

By: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 29th January 2015
Subject: **Internal Audit and Counter Fraud Progress Report**
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit and Counter Fraud activity for the 2014/15 financial year to date.

FOR ASSURANCE AND DECISION

Introduction

1. This report summarises:

- the key findings from completed Internal Audit reviews
- the key findings from completed counter fraud investigations
- progress against the 2014/15 Internal Audit Plan since the last report to the Governance and Audit Committee;
- achievement against the Internal Audit and Counter Fraud Key Performance Indicators; and
- work in progress and future plans and improvements for 2015/16
- approval for a revised Anti Money Laundering Policy and an external quality assessment of the internal audit and counter fraud unit

Overview of Progress

2. Appendix 1 details the outcome of Internal Audit and Counter Fraud work completed for the financial year to date. In total 38 audit reviews have been completed, including 29 substantive reviews. A further 4 substantive audits are at final draft stage and significant fieldwork is in progress for a further 8 audits. In relation to counter fraud work there have been 63 irregularities reported and investigated since the start of 2014/15 of which 38 have been concluded. Overall the unit has reviewed systems or activities with a combined turnover of an estimated £393 million (excluding Treasury Management) since the start of 2014/15
3. Appendix 1 has also mapped the outcomes from this work against the more significant corporate risks where it is practical for internal audit work to provide assurance against the progression of the management and mitigation of such risks
4. Counter fraud work has also embraced the launch of a high profile fraud awareness campaign across the Council (which has already resulted in an increase in fraud referrals) and a successful bid for £480,000 of central Government funds to develop a pan Kent local authority fraud intelligence network.

5. Appendix 1 contains a proposed overhaul to the Council's anti money laundering Policy
6. Progress against the Audit Plan for 2014/15 is 59% complete at end of December 2014; this is on target to achieve 90% of the Audit Plan by 31st March. This has also absorbed unplanned work in relation to a number of additional work requests and special investigations.
7. Progress against targets for other agreed Internal Audit Key Performance Indicators (KPIs) for the 2014/15 year are detailed within Appendix 1.

Implications for Governance

8. Summaries of findings from completed work since September 2014 have been included within Appendix 1. Where audits completed in the year have identified areas for improvement, management action has been agreed. All audits are allocated one of five assurance levels, for which definitions are included within the attached report.

Future plans and improvements

9. At the start of January a new Group Audit function has been established which will provide assurance against future arms length organisations (LATCO's), or equivalent, owned by the Council. This will commence with Commercial Services but will allow learning and expertise to be applied to future LATCO's as they develop.
10. Appendix 1 outlines future changes and enhancements as the service moves towards planning for 2015/16 coverage. In particular it is proposed to adapt audit judgments to incorporate a direction of travel relating to 'prospects for improvement'. In relation to counter fraud it is also important that in future a proportion of establishments subject to audit are subject to unannounced visits.
11. Under Public Sector Internal Audit Standards (PSIAS) it is now a requirement for internal audit to be subject to an independent review (External Quality assessment – EQA) against best practice standards once every 5 years. With the appointment of a new Head of Internal Audit it would be appropriate to carry out such an EQA before the end of 2014/15 and provide 'baseline' assurance over the quality of audit work and its resultant impact for the next 5 years.

Recommendations

12. Members are asked to note :

- progress and outcomes against the 2014/15 Audit Plan and proposed amendments.
- progress and outcomes in relation to Counter Fraud activity
- the assurances provided in relation to the Council's control and risk environment as a result of the outcome of Internal Audit and Counter Fraud work completed to date
- the setting up of a pan Kent intelligence network as a result of successful bidding for central Government funds
- the move to have future 'prospects for improvement' assessments in audit judgements
- the introduction of 'unannounced' audits of establishments

13. Members are asked to approve:

- revisions to the Council's Anti Money Laundering Policy
- the completion of an external quality assessment of the internal audit and counter fraud unit during March 2015

