

## Appendix 1

# Kent County Council

## Internal Audit Annual Report 2013/14

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# I. Introduction

## **Purpose of this report**

Internal Audit is an independent, objective assurance and consulting function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by using a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual written report to those charged with governance (i.e. the Governance & Audit Committee) presenting an opinion on internal controls, risk management processes and governance arrangements.

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2013/2014. It also highlights the key issues with respect to internal control, risk and governance arising from that work and presents my opinion based on the work performed during the year.

The report builds on the matters reported to the Governance & Audit Committee throughout the year.

## **Overview of work done**

The original Internal Audit Plan for 2013/14 included a total of 98 projects. We have communicated 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 have been agreed to the Plan during the year. A number of projects have been deleted from the Plan as a result of changing priorities or if other assurances are available to the Council. In addition, other audits have been added where an emerging risk has been highlighted requiring independent assurance. Details of the changes to the Audit Plan have been reported to the Governance and Audit Committee throughout the year. The total number of projects undertaken in 2013/14 was 98, including compliance audits and advisory work undertaken. At the time of preparing this report most substantive work had been completed and the reporting position was as follows:

- 76 – final report/assurance work completed
- 3 – draft reports issued or in the process of being finalised
- 19 – establishment visits undertaken

Internal Audit also undertook 50 investigations into financial irregularities which include allegations of fraud or irregularities by staff or third parties. We have used the outcomes from both our audit and fraud work to inform our audit plan for 2014-2015 which was approved at the April Governance & Audit Committee.

## **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.

Other work undertaken includes the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit plan is informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.

## II. Scope, Responsibilities and Assurance

### Scope

In accordance with Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on the Council's behalf.

For 2013/2014 the dynamic external environment of the public sector and the internal responses to these changes meant that the plan continued to include an emphasis on ensuring that the foundations of sound internal control were in place throughout the period of change, both within the Council's main sites and other remote sites. In addition the plan included a number of risk based audits following an assessment of control risk based on:

- Interviews with Members and officers across the Council
- A review of the corporate risk register, business plans, policies and procedures, committee papers and the budget book
- Outcomes from previous audit reviews and fraud investigations

### Responsibilities of management and of internal auditors

It is management's responsibility to maintain systems of risk management, internal control and governance. Internal Audit is an element of the internal control framework established by management to independently examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by providing assurance on the controls in place. Internal Auditors cannot be held responsible for internal control failures.

Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness that could result in fraud or error, Internal Audit procedures alone do not guarantee that fraud will be detected; this should be a function of the controls put in place by management. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, misappropriation or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Internal Audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review. We have met with each of the Corporate Directors and their team, seeking specific feedback on the adequacy of the Internal Audit service and identifying future directorate risk areas arising through their business planning process.

### Limitations to the scope of our work

There have been no limitations to the scope of our work.

### Limitations on the assurance that Internal Audit can provide

It should be noted that the assurance expressed within this report can never be absolute i.e. we cannot guarantee that all aspects of control are adequate. Internal Audit provides “reasonable assurance” to the Section 151 Officer, the senior management team, and the Governance & Audit Committee, based on the work performed.

### Assurance (Opinion)

The Head of Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the Council’s:

- Corporate Governance
- Risk Management
- Internal Control.

This is collectively referred to as “the system of internal control”.

### Basis of our assessment

The opinion on the adequacy of the system of internal control in 2013-2014 is based upon the result of Internal Audit reviews undertaken and completed during the period in accordance with the plan approved by the Governance and Audit Committee. While based predominantly on 2013-14, the results of the preceding two financial years audit activity have also been considered, to the extent that these systems operated during 2013-2014 and subject to

completion of any actions agreed in individual audit reports. This approach provides Members with a broader view of the effectiveness of the overall control framework by enabling the opinion to be formed over a greater number of audit reviews. This also avoids the risk of the annual opinion being unduly skewed.

We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

### Opinion for 2013/2014

Based on the work that Internal Audit has performed and taking into account individual strengths and weaknesses identified, **substantial** assurance can be provided on the adequacy of overall governance arrangements, risk management arrangements and the system of internal control operating during 2013-14.

Risk management arrangements have significantly improved within the Council and there has also been a marked improvement in the majority of core controls at the centre and within Directorates.

However this year Internal Audit has raised particular concern over certain outstanding improvements required to aspects of the payment process and risks in relation to controls over and within operations remote from the Council. The Council has been receptive to Internal Audit’s recommendations in these areas and actions have commenced to implement these recommendations. Internal Audit will be monitoring this closely in 2014-2015 due to its relevance to the overall assurance opinion going forward.

## Key issues and implications for the Annual Governance Statement

In making its Annual Governance Statement, the Council considers the Head of Internal Audit's opinion as well as other sources of assurance e.g. External Audit, peer reviews, Government inspections and management assurances. For 2013/2014, although the audit and irregularity work completed by Internal Audit identified a number of improvements to be made, these do not constitute systemic failures of internal control across KCC. Our key conclusions across the three opinion areas are as follows:

### Corporate Governance

The Council's approved and adopted Code of Corporate Governance is consistent with the principles of good governance set out in the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government Framework' (2012). The Code is kept under review by the Council's Monitoring Officer and amended as necessary. The outcome of the review and any resultant changes are reported to the Governance & Audit Committee on an annual basis. During 2013/2014 the Council took part in an LGA peer review of corporate governance in which the LGA acted as a critical friend to challenge the Council in a number of areas including governance arrangements and decision making. It concluded that governance arrangements were found to be robust with Cabinet Committees (introduced in the previous year) providing a good forum for engagement and debate.

Internal Audit undertakes an annual review of the Council's Corporate Governance arrangements and this involves assessment on a cyclical basis of whether the Council meets key governance principles. The results over the previous three years have been as follows:

Year	Scope of review	Assurance
11/12	Standards of conduct and behaviour Developing the capacity and capability of Members	Substantial
12/13	Review of revised governance arrangements, including roles and responsibilities.	Substantial
13/14	Review of outcomes from LGA Peer review and Informal Decision making review  Light touch review of Council's self assessment against the CIPFA/SOLACE guidance.	Substantial

### Risk Management

In 2013/14 we reviewed Council-wide risk management arrangements through interviews with officers and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

Since the previous review completed in 2012/2013, the audit confirmed further upward direction of travel with good engagement and dialogue with staff and senior managers about risk management during a period of significant change.

A number of areas were identified where controls were found to be operating adequately and effectively including maintenance and robust monitoring and reporting to senior management and Members. In light of the Transformation Programme, the audit confirmed that a separate Transformation risk register has been developed which is

regularly monitored and updated.

