



# Kent County Council

## Internal Audit Progress Report October 2014

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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 2014/15 to date. It also highlights any key issues with respect to internal control, risk and governance arising from that work.

October 2014

## 1.2 Overview of work done

The Internal Audit Plan for 2014/15 includes a total of 91 projects at September 2014. 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 amendments are proposed:

***Deletions/Deferral***

The audit of Sexual Health has been carried forward to 15/16 due to delays in re-letting elements of the contract. This will be replaced by an audit of Health Checks due to concerns about current achievement.

The following work has been undertaken year to date:

- 6 final reports/assurance/advisory work completed
- 11 draft reports issued or in the process of being finalised
- Fieldwork is in progress on a further 20 audits

In addition to the above, 4 audits have been completed at establishments, with 2 in progress. Detail of this and summaries of all final reports issued since the last Committee meeting can be found at Appendix A.

Overall progress on the 2014/15 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 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 end of August 2014 is shown below:

Performance Indicator	Target	Actual
<b>Effectiveness</b>		
% of recommendations accepted	98%	99%
<b>Efficiency</b>		
% of plan delivered (Note 1)	90% by year end Prorated 36%	33%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	89%
Preparation of annual plan	By April	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
<b>Quality of Service</b>		
Average Client satisfaction score	90%	99%

### *Note 1*

Figure at end of September, therefore we are slightly below the prorated target however we are ahead of delivery reported at this time last year (28%) and are on track to deliver 90% by end of March 2015.

### *Note 2*

This metric is based on 26 draft reports issued within the reporting period, of these 3 exceeded the 10 day deadline, one of which only exceeded by 1 day.

# Appendix A

## Summary of individual 2014/15 Internal Audits issued since April 2014

### Core Assurance

#### Annual Governance Statement

##### Scope

The overall objective of the audit was to provide an assurance that directorate returns are appropriate and issues identified are managed adequately and effectively in order to meet service and corporate objectives.

##### Overall assessment - Substantial

Directorate returns are completed in order to provide the information required to produce the Council's AGS. This audit did not include a review of the Council's final AGS which is included in the Statement of Accounts, as this will be reviewed by the external auditors.

The Substantial assurance is based on there being an improvement in the profile of the AGS within directorates during the year, with a minimum of half yearly discussions of the AGS taking place in DMT meetings. Evidence was provided in most cases of actions that have already been taken or which are planned going forward to resolve the issues identified in the AGS process. Additional work in compiling the directorate returns has been necessary this year due to the Council-wide restructure and this has been effective, ensuring that all relevant issues have been raised.

We have made two recommendations to further improve controls, neither of which are high priority, which include ensuring that progress on all issues raised in the previous year are detailed in the current year's return and improvements to the AGS return template.

### Core Financial Assurance

#### Value Added Tax

##### Scope

The overall objective of the audit was to provide an assurance that the risks associated with VAT are being managed adequately and effectively so that VAT returns are complete, accurate and timely, and that reasonable care is taken to prevent error or fraud.

##### Overall assessment - Substantial

The Chief Accountant's team has overall responsibility for ensuring that monthly VAT returns are submitted to HMRC which are accurate and timely, although reliance is placed on officers within the authority to correctly account for input tax on payments made and output tax charged to customers. The Council then reclaims the input tax and pays over the output tax to HMRC, which results in a net reclaim of VAT each month.

The 'Substantial' assurance is based on the controls in place in a number of areas including staff having access to a VAT manual which provides guidance on the VAT indicators they should use and what constitutes a valid VAT invoice. Monthly VAT returns are compiled based on accurate information from Oracle and have been submitted to HMRC in line with their timescales. The Partial Exemption calculation for 2013/14 has been estimated based on the final calculation from 2012/13 and has been regularly reviewed and updated throughout the year. The Corporate Director of Finance and Procurement receives quarterly VAT update reports.