Appendices

Appendix 1 Internal Audit Progress Report January 2015

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APPENDIX 1



Kent County Council

Internal Audit and Counter Fraud Progress Report

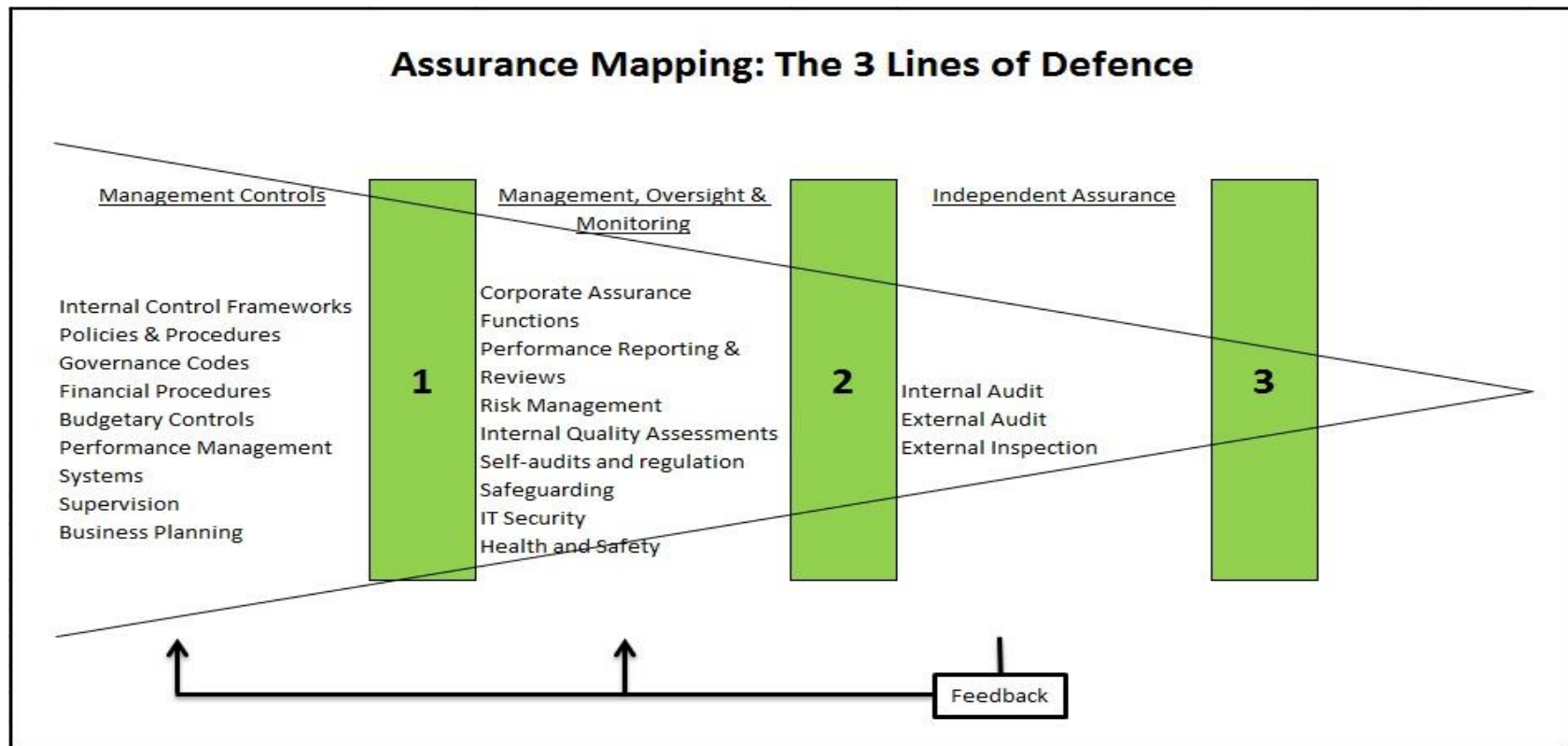
January 2015

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1 Introduction and Purpose

- 1.1. This report details cumulative internal audit and counter fraud outcomes for 2014/15 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since the September 2014 Governance and Audit Committee (G&AC). It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.
- 1.2. As a reminder, internal audit is the 'third line of defence' in Kent County Council's governance, as per the table below:

