

Appendix 1



# Kent County Council

Internal Audit Progress Report September 2012

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# I Introduction

## 1.1 Purpose of this report

Internal Audit is an assurance function that provides an independent and objective opinion on the adequacy of the Council's control environment.

This report summarises the work that the Council's Internal Audit service has undertaken in 2012/13 to date. It also highlights any key issues with respect to internal control, risk and governance arising from that work.

## 1.2 Overview of work done

The Internal Audit Plan for 2012/13 includes a total of 66 projects at September 2012. We communicate closely with senior management throughout the year, to ensure that the projects actually undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.

As a result of this liaison, changes to the Plan may be made during the year. Details of the changes to the Audit Plan are reported to the Governance and Audit Committee throughout the year.

The following additions are proposed:

An audit of Troubled Families has been added; this is due to a requirement for Internal Audit to agree the Council's self-declared results in relation to the Troubled Families Programme.

An audit of VAT has been added as this has not been reviewed by Internal Audit in the last 5 years.

At the time of preparing this report the reporting position for 2012/13 was as follows:

- 7 final reports/assurance work completed (2 relating to 11/12)
- 13 draft reports issued or in the process of being finalised

Summaries of all final reports issued since the last Committee meeting, including those relating to 2011/12 which were in progress when the Annual Report was issued in July 2012, can be found at Appendix A.

Overall progress on the 2012/13 Plan can be found at Appendix B.

## 1.3 Objectives

The majority of reviews internal audit undertake are designed to provide assurance to management on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. These are followed up as they fall due and implementation progress is reported in Appendix E.

Other work undertaken includes the provision of specific advice and support to management, attendance at key working groups, internal audit of parishes and the certification of grant claims. Details are provided in Appendix C.

## II Internal audit performance

Internal Audit's performance against our targets at 1 September 2012 is shown below:

Performance Indicator	Target	Actual
<b>Effectiveness</b>		
% of recommendations accepted	98%	99%
<b>Efficiency</b>		
% of plan delivered (Note 1)	95% (40% prorated)	33%
% of available time spent on direct audit work	85%	85%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	76%
Preparation of annual plan	By April	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
<b>Quality of Service</b>		
Average Client satisfaction score	90%	81%

### Note 1

Internal Audit's progress against plan is below the prorated target for the following reasons:

- there was a significant level of audits relating to 2011/12 that were completed in the first six months of the 2012/2013 financial year due to the restructuring of the section and the restructuring of many directorates being audited.
- due to the ongoing transformation programme, several auditees have requested that 2012/2013 audits be performed in the latter part of the year. We have tried to accommodate this wherever appropriate.
- Internal audit perform other work e.g. parish internal audits, grant certifications and the fire internal audit service which require input during the first half of the year. More detail is provided in Appendix C.

### Note 2

For 2011/12 we achieved a rate of 50% achievement against this target. The improvement to 76% is through focusing more effort on this target and identifying where problems may be occurring and implementing corrective action wherever appropriate. It should be noted that all draft reports relating to the 2012/13 Plan have been issued within the 10 day target and that the actual performance shown is currently impacted by residual 2011/12 reporting.

### Note 3

The issue of several limited assurance opinions in the last six months has impacted on this metric. This is unavoidable for a service which by its very nature relies on feedback from the teams it has to review and challenge. No performance concerns have been highlighted from the client feedback responses.

# Appendix A - Summary of individual internal audit projects issued since July 2012

## Recruitment & Selection

### Scope

The overall objective of this work was to provide assurance on the application of and compliance with the Council's policies and procedures contained in the Blue Book on Recruitment and Selection. These policies are designed to ensure that the Council's recruitment process is suitable to achieve the strategic aim of employing the most appropriate candidate.

Testing was limited to recruitment of permanent staff in the financial years 2010/11 and 2011/12.