A small number of areas for improvement were identified in relation to some divisional risk registers and some enhancements to the Risk Management guidance during a period of change. Recommendations have been made accordingly.

### **Internal Controls**

In relation to internal controls, Internal Audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a marked improvement in core controls at the centre and within Directorates.

Notable improvements relate to revenue budget monitoring, procurement controls and observed improvements in contract management processes in several areas. It was apparent in 2013-2014 that where lapses were observed, these had often already been highlighted by management and were being addressed. This was a significant shift from 2012-2013.

There are still outstanding pockets e.g. aspects of the payments process, where controls need to be improved further and Internal Audit will be monitoring implementation of recommendations made in these higher priority areas.

This year, Internal Audit has raised particular concern over risks in relation to the controls over and within operations remote from the Council e.g. companies in which the Council has an interest and other remote sites. Internal Audit has evidenced instances where such sites are exposed to increased risk where they have separate systems from the Council. This is of particular relevance as the Council continues through its transformation programme and recommends more alternative service delivery models. If this risk is not adequately managed, the Internal Audit opinion in future years

could be impacted. The Council has been receptive to Internal Audit's recommendations in relation to governance and monitoring controls and this is an area which Internal Audit will be monitoring closely in 2014-15 due to its relevance to the overall assurance opinion going forward.

As well as the above, in the coming year within the 14-15 Internal Audit plan, we will be focusing on the following key areas of assurance activity:

- Governance over new commissioning arrangements
- Assurance over the data used to form the basis of transformation decisions
- Payment and monitoring controls over efficiency and other partners and contractors.

## Summary of Internal Audit work undertaken in 14/15

### Core work

Opinions	No. of audits	% of audits
High / compliant	8	10%
Substantial	35	44%
Adequate	10	12%
Limited	5	6%
Opinion not applicable- advisory reviews	20	25%
Assurance opinion pending completion of work	1	1%
<b>Total</b>	<b>79</b>	<b>100%</b>

Limited opinions were given to:

- Accounts Payable
- Foster Care Payments
- UASC Budget
- Schools Themed Review - procurement
- BACS/CHAPS Review Commercial Services

Appendix A sets out the summaries of all reports issued since the last report to Governance & Audit Committee in April 2014. Appendix B lists all internal audits and the overall assurance rating for them.

Advisory reviews relate to watching briefs, whereby Internal Audit advises on risk and control mitigations whilst projects are being implemented, or systems and frameworks developed. They also include anti fraud proactive reviews that provide guidance on how controls can be implemented to reduce the risk of fraud and error. Whilst these reviews are not assurance reviews, information from them still informs the overall opinion from the Head of Internal Audit.

In addition to the core work shown below, a total of 19 establishment audits were undertaken during 2013/14. A summary of assurances and key themes can be found at page 24.

### Follow ups

As detailed previously, at the end of each audit we make recommendations to improve the control environment. We follow up on all high and medium priority recommendations as they fall due and report progress to Governance and Audit Committee. The results of the follow ups are detailed in the table below.

	High	Medium
Number of recommendations falling due in 13/14	52	210
Recommendations with revised implementation dates or in process of being followed up	9	38
Number of recommendations implemented	43	172
Number of recommendations outstanding at time of report	0	0

At the time of writing this report no high or medium priority recommendations were outstanding, 27 recommendations had been rescheduled and will be followed up in 2014-2015 and 20

recommendations are in the process of being followed up. Of the 27 rescheduled, 5 are high priority; in all cases we consider the revisions to be reasonable and will follow up at the revised due date.

### Anti Fraud work

In common with most large organisations the Council is subject to fraud. During 2013-14, 50 irregularities were reported to Internal Audit of which 19 have been carried forward to 2014/15. The Council adopts a zero tolerance approach to fraud. Accordingly, all reported irregularities were or are still in the process of being investigated.

To date, 3 of these have been reported to the police, another 3 resulted in formal disciplinary action and, of these, 1 member of staff was dismissed for gross misconduct. Other outcomes have included demotion, resignation prior to disciplinary, financial recovery and written warnings. Internal Audit has continued to proactively address fraud during 2013-14. This proactive work included raising the level of fraud awareness within the Council, assessing fraud risks and promoting the Council's anti-fraud strategy.

This approach has maintained the level of reported suspicions of irregularity to Internal Audit compared with previous years. This does not however indicate a consistent level of fraud, but rather a high level of awareness which is very encouraging.

An analysis of the types of irregularities reported is shown below:

Type of Fraud	Number
Procurement	1
Social care fraud	14
Economic and third sector support fraud	0
Payroll and contract fulfilment fraud	5
Employee expense fraud	4
Abuse of position for financial gain	4

Manipulation of financial or non financial data	2
Disabled parking concessions	10
Other	10
<b>Total</b>	<b>50</b>

(Categorised in accordance with the Audit Commission's Fraud and Corruption Survey 2013/14).

The Council is required to take part in the Audit Commission's National Fraud Initiative which is a biennial exercise. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The subsequent 'matches' are made available to the Council to review and consider investigating. It is important to note that a match does not automatically indicate that fraud is taking place and there is usually a reasonable explanation for the match. All high priority matches have been reviewed and the remaining reports remain available for further analysis. No potential frauds have been identified, although £33,500 of overpaid care home fees and/or pensions were identified. These occurred as payments continued for a few days (the majority less than 30) after the client had died. Recovery is made whenever possible; however identifying and contacting the next of kin in relation to pension overpayment can be problematic.

### Liaison with External Audit

We have continued to work very closely with the External Auditors and continue to maintain a very good working relationship with them.

With the move from the Audit Commission to Grant Thornton, there has been a revised external audit approach which the Council is now

more familiar with. In 2013/2014 we formalised a revised protocol between Internal and External Audit in accordance with the new firm's procedures.

# III. Internal Audit Performance

## Internal audit performance

Members of the Governance and Audit Committee receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Internal Audit's performance against those targets for the year ended 31 March 2014 is shown below:

Performance Indicator	Target	Actual
<b>Effectiveness</b>		
% of recommendations accepted (Note 1)	98%	97%
<b>Efficiency</b>		
% of plan delivered	90%	92%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	93%
Preparation of annual plan	By March	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 (Note 3)	90%	87%

During 2013/14 Internal Audit has continued to carry several vacancies as well as secondments and the section is still not at full establishment. Despite these changes the section had delivered 92% of the plan by 31<sup>st</sup> March 2014. As at end of June 2014 the Plan is 99.21% complete enabling the overall audit opinion to be given.

