

By: The Head of Audit & Risk

To: Governance and Audit Committee - 5 March 2008

Subject: **INTERNAL AUDIT PROGRESS REPORT**

Accountable Officer: The Head of Audit & Risk

Classification: Unrestricted

**Summary:** This report summarises the outcomes of Internal Audit activity and proposes some changes to the format of future progress reports.

## FOR INFORMATION AND DECISION

### INTRODUCTION

1. The format of this report, which was agreed at a previous meeting, is as follows:

**Annex B** Audits completed to date. Audits appearing for the first time are shown in bold. Nine were completed in this period, which are listed in the table below:

<b>Directorate</b>	<b>Audit Title</b>	<b>Assurance</b>
CED	Unix Operating System	Substantial
CED	Legal services Electronic Document Security	Substantial
CED Commercial services	A pre implementation review of the OneOffice system (replaces SWAPS & Trading System) to ensure that ICT security is built into the system.	Not Applicable
CF&E	Eligibility for Foster & Adoption Allowances	Substantial
KASS	Westview Integrated Care Service	High
E&R	A Major Road Scheme – East Kent Access Phase 1	Substantial
E&R	KHS Network Management Confirm Works Orders & Summit Cost Capture System	Not Applicable
CMY	CRB disclosure checks for volunteers	Minimal
CMY	Fastlane	Limited

**Annex C** Summary information, with the directorates' response for audits where control is assessed as minimal.

**Annex D** Brief details of audit work completed in the period.

**Annex E** Summary of directorates' progress with the implementation of internal audit recommendations.

Members can see from Annex E that of the 76 recommendations due to be in place, 57 have been actioned and 19 remain outstanding.

2. Members should note that the audit assurance expressed is at the time of issue of the audit report but before full implementation of the agreed management action plan. Directorates' progress with the implementation of recommendations is followed up and reported at Annex D, after the date by which it has been agreed that action will be undertaken. Where a 'minimal' assurance has been given, there will be further re-evaluation in a six-monthly review.
3. Furthermore, each audit does not carry equal weight when forming the overall assurance on the operation of control within the Authority. Whilst the key systems will have a major impact, other systems, for example establishment audits, become more significant when the outcomes of a number of similar audits have been obtained. In this instance, the key indicator is the trend in audit assurances within a directorate and across the Authority.

**IRREGULARITIES**

4. Since the end of November four cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Details of completed irregularity investigations are given in my separate report at agenda item 9

**PERFORMANCE OF INTERNAL AUDIT**

5. Internal Audits performance against a range of agreed indicators, where information is available, is shown below:

<b>Performance Indicator</b>	<b>Target</b>	<b>Actual (Apr – Jan)</b>
<p><b><u>Productivity and Efficiency</u></b></p> <ul style="list-style-type: none"> <li>• % of available time spent on direct audit work</li> <li>• % of draft reports completed within 10 days of finishing fieldwork</li> <li>• Preparation of annual plan</li> <li>• Periodic reports on progress</li> </ul>	<p>80%</p> <p>89%</p> <p>By March G&amp;A Cttee meetings</p>	<p>79%</p> <p>96%</p> <p>Reported 7.3.07</p> <p>Reported: 07.03.07 29.06.07 19.09.07 04.12.07</p>
<ul style="list-style-type: none"> <li>• Preparation of annual report</li> </ul>	<p>Prior to annual assurance statement</p>	<p>Reported 29.06.07</p>
<p><b><u>Quality of Service</u></b></p> <ul style="list-style-type: none"> <li>• Average Client satisfaction score</li> </ul>	<p>70%</p>	<p>93%</p>
<p><b><u>Staff Management</u></b></p> <ul style="list-style-type: none"> <li>• Staff with professional qualifications (including trainees)</li> </ul>	<p>60%</p>	<p>71%</p>

