal control and report this to the Governance & Audit Committee.

Statement on Internal Control

Paragraph 4(2) of the Accounts & Audit Regulations 2003 requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement on internal control, prepared in accordance with proper practice, in its annual accounts.

Kent's approach is to produce a combined governance and control statement, which is informed by a review derived from three key components:

- Self-certification statements prepared by all Managing Directors
- A review of financial controls undertaken by the Director of Finance
- The Internal Audit opinion presented within this report

2. 2005/2006 Audit Assurance

Basis of Audit Assurance

The Internal Audit Section has conducted audits in accordance with auditing standards contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which have been accepted by Members of the Governance & Audit Committee as the standard to which the Section works and

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against which performance is evaluated. Audits were planned and performed so as to obtain all the information and explanations considered necessary to gain assurance as to the level of control within the Authority.

Audit Assurance (defined assurances are denoted in italics and detailed in Appendix B):

INTERNAL CONTROLS

Based on the audit work undertaken throughout the year, irregularity investigations and any other relevant information, our overall opinion is that there is ***substantial*** assurance as to the level of control for the management of financial risk in the Council. The standard of budgetary control, particularly for the revenue budget, continues to operate at a satisfactory level. The most significant areas requiring improvement were identified with the Authority's payroll processes and with the collection of income, particularly through grant claims.

In respect of operational risk, our opinion is that there is ***limited*** assurance as to the standard of control in place to ensure that business objectives are achieved. The main areas of concern included the recruitment of staff in schools, business continuity and disaster recovery planning, and management of the property portfolio.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Our overall opinion is that there is ***substantial*** assurance as to the Council's arrangements for Corporate Governance. In relation to risk management, our review of the process to manage high priority risks documented in directorate risk registers, has confirmed that ***substantial*** arrangements have been put in place to ensure that risks have been identified, prioritised and assigned to responsible officers and that appropriate steps have been taken to mitigate the risks.

Recommendations to improve control of risks identified through internal audit activity have been discussed with, and accepted by relevant managers, and will be followed up by Internal Audit during 2006/07. Progress with the implementation of actions agreed by managers for implementation during 2005/06 is summarised in Appendix E. This shows that 87% of all recommendations that should have been implemented by the end of April 2006 had been put in place. For the outstanding actions, further implementation dates have been agreed.

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III. Irregularities

The Authority's Financial Regulations require managers to report all suspected irregularities to Internal Audit. During 2005/06, 27 instances of irregular activity were reported and investigated either wholly or in part by the Section. These are summarised below by directorate. The financial loss to the County Council was potentially £290,247, of which £43,000 has been recovered so far.

Directorate	KCC Resource	Non-KCC Resource	2005/06 Reported Irregularities	2004/05 Reported Irregularities
Education & Libraries (E&L)	9	1	10	8
Social Services (SS)	7	2	9	14
Strategic Planning (SP)	0	0	0	3
Corporate Services (CS)	8	0	8	10
KCC wide	0		0	0
Total	24	3	27	35

The number of reported cases has decreased since last year and there has been a corresponding decrease in the amount of time spent on investigations. The number of cases of e-mail and internet misuse has reduced, although these are still the most common type of irregularity reported, for which Internal Audit has provided evidence of misuse to support the disciplinary process. Nine members of staff have been suspended in total, of which three chose to resign, and one was issued with a warning. Four cases have been referred to the police. Analysis of the types of incidences reported for each directorate is shown in the following table.

Type of incident reported	E&L	SS	SP	CS	Total	2004/05 total
Theft of equipment/assets				1	1	4
Theft/misappropriation of KCC monies	2	2			4	8
Theft of clients'/other organisations monies	1	2			3	0
Abuse of e-mail/Internet facilities	4	1		2	7	10
Misuse of assets				1	1	4
Victim of external fraud					0	1
Inappropriate staff appointments				1	1	0
Allegations of financial mismanagement or misconduct	2	2		2	6	2
Overtime/expense claims		2		1	3	3
Conflicts of interest	1				1	2
Other						1
Total	10	9		8	27	35

All notified irregularities are recorded on a database from which it is possible to analyse the control failures that have occurred. This information is in our assessment of relative risk in the process of preparing the annual audit plan. Eight of the above cases were perpetrated because of weaknesses in control systems.