### Overall Assessment – Substantial

It was confirmed that controls over how the Blue Book is updated, communicated and made available to staff are well designed. It was noted that there are good communication links between Human Resources (HR) and the content owner from each directorate and there are processes in place to ensure that the Blue Book is kept up to date with relevant legislation. In addition, identification and Right to Work checks had been completed for all new staff tested.

There were some issues identified during the audit, including gaps in documentation in relation to shortlisting and interviews. Three recommendations were made to address this, none of which were high priority.

## Data Protection and Freedom of Information

### Scope

The main objective of the audit was to provide an assurance on the policies and procedures in place to satisfy the legislative requirements of the Data Protection Act 1998 and the Freedom of Information Act 2000. In relation to the Data Protection (DP) element, the audit followed up on the DP audit undertaken in 2010/11 and reviewed some additional areas, for example, responses to information security breaches.

### Overall Assessment – Limited

In March 2011 a notice to improve was issued by the Information Commissioner's Office (ICO), in relation to the timeliness of responses to Freedom of Information (FoI) requests and in January 2012 KCC signed an undertaking with the ICO to improve timeliness and to ensure appropriate training is provided to relevant members of staff, effective from the date of the undertaking.

The 'Limited' assurance is based on sample testing carried out in relation to the adequacy and effectiveness of controls in place to satisfy KCC's statutory obligations under the Acts. However we recognise the progress made in relation to Freedom of Information requests and the limited assurance is due predominantly to Data Protection rather than Freedom of Information. We have made seven recommendations to further improve controls, four of which are high priority. These include, improving authority wide training and awareness, monitoring and responses to Subject Access Requests and FoI internal reviews, handling of Information Security Breaches and compliance with Records Management and Disposal procedures.

## Leaving the organisation

### Scope

The overall objective of the audit was to provide assurance that controls over leavers were adequate and effective.

### Overall Assessment – Substantial

The audit confirmed controls were operating adequately and effectively in a number of areas. There is an established policy in place for staff leaving the organisation through the Blue Book and in terms of the requirement for managers to complete the HR Business Centre Leaving Employment form. There is also an established policy in place within ICT in terms of managers completing the Account Deletion Request on Supportworks.

However, the audit highlighted certain areas where improvements would enhance the control environment. There were two recommendations made to address this, neither of which were high priority. These included the introduction of a standard checklist to be made available to and completed by all managers and for the ICT Supportworks reference number to be recorded on the HR Business Centre Leaving Employment form.

## Annual Governance Statement

### Scope

The overall objective of the audit was to provide assurance that the Council's year end Annual Governance Statement (AGS) process is adequate and effective.

### Overall Assessment – Substantial

The Accounts and Audit Regulations 2011 require the Council to produce an Annual Governance Statement, which should be included in the Council's annual accounts. This was approved by the Governance and Audit Committee on 26<sup>th</sup> July 2012. The purpose of the Statement is to confirm how the Council has discharged its responsibility for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk.

The "Substantial" assurance is based on sample testing of directorate returns which showed that there are processes within directorates for identifying governance issues which are judged to be significant. These are escalated to the Corporate Management Team. There is also a central process in place to ensure returns are made by directorates in sufficient time for compiling the Council's AGS.

We have made seven recommendations to improve controls, one of which is high priority. These include guidance to support directorates in their understanding of the AGS process, the use of last year's returns to inform this year's submissions, clearer documentation of identification and assessment of risks within directorate management teams and the use of other information sources such as risk registers to inform the AGS.

## No Use Empty

### Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the administration of the No Use Empty (NUE) loan scheme to ensure that targets are met whilst minimising the risk of financial or reputational damage to KCC.

### Overall Assessment – Adequate

The NUE initiative is run in partnership with nine District Councils in Kent to bring empty properties back into use. The target is 200 units per annum. Within the initiative is a recyclable capital fund of £6.5M (£2.2M for 2012-13) which is allocated in the form of loans to empty property owners to carry out remedial works on properties to make them habitable. Homes may either then be sold or let by the owners. Loan recipients are required to repay loans in accordance with a loan agreement issued by KCC.