## **PROPOSED CHANGES TO INTERNAL AUDIT PROGRESS REPORT**

6. Members currently receive details of all audits and other work completed as part of Internal Audit's progress report. However, this report does not give Members information about work in progress, progress against the audit plan or information of where or how Internal Audit's time is spent. Members currently receive a summary and directorate comment for audits where the assurance given is minimal, but do not receive sufficient details on key systems where the assurance given is high, substantial or limited. In addition, the current report tends to be repetitive showing the same information in more than one place.
7. To enable Members to have sufficient information they need to provide them with assurance on activities of the Council it is proposed to provide a more comprehensive and detailed progress report.
8. The new proposed format is designed to provide Members with the following information;
  - 1) The Internal Audit Plan showing the planned start, actual start, progress for each audit and audit assurance. This will enable Members to review Internal Audit's progress against the plan
  - 2) Other work carried out, for example pro active fraud work, National Fraud Initiative, fraud awareness training provided, advisory work
  - 3) Internal Audit consultancy work to drive continuous improvement
  - 4) Summaries of reports of all completed audits
  - 5) Summaries of audits where control has been assessed as minimal, and follow up audits, together with the directorates' response
  - 6) The directorate's progress against the implementation of recommendations made and agreed
  - 7) Information about how and where Internal Audit's time has been spent
  - 8) Internal Audit's performance against its Performance Indicators

## **RECOMMENDATION**

9. Members are asked to note the outcome of Internal Audit's work and approve the proposed changes to be made to the format of the Internal Audit progress report.

**Janet Dawson**  
**Head of Audit & Risk**  
**Ext: 1320**

## Definitions of Internal Audit Assurance Levels

Assurance Level	Summary description	Detailed definition
<b>High</b>	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
<b>Substantial</b>	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
<b>Limited</b>	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, <b>or</b> there is significant evidence that they are not applied consistently and effectively.</p>
<b>Minimal</b>	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, <b>or</b> there is evidence that there is significant non-compliance with key controls.</p>

## Audit Programme and Coverage by Directorate November, December 2007 &amp; January 2008

Report	Directorate	Audit Plan	Overall Opinion	Budget Mngmt	Payroll	Payment	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngmt	General Financial Control	Procurement	Governance	Business Process	Info System
	<b>Authority-wide</b>														
	<i>Brought forward from 2006/7 Plan</i>														
June 07	Trading Companies	✓	L											L	
June 07	BS57799	✓	H											H	
June 07	Telephone PBX	✓	S											S	
June 07	<i>Follow up ICT Disaster Recovery</i>	✓	L											L	
Sep 07	Follow up to the Procurement of Consumables	✓	L									L			
Sep 07	Medium Term Planning	✓	H							H					
Sep 07	Risk Management	✓	H										H		
Sep 07	2007/08 Plan Virus Protection	✓	S												S
Sep 07	Corporate Governance	✓	S										S		
Dec 07	Imprest Accounts	✓	L												
Dec 07	Corporate Governance	✓	S										S		
	<b>Chief Executive's Department</b>														

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	<i>Brought forward from 2006/07 Plan</i>														
June 07	<i>VAT provision of asylum seekers services</i>	✓	S				S								
June 07	Physical Security & Environmental Controls	✓	S												S
June 07	<i>VAT payments to providers of Care (Adult Social Services)</i>	✓	S				S								
June 07	<i>Technical Administration of the Oracle Financial, HR &amp; Payroll System</i>	✓	S												S
June 07	<i>Commercial Services CODA</i>	✓	S												S
June 07	Commercial Services Insurance Funds	✓	L						L						
Sep 07	<b>2007/08 Plan</b>														
	Year end Accounting Processes	✓	S						S						
Dec 07	Payroll	✓	M		M										
Dec 07	Accounts Payable	✓	S			S									
Dec 07	Schools' Personnel Service – CRB and recruitment checks in schools	✓	H											H	
Dec 07	Commercial Services Laser Income	✓													

