

By: Samantha Buckland – Acting Head of Internal Audit
To: Governance and Audit Committee – 29 November 2011
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity since the September Governance and Audit Committee.

FOR ASSURANCE

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, and amendments to, the 2011/12 Internal Audit Plan since the last report to the Governance and Audit Committee; and
 - achievement against Internal Audit's Key Performance Indicators.

Overview of Progress

2. This report contains the outcome of Internal Audit work completed, at draft report stage or in progress for September to November 2011. During this period seven audits were finalised, five draft reports were issued and seven audits commenced. Further details of the final reports issued, including management's responses where appropriate, can be found at Annex A.
3. Annex B shows the progress of Directorates in the implementation of the agreed recommendations arising from our audit reports.
4. Progress against the Audit Plan for 2011/12 is shown in Annex C; this shows an improvement from 12% to 33% in the two months since the last progress report to Governance and Audit Committee despite a number of additional audits (see 5 below).
5. Annex D shows amendments to the Audit Plan. There are six additional audits to the 2011/12 Internal Audit plan; these are computer audits delivered through our co-source arrangements and are not in addition to the original contract. A further audit has been modified and one deleted from the plan, this last due to the 2010/11 audit of the same area being delayed to 2011/12 and completed recently.
6. Annex E provides detail of our progress against the agreed Internal Audit Key Performance Indicators for the 2011/12 year to end of October.

Implications for Governance

7. 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 F.

Recommendation

8. Members are asked to note:
 - the amendments to, and progress against, the 2011/12 Audit Plan.
 - the assurance provided in relation to the Council's control environment as a result of the outcome of Internal Audit work completed to date.

Samantha Buckland
Acting Head of Internal Audit
Ext: 4611

Processes used in the Quality Assurance of Care Homes

Scope

The purpose of the audit was to review the processes by which KCC evaluates, awards and monitors care homes to ensure that they meet the required good practice standards and represent good value.

Overall assessment - Substantial

Residential and nursing homes that wish to contract with KCC are evaluated for service standards and price in order to award these with preferred provider status. The homes are evaluated in two ways; the first in that it meets good practice standards, the second the extent to which the tendered price represents good value against the maximum price that KCC will pay. KCC has approximately 7,000 people in residential placements, the majority are in Kent but there are also placements in other parts of the country.

The specific areas that were reviewed included:-

- Procedures, legislation and staff training;
- Selection and vetting of residential and nursing care homes;
- Contract formalities; Monitoring and inspection procedures, and
- Reporting.

We have made recommendations to improve controls, which predominantly relate to monitoring. The East and West Kent teams have now been merged to create one team and a review is being carried out by the Contracts Team which should help to address the recommendations in the report. In addition a new Contract Compliance Policy and Procedure was being introduced at the time of the audit.

Kent County Council Elections for 2005 and 2009

Scope

The purpose of the audit was to review the claims submitted by the Deputy Returning Officers for the reimbursement of fees and expenses incurred in managing the Kent County Council elections for 2005, 2009 and for a by-election in at Tonbridge and Malling in 2011.

In addition, we evaluated the controls in place to properly manage the expenditure on elections and the claims for reimbursement to ensure that these were well designed, appropriate and effective.

Overall assessment – assurance level not applicable given due to nature of work undertaken

The scope of the intended audit was limited as there was only one claim available for the 2005 elections, submitted late due to staff illness at the District. The other claims and supporting documents, having been settled, were not retained by Customer and Communities and therefore not available for audit. These records, supporting the payment of expenses for election costs, should be retained for the current year plus six years.

The audit of the claims available for 2005, 2009 and the by-election in 2011 identified a number of common errors. These arose because of the incorrect treatment of VAT, wrong calculations for fees and confusion on the treatment of shared expenditure because of a joint election (Parliamentary and European).

In total an amount of £21,407 has been identified cumulatively as potentially overstated on the returns. In addition, elements of expenditure could not be verified as insufficient information or documentation was provided to substantiate the claim.