The 'Adequate' assurance is based on sample testing which showed that the controls in place were all being followed by staff and there is an effective partnership in place between KCC and the District Councils. However additional controls would help to identify potential high risk projects and therefore enable more informed decisions to be made.

We have made 7 recommendations to further improve controls, none of which are high priority. These include additional credit checks to be carried out on applicants, a review of the risk assessment, formal agreements in place with all District Councils, robust records of monitoring and a clear escalation procedure for defaults or for works not completed.

## Corporate Governance (Phase 1)

### Scope

The main objective of the audit was to provide initial assurance on the new governance arrangements in relation to establishment of the revised governance structure and clarity of roles and responsibilities.

### Overall Assessment – Substantial

The revised Officer/Member structure including the Corporate Board was agreed at County Council in April 2012. Interviews undertaken with Cabinet Members and Senior Officers established that all were clear on the purpose/objective of the new structure and felt it to be efficient and effective with an open culture and good level of challenge.

It was recognised by all individuals interviewed that at this early stage there are some areas for development, however no major issues were identified. Document review confirmed that a robust structure is in place overall and, again, any issues are developmental and to be expected in the transition period.

We have made four recommendations to address the developmental issues identified, none of which are high priority.

## Professional and Highway consultancy review

### Scope

The overall objective of this work was to provide assurance on the Council's compliance with the above contract in relation to the setting and management of targets, the monitoring of costs prior to payment, the management of productivity and the adequacy and effectiveness of contract monitoring controls to ensure achievement of key outcomes from the contract.

### Overall Assessment – Limited

The audit recognised that when the contract was awarded, Highways achieved significant savings in the hourly rates and overhead multipliers when compared to the previous contract and still compare favourably to those available now in the market place.

The audit has confirmed that applying the current open book style of contract has been challenging. Despite a number of reviews and improvement initiatives, over the contract's life the complexities of such a contract have been too difficult for many staff to deal with effectively and efficiently, given existing workloads and resource constraints.

However, the introduction of a Contact Compliance team with a commercial focus in April 2011 has seen improvements in the monitoring of the contract. But the ongoing difficulties have been recognised by senior management and the contract is to be re-tendered rather than take up further extensions available to them.

We have made seven recommendations split between the future solution and what needs to be undertaken for the current contract which finishes in March 2013. The key recommendations in relation to the existing contract relate to the proactive monitoring and management of consultant utilisation rates, the performance of an overhead review and improvements to ensure better profiling of consultants and more consistent challenge of targets.

We agree that Highway's decision to re-tender the service using a different style of contract is appropriate.

## Establishments

### Scope

A programme of compliance audits began in late June, mainly focusing on Children's Centres, but including a day centre for adults following a customer complaint. To date fieldwork has been completed at 8 Centres as well as reviewing financial controls in 2 districts where this activity is centralised. The audits focus on financial controls, performance management, inspection standards, and safety and security. Five draft reports are pending issue.

### Summary of findings

In general Centres are able to demonstrate that they are engaging with Centre users and partner organisations, including hard to reach groups, promoting diversity and using evaluation tools positively to identify areas for improvement. Training plans are in place and relate to personal action plans and service priorities. We have made a number of specific recommendations to individual centres.

Compliance with safety and security policy and procedures is more varied. Accident and incident forms are being completed but are often not numbered, increasing the risk of loss or unauthorised removal. Not all Centres could evidence recent health and safety inspections. Fire safety standards were generally good although some Centres had experienced difficulties with other users in shared premises. Recommendations have been made to deal with these issues.

The picture is more variable for financial controls. Overall, controls over income generation are far weaker than in other parts of the Council. Although the sums involved are relatively small there is an avoidable risk of financial loss and reputational damage. Also the commitment budgeting system, though well designed, is not being used as intended, leading to inaccurate forecasting and overspends. We have also identified instances of misuse of purchase cards and personal loyalty cards. In some localities there is a lack of awareness of the need for staff to complete declarations of business interests. Some asset registers are not up to date and the £200 lower limit for inclusion increases the risk of loss of attractive portable items. Recommendations have been made to deal with these issues.