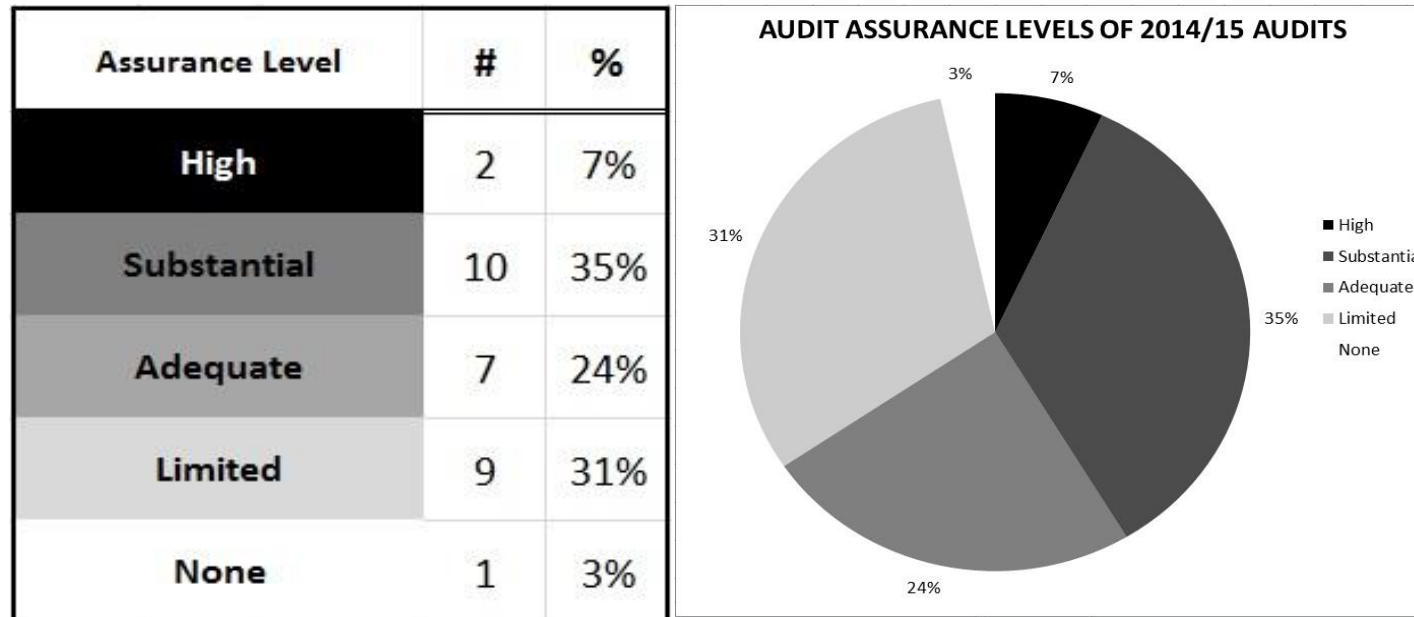


- 1.3. To date we have completed 38 internal audits (including establishment visits) and 38 counter fraud investigations, the majority of which are resourced and driven from the internal audit plan (previously reviewed by this Committee) and are selected on the basis of providing an independent and objective opinion on the adequacy of the Council's control environment. Overall we have examined an estimated £ 393 million of KCC turnover to date (excluding Treasury Management).
- 1.4. A further 12 audits and 3 counter fraud proactive projects are currently in progress, and a further 25 counter fraud investigations remain ongoing.
- 1.5. In this report we have highlighted key outcomes arising from our work together with the associated assurance levels. In section 3 we also demonstrate where these findings provide appropriate assurance against key corporate risks or significant systems.
- 1.6. Internal audit also remains involved in monitoring the works in progress of selected significant change programmes and projects so as to provide timely pre-event challenge during the establishment of new control frameworks.