### Note 1

As directorates are encouraged to operate within an environment of increased risk appetite and balance the cost of risk mitigation in accordance with the Council's objectives, it is likely that this target will become unrealistic. Our revised approach for 14/15 (detailed in 14/15 Audit Plan) will ensure all risks are highlighted and responded to or escalated appropriately.

### Note 2

Performance compared to 12/13 (86%) improved through focusing more effort on this target, identifying where problems may be occurring and implementing corrective action wherever appropriate. This focus will be maintained in 2014/15 to ensure the positive direction of travel continues.

### Note 3

The issue of any limited and adequate assurance opinions will impact 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 and scores improved within the year.

### **Public Sector Internal Audit Standards**

From 1 April 2013, the Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The purpose of these standards is to supersede the previous CIPFA Code of Practice and to:

- Define the nature of internal auditing in the UK public sector
- Set basic principles for internal audit
- Establish a framework for providing internal audit which adds value
- Establish a basis for the evaluation of internal audit performance

This is the second year we have assessed conformance against these Standards. We are currently in the process of implementing a formal Quality Assurance and Improvement Programme and Internal Audit Handbook, which addresses minor remaining gaps in meeting the Standards. Other gaps have already been addressed through changes to the Internal Audit Charter.

### **Internal Audit Charter**

Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter has been amended to ensure compliance with the Public Sector Internal Audit Standards. A revised version can be found at Appendix C of this report.

Changes made were minor and related to the following clarifications:

- The status of Internal Audit in the organisation.

- Internal Audit work also includes consultancy engagements and the scope of the work will include assessment of controls to meet agreed-upon objectives.

### **2013/14 Acknowledgements**

We are grateful for the assistance and cooperation provided by the Council's staff during the course of our work. This has been much appreciated, and also, the ongoing challenge and support of the Governance and Audit Committee.

# Appendix A - Summary of individual internal audit projects issued since April 2014

## Conversion to Academies

### Scope

The overall objective of the audit was to provide an assurance that, for schools converting to Academy status, processes are in place to ensure achievement of all requirements for a safe and complete handover of schools.

### Overall Assessment – Substantial

There are a number of key stages and processes which have to be followed throughout the conversion process, together with internal and external stakeholders who are communicated with.

The 'Substantial' assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. We found that the required information about contracts, property and staff had been obtained through the consultation process and included in the Commercial Transfer Agreement. Any issues identified had been addressed and resolved prior to conversion. Bank statements and other relevant financial documentation had been obtained and the final financial reconciliation carried out.

Only 3 recommendations to further improve controls have been made, none of which are high priority. These include documenting conversion procedures, evidencing checks of the final financial reconciliation amount and improving instructions for the removal of the KCC title and VAT registration number from all documentation, destruction of unused KCC cheque stationery and storage of historical financial records for six years plus current year.

## Transaction Data Matching (TDM)

### Scope

The overall objective of the audit was to provide assurance that the TDM process continues to ensure timely and accurate payments to providers and that the expenditure incurred is appropriate, authorised and accounted for accurately.

### Overall Assessment – Substantial

The Transaction Data Matching (TDM) system is an automated invoice processing system used for payments to Home Care providers. In 2013, payments to the value of £34 million were made through the TDM system. The matching mechanism within TDM allows the invoice payment process to be largely automated, as payments are automatically made where the electronically uploaded provider invoices meet specified matching conditions against the weekly upload of service delivery orders from the SWIFT system.

The 'Substantial' assurance is based on data analysis and testing using a 6-week representative sample of TDM reports and transactions between October and December 2013. A number of areas were identified where controls are operating adequately and effectively. The majority of weekly provider invoices are paid in accordance with the matching criteria agreed with the system provider and regular budget monitoring ensures that current and forecast spend is reviewed. The TDM system is operating as expected and regular reports are produced of unpaid invoices from care providers for investigation and resolution.

We have made four recommendations to further improve controls, none of which are high priority. These include establishing the feasibility of investigating and recovering certain overpayments and reviewing the effectiveness of the current tolerance levels for data matching.

## Information Governance Toolkit Compliance Review

### Scope

The overall objective of the audit was to provide assurance as to the adequacy and effectiveness of the key controls being applied regarding the Information Governance (IG) environment, focusing on an assessment of compliance with the Department of Health & Social Care Information Governance Toolkit.

### Overall Assessment – Advisory

The Information Governance (IG) Framework essentially determines how to collect and store data, and specifies how data is to be used and when it can be shared in order to ensure personal information is held and processed legally, securely, efficiently and effectively. The report included a position statement of preparedness for the final Toolkit submission two months prior to the deadline.

Considerable work has been undertaken in the last two years to develop Information Governance (IG) processes, including enhancement of policies and procedures, implementation of e-learning tools and information asset surveys. Information Governance audits are conducted annually with a cyclical review of key areas and the evidence to support the self-assessed scores on the Council's Information Governance Toolkit is appropriate where it has been provided.

Five recommendations to further improve controls were made, 2 of which are high priority. The high priority recommendations were to add further evidence to the Council's Information Governance Toolkit submission and to update the Data Quality Plan for Children's Services following the implementation of the replacement IT system, Liberi. Other recommendations included restricting devices that can be attached to corporate machines to copy data (such as USB memory sticks), improving the Public Health Information Asset Register and producing an Information Asset Register for portable devices and removable media for the SC Directorate.

## Oracle General Ledger

### Scope

The overall objective of the audit was to identify, examine and evaluate key controls for the application. These controls include day to day operations, the support provided by system administrators as well as third party support of the application.

### Overall Assessment – Substantial

The Oracle General Ledger system is part of the corporate Enterprise Resource Planning (ERP) e-business suite. This was implemented in January 1999 and a major upgrade was completed in November 2010. Two minor upgrades were performed in February 2012 and February 2013. This module is therefore running on the latest version. The system relies on a number of feeder systems which are regularly interfaced. The system is operated and monitored by finance which is responsible for statutory duties such as the preparation, monitoring and reporting of revenue and capital budgets; the closedown of the accounts each financial year; the publication of the financial statements and the completion of statutory returns and claims.

The substantial assurance is based on sample testing and interviews with key officers, which confirmed that in areas relating to first line support, database maintenance and the day to day operations of Oracle General Ledger, key controls are in place and operating as intended. There are effective application management governance arrangements and training is in place for staff. Overall controls are in place to maintain a separation of duties and limit access to the General Ledger application to authorised users. There are effective controls relating to data input and output as well as interface reconciliation. Data backups covering the Oracle application are performed and a Business Continuity and Disaster Recovery Plan is in place.