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IV. Internal Audit Activity

1. Mission Statement

Internal Audit's mission 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. Our purpose, authority and responsibility are defined within the Internal Audit charter attached at Appendix A.

2. Our Services

Our primary objective is to satisfy Kent County Council's statutory duty under the Accounts & Audit Regulations - to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. By examining and providing independent assurance about the processes and other measures instituted by managers to control both financial and operational risk, we contribute to the corporate governance of KCC. In so doing, we play a part in achieving the strategic aims of the Authority.

In recognition of the statutory requirement and in accordance with the Code of Practice for Internal Auditing in Local Government in the United Kingdom (CIPFA 2003) the Governance & Audit Committee has resolved that it is the responsibility of Internal Audit to review, appraise and report upon:

- the soundness, adequacy and application of financial and other management controls
- the extent of compliance with, relevance and financial effect of, established policies, plans and procedures
- the extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - fraud and other offences
 - waste, extravagance and inefficient administration, poor value for money and other causes
- the suitability and reliability of financial and other management data developed within the organisation.

To fulfil our responsibilities, the main services provided are:

- **risk-based audit reviews**, targeting audit resources to the testing of financial and operational processes in accordance with the risk to which they expose the Council, and offering advice as to the mitigation of any risks identified;
- **ICT audit**, delivering reviews of the specialist control environment for the Council's hardware, software and network;
- **Investigation of irregularities**, providing discreet enquiries into cases of actual or alleged cases of fraud or corruption, including liaison with the Police and other investigatory bodies;
- **Provision of advice** on internal control and the management of risk

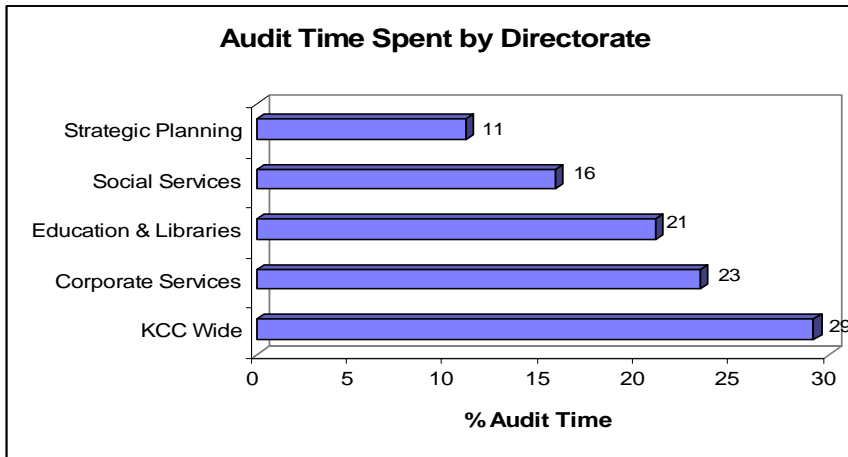
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- **Reporting** of assurances and advice to KCC clients, culminating in this report to Governance & Audit Committee, to provide an overall opinion as to the adequacy of the control environment within the County Council.

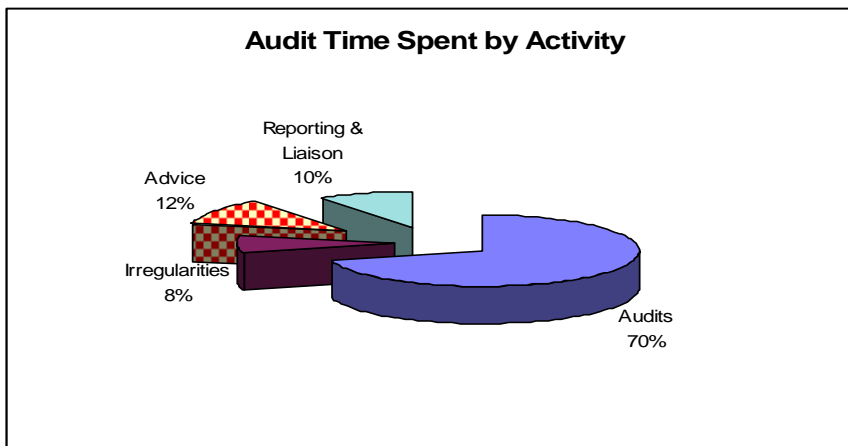
3. Time spent by Directorate and Activity

In 2005/2006 the Internal Audit section spent 81% of total available time in providing audit services. This exceeded our target of 75%, and represents a modest improvement on the outcome for 2004/05 which achieved 80%.