2 Overview

Internal Audit

2.1. Table 1 maps the assurance levels from the 29 substantive internal audits (i.e., excluding establishment visits) undertaken to date. This results in an overall distribution of:



A breakdown of each individual audit assurance level can be found in Appendix A

2.2. Particular strengths include:

- 66% of systems or functions have been judged with adequate assurance or better
- A pattern of general robustness of key financial systems audited
- Strong controls over systems related to governance
- A number of exemplar areas identified ranging from Treasury Management to schools financial returns
- 30% of establishments audited displayed strong local financial controls

2.3. Areas for further improvement relate to :

- The 34% of systems or functions that have been judged with limited assurance or worse
- Areas that are experiencing external or internal change that are required to be managed better. A clear example is the KDAAT service; but our current follow up work is now showing evidence of considerable improvements
- Controls in corporate risk areas around data and information management together with procurement / contract management
- 44% of establishments audited that displayed weaker financial controls

Counter Fraud

2.4. The counter fraud function has provided particularly positive outcomes as detailed on pages 19 to 23.

2.5. The business as usual activity (63 irregularities) and thematic pro-active counter fraud work provides assurance that there have been no material incidences of fraud or corruption reported through or uncovered.

2.6. The section has also been successful in:

- The launch of an authority wide anti-fraud "Spot it – Stop It" campaign with a number of follow on workshops and briefings. This has had a knock on effect of a substantive increase in whistleblowing and reporting of irregularities since November.
- Being successful in its bid for £480,000 of funding to the DCLG 'Counter Fraud Fund'. This will facilitate the creation of a county wide counter fraud intelligence network working in partnership with all the Kent Districts and Medway. The County Council will be at the hub of co-ordinating and disseminating data matching from a variety of sources to better target known fraud and error areas such as Council Tax single person discounts.

2.7. The counter fraud fund will be a sizeable project to manage so that it is in operation by the autumn of 2015 but the grant includes provision for additional staffing resources so that day to day counter fraud work is not disrupted.

Overview Assurance

- 2.8. The breadth of coverage and outcomes from our work to date have provided sufficient evidence to support an interim opinion that Kent County Council continues to have:
- Adequate and effective financial and non-financial controls
 - Adequate and effective governance processes
 - Adequate and effective processes to deter incidences of substantive fraud and irregularity
- 2.9. Management have developed appropriate action plans in response to all the high priority issues raised from our audits and counter fraud work.

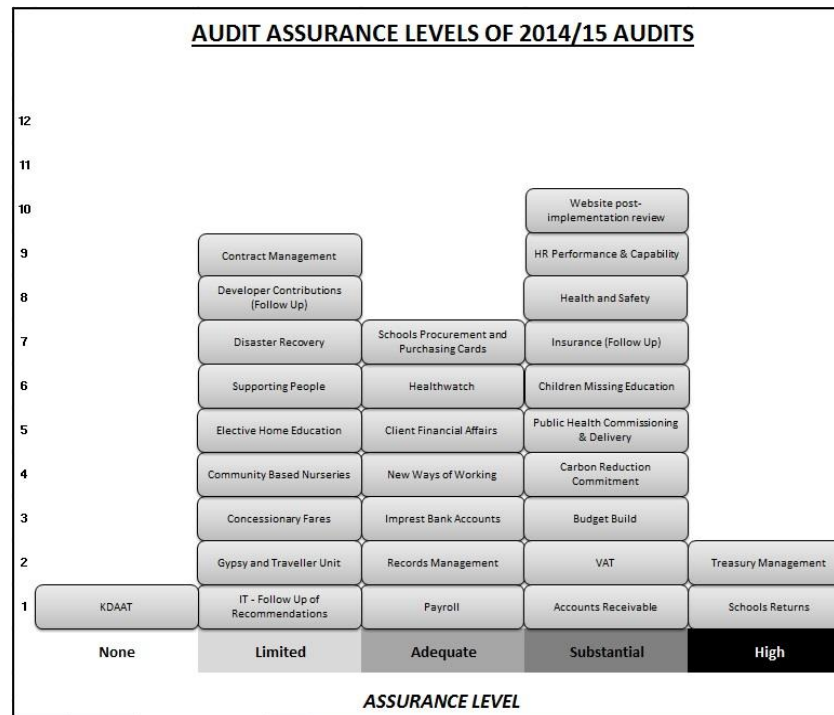


Table 1

3 Mapping Audit (and Counter Fraud) outcomes against corporate risks.

3.1. Appendix A provides detailed summaries on the outcomes from internal audit work completed since the October report to this Committee, but it is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the year to date.