The Head of Registration and Coroners has been provided with a report, detailed spreadsheet and supporting documentation for each District showing potentially incorrect elements of the claim. These findings are being discussed with each District and where appropriate additional evidence will be required before the claims are finalised.

We have made a number of recommendations designed to improve control for managing the expenditure on County elections in the future. In particular there is a need for summary estimates to support any advance payments, procedures and definitions defining the limits and detail of permitted expenditure and the need for adequate levels of supporting evidence.

Pension Payroll - Overpayments

Scope

The purpose of the audit was to review the processes by which pension payroll overpayments are identified and recovered.

Overall assessment – Full

The main reason for an overpayment is the death of a member of the pension scheme. We found that once notification of a death has been received, that the overpayment figures are calculated accurately and promptly and the relevant member record is suspended to ensure no further payments are made; requests to recover overpayments are made in a timely manner. However, as payments are made to the Pensions Section, Pensions Payroll staff are not always aware that overpayments have been recovered. In addition, when payments have been received, it is not always clear who they relate to. A new process has been put in place to show the name of the member of the pension scheme within the overpayments account and a 'task' set up within Axis, the Pensions Administration system, to ensure that Pensions Payroll staff are informed when a payment has been received.

We have made two low risk recommendations which have been agreed by management.

Transaction Data Matching (TDM)

Scope

The purpose of this follow-up audit was to provide assurance that improvements had been carried out in line with the recommendations made in the audit which was reported in February 2007. We also reviewed the setting and introduction of tolerances considering the effectiveness of these improvements and to ensure that the key objective of the system is being met.

Overall assessment – Substantial

Our follow-up identified that the processes and procedures in place for TDM are more robust and are being managed effectively.

Although we have increased the assurance level to substantial the introduction of tolerance levels is a recognition that there is a level of error due to the nature of the service. As these tolerances have only recently been introduced, and with the reduction of the percentage level in October 2011, it was too early at the time of the audit to quantify the impact.

This system is dependent on the thorough checking of the exception reports produced so that payments made for services not delivered can be recovered promptly. Since the introduction of tolerance levels in April 2011, variations will now only relate to those within the accepted level. In the four localities visited it was seen that staff are working hard on current and fairly recent exceptions but those prior to the setting of the tolerances are yet to be resolved which could mean that services not rendered have been paid for. Acceptance of those earlier variations should be agreed formally back to a reasonable date or value, bearing in mind that due to the nature of the data it would never be possible to clear all variations. It was identified that there is not a common approach across all 4 localities in the use of exception reports.

Our audit identified that a complete and accurate record of investigations and action taken is not being maintained in all cases. Delays in payment due to length of time taken to clear disputes could be occurring with no log to monitor this.

We have made 4 recommendations relating to the standardisation of work practices, agreement as to a cut-off date for retrospective clearance of variations and maintenance of records.

Commercial Services – Services Tender Costing

Scope

The purpose of this audit was to assess whether tender bids by Commercial Services had been prepared taking into account all reasonable costs, including Kent County Council overheads. The audit assessed the costs allocated to Commercial Services for the financial year 2010/11 and how those costs were allocated to individual business units.

Overall assessment – Substantial

The audit reviewed documents identifying Commercial Services' overheads and the components which form them. The overheads are allocated between business units in Commercial Services based on an appropriate method of allocation.

The tender costing methodology was confirmed for a sample of tenders within County Print & Design, Landscape Services and Passenger Services. In all cases a range of relevant costs and overheads were taken into account to form the total tender price. Overheads were often calculated at estimated rates but these were generally reasonable and consistently applied.

The tender looked at from within County Print & Design used a machine hour rate to calculate the overall cost of the tender and therefore the tender price. We were informed that this rate took into account all cost factors, but we were not able to see evidence to support this calculation during the audit. Furthermore, this is based on historical data and therefore may not include the most up-to-date prices. We have recommended that this data is reviewed and reflects current costs.