# Appendix B - Detailed Analysis of internal audit progress on 2012/2013 Plan

Project	Progress at September 2012	Date to G&A	Overall Assessment	Project	Progress at September 2012	Date to G&A	Overall Assessment
<b>Core Assurance</b>							
Corporate Governance	Phase 1 Complete	Sept 2012	Substantial				
Annual Governance Statement	Complete	Sept 2012	Substantial				
Schemes of Delegation							
Risk Management	Planning						
Business continuity and resilience planning							
Performance Management Framework							
Information Governance							
Data Quality – Authority wide	Planning						
Procurement	Planning						
Business and Financial Planning	Planning						
Partnerships	Planning						
Managing Absence	Fieldwork in progress						
Learning and Development							
Leave	Draft Report						
Leaving the organisation	Complete	Sept 2012	Substantial				
Workforce Planning							

Project	Progress at September 2012	Date to G&A	Overall Assessment	Project	Progress at September 2012	Date to G&A	Overall Assessment
<b>Core Financial Assurance</b>							
General Ledger				Financial Control Audits	In progress*		
Accounts Payable				VAT	Planning		
Accounts Receivable	Draft Report						
iProcurement							
Corporate Purchase Cards	Planning						
Capital Programme - Planning and Monitoring							
Revenue Budget Monitoring	Planning						
Treasury Management and Pension Investments							
Pension Contributions							
Fixed Assets	Planning						
Payroll	Planning						
East Kent Payroll	Planning						
Social Care Client Billing	Planning						
Foster Care Payments	Draft Report						
Schools Financial Compliance- advisory	In progress – ongoing						
Schools Financial Compliance	Planning						
Local budgetary control reviews	Planning						

\* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.8

Project	Progress at September 2012	Date to G&A	Overall Assessment	Project	Progress at September 2012	Date to G&A	Overall Assessment
<b>Risk/Priority Based Audit</b>							
Service Re-design	Fieldwork in progress			No Use Empty Property	Complete	September 2012	Adequate
Locality Boards	Planning			Troubled Families	Planning		
Regeneration and Economy - RGF	Draft report stage 1			Broadband Delivery UK	Fieldwork in progress		
Property Disposals	Fieldwork in progress			Communication Strategy			
Developer Contributions (s106)	Draft Report			Commercial Services	Draft Report		
Safeguarding Adults							
Personal Budgets							
Strategic Commissioning	Draft Report-stage 1						
Case File Audit process	Draft Report						
FSC Data quality	Draft Report						
Financial Management - FSC	Incorporated into financial control audits						
Management of complaints	Incorporated into Corporate review						
Establishment Visits	In progress*						
Public Health responsibilities	Planning						
Special Education Needs	Draft Report						
Kent Connexions	See Contract Compliance						
Consultation	Draft Report						

\* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.8

Project	Progress at September 2012	Date to G&A	Overall Assessment	Project	Progress at September 2012	Date to G&A	Overall Assessment
<b>Contract Compliance</b>							
Kent Public Service Network							
Ashford Gateway Plus							
Supporting People							
Longfield Academy							
Professional and Highway Consultancy contract	Complete	September 2012	Limited				
Network Management Term Maintenance							
East Kent Waste Partnership	Planning						
Biffa Household Waste Recycling Centre	Draft Report						
Paper and card							
Kent Connexions	Draft Report						
Leaving care service							

# Appendix C – Other 2012/2013 work undertaken by Internal Audit

## Grants

The Internal Audit team is responsible for auditing and signing off grant claims, to enable the Council to recover money from a number of sources, in particular Interreg projects. In July and August this year, a 100% check of relevant evidence including invoices, payroll details and contracts have been checked for over 19 Interreg projects, with a total value verified of £1,238,918. With a 50% grant recovery rate, this relates to grant income to the Council of approximately £500,000 and £125,000 for other bodies including Visit Kent, Locate in Kent and Kent Fire and Rescue Service. Time spent on verifying and signing off grant claims is chargeable.