Future operating environments – in particular Change Management and Governance of Change

3.2. During the year to date we have reviewed the following areas that have a common theme connected to the management of change.

	Assurance level	Issues Raised	
KDAAT	None	High: 7 Medium: 0	All accepted
Supporting People	Limited (Draft opinion)	High: TBC Medium: TBC	TBC
Healthwatch	Adequate	High: 0 Medium: 3	All accepted
New Ways of Working	Adequate	High: 1 Medium: 4	All accepted

3.3. The above outcomes point to areas for improvement in how the Council sometimes responds to and plans for change. It will be seen from Appendix A that the outcomes from the Kent Drug and Alcohol Abuse Team (KDAAT) audit were particularly disappointing, but the response from the (new) management team has been positive and a follow up currently in progress is pointing to substantive improvements and progress in implementing recommendations made. As a result of these findings the audit of 'Supporting People' was brought forward and although the report is still in draft, it demonstrates similar, if lesser, weaknesses.

- 3.4. In addition to the above internal audit are also involved in change programmes by making input towards, or as part of the following:
- Adult Social Care Transformation Group
 - The 0-25 Unified Portfolio
 - Input into checkpoint reviews for a number of phase 1 and 2 transformation programmes
 - Accommodation Commissioning Group
 - The Care Act Steering Board
 - The Financial Monitoring Group for Children’s Social Care and Early Help services
 - Liaison with the Corporate Portfolio office
- 3.5. Any control issues arising are queried with the relevant groups and where we are undertaking ‘watching briefs’ over the roll out of change and improvement programmes we will, in future , produce periodic reports on selected lines of enquiry as well as feeding into an opinion in our annual report.

Data and Information Management

- 3.6. Assurance over the integrity and reliability of the Council’s information systems has been provided by audits of :

	Assurance level	Issues Raised	
Disaster Recovery	Limited	High: 3 Medium: 2	TBC
IT Follow Ups	Limited	No new issues raised	n/a
Records Management	Adequate	High: 0 Medium: 1	1 Medium Risk issue accepted by management and no action proposed
Website Post Implementation Review of Controls	Substantial	High: 0 Medium: 1	Partially accepted

- 3.7. The outcomes from these audits also point to some important areas for improvement. The Disaster Recovery (DR) review highlighted that the DR Infrastructure at the backup site in Medway Council has been built only for a limited number of critical systems and that extending it to make other systems recoverable would require a significant investment. The IT follow ups audit showed that although both of the high priority recommendations have now been implemented, 78% of medium recommendations made had not been implemented in line with the original agreed target dates. Following intervention from the Head of Paid Service, ICT have undertaken to give greater focus to IT audit issues in future.

Safeguarding

- 3.8. Safeguarding of vulnerable children and adults is a critical risk for the Council. We have undertaken limited work in this area, but with the following outcomes:

	Assurance level	Issues Raised	
Children Missing Education and Education Programme	Substantial	High: 1 Medium: 3	All accepted
Elective Home Education	Limited	High: 3 Medium:3	All accepted
Client Financial Affairs	Adequate	High: 2 Medium: 2	All accepted

- 3.9. We are also establishing protocols with the safeguarding function within Social Care in relation to financial abuse relating to vulnerable children and adults.

Access to resources to aid economic growth and enabling infrastructure

3.10. We have undertaken one related audit in this period:

	Assurance level	Issues Raised	
Developer Contributions follow up audit (S106 Agreements)	Limited	No new issues raised	n/a

3.11. The limited assurance level is due to the slow progress in addressing the issues identified in the original audit in May 2013, with four high priority and 2 medium priority recommendations have yet to be fully implemented. The original agreed implementation date for these recommendations was September 2013, therefore the control weaknesses remained at the time of this follow up audit.

3.12. We have also undertaken initial work and a lessons learnt review into regional growth fund (RGF) initiatives such as Thames Gateway Investment Growth and Enterprise (TIGER) which will be built into a comprehensive review in the last quarter of 2014/15.