We have made raised two issues, resolution of which would further improve controls, neither of which are high priority. These include the use of meaningful descriptions in Oracle for all transactions and the correct VAT indicators being used in all instances.

## **Accounts Receivable**

### **Scope**

The overall objective of the audit was to provide assurance that the risks to timely, complete and accurate raising of invoices are being managed effectively in order to meet service and corporate objectives.

### **Overall assessment – Substantial**

The AR module in Oracle is used to raise invoices payable to the authority and for most invoices KCC service teams completed an AR01 form and submit this to the Assessment and Income Unit for processing.

The “Substantial” assurance is based on sample testing a number of AR01 forms completed for which input was found to be accurate and invoices raised promptly by the Assessment and Income Unit; few issues were identified.

We have raised 4 issues where management action that will further improve controls, which included AR01 forms not always being completed promptly and fully after the goods and services have been supplied. Sample testing also identified that any member of KCC staff can request an invoice cancellation.

## **Budget Build**

### **Scope**

The overall objective of the audit was to provide assurance on the management arrangements in place to produce and approve the Annual Revenue Budget and Medium Term Financial Plan (MTFP).

### **Overall assessment – Substantial**

The audit found that the production of the Annual Revenue Budget and MTFP is well co-ordinated within Central Finance to ensure that the two documents are accurately prepared and reconciled throughout the budget build process. The final budget was approved with in the statutory timescale.

The audit also confirmed that the coding and subsequent upload of the detailed budgets to the Collaborative Planning and Oracle financial systems were performed accurately with appropriate reconciliations.

The ‘Substantial’ assurance is based on the examination of both documents and the detailed processes in place throughout the year to complete the budget process. There was evidence of extensive discussion between Corporate Directors, Members and public consultation to produce a balanced budget reflecting the Council’s financial and operational strategies.

We have raised two issues of which consideration would further improve control, neither of which are high priority. These include the need for documented procedure notes on the budget build process and a suggestion to consider alternative approaches to the budget build process to supplement the present incremental approach.

## **Risk/Priority Based**

### **Gypsy & Traveller Unit – allocation of sites**

#### **Scope**

The overall objective of the audit was to provide assurance that the decision and approval processes followed for allocating the new pitches were sound and in accordance with agreed procedure, to manage the Council's exposure to potential litigation claims.

#### **Overall assessment - Limited**

The Gypsy & Traveller Unit have responsibility for eight locations across the County that are used to accommodate the Gypsy & Traveller community. Work commenced in 2013 to increase the capacity at the Coldharbour site from eight to 26 pitches and the Gypsy & Traveller Unit were responsible for receiving, assessing and allocating applications for the newly available pitches.

The "Limited" assurance is based on sample testing a number of applications received and identifying that a lack of procedures has led to inconsistencies in the level of information received from applicants, the manner in which it is assessed and the level of detail retained on file. As this is the largest allocation of sites the Unit has dealt with for a number of years the lessons learnt from this site allocation process are essential to further improve the process going forward. Consequently, there remains a risk that if the Council was challenged on the allocation of pitches, we may not be able to demonstrate that a fair and proportionate process was followed, as currently the records held are incomplete and not sufficient to determine whether all applications have been assessed consistently.

We have raised 2 issues to further improve controls, one of which is high priority covering the inconsistent processing of pitch applications due to the absence, which we attribute to the absence of operating procedures.

## **Elective Home Education/Education Programme and Children Missing Education**

#### **Scope**

The overall objective of the audit was to provide assurance that KCC has adequate and effective arrangements in place to ensure that children who are receiving Elective Home Education or are included on the Education Programme are identified, assessed, supported and monitored. For Children Missing Education, we assessed the arrangements to identify, track and support children back into full-time education.

#### **Overall assessment – A split opinion has been given:**

#### **Children Missing Education and Education Programme - Substantial**

#### **Elective Home Education - Limited**

For Children Missing Education, we found that the controls in place to For Children Missing Education, we found that the controls in place to identify, track and support children who are reported missing back into education are operating effectively. For the Education Programme, we found that children are identified, assessed, supported and monitored. Controls over the assessment, support and monitoring of children who are receiving Elective Home Education need to be improved.