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Mar 08	Legal services Electronic Document Security	✓	S											S	
Mar 08	Unix Operating System	✓	S												S
	<b>Children, Families &amp; Education</b>														
	<i>Brought forward from 2006/07 Plan</i>														
June 07	Foster & Adoption Payments	✓	S			S									
June 07	Schools Advisory Service	✓	H											H	
June 07	Student Awards	✓	H											H	
June 07	Attendance & Behaviour Safer Schools	✓	S											S	
June 07	Schools Managed Capital Projects	✓	S							S					
Sep 07	Sharing of Information on Children	✓	S												S
Sep 07	<b>2007/08 Plan</b> Reimbursement of Schools' Maternity pay	✓	S			S									
Dec 07	Eligibility of Payments to unaccompanied asylum seeking children	✓	S			S									
Dec 07	Payments to Private Providers	✓	H			H									

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Mar 08	<i>Eligibility for Foster &amp; Adoption Allowances</i>	✓	S			S									
	<b><u>Kent Adult Social Services</u></b>														
	<i>Brought forward from 2006/07 Plan</i>														
June 07	Swift pre Implementation Review	✓	S												S
June 07	Domiciliary Care TDM	✓	L			L									
June 07	Former Self Funders	✓	L											L	
June 07	Residential Care Mental Health Payments	✓	S			S									
June 07	Voluntary Organisations	✓	S			S									
Dec 07	Supporting People Administration Grant	✓	S											S	
Mar 08	<b>Section 31 Westview</b>	✓	H										H		
	<b><u>Environment &amp; Regeneration</u></b>														
June 07	<i>Brought forward from 2006/07 Plan</i> Transport  Network Management	✓	S	S											
June 07	KHS Coastal Protection	✓	L						L						



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Report	Directorate	Audit Plan	Overall Opinion	Budget Mngmt	Payroll	Payment	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngmt	General Financial Control	Procurement	Governance	Business Process	Info System
Dec 07	Kingshill Development Fund	✓	H								H				
Mar 08	Review of a Major Road Scheme – East Kent Access Phase 1	✓	S											S	
	<b>Communities Directorate</b>														
June 07	<i>Brought forward from 2006/07 Plan</i> Youth & Community	✓	H					H							
June 07	Libraries	✓	S											S	
Sep 07	Community Safety Revenue Budget Management	✓	S	S											
Mar 08	Fastlane	✓	L												L
Mar 08	CRB Disclosure Checks for Volunteers	✓	M											M	

**Summary information with the Directorates response for all audits where control has been assessed as minimal**

**Communities Directorate**

**Criminal Records Bureau Checks for Volunteers**

Five Units, where substantial numbers of volunteers were used, were audited. In total, the number of recorded volunteers was approximately 950 although at least 130 of these were noted as inactive. Three of the Units reviewed required an enhanced level of clearance, while one currently only required the standard level. The exception was the Home Library Service with some 370 volunteers as at 31 March 2007, none of whom had been subject to CRB clearance. Of the remainder, 278 had received CRB clearance and another 170 were awaiting clearance.

All staff involved in processing CRBs were fully conversant with the requirements for this work. In two areas, this work devolved upon a single officer and there would possibly be problems of continuity if they were absent for a lengthy period. In the case of Adult Education, the officer concerned will be taking maternity leave in November and, while arrangements are being made to redistribute the work across the remaining staff, it remains to be seen how effective these are.

Details of volunteers were maintained on spreadsheets within each Unit. All the files containing personal data of volunteers were held in secure circumstances and were not held as part of any other personnel records. The spreadsheets did, however, show some significant delays in volunteers returning their completed applications.

A high level of testing was undertaken. The major weakness, apart from the total lack of CRB clearances in the Home Library Service, was that a significant number, approximately 20%, of records did not contain one or both of the two references required for work with KCC. In addition, scrutiny of the applications showed several that contained details of previous voluntary work which had not been subject to CRB clearance.

There was no uniformity in the way that different Units imposed restrictions on volunteers who were awaiting CRB clearance. Youth Offending imposed a strict embargo on volunteers working until they had been cleared while other Units notified the relevant line manager that a volunteer should be closely supervised or their activities restricted until a satisfactory clearance had been obtained.

