



Kent County Council

Internal Audit Progress Report September 2013

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1. 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 2013/14 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 2013/14 includes a total of 89 projects at September 2013. 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 deletions/deferrals are proposed:

Deletions

Locality Boards – limited value in undertaking audit work at this time.

E-Payments - arrangements are being changed and a new process will be implemented in early 13/14. We are maintaining a watching brief on the change programme and will consider including audit of the new arrangements when we prepare the 14/15 audit plan.

Schools Deficit Budgets – to minimise duplication reliance will be placed on the processes in relation to budget deficits undertaken by Schools Financial Services

Haulage and Transfer Stations – a member of staff from Internal Audit has been seconded to this area to review current process and as such we will place reliance on that work

Waste – Contract Management Process – as Haulage and Transfer Stations above

Half-year Journal and AP IDEA testing – being covered elsewhere by External Audit and by other relevant financial audits in the Internal Audit Plan.

Deferral

Total Facilities Management – due to timing of the contract award there is little value in auditing this area in 2013/14, therefore we have deferred to 2014/15 when the new contract is implemented.

The following work has been undertaken year to date:

- 4 final reports/assurance/advisory work completed
- 15 draft reports issued or in the process of being finalised
- Fieldwork is in progress on a further 18 audits

Summaries of all final reports issued since the last Committee meeting can be found at Appendix A.

Overall progress on the 2013/14 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, internal audit of Kent Fire and Rescue and the certification of grant claims. Details are provided in Appendix C.

2. Internal Audit Performance

Internal Audit's performance against our targets at August 2013 is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	100%
Efficiency		
% of plan delivered (Note 1)	90% by year end	28%
% of available time spent on direct audit work	85%	85%
% of draft reports completed within 10 days of finishing fieldwork	90%	90%
Preparation of annual plan	By April	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score (Note 2)	90%	84%

Note 1

The % of Plan delivered to date is behind target, although broadly in line with the usual profiling of audit activity towards the second half of the financial year. A number of vacancies within the team have had considerable impact. We are facing challenges in recruiting and retaining experienced staff due to competition for internal auditors in the market. We have recently recruited two new auditors who commence in September. However while finalising this report a further two members of staff have handed in their notice and we will be advertising again. In addition all residual 2012/13 work is now complete with reports finalised; as such progress is gathering pace and we aim to achieve our 90% target by year-end.

Note 2

The issue of several adequate and limited assurance opinions in recent 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 2013/14 Internal Audits issued since April 2013

Business Planning

Scope

The overall objective of the audit was to give assurance on the implementation of the new business planning framework. This included an assessment of the integration of business planning with performance management, risk management and financial management processes.

Overall assessment - Substantial

The purpose of business and financial planning is to develop and deliver effective plans that ensure the Council meets the needs and demands of local people and communities living in Kent in a financially stable way.

The Substantial assurance is based on there being a process in place for compiling Business Plans across all directorates along with quality assurance procedures; this has helped to ensure relevant information was included. Business Plans were reviewed at all levels before formal approval by Cabinet. Varying levels of input were requested from Finance, Performance and Risk Managers by Directorates; however the final Business Plans all included reference to these key areas.

We have made four recommendations, none of which are high priority. These include ensuring clarity in relation to the link between Business Plans and decision making processes, discussion of cross-divisional and cross-directorate issues and enhancements to the guidance to ensure all approved Business Plans taken for formal approval are complete and accurate.

Annual Governance Statement

Scope

The overall objective of the audit was to give assurance on directorates' governance returns to support the Council's 2012/13 Annual Governance Statement (AGS).

Overall assessment - Substantial

The Accounts and Audit Regulations 2011 require the Council to produce an AGS. The purpose of the AGS, as stated in the Framework, is to 'provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved. It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and relate to the authority's vision for the area.'

The Substantial assurance is based on sample testing that showed in most areas controls are in place and operating as intended. There were effective controls in place to ensure issues from 2011/12 were being monitored and had been resolved or were in the process of being resolved. Also, issues identified as part of the 2012/13 process were being appropriately monitored and all directorate returns had been signed off by Corporate Directors.

We have made six recommendations to further improve controls, one of which is high priority. These include ensuring any potential risk of fraud is mentioned in Directorate returns as relevant, consistency between Directorates in how they complete their returns and ensuring the AGS is discussed regularly at Directorate Management Teams.

Payroll - Schools

Scope

The overall objective of the audit was to provide assurance that the arrangements for processing schools payroll are managed accurately and effectively, including the associated bank account operations, payments and reconciliations at the HR Business Centre (HRBC).

Overall assessment - Adequate

The audit was primarily concerned with the payroll process operated by HRBC as a payroll provider; it did not examine documentation or information received from schools or located at schools. The payroll processes adopted for schools and academies are modelled on those used for the main Kent County Council payroll, particularly the Oracle payroll system.