Last year Ofsted carried out a review of children missing education at a sample of other Councils. We looked for evidence that the issues and recommendations raised in that report had been addressed by KCC. We have identified areas where these have not yet been actioned. This includes the identification of pupils receiving part-time education and a perceived trend by certain schools to 'off roll' children at particular times.

We have raised five issues as high risk and seven issues as medium risk. Management action will further improve controls in these areas. Issues identified include using the Impulse database as a central source to record and provide all up-to-date information and contact with children receiving Elective Home Education who have not been seen or visited in recent years.



## **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 six audits at four respite care centres, one adult day care centre and one outdoor education centre. The audits review financial controls as well as quality/performance elements and safety and security controls. Thirteen final reports have been issued, and the remainder are complete with the draft report pending.

### **Summary of findings**

Key strengths include 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.
- Controls to manage the completeness and accuracy of income
- 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.

## **Management of Change and Improvements**

### **Scope and Progress**

In order to provide assurance in relation to significant change programmes and projects Internal Audit are undertaking a number of relevant reviews; at September 2014 this includes:

Care Act Preparedness  
Adult Social Care Transformation, including Quality in Care and Commissioning of Older Persons Residential Care  
The 0-25 Unified Portfolio  
New Ways of Working  
Checkpoint reviews for all stage one and two transformation  
Broadband Delivery UK

This includes review of significant documentation and regular liaison with key officers, including Portfolio Assurance Managers and the Facing the Challenge Team. In addition Internal Audit currently attend the following:

- The Accommodation Commissioning Group
- The Care Act Board
- The Finance Monitoring Group for Children's Social Care and Early Help Services
- Corporate Portfolio Office Checkpoint Review Meetings

Any issues arising are queried with relevant officers as and when with actions agreed. Periodic reports are/will be produced as required at key stages and an overall report for each will be produced at year end. These last will be reported to this committee in the 2014/15 Annual Report and Head of Internal Audit Opinion.

We have also reviewed self-certifications submitted by KCC this year to date to support the Payment by Results element relating to Troubled Families and found these to be compliant.

# Appendix B

## Detailed Analysis of Internal Audit Progress on 2014/2015 Plan

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
<b>Core Assurance</b>							
Strategic Partnership Governance	Planning			Individual Contracts	Fieldwork		
Corporate Governance				Company Governance/ADSM Advice			
Annual Governance Statement	Complete	October 2014	Substantial	Remote Site Compliance Visits	Fieldwork	Update in each paper	Various <sup>1</sup>
Schemes of Delegation				Transformation Programme and CPO Support	Fieldwork		
Risk Management	Planning			Contracts of employment - new contracts and changes	Planning		
Business Continuity & Resilience Planning				Equality and Fairness at Work - Performance and Capability	Draft Report		
Information Governance				Health & Safety Follow-up	Review		
Records Management	Review			Use of Recruitment Agencies	Planning		
Customer Feedback	Planning						
<b>Core Financial Assurance</b>							
Payroll	Draft Report			General Ledger	Planning		
Revenue Budget Monitoring				Budget Build	Complete	October 2014	Substantial
VAT	Complete	October 2014	Substantial	Inland Revenue Accounting (PIID, PAYE, NIC)	Planning		

<sup>1</sup> Relates to the annual programme of establishment visits, progress and key themes are summarised on p.10