Carbon Reduction Commitment Energy Efficiency Scheme

Scope

The purpose of this was to provide assurance that the Council has complied with the requirements of the guidance laid down by the Environment Agency in producing the evidence pack in relation to the Carbon Reduction Commitment Energy Efficiency scheme (CRC scheme). We assessed the accuracy of the base data used for measuring carbon usage and reduction and the management processes put in place to allow the Council to give assurance that the evidence pack submitted to the Environment Agency is accurate and updated periodically.

Overall assessment - Compliant

The Environment Agency's guidelines identify different levels of evidence requirements, mandatory, recommended and best practice. The Council has looked to provide evidence for all levels. All the evidence that was required for the mandatory element was included in the pack. We have made a recommendation to improve the structure of the evidence file and identified some additional evidence required to comply with the requirements for recommended and best practice levels.

Our testing confirmed that the data included in the evidence pack was supported by original source data. Data used is usually obtained directly from meters but when estimations were required the methodology and calculations used followed the Environmental Agency guidelines.

Blue Book – Performance and Conduct

Scope

The overall objective of this audit was to provide assurance on the application of and compliance with the Council's policies and procedures contained in the Blue Book on Performance and Conduct. These policies are designed to ensure that the performance and conduct of staff is properly appraised. In particular the policies provide a framework for disciplinary, performance and capability procedures.

Overall assessment – Substantial

The audit found that the Blue Book was updated on a regular basis and accessible to all employees through KNet.

There were no mandatory courses for managers to attend on performance and conduct for the period covered by the audit. Going forward this is an issue that will be addressed through the implementation of the Kent Manager programme which is now being rolled out.

Our audit concluded that the performance and conduct cases were dealt with in line with the guidelines but there was some information not on the HR files; this could become an issue if the case went to appeal. Some investigations were found not to be completed within the prescribed timescale and although there could be valid reasons for this, these were not documented.

We identified inconsistencies in the processes in place to comply with the documentation requirements and discrepancies in information provided by directorates for reporting purposes. Both of these issues will be resolved as a result of the restructure and centralisation of the HR function.

We have made recommendations to address these issues.

Directorates' Progress with the Implementation of Agreed Recommendations

Where Internal Audit finds control weaknesses, instances of non compliance with existing controls or gaps in internal controls, recommendations are made to improve the control environment. At the draft report stage of an audit, recommendations are discussed with responsible managers who agree actions to implement the recommendations within a specified 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 implemented within one month. The agreed action, date and name of the responsible officer are then 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 attached table shows the progress with the implementation of agreed recommendations since our last report to Governance and Audit Committee.

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

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

- 9 have been implemented
- 8 actions are outstanding; 1 of which is a critical priority, 1 high priority and 6 are medium priority.

Revised dates for implementing the outstanding recommendations have been provided and we have evaluated the risk of these revisions, any concerns have or will be further discussed with management.

Please note 'critical' priority is no longer used (see above) however this applies to the follow-up of audits completed prior to the agreed change in priority levels for 2011/12.

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

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
Authority wide	3				3	Corporate Governance	All recommendations relating to this audit are currently ongoing and will be followed up in April 2012. There have been substantial revisions to the Code of Corporate Governance which are now subject to consultation, following which the revised version will be brought to the Governance and Audit Committee. Inclusion of a more detailed definition of the Section 151 Officer is subject to ongoing discussions and it is likely that Governance and Audit Committee will be consulted in due course. Discussion over reporting officer decisions to members was included in a report on the Scheme of Delegation to Officers.	April 2012
Children, Families and Education	4	4				SEN transport	All recommendations relating to this audit have now been completed.	
Section 151	1	1				Pensions Investment Income	All recommendations relating to this audit have now been completed.	
Chief Executive's Department	2	1			1	Virus Protection	The recommendation relating to virus detection has now been implemented. The remaining recommendation regarding the identification of unauthorised software is being investigated by ICT, but early indications are that the cost of a solution may be prohibitive.	January 2012