Although the Section carried out fee based work for external clients including the Kent Fire & Rescue Service, this report analyses the services provided to our primary client, Kent County Council. An analysis of time spent on services for different directorates is shown in the following graph:



The time spent on Authority wide activities increased to 29%, from 19% in 2004/05, at the expense, mainly, of time spent on Corporate Services which reduced from 32%. An analysis of time spent on different types of audit work is shown in the following graph:



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Time spent investigating irregularities decreased from 12% to 8%, allowing more time to be spent giving advice and undertaking programmed audits, both of which increased by 2%. A summary of all the audits reported during the year is given in Appendices D and E to this report.

5. Internal Audit Performance

Performance indicators to facilitate monitoring of the Internal Audit Section's efficiency and effectiveness were agreed by members of the Audit Committee at their meeting on 3 March 2004. These indicators are incorporated into the Section's business plan and are monitored regularly. The outturn for 2005/06 is shown below:

PERFORMANCE INDICATOR	TARGET	OUTTURN
<p><u>Productivity and Efficiency</u> Delivery of audits:</p> <ul style="list-style-type: none"> • Available time spent on direct audit work • Audits delivered within budgeted days • Planned audits delivered <p>Delivery date:</p> <ul style="list-style-type: none"> • Draft reports completed within 15 days of finishing fieldwork <p>Overall service:</p> <ul style="list-style-type: none"> • Preparation of the annual audit plan • Periodic reports on progress • Preparation of annual internal audit report 	<p style="text-align: center;">75%</p> <p style="text-align: center;">89%</p> <p style="text-align: center;">90%</p> <p style="text-align: center;">89%</p> <ul style="list-style-type: none"> • By March • To all Committee meetings • To coincide with assurance statement 	<p style="text-align: center;">81%</p> <p style="text-align: center;">74%</p> <p style="text-align: center;">75%</p> <p style="text-align: center;">94%</p> <p>Reported:</p> <ul style="list-style-type: none"> • 1.3.06 • July, Sept, Dec, March • 30.7.06
<p><u>Cost Effectiveness</u> Benchmark cost against similar local authorities:</p> <ul style="list-style-type: none"> • Cost per £m gross turnover • Cost per auditor • Cost per audit day <p>Delivery of service within budget: Internal Audit budget actually spent</p>	<ul style="list-style-type: none"> • £640 (average) • £45,600 (av) • £289 (average) <p style="text-align: center;">100% by year end</p>	<ul style="list-style-type: none"> • £317 • £54,040 • £359 <p style="text-align: center;">82%</p>
<p><u>Quality of service</u> Feedback from client questionnaires:</p> <ul style="list-style-type: none"> • Questions responded to positively <p>Feedback from External Auditors:</p> <ul style="list-style-type: none"> • External Audit place reliance on the work of Internal Audit 	<p style="text-align: center;">93%</p> <p style="text-align: center;">Positive External Audit report</p>	<p style="text-align: center;">93%</p> <p style="text-align: center;">Positive report from PwC</p>
<p><u>Staff Management</u></p> <ul style="list-style-type: none"> • permanent staff in post • staff with relevant qualifications 	<p style="text-align: center;">94%</p> <p style="text-align: center;">60%</p>	<p style="text-align: center;">84%</p> <p style="text-align: center;">79%</p>

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Productivity and Efficiency

It is encouraging to note that many targets have been exceeded, and represent improvements on our performance for 2004/05, particularly:

- 81% of audit time was spent on direct audit work (80% in 2004/05),
- 94% of draft reports were issued within 15 days of completing audit fieldwork (68% in 2004/05).