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Payments Processing				Accounts Receivable (manual invoices and AR wizard, billing from SWIFT)	Complete	October 2014	Substantial
Bank Accounts	Review			Financial Assessment Unit	Planning		
Client Financial Affairs	Draft Report			Corporate Purchase Cards	Planning		
Insurance - managing insurances and claims handling	Planning			Treasury Management			
Pension Fund Investment Income				Pension Contributions			
Schools Financial Services				Schools Financial Services (Returns)	Fieldwork		
Procurement				Recharges	Planning		
<b>Risk/Priority Based Audit</b>							
Capital Project Delivery				Property Service Desk			
New Ways of Working	Fieldwork			Total Facilities Management	Planning		
Direct Payments	Planning			Enablement	Planning		
Supervisions				H&SC Integration – Kent Card	Planning		
H&SC Integration – Better Care Fund	Fieldwork			H&SC Integration – Health Monies spend/audit	Cancelled	N/a	N/a
Optimisation	Planning			Care Act Preparedness	Fieldwork		
Promoting Independence Reviews	Fieldwork			Safeguarding – Financial Abuse	Fieldwork		
Foster Care				Adoption			
Children's Services Transformation Programme - Watching Brief	Fieldwork			Children's Services Transformation Programme - Baseline Assurance	Planning		
Children's Payments – s17	Fieldwork			Commissioning & Quality in Care Frameworks	Fieldwork		

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Supporting People	Planning			Kent Drug and Alcohol Action Team (KDAAT)	Review		
Adult Social Care Transformation Programme – Watching Brief	Fieldwork			Domiciliary Care – Post Contract Review			
Sexual Health (replaced by Health Checks)	Cancelled	N/a	N/a	Health Checks	Planning		
Prescribing	Planning			NICE Guidance			
Serious Untoward Incidents				Home-to-School Transport, including Special Educational Needs	Planning		
Elective Home Education/ Home Teaching & Children Missing Education	Complete	October 2014	Split Substantial/ Limited	Data Quality – Education & Social Care	Fieldwork		
Apprenticeships				Workplace Nurseries	Draft Report		
Additional Funding, including Premiums & Collaborations	Planning			SEN Assessment & Funding	Planning		
Schools Themed Reviews, including purchase cards and procurement	Planning			Troubled Families	Fieldwork		
KIASS, including Checkpoint Review	Planning			Broadband Development UK	Fieldwork		
Regional Growth Fund	Planning			Developer Contributions	Planning		
AMEY Contract Payments	Planning			Gypsy & Traveller Unit (allocation of Sites)	Complete	October 2014	Limited
Concessionary Fares	Review			Expenses – Members & Officers	Planning		
Household Waste & Recycling Contract	Planning			Waste Contract Management	Planning		
West Kent Waste Partnership				Kent Resource Partnership	Fieldwork		

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Libraries Programme – Checkpoint Review	Fieldwork			Carbon Reduction Commitment	Fieldwork		
Commercial Services - Watching Brief	Fieldwork			Sports Grants			
Healthwatch Kent (carried forward from 13/14)	Draft Report						
<b>IT Audit</b>							
Website (carried forward from 13/14)	Draft Report						

# Appendix C

## Other 2014/2015 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 £850,000 with a 50% grant recovery rate, this equates to grant income to the Council of approximately £305,000 and £120,000 for other bodies including Visit Kent, Locate in Kent and Kent Fire and Rescue Service. Time spent on verifying and signing off grant claims is chargeable.

### Parishes

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

In 2014/15 we have undertaken 11 visits in total; all of which were to sign off annual returns for 2013/14.

### Kent Fire

Kent County Council Internal Audit currently provides the internal audit service for the Kent and Medway Fire and Rescue Service. The plan for 2014/15 comprises 95 days made up of 9 audits, plus management time and contingency. At the end of September 2014 32% of the plan has been delivered.

### Commercial Services

KCC Internal Audit work with the internal audit team of Commercial Services to ensure that their work undertaken is undertaken in accordance with professional standards and the scope of work is adequate for the purpose of reliance. Where necessary additional work is undertaken to ensure there is an appropriate level of assurance to allow a safe opinion on the systems for governance, risk management and internal control.