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

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
Environment, Highways and Waste	1	1				Highways Maintenance	The recommendation regarding a programmed works timeframe has now been implemented.	
Environment, Highways and Waste	1	1				Performance and Data Quality	All recommendations relating to this audit have now been completed.	
Chief Executive's Department	13	9	1	1	2	PC End User Controls	<p>Management have accepted the risk for recommendations on the logon banner, end point security, personal USB data storage devices and CD/DVD writers. Our computer auditors will be discussing this with IS Security.</p> <p>Recommendations relating to the collection of IT assets from leavers, change management policy & procedures, local administrator permissions and standard build security checks have been implemented. The recommendation for end user policies and procedures has been superseded by work undertaken for the IT policy audit.</p> <p>The review of blackberry logical access controls was to be reported to the Information Governance Group which no longer meets. This recommendation needs to be revisited.</p> <p>Recommendations regarding user training & awareness (technical problems), patch management (contract in place to resolve by 31 March 2012) and</p>	March 2012

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

Directorate	Total actions due to be in place by end of September 2011	Actions in place	Priority of outstanding actions			Comments on recommendations		
			C	H	M	Audit		To be completed by
							encrypted USB data storage devices are not yet implemented and will be followed up in March 2012. The impact of these revisions will be discussed with management, particularly in relation to the critical (patch management) and high (blackberry logical access controls) priority recommendations.	
TOTAL	25	17	1	1	6			

C = Critical risk (for audits completed to 31 March 2011)

H – High risk

M = Medium risk

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
Authority Wide			
	Kent County Council Elections	Completed	N/a
	Governance of Partnerships	Completed	Full
	Corporate Governance	Initiation Document issued	
	Schemes of Delegation and Limits on Approval	Fieldwork in Progress	
	Annual Governance Statement	Engagement Plan issued	
	Performance Management Framework	Planning in progress	
	Risk Management	Planning in progress	
Core Systems			
	Pensions Overpayments	Completed	Full
	Responsive Building Maintenance	Completed	Substantial
	Commercial Services – Services Tender Costing	Completed	Substantial
	Oracle Database Audit	Draft report issued	
	Transaction Data Matching	Completed	Substantial
	Key financial controls – Gypsies and Travellers Unit	Completed	Substantial
	Implementation of the English National Travel Concessionary Scheme	Completed	Full
	Quality Assurance of Care Homes	Completed	Substantial
	Oracle – General Ledger	Audit in progress	
	Oracle – Accounts Payable	Audit in progress	
	Oracle – Accounts Receivable	Audit in progress	
	Oracle – i Procurement	Audit in progress	
	Use of Corporate Purchase Cards	Completed	Limited
	Oracle Payroll & HR	Audit in progress	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
	Treasury Management	Initiation Document issued	
	Cash and Bank	Initiation Document issued	
	Medium Term Planning	Draft report issued	
	Revenue Budget Monitoring	Draft report issued	
	Swift – Social Care System (Domiciliary & Residential)	Planning in progress	
	Client Billing	Planning in progress	
	Pensions Contributions	Initiation Document issued	
	Pensions Investment Income	Initiation Document issued	
	Enterprise & Interprise (Property Information databases)	Engagement Plan issued	
	Routewise	Planning in progress	
	Financial Controls in Schools	Initiation Document issued	
	Oracle Modules	Audit in Progress	
	Firewalls and Firewall Management	Audit in Progress	
	Network Security and Infrastructure (LAN)	Planning in Progress	
	Exchange Server and e-mail	Engagement Plan issued	
	IT Support Arrangements (ITL)	Audit Planned	
	IT Compliance	Draft report issued	
	BSS - Sharepoint	Engagement Plan issued	
	EE – Freedom Pass Application	Planning in Progress	
	FCS – Business Objects	Planning in Progress	
	CC – CARA Registrations Application	Engagement Plan issued	
	ELS – CapitaOne Application	Planning in Progress	
	ELS – ICS Implementation	Ongoing – advice and information	