Cases where employment might be in doubt based on the contents of the CRB disclosure were discussed by the responsible officer from the Umbrella organisation and the appropriate line manager on a "need to know" basis. The eventual decision to use the volunteer or not rested with the line manager.

**Summary information with the Directorates response for all audits where control has been assessed as minimal**

**Directorate Response**

“The work of volunteers is important in our services and we have an essential responsibility both towards them and towards the service users with whom they come into contact.

I therefore welcomed this audit and take very seriously the weaknesses identified, as well as being pleased to see evidence of good practice. Whilst some of the recommendations do not relate directly to CRB checking we have nevertheless accepted their spirit and intent and have agreed that standard practice should not put a volunteer in a CRB qualifying position before satisfactory disclosure. To this end, the major weakness that was identified (in the Home Library service) is already being addressed. The importance of ensuring continuity in local monitoring has been referred to unit managers, pending the introduction of a central tracking system which we understand is being developed for the authority.

We also need to be mindful of the risk of introducing checks unnecessarily or at an unnecessary level, and therefore welcome the development of a county wide policy on this matter as it will provide consistent guidance in what is a complex area.

The reported delays in some volunteers completing their applications are noted. There is anecdotal evidence that the forms themselves may be difficult to complete for some people and, if this is the case, it is an issue that will apply across the board. I will be discussing with colleagues how best to investigate this further.”

**Judy Edwards**  
**Director, Policy and Resources**  
**Communities Directorate**

**Audit Work completed in the Period November to December 2007  
and January 2008**

**COMPLETED AUDITS**

Directorate	Audit	Description	Audit Assurance
CED	Unix Operating System	An evaluation of the operating system security, administration, support and maintenance procedures.	Substantial
CED	Legal Services Electronic Document Security	A review to give assurance that electronic confidential and sensitive documentation is held and transmitted securely.	Substantial
CED Commercial Services	OneOffice	A pre implementation review of the OneOffice system (replaces SWAPS & Trading System) to ensure that ICT security is built into the system.	Not Applicable
CF&E	Eligibility for Foster & Adoption Allowances	An audit to provide assurance that allowances paid to foster carers and adopters, are paid at the appropriate rate and have been authorised.	Substantial
KASS	Westview Integrated Care Service	A review of the governance arrangements of the Section 31 agreement for the Westview integrated care service.	High
E&R	A major road scheme – East Kent Access	A review of the contracting arrangements with partners to construct the East Kent Access Road (Phase1).	Substantial
E&R	KHS Network Management Confirm Works Orders & Summit Cost Capture system	A review of the Confirm Works Orders & Summit Cost Capture (WAMS) system to determine whether the system could deliver to the requirements of the Kent Alliance partnership.	Not Applicable
CMY	CRB disclosure checks for volunteers	A review of the processes to ensure that volunteers have the appropriate CRV checks .	Minimal
CMY	Fastlane	A review of the web based database, developed to manage youth activities and projects	Limited

**ADVISORY AND OTHER WORK**

Directorate	Audit work	Description
AW	Risk/control mapping	Advising and assisting directorates on mapping the risks and controls of individual business units.
CED	Consultant	Advice and information provided regarding the appointment of a consultant.
CED Commercial Services	Partnership Arrangement	Advice and information including the transfer of assets and a review of the accounts for the transferred services in the partnership arrangement with Shepway District Council.
KASS	ALFA	Attendance at advisory group for Active Lives for Adults (ALFA) which focuses on modernising KASS and its services.
E&R KHS	Procurement	Advice and information provided regarding the procurement of a major contract.