### Ad Hoc/Advisory Work and Attendance at Key Working Groups

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

- Risk Management Group
- Business Continuity Management/Emergency Planning

- Information Governance Cross Directorate Group
- Procurement standard working papers working group and Spending the Council's Money
- Direct Payments Steering Group
- Libraries, Archives and Registrations review/new system project group

# Appendix D

## Internal Audit Assurance Levels

Key	
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non-compliance 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 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
<b>Authority Wide</b>						
Members Expenses	1	1	1	1	To be followed up as part of 2014/15 audit of expenses	31 <sup>st</sup> December 2014
<b>Core Assurance</b>						
Annual Governance Statement		2			Implemented	
Business continuity and resilience planning 2012-13		1			Implemented	
Business continuity and resilience planning 2013-14		3		1	One recommendation outstanding due to waiting for KCC's development of SharePoint to start easy distribution of Business Continuity plans.	31 <sup>st</sup> December 2014
Performance Management Framework including Data Quality		1		1	All actions have commenced but still need to finalise the first performance report with associated PIDs also being finalised.	30 <sup>th</sup> September 2014
Information Governance		2		2	The Data Quality plan is in progress and high impact data quality issues are being tracked however it is not yet complete. Data Quality resources have been focused on ensuring the accuracy of Statutory Returns to DfE and Ofsted over the last three months which has delayed the completion of the Data Quality Plan.	30 <sup>th</sup> September 2014

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Strategic Sourcing & Procurement		4		4	To be followed up as part of 2014/15 audit of Procurement.	
Recruitment and Selection		3			Implemented or no longer relevant due to new Recruitment system	
<b>Core Systems</b>						
Cash and Bank (including reconciliations)		1			Implemented	
Revenue Budget Monitoring		4			Implemented	
Foster Care Payments	2	2		1	Project Board has recently been set up re Controc	31 <sup>st</sup> December 2014
Transaction Data Matching		3			All recommendations have been implemented or the service has accepted the risk.	31 <sup>st</sup> December 2014
Social Care Client billing		1			Implemented	
Corporate Purchase Cards follow up review		1			Implemented	
Registrations		6		6	Recommendations currently being followed up.	
<b>Risk Based</b>						
Public Health - Operational Arrangements		1			Implemented	
Public Health responsibilities		2			Recommendation superseded	

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Special Education Needs		1			Implemented	
Contract Letting and Compliance	1	5	1	1	Actions currently in progress to implement recommendations.	31 <sup>st</sup> December 2014
ELS Capital Projects - Cost overruns		1			Implemented	
EduKent	4	3	4	3	Pending outcome of FTC market reviews	30 <sup>th</sup> September 2014
Community Learning Services	1	12	1	12	Pending outcome of FTC market review	30 <sup>th</sup> September 2014
Communications		2			Implemented	
<b>IT Audits</b>						
User remote access		1		1	UAG is currently under review for being ceased and a new approach being provided which would ensure encapsulation of the activity from the end point device and therefore negate the need to manage the device. At present it is accepted the current product is not sufficiently complex to rationalise the myriad of technology that might be rightfully presented to deliver the business need for the organisation. Therefore the minimum controls shown to work to date will remain in force until the service is replaced.	31 <sup>st</sup> March 2015
Oracle General Ledger - application		1			Implemented	
SWIFT - application		2		2	Work is in progress but full implementation is dependent on a scheduled system upgrade	31 <sup>st</sup> March 2015
WAMS - application		5		3	No response received for the remaining 3 medium priority recommendations.	

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Disaster Recovery		1		1	No response received.	
IT Procurement	1	2	1	2	For 1 medium priority recommendation, a working group has been set up to amend the Policy and the date for implementation has been amended to the 30 <sup>th</sup> September 2014.  For the remaining 2 recommendations, no response was received.	30 <sup>th</sup> September 2014
<b>Investigations</b>						
Customer Service Interface Procurement	1				Implemented	
<b>Total</b>	<b>11</b>	<b>74</b>	<b>8</b>	<b>41</b>		

H = High risk

M = Medium risk