We have made one recommendation to further improve controls, and this is not a high priority, which includes carrying out periodic reviews of user access to the Oracle General Ledger system.

## Public Health Operational Arrangements

### Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to support KCC service and corporate objectives, achieve required Public Health Outcomes and meet relevant legislative requirements.

### Overall Assessment – Substantial

Responsibility for Public Health transferred from the National Health Service to Local Government on 1<sup>st</sup> April 2013. Kent County Council acquired responsibility for delivering the Public Health Outcomes Framework along with a budget of approximately £48.9m. A significant element of the service is delivered by providers through commissioning and contract arrangements.

The “Substantial” assurance is based on testing which identified that commissioning of new services in 2013/14 originated from a clearly identified need and procurements had been undertaken in accordance with the Council’s requirements. Contract monitoring arrangements transferred from the Primary Care Trusts (PCTs) had been reviewed and robust measures had been put into place. There were action plans in place for performance indicators that were not meeting the minimum acceptable standard.

We have made four recommendations to further improve controls, none of which are high priority. These include enhancing the risk management process and ensuring there is a process in place to monitor the risk registers of clinical providers.

## Risk Management

### Scope

The overall objective of the audit was to provide an assurance that the Council has adequate, robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement.

### Overall Assessment – Substantial

The Council has an established risk management policy & strategy, roles and responsibilities have been determined, and a system for recording risks and their associated control measures (GRACE) is in place. Risk registers are maintained on GRACE at Corporate, Directorate and Divisional level and risk management is reported to the Governance and Audit Committee.

The ‘Substantial’ assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. Risk registers are in the main being kept up to date and are monitored regularly. The mechanism for scoring risks is consistently applied for both current and target scores all risks had allocated owners, with the exception of those which had only recently been added to the registers. Risk Management is monitored and regularly reported to senior management and Members for consideration.

Only 3 recommendations to further improve controls have been made, none of which are high priority. These include reviewing risk management guidance going forward to ensure it provides the necessary information for managing risk in light of the Transformation Programme.

## Performance Management Framework

### Scope

The overall objective of the audit was to provide assurance that the performance reporting to Cabinet is reliable and that performance indicators are based on sound data. The audit focused on the data quality of the Corporate key performance and activity indicators reported within the quarterly performance report to Cabinet.

### Overall Assessment – Substantial

A wide range of performance indicators are monitored and reported at Divisional and Directorate level. The key performance indicators are agreed through the business planning cycle each year and progress against targets is regularly reported to Cabinet Committees and the Performance and Evaluation Board through Directorate Dashboards. A quarterly performance report is also produced and presented to the Leader and Cabinet through the Cabinet Board.

The substantial assurance is based on sample testing that confirmed controls are operating adequately and effectively. In particular we found that the key performance indicators (KPIs) within our sample were supported by Directorate dashboards that had been presented to Cabinet Committees, Performance Indicator Definition (PID) forms in place and targets had been set. Testing also confirmed that appropriate processes were in place to check the completeness and accuracy of the underlying data.

We have made two recommendations to further improve controls, none of which are high priority, which include; alignment of reported KPI results and targets so that the Corporate performance report, Directorate dashboards and business plans / strategic priority statements all agree, with formal approval obtained for revisions made to targets or KPI definitions. Only fully completed PID forms to be accepted for KPIs reported to Cabinet and Cabinet Committees.

## Procurement

### Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet service and corporate objectives, focusing on compliance with policies and procedures in place in relation to procurement.

### Overall Assessment – Substantial

The central Strategic Sourcing and Procurement (SS&P) team are responsible for ensuring that spend is effective and that best value is achieved through effective category management, reviewing expenditure across the whole Council, standardising systems and processes and improving governance.

The substantial assurance is based on the progress that has been made by the SS&P team to support and monitor procurements throughout the authority to ensure compliance with policy and procedures. This includes the introduction of quality control processes, standardising working practices and documents, the improvement of 'Spending the Council's Money' and increased use of the Kent Portal and ProContract with the majority of contracts awarded through ProContract promoted to the contract register.

We have made five recommendations to further improve controls, none of which are high priority, which include; monitor through exception reporting instances where orders over £50K are not released by the appropriate level of authority; retaining source data used to populate achievements against targets; formally recording declarations of interest raised by members of the SS&P team and reminding staff of the requirement for consistency and compliance with policy and good practice at all times.

## Oracle Accounts Receivable

### Scope

The overall objective of the audit was to identify, examine and evaluate key controls for the Oracle Accounts Receivable application. These controls included day to day operations, the support provided by system administrators as well as third party support of the application.

### Overall Assessment – Substantial

The Oracle Accounts Receivable system is part of the corporate Enterprise Resource Planning (ERP) e-business suite. This was implemented in January 1999 and the last major upgrade was completed in November 2010. Minor upgrades were performed in February 2012 and February 2013. This module is therefore running on the latest version.

The substantial assurance is based on sample testing and interviews with key officers, which confirmed that in areas relating to first line support, database maintenance and the day to day operations of Oracle Accounts receivable, key controls are in place and operating as intended. There are effective application management governance arrangements in place with training for staff, including development of e-learning modules. Overall controls are in place to maintain a separation of duties and limit access to the Accounts Receivable application to authorised users only. There are effective controls relating to data output as well as interface reconciliation. Data backups covering the Oracle application are performed and a Business Continuity and Disaster Recovery Plan is in place.

We have made one recommendation to further improve controls, and this is not a high priority, which includes a process to develop and run a report to detect any potentially duplicate Customer records on the Accounts Receivable system for investigation.

## Corporate Purchase Cards follow up

### Scope

The overall objective of the audit was to provide an assurance that Corporate Purchase Card risks are being managed adequately and effectively in order to meet the service and corporate objectives.

### Overall Assessment – Substantial

There are approximately 470 Corporate Purchase Cards in use throughout all directorates. The average expenditure on these cards each month in 2013/14 has been about £280,000 with an average of 1,700 transactions per month. Previous audits were completed on Corporate Purchase Cards in the 2011-12 and 2012-13 financial years, with assurance levels of Limited and Adequate respectively.

The 'Substantial' assurance is based on sample testing that showed a number of areas where controls were operating adequately and effectively; in particular it was found that all expenditure items tested were supported with appropriate documentation, which is a clear improvement since the last audit.