Targets for delivery of the audit plan and achieving audits within budget have not been met, although performance on the latter increased since 2004/05 (from 72% to 74%). Explanations for these are as follows:

- The Section operated with only 84% of its full establishment throughout the year. Although casual and agency staff were used to fill much of the gap, providing an extra 186 days by the end of the year, this action brought with it some significant unforeseen management problems, and was not enough to enable delivery of the agreed plan;
- The audit plan for 2005/06 included an estimate of 80 days for investigating potential irregularities. By the end of the year, 168 days had been required for this;
- Many audits were delayed during the year at the request of managers who had competing pressures on their time, which had a knock-on impact on the scheduling of replacement audits;
- Although we achieved only 76% of audits within their budgeted days, indicating that 24% of audits overspent their budgets, the underspent budgets compensated for the overspent ones, with the effect that the overall budget for all completed audits was underspent by approximately 10%.

Cost Effectiveness

Kent Audit is a member of the CIPFA/IPF Audit Benchmarking Club. Through this, information about our costs and productivity is compared against other county councils in our group, including Essex, Hampshire, Hertfordshire, Lancashire, Norfolk, Nottinghamshire, Staffordshire and Surrey. The figures for 2005/06 were not available from IPF at the time of writing this report, however cost and time analysis information for 2004/05 produced the following statistics (previous year's data is shown in brackets):

	<i>Kent</i>	<i>Average</i>	<i>Lowest</i>	<i>Highest</i>
Cost per £m gross turnover	£317 (£399)	£602 (£640)	£317 (£399)	£740 (£850)
Cost per auditor:	£54,040 (£49,710)	£45,600 (£44,387)	£35,000 (£38,000)	£62,500 (£54,000)
Cost per audit day:	£359 (£326)	£289 (£268)	£190 (£210)	£370 (£326)
Audit days per Auditor:	165 (161)	161 (169)	125 (150)	184 (190)

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Kent spends significantly less per £m gross turnover on its audit service than other, similar county councils, indeed it spends the least, but pays more than average per auditor. The high costs per auditor and per audit day are the result of higher than average salaries and overhead costs. The number of audit days per auditor has improved since last year and is now above average.

Quality of service

Following the issue of each final audit report, managers are invited to express their views on the way in which the audit was conducted. Responses are regularly reviewed and used to reconsider working practices and address skill gaps. The responses for the year have been collated, and in 2005/06 the overall level of satisfaction was 93%. Comparison with previous years is shown in the following table:

Year	Customer Satisfaction
2001/2002	93%
2002/2003	94%
2003/2004	93%
2004/2005	92%
2005/2006	93%

The overall level of satisfaction improved upon that of last year, with responses to specific questions producing the following statistics (last year's results are shown in brackets):

- **94% (100%) considered the audit was worthwhile and added value to their work.**
- **76% (83%) felt that the recommendations helped to solve the control weaknesses and manage the risks identified in the audit.**
- **100% (100%) felt that the audit was conducted in a professional and courteous manner.**

External Audit view of Internal Audit

Internal Audit is subject to continuous assessment and examination each year by PricewaterhouseCoopers (PwC). For the sixteenth consecutive year PwC expressed their confidence in the Section and stated that they have placed reliance upon the work carried out by the Section in their audit of the Authority's financial statements and performance. PwC's ability to rely on the work of Internal Audit contributes towards a reduction in the number of days charged by the External Auditors to the Authority.

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V. Introduction to Appendices

Appendix A Internal Audit Charter

Appendix B Definitions of Audit Assurance Levels

Appendix C Analysis of Audit Assurances

An analysis of the audit opinions provided for each audit conducted during 2005/2006, within each directorate, expressed according to the type of risk addressed and, for financial risk, the Financial Control Framework category.

Appendix D Summary of audit assurances by directorate and risk category

A summary of the audit opinions provided to directorates during 2005/2006, expressed against the type of risk addressed and, for financial risk, the Financial Control Framework category.

Appendix E Summary of Progress with Implementation of Audit Recommendations

A summary of assurances provided by managers as to the implementation of action to address risks identified in audit reports by dates agreed during the audits. Recommendations due to be implemented by April 2006 from all audits undertaken since April 2004 have been followed up.