Annex C
Progress against the 2011/12 Audit Plan

Directorate/area	Audit	Progress at 18 November 2011	Assurance
Policies			
	Data Protection Act	Initiation Document issued	
	Freedom of Information Act	Initiation Document issued	
	Equalities Act	Initiation Document issued	
	Complaints, Comments and Compliments Policy	Initiation Document issued	
	Blue Book – Job Evaluation	Audit in progress	
	Blue Book – Recruitment and Selection	Draft report issued	
	Blue Book – Total Contribution (TCP)	Draft report issued	
	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	Completed	Substantial
	Communications Toolkit	Engagement Plan issued	
	Procurement	Engagement Plan issued	
	Information Security	Planning in progress	
	Managing Change	Initiation Document issued	
Emerging Issues			
	Carbon Reduction Commitment	Completed	Compliant

Amendments to Plan

Audit	Comments	Days
ADDED		
CS29 – SharePoint	<p>SharePoint is becoming a core user driven tool for the storage, sharing and management of data for the Council and Council Departments. SharePoint can be a powerful tool but, as with any such tool, if it goes un-checked it can become unwieldy and fail to meet manager’s expectations, with data becoming obsolete and ‘dead’ areas appearing through the provision. The audit will assess the framework for internal controls within the following areas:</p> <ul style="list-style-type: none"> • Implementation • Development • Management and Ownership • Content Definitions • Maintenance • Monitoring 	20
CS30 – Freedom Pass Application	<p>This is a potentially sensitive application with annual charges and personal information relating to children being entered and processed. It is also a new process outside of London and with annual fees due there are going to be key times of the year when the application will be under greatest demand.</p>	20
CS31 – Business Objects	<p>This is a third party report writer heavily used within Families and Social Care. Business Objects has the tendency to be linked directly into the underlying database and as a result can have access to a significant amount of information. Historically as this data should be read only (i.e. cannot be updated) there is a tendency for the controls around access through Business Objects to be more loosely defined than within the applications it plugs into. This can cause issues with data confidentiality and security which if mishandled could result in a significant breach of Data Protection Legislation.</p>	20
CS32 – CARA Registrations Application	<p>Registrations include Births, Deaths, Weddings and Civil Ceremonies and CARA is the application used for logging and monitoring as well as undertaking limited financial transactions and printing of Certificates. If the application went down it</p>	25

Annex D
Amendments to the 2011/12 Audit Plan

Audit	Comments	Days
	would quickly become an irritant with local news potential as much of the activity around the use of the application is personal to individual members of the public. The usage is distributed across the county and there are around 100 users.	
CS33 – CapitaOne Application	<p>The CapitaOne system runs on a single core with no customisations and is administered centrally. This is a Business to Business system (with inputs from schools). Schools' input is cleaned by the Management Information Unit before going into the system. There are again several modules including:</p> <ul style="list-style-type: none"> • Attendance Module • Governors Module • EPM (Recording System) – for visits to schools • POP4 – a population forecasting module. 	20
CS34 – Integrated Children’s System (ICS) Implementation	ICS draws data from CapitaOne and is a families system; this is currently out to tender and should be changing within the next 12 months. The time allocated here will be used to provide ongoing advice and information and to attend the project board as and when required.	10
CHANGED		
AW06 Business Continuity Planning	<p>The audit was originally included in the plan to provide assurance that there are business continuity plans in place that are regularly tested and updated where necessary, and that the plans are disseminated to relevant and appropriate staff.</p> <p>However, with the changes in the organisation it is considered necessary to undertake a high level review to assess the implementation of the process within the new structure.</p>	(30)
CS28 Business Continuity (BS25999)	To review progress on the adoption of the Corporate Process under the new structure as above (AW06).	15
REMOVED		
CS12 Transaction data Matching	A follow-up has been finalised which includes recent developments. There are no changes to the system that would require another audit to be undertaken in 2011/12.	(25)

Annex E
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 – October 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>96%</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 Opinion 	<p>95%</p> <p>85%</p> <p>90%</p> <p>By March To each G&A meeting</p> <p>By May</p>	<p>33%</p> <p>83.5%</p> <p>54%</p> <p>N/a</p> <p>Achieved to date</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>93%</p>

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.