Only 2 recommendations have been made, none of which are high priority. These include reminding users to ensure supporting VAT receipts are retained to support purchases and to include an adequate description for each purchase on eSolutions

## Appraisal Process

### Scope

The overall objective of the audit was to provide assurance that risks relating to the appraisal process are managed effectively in order to meet service and corporate objectives.

### Overall Assessment – Substantial

Total Contribution Pay (TCP) is the process the Council uses to measure individual performance throughout each year. The total contribution assessment takes into account all the elements of an individual's performance during a work year including their day to day behaviours, the quality of their output, the level at which they work and the degree to which they are developing their skills. Approximately 8,000 employees received a TCP rating in January 2013, excluding those 'not assessed'.

The 'Substantial' assurance is based on there being a process in place for ensuring all staff are awarded a TCP rating within the agreed timescale and managers who have not submitted ratings by the deadline are chased for submission. There are detailed, up to date procedures and guidance notes available for both appraisers and appraisees on KNet. Management information and associated reports are produced by Human Resources and these are reviewed by senior management and Members at appropriate times in the process.

We have made 3 recommendations to further improve controls, none of which are high priority, which include improving appraiser training, e-learning and guidance to ensure all staff have targets set at the start of the year and receive a copy of their appraisal back with comments from manager and grandparent.

## Local Members Grants and Highways Fund

### Scope

Preventing fraud through design or redesign of policy and procedures is a key element of the Council's Anti-Fraud and Corruption Strategy. The purpose of the review was to highlight potential weaknesses or risks in existing controls, policies or procedures in relation to the administration of the two grant schemes.

In April 2014, before this review was concluded, the current schemes identified above ceased and have been replaced by one single Members' Grant Scheme. We continued with the review as the recommendations identified were still likely to be relevant to the new scheme.

### Overall Assessment – Advisory

We found that there was a good process in place for approving grants, and the review did not identify any instances of fraud; however, in our view, the process for administering Local Community Grants had some susceptibility to fraud and error.

During the review we identified an inconsistent approach to some aspects of the Local Community Grant administration, for example, in how grants that had been awarded were followed up after the monitoring and evaluation forms were sent out. We also identified that the applications were not subject to a risk based evaluation.

9 recommendations were made in total, 3 of which were high priority. These recommendations related to the development of administration and evaluation guidance, undertaking risk based evaluations and the monitoring arrangements for grants that had been awarded. The service has reported that these three recommendations, as well as the remaining six, have now been implemented.

## Payments Process

### Scope

The overall objective of this work was to provide assurance that there are sufficient controls in place regarding the payments process and to follow up on the recommendations made during the 2012/13 Payments audit.

### Overall Assessment – Limited

Accounts Payable is an integrated module of the Oracle Financial Information System. Payments can be processed by being entered into Accounts Payable via iProcurement (iProc) which is an online automated purchase requisition management facility, or via manual invoice processing.

The Limited assurance is based on a number of issues that require prompt management attention to help ensure that the system is able to meet the Council's objectives. Particular areas for attention include the arrangements in place for the set-up of new commercial suppliers and aligning the authority limits in the iProc system and AP Authorised Signatory List with the Council's delegated authority matrix.

We have made nine recommendations to improve on existing controls, of which four are high priority and three are medium priority. All recommendations have been accepted by management. The high priority recommendations include implementing a system to verify new supplier requests, aligning authorisation limits across the Council, introducing a warning message when iProc vacation rules are applied and ensuring that work is continued to ensure verification of amendments to supplier bank account details, irrespective of the team processing the change.

## ELS Capital

### Scope

The audit examined the two areas where cost overruns can occur, covering the feasibility study and initial cost estimate and the procurement processes and contract management arrangements. The overall objective was to provide assurance that the current arrangements in place over capital contracts are adequate and effective.

### Overall Assessment – Adequate

The audit examined two contracts; a large academy new build contract and the temporary enlargement of Primary School.

The new build academy was delivered on time given genuine delays including the discovery of additional asbestos and severe weather conditions. The cost was within the sum agreed by Partnership for Schools and to the required quality. The temporary enlargement of the Primary School was completed in two phases with the second phase resulting in a saving from the original tendered amount. The audit confirmed robust tender procedures and adequate project management arrangements.

An examination of a sample of initial cost estimates identified a number of individual school building projects that showed disparate actual costs compared to the first estimate of costs. These were largely due to the initial estimates not including all phases of projects and changes to the design brief to include further infrastructure requirements and changes made as a result of public consultation.

Five recommendations were made, none of which was high priority. The recommendations included improving the process for feasibility studies and initial estimates, the need to reconcile payments with project milestone payments and the need to inform all parties involved in the tender process when deadlines are changed.

## Good Day Programme

### Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively for the programme to meet its objectives.

### Overall Assessment – Adequate

The Good Day Programme is the redesign of day services for Learning Disability clients, to move away from a day centre model to a more integrated approach. The programme was approved by Cabinet in June 2008 and was due to complete in 2012, but has now been extended to the financial year 2014/15.

The 'Adequate' assurance is based on visits to completed projects which identified positive benefits to service users and to the wider community. There was also evidence of effective consultation. Testing did not identify any complaints about the transformation of the service post-completion.

We have made 6 recommendations to further improve controls, of which one is high priority. This was to draw up project plans containing key tasks, milestones and accountable owners.

## Commercial Services Internal Audit

### Scope

The overall objective of the audit was to assess the level of reliance that the KCC Head of Internal Audit can place on the work and opinion of the Commercial Internal Audit Manager, when formulating the overall KCC audit opinion.

### Overall Assessment – Partial reliance

Commercial Services (CS) is a trading name of Commercial Services Trading Ltd and Commercial Services Kent Ltd, which are both Kent County Council wholly owned companies (via an intermediary holding company). In 2012 CS set up a separate audit team which reports to the Executive Chairman and operates independently of the KCC Internal Audit team.

The CS Internal Audit Manager has made considerable progress in developing the internal audit team, charter, and associated procedures. Overall we have been able to place partial reliance on the work of CS Internal Audit based in our review of a sample of audit files and reports. There were instances where we would not necessarily have reached the same opinions on assurance level or issue priority and instances where we believe the scope was too restricted. It is acknowledged that opinions are subjective and may take into account wider information. In addition in our view there are some skills gaps e.g. in relation to fraud, Finance and IT where it is challenging for a small team without access to a wider resource base to deliver all the necessary assurances.