**Directorates Progress with Implementation of Audit Recommendations  
(covers period November, December 2007 and January 2008)**

Directorate	Actions due to be in place by end of December 2007	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Authority Wide	20	11	1	<b>Review of capital management</b>	The resource management group, which was to provide a coordinated approach to project management across the whole council, has not been re-established. The Head of Operations is revisiting the project management manual to establish best practice and value for money. The manual will be shared with Resource Directors over the next 6 months for consultation and then adopted by the directorates.
			8	<b>ICT Disaster Recovery Plans</b>	The Resource Directors have formed a Business Continuity Cross Directorate Working Group to enable individual directorate business continuity plans (BCPs) and a corporate BCP to be produced. Progress is being made, and once the BCPs are in place this will facilitate the identification of business critical systems for which appropriate disaster recovery plans can be devised. It is anticipated that BCPs will be in place by 31 March 2008 and following this disaster recovery plans in place by September 2008.
Chief Executive's	16	12	2	<b>Payroll – Appointment to payment of new employees</b>	The issue of ensuring that two satisfactory references are obtained has been raised and discussed in brief and has been deferred for a full discussion at the next available Policy Group meeting. The issue is considered important and the recommendations of the Group will be implemented by ESC as soon as they have been agreed.
					Work is underway to identify a range of comparators which can be used to highlight possible discrepancies in pay and meaningful trends. Comparator reports provided by KSSIP operate correctly and analysis of previous months reports is currently underway to establish reasonable test thresholds for the variances, though these will of course be reviewed regularly once implemented. These reports will also be used to implement the recommended random checks on low paid employees. Work package for payslip number trend reports has been raised and a companion report has been developed while in process to add a further check – National insurance number duplication. This has delayed development, but this should be available for the new financial year.
			2	<b>Microsoft Exchange</b>	A test plan is drawn up to install all Microsoft Exchange updates or upgrades. This is then taken to the test lab to fully test before the updates are installed in live. The installation of any updates to the Exchange servers will have to be approved via the Request for Change (RFC) approval process before installation to live environment can take place.
					There was no response received regarding the following recommendation – 'Auditing policies should be implemented in line with the agreed timeframes and as appropriate for the Council's needs. This will protect against the risk that unauthorised access attempts cannot be identified or investigated due to lack of available logs.'

**Directorates Progress with Implementation of Audit Recommendations  
(covers period November, December 2007 and January 2008)**

Children & Families	12	9	1	<b>Contract Services Billing and External Contract Services Billing Systems</b>	Software will be available within the new system to ensure the minimum password length is 6 characters, alpha-numeric, enforced change of passwords at first log in and then every 42 days, and password history retained for 13 passwords. This has been implemented in the new system but is not yet live.
			2	<b>Sharing of Information on Children</b>	There has been no progress on raising the requirement for a more secure method for the despatch of Childrens' data to the Inland Revenue, such as through the use of secure web application, with that Authority. This is out of our control and lies with Inland Revenue
					Scheduled testing of enforced password changes and user lockout within the SWIFT Social Services system has been put back due to a major incident involving live system outage. Testing has now been rescheduled and we are working with ISG to move this along as quickly as possible.
Adult Services	3	3			
Communities	8	5	3	<b>Use of IT Equipment in Educational Establishments</b>	There is now the budget available to be able to request that the generic logins are restricted to use on the public facing terminals only. We are unable to move further than this in restricting access to the generic logins since the patterns of staff use in Libraries and the time taken to logout and log a new member of staff in to a terminal make it impossible for personal logins to be used on counter terminals.
					Net Nanny is no longer supported as an effective solution to preventing access to inappropriate sites. ISG and EIS have recommended that we move youth centres on to the Kent Community Network which would then enable a much more effective solution to mitigating this risk. The cost for the original set up is £150K and this is not in our budget and so has been flagged up a pressure within the Communities finance team. Until funding is identified this will remain a risk.
					There should be plans in place to ensure business continuity in the event of a disaster. Staff should be made aware of these plans and should be aware of what they are expected to do in the event of a disaster. Funds still not available.
Environment & Regeneration	17	17			
<b>TOTAL</b>	<b>76</b>	<b>57</b>	<b>19</b>		