The 'Adequate' assurance is based on payroll production routines, checklists, controls and separation of duties being embedded. Individual summaries and reports for exceptions and gross to net calculations are prepared to support each of the payrolls. All stages of the payroll production were properly authorised, secure and reconciled to management reports with final approval being made by senior management.

We have made three recommendations to improve control, one of which is high priority. These include ensuring the bank reconciliation is timely and appropriately authorised, rotating responsibility for the reconciliation and completing the procedure manuals following the current management review.

Establishments

Scope and Progress

A programme of compliance audits is undertaken ongoing throughout the financial year; this includes, but is not limited to, Children's Centres, Adult Day Care, outdoor education centres, country parks, youth hubs and libraries. To date we have completed five audits at two Children's Centres, two outdoor education centres and one country park. The audits review financial controls as well as quality/performance elements and safety and security controls. All five are at draft report stage.

Summary of findings

At this stage of the financial year, with five draft reports issued, there is limited opportunity to identify common themes and trends. In addition the programme of work for 2013/14 has been extended to include a variety of establishment types not included last year, this includes outdoor education centres, country parks and youth hubs. Given the differing nature of the establishments now reviewed there will be a variety of systems, particularly in relation to income. As such more detail on findings will be provided to the December Governance and Audit Committee when more meaningful results are available. In the interim no key risks have been identified that require escalation at this time.

Appendix B

Detailed Analysis of Internal Audit Progress on 2013/2014 Plan

Project	Progress at September 2013	Date to G&A	Overall Assessment	Project	Progress at September 2013	Date to G&A	Overall Assessment
Core Assurance							
Corporate Governance							
Annual Governance Statement	Complete	September 2013	Substantial				
Schemes of Delegation	Fieldwork in progress						
Risk Management							
Business continuity and resilience planning	Planning						
Performance Management Framework inc data quality							
Information Governance	Planning						
Records Management	Planning						
Procurement							
Business Planning	Complete	September 2013	Substantial				
Recruitment and Selection	Fieldwork in progress						
Appraisal Process	Planning						
Workforce Planning	Planning						
Completeness of contracts	Planning						
Contract compliance (below £50k)	Planning						
Company Governance	Planning						

Project	Progress at September 2013	Date to G&A	Overall Assessment	Project	Progress at September 2013	Date to G&A	Overall Assessment
Core Financial Assurance							
Accounts Payable inc iProcurement (Payments process)	Planning			Local budgetary reviews	Fieldwork in progress		
Debt Recovery				Compliance programme*	Ongoing*	Update in each paper	Various
Cash and Bank (inc reconciliations)				Half year journal and AP IDEA testing	Cancelled	N/a	N/a
Treasury Management follow-up							
Pension Contributions follow-up							
Pension Fund Investments follow-up							
Foster Care Payments	Fieldwork in progress						
Social Care Client Billing							
Transaction Data Matching							
Client Financial Affairs/CMS							
Payroll Schools	Complete	September 2013	Adequate				
Payroll – starters, leavers and overpayments follow-up	Planning						
Schools Financial Services	Planning						
Revenue Budget Monitoring follow-up	Planning						
Corporate Purchase Cards – follow-up	Planning						

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

Project	Progress at September 2013	Date to G&A	Overall Assessment	Project	Progress at September 2013	Date to G&A	Overall Assessment
Risk/Priority Based Audit							
Broadband Delivery UK	Fieldwork in progress			Schools themes review – Procurement	Planning		
Regional Growth Fund	Planning			ELS Capital Projects			
Property – statutory compliance	Planning			Community Learning Services	Draft Report		
Enterprise replacement – watching brief	Ongoing	N/a	N/a	Locality Boards	Cancelled	N/a	N/a
Total Facilities Management	Deferred to 14/15	N/a	N/a	Complaints, comments and compliments	Fieldwork in progress		
Public Health Outcomes	Planning			Troubled families	Planning		
Public Health Governance	Planning			Integrated Youth Services	Planning		
Public Health Operational Arrangements	Planning			Communications	Fieldwork complete		
Good Day Programme	Fieldwork in progress			Grant funding – Turner and Big Society	Fieldwork in progress		
Supervisions	Planning			Highways – Customer claims handling	Draft Report		
Enablement Service	Planning			Coastal Protection Loans			
Direct Payments follow-up	Fieldwork in Progress			Haulage and Transfer Stations	Cancelled	N/a	N/a
UASM Budget	Draft Report			Waste – Contract Management Process	Cancelled	N/a	N/a
Children’s Services Improvement Programme	Draft Report			Transport Contracts – Cyclical Review			
Strategic Commissioning- Operational Frameworks	Fieldwork in progress			Adverse Weather, winter service delivery	Draft Report		