For this reason, over the course of the year, we have sought additional assurances through regular meetings with the team, requests from management, additional work undertaken by the Council's Internal Audit team and more recently attendance at the newly formed CS Audit sub Committee.

We have made five recommendations to further improve controls, two of which are high priority. This includes copying draft audit Engagement Plans to the KCC Head of Internal Audit for review and improving on the current approach to following up issues in order to provide more timely assurance on the completion of agreed management actions.

## **Contract Letting and Compliance – Specialist Children’s Services**

### **Scope**

The overall aim of the audit was to provide assurance that procurement/contract risks were being managed adequately and effectively in order to meet service and corporate objectives.

### **Overall Assessment – Adequate**

The audit reviewed the procurement and contract management processes for two framework contracts. Some areas of good practice employed by Strategic Commissioning were evidenced. There were Expression of Interest and Invitation to Tender processes with tenderers being notified of the tender outcomes in a timely manner.

However, the audit identified some issues with the overall procurement and contract management for the contracts reviewed. The current Strategic Commissioning Team had already recognised several of these issues and these are therefore being taken into consideration by Social Care, Health and Wellbeing for the future.

The recommendations included the need to consider contracts which may have been signed above an individual’s delegated authority and contracts being incomplete and unsigned. In addition other recommendations included the extension of tender deadlines and the need to inform all parties involved in the tender process when deadlines are changed.

There were 5 recommendations none of which were high priority.

## **Schools Financial Services-System of Schools Audit**

### **Scope**

The overall objective of the audit was to provide assurance that the regime of compliance visits undertaken by the Returns and Compliance (R&C) team is adequate and effective to support the Section 151 Officer’s certification for the Schools’ Financial Value Standard. This is to confirm that ‘there is in place a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending’.

### **Overall Assessment – Adequate (Final Draft)**

In order to enable the Corporate Director of Finance & Procurement to sign the annual assurance statement, there is a rolling programme of extensive compliance visits to schools in place. The visits are determined on a risk basis, every school having at least one visit every five years, with schools presenting a higher financial risk being visited more frequently.

The adequate assurance is based on the good progress that has been made by the R&C team since the last audit was completed in 2012. Areas of good practice include the risk assessment used to identify schools for visits and the arrangements to promptly issue compliance reports to schools and to deal with management responses to the recommendations raised. The team has developed a bespoke work programme template that is used for all compliance visits.

However the audit identified a number of areas for further improvement. We have made nine recommendations, three of which are high priority. These included enhancements to the coverage of the work programme to improve effectiveness of compliance visits, retaining documentation to support and evidence findings and development of a formal protocol to follow up on recommendations raised during compliance visits. We also noted that whilst key performance indicators (KPIs) are in place, the R&C team’s performance is not formally measured against them.

## Social Care Client Billing

### Scope

The overall objective of this work was to provide assurance that there were sufficient controls in place regarding the accuracy of the data in the SWIFT system used to generate the Kentcare Accounts.

### Overall Assessment – Substantial

The SWIFT system is the client database that is used to record information on service users and providers. Service users are financially assessed to determine their contribution towards the cost of care that they receive. People receiving both Non Residential care and Residential care and who have been financially assessed to make a contribution will receive a Kentcare Account.

The Substantial assurance is based on our main finding that the Social Care Client Billing process was operating reliably; in particular, new clients are added to SWIFT promptly and accurately, financial assessments are being completed in a timely manner and Kentcare Accounts are calculated correctly. One area for improvement was identified, where sample testing revealed four instances of data input errors when the information from financial assessments were entered onto SWIFT. In all cases the errors were minor and did not affect the overall calculation and billing of the Kentcare Accounts for the client's contribution towards their care.

We have made one Medium priority recommendation to reinforce to staff the need to accurately enter financial data onto SWIFT.

## Company Governance

### Scope

The overall objective of this review was to provide ongoing advice in relation to governance and management controls over companies in which the Council has an interest. The intention of this review was to ensure that the advice could be built into future arrangements as the Council moves to providing more services through alternative service delivery models including companies.

### Overall Assessment - Advisory

Some extremely positive steps have been taken over the last year e.g. using Commercial Services as an example, the setting up of a shareholder board, the appointment of highly qualified Non-Executive Directors, attempts to introduce a suitable governance structure including a company audit committee and remuneration committee and recognition that a protocol agreement is necessary to ensure that there is sufficient protection afforded to KCC as shareholder. However the review confirmed that the Council is still at a relatively early stage of development in relation to its approach to overall company governance. In particular the Council needs to address its commercial capability and 'client' side capacity which can lead to gaps in scrutiny, monitoring and control over companies. Without such capacity, the Council can become too reliant on external "experts" without the in-house skills and experience to challenge and hold Directors to account in a meaningful way.

Recommendations have been made to clarify Council's strategic intent in relation to its companies; to improve levels of assurance over important decisions in particular those which have a financial or reputational impact; to more closely scrutinise changes to dividend policy and amounts; and to introduce a more transparent open book approach and a simplified governance framework for both the Council and its companies to operate within.

## 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 nineteen audits at seven Children's Centres, two outdoor education centres, two country park and four adult day care centres, two libraries and two youth hubs. The audits review financial controls as well as quality/performance elements and safety and security controls. Seventeen final reports and two draft reports have been issued.

### Summary of findings

In the main key strengths for 2013/14 have included engagement with service users as well as cleanliness/infection control, health and safety risk assessments and building security.

Areas for improvement include:

- Improving asset registers, stock records and stock checks.
- Recording expenditure at point of commitment.
- Implementing controls over authorisation/verification of timesheets.
- Arrangements for data protection and records management, including adequately securing records and laptops out of office hours.
- Improving gaps in key training and in training records.
- Retaining records of fire alarm testing and of fire drills.

Overall 16 of the 19 establishments audited were rated as adequate or above. Only three received limited assurance opinions (two outdoor education centres and one childrens centre).

## Procurement in schools

### Scope

The overall objective of the audit was to provide assurance that procurement/contract risks are being managed adequately and effectively by schools in order to meet their and Kent County Council (KCC) service and corporate objectives.

### Overall Assessment - Limited

Since 1990 Kent County Council has delegated funding to schools in accordance with legislation and the KCC 'Scheme for Financing Schools'. Schools are expected to comply with the 'Scheme for Financing Schools' and KCC's procurement regulations entitled 'Spending the Council's Money'.