## Parishes

Kent County Council Internal Audit currently offers a comprehensive internal audit service for Local Councils and other bodies. We are the appointed auditor for 13 of Kent's parish councils, a role we have fulfilled for some of these councils for over 10 years. In addition we provide internal audit services to the Kent & Essex Inshore Fisheries and Conservation Authority and to the Stag Community Arts Centre.

From April 2012 to August 2012 we have undertaken 16 audits for these bodies, with a further 19 audits scheduled to be completed in the remainder of 2012/13.

## Significant ad hoc/advisory work and attendance at key working groups

Internal Audit continues to monitor and act on reported Direct Payment irregularities, which were identified by the Audit Commission as a major area of risk for local authorities. So far 13 such irregularities have been reported in 2012-13, around half the number for the same period in 2011-12, over which time the number of clients receiving Direct Payments has remained broadly constant. There is a concern that this represents an under-reporting of such incidents rather than a genuine fall, and a meeting recently took place with the FSC Finance Business Partner to address this. The majority of cases are resolved within the Directorate on the basis of Internal Audit advice and guidance to managers and practitioners.

Internal audit have also attended the following groups in an advisory capacity:

- ERP Programme Board
- Business Continuity Management
- Information Governance Cross Directorate Group

# Appendix D – Internal Audit Assurance Levels

Key	
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non compliance were noted during the audit that may put a system/service objective at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant of error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.
Not Applicable	Internal audit advice/guidance no overall opinion provided.

## Appendix E – Progress with implementation of recommendations

Audit	Recommendations to be implemented by 31 August 2012		Recommendations outstanding as at 31 August 2012		Comments	Revised implementation date
	H	M	H	M		
<b>Authority Wide</b>						
Risk Management	1	3	1	0	Three recommendations implemented. The high priority recommendation has a revised implementation date.	30/09/2012
Annual Governance Statement	0	3	0	0	Recommendations implemented	
<b>Core Systems</b>						
Treasury Management	0	1	0	0	Recommendation implemented	
Pensions Contributions	0	2	0	0	Recommendations implemented	
Firewalls and Firewall Management	0	5	0	4	One recommendation implemented, four have revised implementation dates due to budget restrictions and cheaper alternatives being sought.	31/10/2012 – 31/03/2013
Exchange Server and e-mail	0	2	0	1	One recommendation implemented. For the remaining recommendation it has been reported to us that this is implemented and we await evidence to confirm this.	
Freedom Pass	0	1	0	1	Revised implementation date set.	31/12/2012
Registrations	1	6	0	5	Five medium priority recommendations have revised implementation dates due to service restructure.	30/09/2012 – 01/04/2013
Business Objectives	0	1	0	1	Recommendation due to be implemented 12/09/2012	12/09/2012
Capita One	1	1	1	1	Revised implementation date for both recommendations, as the changes have been implemented but are currently undergoing	31/12/2012

Audit	Recommendations to be implemented by 31 August 2012		Recommendations outstanding as at 31 August 2012		Comments	Revised implementation date
	H	M	H	M		
					testing.	
Oracle	0	1	0	1	Revised implementation date for the business continuity plan testing due to restructures and further software development.	31/03/2013
Direct Payments	1	0	1	0	Revised implementation date set.	30/09/2012
<b>Policy</b>						
Blue Book – Equality Act/Fairness at Work	0	1	0	0	Recommendation implemented	
Blue Book – Employment Contracts	0	1	0	0	Recommendation implemented	
Blue Book – TCP	0	1	0	0	Recommendation implemented	
<b>Communities</b>						
CareWorks Application	0	3	0	3	Revised implementation dates as recommendations are in the process of being implemented.	31/12/2012 – 30/09/2013
<b>Total</b>	<b>4</b>	<b>32</b>	<b>3</b>	<b>17</b>		

H = High risk

M = Medium risk