Appendix F Internal Audit Contacts

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Appendix A

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 assurance 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 (2003).*

KCC Internal Audit'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 records and of its system of internal control' is contained in the Accounts and Audit Regulations 2003 (amended in 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Authority 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 risk resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to

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the Governance & Audit Committee if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC Internal Audit's activity will conform to standards and guidance contained in CIPFA's "Code of Practice for Internal Audit in Local Government in the UK" (2003). This is structured around ten 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.

The Chief Internal Auditor (CIA) will have free and unrestricted access, and freedom to report in her own name, to the Director of Finance and Chairman of the Governance & Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities (in consultation with management) based on an evaluation of risk. This will form 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. Members of the Governance & Audit Committee will approve the plan and at each of its meetings receive reports summarising significant findings of audit work undertaken.

Objectivity will be preserved by ensuring that all members of audit staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit.

Audit Scope:

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and Governance & Audit Committee as to the adequacy and effectiveness of the Council's 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 effect and 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

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- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Raising 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;

Internal Audit is not relieved of its responsibilities in areas of the Authority'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.

The CIA will provide an annual audit assurance as to the adequacy of the Council's internal controls and risk management processes. This will be used to support the Statement on Internal Control.

Right of Access:

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

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Appendix B

Definitions of Audit Assurance Levels

ASSURANCE LEVEL	SUMMARY DESCRIPTION	DETAILED DEFINITION
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.
Minimal	Urgent improvements in controls or the application of controls required.	The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.

Analysis of Audit Assurances

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK						OPERATIONAL RISK			
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems
	Authority-wide												
Sep 05	2004/05 audits b/fwd Identification of Income Due	✓	S				S						
Sep 05	Performance Indicators	✓	S									S	
Sep 05	Audits from 2005/06 Plan Statement of Internal Control	✓	S								S	S	
Sep 05	Change Management	✓	S										S
Mar 06	Anti Virus Policies and Measures	✓	L										L
Mar 06	Data Protection Follow Up	✓	S								S		
Mar 06	Disaster Recovery Plans	✓	M									M	M
June 06	Mobile Phones	✓	L							L			
June 06	Firewalls, Internet & E mail Monitoring	✓	S								S		
June 06	Corporate Governance	✓	H								H		

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L = Limited

M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK		
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems
	Corporate Services												
Sep 05	<i>Audits from 2005/06 Plan</i> Year-end Payments 2004/5	✓	S							S			
Dec 05	e-Government and ISG Project Management Offices	✓	L								L	L	L
Dec 05	Goldman Sachs Asset Management	✓	S								S	S	
Dec 05	Commercial Services – Transport Engineering Income	✓	L				L						L
Dec 05	Commercial Services – Inventory/Stock Control	✓	S							S		S	
Dec 05	Kent Community Equipment	✓	L								L	L	
June 06	Accounts Payable 2005/06	✓	S			S							
June 06	Payroll 2005/06	✓	L		L								
June 06	Finance Business Solutions Programme Management	✓	S										
June 06	Technology Refresh programme	✓	S										
June 06	The Delivery of the Schools' Capital Modernisation Programme	✓	L										

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

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M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK		
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems
June 06	Purchase cards	✓	S			S							
June 06	Commercial Services – Kent Web Shop	✓	L										L
	Education & Libraries												
	<i>2004/05 audits b/fwd</i>												
Sep 05	The Education Management System	✓	L										L
Dec 05	AEN Home to School Transport	✓	L	L								L	
	Audits from 2005/06 Plan												
June 06	IMPULSE Admissions & Transport system	✓	L										
June 06	Recruitment & Retention	✓	S									S	
June 06	Procurement of Supplies and Services in Schools	✓	L							L			
June 06	Grouped Schools PFI project	✓	S							S			
June 06	Deficits and Compliance Team	✓	S							S			