The 'Limited' assurance is based on a number of areas for improvement which were identified. These include reminding schools and governors of the need to comply with KCC's procurement regulations including using different suppliers, obtaining tenders for goods and services costing over £49,999 and seeking three written quotations for goods and services costing over £8,000. One supplier had been used for building maintenance totalling over £87,000 without a tender process. At another school, invoices for building work carried out during the Summer holidays did not specify the work which had been completed and had been paid with cheques signed in advance by the authorised signatories.

We have made three recommendations to improve on existing controls, one of which is high priority recommending that Schools Financial Services reinforces to schools the need to comply with procurement policies. The recommendations have been accepted by management.

## Kent Support and Assistance Service

### Scope

The overall objective of the audit was to provide advice and challenge on the development of processes to manage administration of payments made through KSAS and to mitigate any risk of fraud or error.

### Overall assessment – Advisory

The KSAS replaced the DWP Crisis Loans from 1st April 2013, with a transfer of funding to Local Government, for a specified period, to be used to make crisis payments to individuals in urgent need of support. This meant a new model of payments for KCC and an additional risk of fraudulent claims/transactions. Therefore Internal Audit worked with the officers delivering the implementation project, and subsequently the service, on both the commissioning and contact centre sides to review proposed and actual controls, in advance of and during implementation.

The advice provided was based on attendance at meetings, discussions with key officers, review of procedures and visits to the contact centre to observe the process in practice.

A number of enhancements were recommended, particularly in relation to payment methods and monitoring processes, and many were implemented in real time. However additional work is in progress to provide assurance that all areas for development identified have now been addressed.

## Revenue Budget Monitoring Follow Up

### Scope

The overall objective of the audit was to follow up on high and medium recommendations from the 2012/13 audit which had focused on key controls within Revenue Finance. (There were no high priority recommendations raised in the previous audit).

### Overall Assessment – Recommendations implemented (Final Draft)

Following the restructure of Finance in 2011/12, the approach to budget monitoring has changed. Budget Managers are now required to take ownership and monitor budgets proactively with varying degrees of support from Finance according to the risk profile afforded to each budget. This requires Budget Managers to be provided with the right tools to undertake their role effectively, including access to reports through the Collaborative Planning system.

The audit confirmed that controls within the areas where we carried out follow-up testing were operating adequately and effectively and that the four medium priority issues identified in the previous audit had been resolved. In particular, a clear improvement was seen in the administration of the Resource Accountability Statements and the notification of cash limit changes to Budget Managers throughout the year.

No further recommendations have been made as a result of this follow up audit

## **Integrated Youth Services Commissioning and Contract Management**

### **Scope and Progress**

The overall objective of the audit was to provide an assurance that youth services were appropriately commissioned with adequate monitoring to ensure that outcomes are achieved; and instances of non-compliance or unsatisfactory performance are identified with measures put in place, where relevant to address them.

### **Overall Assessment – Substantial (Final draft)**

During 2012 Youth Services invited organisations to bid for 46 lots (contracts) to provide youth based services. An innovative and inclusive approach was used via a Dynamic Purchasing System (similar to a multi supplier framework but remains open to enable new provides to join throughout the four years the framework is in place) which encouraged small and locally based organisations to bid for the work. This resulted in 22 organisations (including voluntary) winning the lots. The Restorative Justice Services contract was an open procurement competitive tender and was awarded in 2013. It is jointly funded by KCC (60%), Kent Police (28%) and Kent Probation (12%).

The substantial assurance is based on the robust and collaborative approach in identifying the youth services' requirements. In addition there are good processes in place for the management and monitoring of the contracts, identifying issues of poor performance and addressing them, including in some instances terminating contracts.

We identified one minor weakness with regards the uploading of data from barcodes to the Youth Services web based system and have made one high priority recommendation to address this.

# Appendix B - Detailed Analysis of internal audit projects in 2013/2014

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
<b>Core Assurance</b>							
Corporate Governance	Draft Report	On finalisation	Substantial	Completeness of contracts	Complete	April 2014	Substantial
Annual Governance Statement	Complete	September 2013	Substantial	Contract compliance (below £50k)	Complete	April 2014	Substantial
Schemes of Delegation	Complete	N/a	Advisory only	Company Governance	Complete	July 2014	Advisory
Risk Management	Complete	July 2014	Substantial				
Business continuity and resilience planning	Complete	April 2014	Substantial				
Performance Management Framework inc data quality	Complete	July 2014	Substantial				
Information Governance	Complete	July 2014	Advisory only				
Records Management	Complete	April 2014	Adequate				
Procurement	Complete	July 2014	Substantial				
Business Planning	Complete	September 2013	Substantial				
Recruitment and Selection	Complete	April 2014	Adequate				
Appraisal Process	Complete	July 2014	Substantial				
Workforce Planning	Complete	April 2014	Substantial				

<b>Core Financial Assurance</b>							
Accounts Payable inc iProcurement (Payments process)	Complete	July 2014	Limited	Local budgetary reviews	Complete	April 2014	Substantial
Debt Recovery	Complete	April 2014	Substantial	Compliance programme (Establishments)	Complete	Update in each paper	Various*
Cash and Bank (inc reconciliations)	Complete	April 2014	Substantial	Half year journal and AP IDEA testing	Cancelled	N/a	N/a
Treasury Management follow-up	Complete	April 2014	High	Corporate Purchase Cards – follow-up	Complete	July 2014	Substantial
Pension Contributions follow-up	Complete	April 2014	High				
Pension Fund Investments follow-up	Complete	April 2014	High				
Foster Care Payments	Complete	April 2014	Limited				
Social Care Client Billing	Complete	July 2014	Substantial				
Transaction Data Matching	Complete	July 2014	Substantial				
Client Financial Affairs/CMS	Deferred to 14/15	N/a	N/a				
Payroll Schools	Complete	September 2013	Adequate				
Payroll – starters, leavers and overpayments follow-up	Complete	April 2014	Substantial				
Schools Financial Services	Complete	July 2014	Adequate				
Revenue Budget Monitoring follow-up	Complete	July 2014	Advisory				

\* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.24

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
<b>Risk/Priority Based Audit</b>							
Broadband Delivery UK	Complete	N/a	Advisory only	Schools themes review – Procurement	Complete	July 2014	Limited
Regional Growth Fund	Complete	April 2014	High	ELS Capital Projects	Complete	July 2014	Adequate
Property – statutory compliance	Complete	April 2014	Adequate	Community Learning Services	Complete	December 2013	Adequate
Enterprise replacement – watching brief	Complete	N/a	Advisory only	Locality Boards	Cancelled	N/a	N/a
Total Facilities Management	Deferred to 14/15	N/a	N/a	Complaints, comments and compliments	Complete	N/a	Advisory
Public Health Outcomes	Merged with Operational	N/a	N/a	Troubled families	Complete	N/a	Compliant
Public Health Governance	Fieldwork complete	On finalisation	In progress	Integrated Youth Services	Final Draft	July 2014	Substantial
Public Health Operational Arrangements	Complete	July 2014	Substantial	Communications	Complete	April 2014	Substantial
Good Day Programme	Complete	July 2014 Check AI commented	Adequate	Grant funding (inc Turner and Big Society)	Complete	N/a	Advisory
Supervisions	Deferred to 14/15	N/a	N/a	Highways – Customer claims handling	Complete	December 2013	Substantial
Enablement Service	Deferred to 14/15	N/a	N/a	Coastal Protection Loans	Complete	April 2014	Substantial
Direct Payments follow-up	Complete	N/a	Advisory only	Haulage and Transfer Stations	Cancelled	N/a	N/a
UASC Budget	Complete	April 2014	Limited	Waste – Contract Management Process	Cancelled	N/a	N/a
Children's Services Improvement Programme	Complete	December 2013	Adequate	Transport Contracts – Cyclical Review	Complete	April 2014	High

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
Strategic Commissioning-Operational Frameworks	Complete	December 2013	Advisory only	Adverse Weather, winter service delivery	Complete	December 2013	Substantial
Strategic Commissioning – Quality Assurance Framework watching brief	Complete	April 2014	Advisory only	BACS/CHAPS Review – Commercial Services	Complete	April 2014	Limited
Contract letting and compliance Adult's	Complete	December 2013	Substantial	Carbon Reduction Commitment	Complete	December 2013	Compliant
Contract letting and compliance Children's	Complete	July 2014	Adequate	Kent Support and Assistance Service	Complete	July 2014	Advisory
Adult Social Care Transformation Programme	Complete	N/a	Advisory only	Culture and Sports	Deferred to 14/15	N/a	N/a
Early Years	Complete	December 2013	Substantial	Schools Deficit Budgets	Cancelled	N/a	N/a
Conversions to Academy	Complete	July 2014	Substantial	Member Grants	Complete	July 2014	Advisory only
EduKent	Complete	April 2014	Advisory only	Member Highways Fund	Complete	July 2014	Advisory only
KIASS	Complete	April 2014	Advisory only	Section 17 Payments	Deferred to 14/15	N/a	N/a
Healthwatch	Deferred to 14/15	N/a	N/a	Declaration of Interests	Complete	September 2013	Advisory only – Fraud Prevention Review
Commercial Services – Review of internal Audit	Complete	July 2014	Partial reliance				

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
<b>IT Audit</b>							
Website	Deferred to 14/15	N/a	N/a	Oracle General Ledger – application	Complete	July 2014	Substantial
E-Payments	Cancelled	N/a	N/a	Oracle Accounts Receivable – application	Complete	July 2014	Substantial
Laptops, Notebooks and PCs	Complete	April 2014	High	Oracle Payroll – application	Complete	April 2014	Substantial
User Remote Access	Complete	April 2014	Substantial	SWIFT application	Complete	April 2014	Substantial
ICT Governance	Deferred to 14/15	N/a	N/a	WAMS application	Complete	December 2013	Substantial
User IT Literacy	Cancelled	N/a	N/a	ICS Watching Brief	Complete	N/a	Advisory only
User equipment asset management	Complete	December 2013	Substantial	CRM Watching Brief	Deferred to 14/15	N/a	N/a
				Unified Comms – pre-implementation	Complete	April 2014	Substantial

Key	Audit Assurance definitions
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 error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

# Appendix C - Internal Audit Charter

## **Introduction:**

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council. The Charter will be reviewed annually to ensure it is up-to-date and relevant.

## **Purpose:**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.<sup>1</sup>

Kent County Council's Internal Audit 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 record and its systems of internal control' is contained in the Accounts and Audit Regulations 2011. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council 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 Corporate Director of Finance & Procurement.

## **Status of Internal Audit in the Organisation:**

The Head of Internal Audit reports directly to the Corporate Director of Finance (Section 151 Officer) and quarterly to the Governance and Audit (G&A) Committee. The Head of Internal Audit also regularly meets with the Chair of the G&A Committee. The Head of Internal Audit will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer and the Leader of the Council.

The G&A Committee Board are responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.

## **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 risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

### **Professional Standards:**

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. This is structured around four attribute and six performance standards, including criteria for measuring the performance of the internal audit function 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 Head of Internal Audit will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance, Head of Paid Service and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives, are identified from directorates' annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine 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. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc. Internal Auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous year.<sup>1</sup>

### **Audit Scope**

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

<sup>1</sup> Public Sector Internal Audit Standards

<sup>2</sup> IIA International Standards

Reviewing the soundness, adequacy and application of financial and other management controls;

Reviewing the extent of compliance with, relevance and financial 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

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

Reviewing 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

Promoting and raising fraud and corruption awareness

Investigating allegations of fraud and corruption

Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Internal Audit's activities extend to all remote establishments, wholly owned companies and trading activities.

Internal Audit is not relieved of its responsibilities in areas of the Council'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 Head of Internal Audit will provide an annual audit opinion as to the adequacy of the Council's internal controls and risk management processes. This will be used to support the Annual Governance Statement.

### **Fraud and Irregularity**

Internal Audit does not have to investigate all cases of potential frauds and irregularities, however they must all be reported to the Head of Internal Audit or the Counter Fraud Manager who will determine if an investigation needs to take place. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

### **Right of Access**

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed

necessary in the course of its duties. Internal Audit will ensure that all information received as part of their work is treated confidentially at all times.

### **Internal Audit Resources**

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Internal Audit to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan. On occasion, the Head of Internal Audit may use partner or third parties to deliver aspects of the plan. In these circumstances, the Head of Internal Audit will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanations required to undertake the engagement (coordinated through Internal Audit managers).

### **Review of the Effectiveness of the System of Internal Audit**

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Internal Audit will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Internal Audit will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee. The Head of Internal Audit will review the Charter annually and attach a revised document to the annual internal audit report.

### **Provision of assurance to third parties**

The Council's Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties, such as Kent Fire and parishes. These include internal audit services, grant certification and financial account sign-off.

The same principles detailed in this Charter will be applied to these engagements.

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. Internal auditors will address controls consistent with the engagement's objectives and be alert to significant control issues.<sup>2</sup>

<sup>1</sup> Public Sector Internal Audit Standards

<sup>2</sup> IIA International Standards