Project	Progress at September 2013	Date to G&A	Overall Assessment	Project	Progress at September 2013	Date to G&A	Overall Assessment
Strategic Commissioning – Quality Assurance Framework watching brief	Ongoing			BACS/CHAPS Review – Commercial Services	Fieldwork in progress		
Contract letting and compliance Adult's	Fieldwork in progress			Carbon Reduction Commitment	Fieldwork in progress		
Contract letting and compliance Children's				Kent Support and Assistance Service	Fieldwork in progress		
Adult Social Care Transformation Programme				Culture and Sports	Planning		
Early Years	Fieldwork in progress			Schools Deficit Budgets	Cancelled	N/a	N/a
Conversions to Academy	Planning			Member Grants	Planning		
EduKent	Fieldwork complete			Member Highways Fund	Planning		
KIASS	Fieldwork complete			Section 17 Payments			
				Declaration of Interests*	Complete	September 2013	N/a – Fraud Prevention Review

*For detail please see fraud progress report

Project	Progress at September 2013	Date to G&A	Overall Assessment	Project	Progress at September 2013	Date to G&A	Overall Assessment
IT Audit							
Website	Planning						
E-Payments	Cancelled	N/a	N/a				
Laptops, Notebooks and PCs	Planning						
User Remote Access	Fieldwork in progress						
ICT Governance	Planning						
User IT Literacy							
User equipment asset management	Draft Report						
Oracle General Ledger – application	Planning						
Oracle Accounts Receivable – application	Planning						
Oracle Payroll – application	Planning						
SWIFT application	Fieldwork complete						
WAMS application	Draft Report						
ICS Watching Brief	Ongoing						
CRM Watching Brief	Ongoing						
Unified Comms – pre-implementation	Planning						

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. This year to date the total value verified is approximately £1.18m. With a 50% grant recovery rate, this equates to grant income to the Council of approximately £405,000 and £187,000 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 12 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.

In 2013/14 to date we have undertaken 14 visits to date to sign off 2012/13 annual returns.

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; 10 such irregularities have been reported in 2013/14.

Other significant ad hoc/advisory work undertaken includes ongoing advice and support in relation to a number of areas of service change/improvement. Internal audit have also attended, or are virtual members of, the following groups in an advisory capacity:

- ERP Programme Board
- Business Continuity Management
- Information Governance Cross Directorate Group
- Procurement standard working papers working group
- Kent Support and Assistance Service

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 on non-compliance with some controls that may put system/service objectives 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 July 2013		Recommendations outstanding as at 31 July 2013		Comments	Revised implementation date
	H	M	H	M		
Core Systems						
Cashiering and Bank reconciliations	0	1	0	0	Recommendation implemented	
General Ledger	1	0	0	0	Recommendation implemented	
VAT	1	1	1	1	Recommendations are in progress but not formally completed as yet.	31/10/2013
Financial Controls in Schools	2	0	1	0	School compliance visit have been delayed, however the programme will be rolled out from September onwards and so the recommendation will be implemented then.	30/09/2013
Accounts Payable	0	2	0	0	Recommendations implemented	
Policy						
Procurement	1	1	1	1	An external facing strategy will be written after issues arising from a review of procurement have been resolved.	31/12/2013
Risk Based						
Developer Contributions (s106)	3	2	3	1	The service is being brought back in house and there are papers going to CMT relating to resourcing issues which means that the recommendations will not be in place until these issues have been resolved.	31/10/2013
Consultation	2	3	0	0	Recommendations implemented	
Special Educational Needs	1	5	1	2	A new system of monitoring funding has been introduced and will be implemented once the schools return in September; this will address the high priority recommendation. The medium	31/12/2013

Audit	Recommendations to be implemented by 31 July 2013		Recommendations outstanding as at 31 July 2013		Comments	Revised implementation date
	H	M	H	M		
					recommendations will be addressed by the forth coming restructure.	
No Use Empty Homes	0	2	0	0	Recommendations implemented	
Core Assurance						
Corporate Governance	0	2	0	0	Recommendations implemented or superseded	
Performance Management Framework	0	3	0	2	Implementation of the outstanding recommendations is in progress but not fully completed as yet.	31/10/2013
Managing Absence	0	3	0	2	Recommendations are to be presented to Corporate Directors as responsible officers on 16/09/13 therefore implementation will be confirmed in final papers	
IT Audits						
Business Continuity and Resilience Planning	0	2	0	1	The remaining recommendation around risk assessments has been partly implemented. A template has been developed and is being used by services, they are currently linking with senior management to ensure progress is made	October 2013
Oracle	0	1	0	0	Evidence cannot be provided supporting implementation until 03/09/2013 –diarised reminder for 04/09/13	
Registrations	0	6	0	6	The service is currently reviewing KCC's LRA IT systems and has a contractor meeting in September which should provide further information.	30/12/2013
Total	11	34	7	16		

H = High risk

M = Medium risk