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

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Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK		
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems
	Social Services												
	<i>2004/05 audits b/fwd</i>												
Sep 05	Asylum Seekers Cash handling	✓	H					H					
Sep 05	Farrow Court Post Implementation Review	✓	H									H	
	Audits from 2005/06 Plan												
Sep 05	Ashford DOS	✓	S	S		S	S					L	
Dec 05	Asylum Seekers Payments to Providers	✓	S			S							
Dec 05	Domiciliary Care	✓	L				L						
Mar 06	Thanet DOS	✓	M	M			M	M					
June 06	Payments to the P & V sector	✓	H			H							
June 06	Supporting People Contract Monitoring	✓	H							H			
June 06	Leaving Care	✓	S						S				
June 06	Better Homes, Active Lives PFI project	✓	S										
June 06	Finance Standards Team	✓	S							S			

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

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Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK		
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems
	Strategic Planning												
	2004/05 audits b/fwd												
Jul 05	Highways, Minor Works & Winter Maintenance Contracts	✓	S			S						S	
Jul 05	Safety Camera Partnership	✓	S						S			S	
Jul 05	Babtie Commissioning Process		S									S	
Sep 05	New Roads and Street Works Act System	✓	L										L
	Audits from 2005/06 Plan												
Sep 05	Registrars' Income	✓	S				S						
Dec 05	Implementation of the Electoral system	✓	M										M
Mar 06	Kent Scientific Services	✓	L								L		
Mar 06	ODPM Funded Delivery Boards	✓	S								S	S	
Mar 06	Midas Follow Up	✓	S	S									S
June 06	Trading Standards – Finance Review	✓	S	S		S			S				
June 06	Landfill Tax Payments	✓	L			L							

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L= Limited

M = Minimal

Summary of Audit Assurances - by Directorate and Risk Category

Directorate	FINANCIAL RISK							OPERATIONAL RISK			
	Budget Management	Payroll	Expenditure	Income	Banking & Cash Handling	Accounting Systems & Processes	General Financial Control	Resource Management	Governance & Legal	Business systems	Information Systems
Authority wide	S	L	L	S	S	S	S	L	S	L	L
Education & Libraries	L		L	M			S	S	S	M	L
Social Services	S		S	S	H		S	S	L	S	
Corporate Services	S		S	L	S	S	S	S		L	S
Strategic Planning	S		L	S			S			S	S
OVERALL	S	L	S	L	S	S	S	S	S	L	L
2004/2005 OVERALL	S	S	S	S	S	S		A (=L)	S	S	A (=L)

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

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Appendix E

Summary of Progress with the Implementation of Audit Recommendations

Directorate	Total actions due to be implemented by end of April 2006	Actions in place	Priority of Outstanding Actions at May 2006		
			Very High	High	Medium
Authority Wide	90	72	7	8	3
Corporate Services	69	61	2	4	2
Education & Libraries	32	28	3	1	0
Social Services	66	62	0	3	1
Strategic Planning	57	50	1	6	0
Total	314	273	13	22	6

Internal Audit Contacts

Responsibility	Audit Management	Other Contacts	
The County Council, Financial Irregularities	Christine Webster Chief Internal Auditor ☎ 4614	Janet Armstrong Audit Manager ☎ 4567	
Education & Libraries (now Children, Families & Education)	Janet Armstrong Audit Manager ☎ 4567	Ann Mannell Assistant Audit Manager ☎ 4664	Siobhan Cheeseman Auditor ☎ 4548 Leena Badiani Auditor ☎ 4548
Social Services (now Adult Services)	Janet Armstrong Audit Manager ☎ 4567	Julie Samson Assistant Audit Manager ☎ 4569	Sangeeta Surana Senior Auditor ☎ 4544 Patience Ogunbona Auditor ☎ 4584
Strategic Planning (now Environment & Regeneration)	Janet Armstrong Audit Manager ☎ 4567	June Lamb Assistant Audit Manager ☎ 4695	Hazel Goodwin Auditor ☎ 4695 Ron Herivel Auditor ☎ 4695
Corporate Services (now Chief Executive's Department)	Christine Webster Chief Internal Auditor ☎ 4614	Julie Samson Assistant Audit Manager ☎ 4569	Peggy Colwell Assistant Audit Manager ☎ 4576
Computer Security	Christine Webster Chief Internal Auditor ☎ 4614	Tony Cordina Assistant Audit Manager ☎ 4694	
General Enquiries	Suja Koreira Business Support Assistant Audit Help Desk ☎ 4636		