Governance and Internal Control - critical systems and services

3.13. As would be expected from an internal audit function, a considerable proportion of our work is centred on reviews of core critical financial and corporate systems:

	Assurance level	Issues Raised	
Treasury Management	High	High: 0 Medium: 0	n/a
Accounts Receivable	Substantial	High: 0 Medium: 1	All accepted

VAT	Substantial	High: 0 Medium: 2	All accepted
Budget Build & Medium Term Financial Plan	Substantial	High: 0 Medium: 1	All accepted
Imprest Bank Accounts	Adequate	High: 1 Medium: 5	All accepted
Payroll	Adequate	High: 3 Medium: 3	All accepted
Insurance	Substantial	High: 0 Medium: 1	Issue not accepted - no further action proposed
HR Performance and Capability	Substantial	High: 0 Medium: 1	All accepted
Health and Safety (follow up review)	Substantial	High: 0 Medium: 1	All accepted
Declarations of Interest	N/A - Counter Fraud Review	No significant issues highlighted	n/a

- 3.14. In general these assurance levels point to the robustness of underlying financial and corporate systems.
- 3.15. The Adequate opinion from the Payroll audit was based on the three potentially high risk issues identified, (see Appendix A) although in all cases prompt action is being taken to address them.
- 3.16. The findings from the Imprest Bank Accounts audit indicated that there were a number of areas of good practice, but not all Imprest Operators and Imprest account users were adhering to the existing procedures. Actions to

address these control issues are being led by the central Finance team through further guidance and training for staff across the Council.

- 3.17. In relation to declarations of interest, through data matching with Companies House records we found approximately 400 staff had an interest in an entity registered with Companies House (which would include those operating as Trusts and charities) that had not declared via employee self-service. Through further matches with creditor payments and preliminary enquiries we found no evidence of any fraud or corrupt practices.

Better Care Fund

- 3.18. It is planned to review work on the Better Care Fund during the last quarter of 2014/15.

Management of demand - adult social care and specialist children's services

- 3.19. Clearly assurance over the mitigation of risks relating to demand led services is important. Our work to date relates to an audit of Promoting Independence Reviews, which is in the first stage of reporting and we are in discussion with management over the findings. This is the first of our independent reviews of the consultant initiated savings programmes.

Implementation of the Care Act

- 3.20. We are currently concluding an audit to provide assurance over preparations and project management of the Care Act. This will be reported back to the next Committee meeting.

Procurement and Contract Management

- 3.21. The effective management of procurement and commissioning is critical to the Council. We have undertaken the following related audits:

	Assurance level	Issues Raised	
Schools Procurement and Purchase Cards	Adequate	High: 2 Medium:3	TBC
Contract Management	Limited	High: 1 Medium: 0	TBC
Concessionary Fares	Limited	High: 2 Medium: 1	All accepted

The Contract Management audit identified that contract management practices and processes are varied, with little consistency across the Council. Only half the contracts tested were registered on the Council's contract register and we identified instances of contract extensions and the continued use of a contractor after the contract term had finished without appropriate authorisation. Some instances of good practice were found, but these were isolated and dependent on individual officers developing their own contract monitoring protocols.

The Concessionary Fares audit found that there were weaknesses with the management of the contract including monitoring of performance

A more general audit of Council wide procurement is scheduled for February 2015.

Other Audit Work

Other

4.1. A further 7 pieces of work have been undertaken with the following outcomes:

	Assurance level	Issues Raised	
Schools Returns	High	High: 0 Medium: 0	n/a

Gypsy and Traveller Site Allocations	Limited	High: 1 Medium: 1	All accepted
Community Based Nurseries	Limited	High: 6 Medium: 2	All accepted
Public Health Commissioning and Delivery	Substantial	High: 1 Medium: 0	All accepted
Carbon Reduction Commitment	Compliant	High: 0 Medium: 0	n/a

4.2. The Community Based Nurseries audit concluded that financial controls at nursery level were weak and costs in relation to running each nursery were not fully allocated, therefore an accurate profit/loss position could not be established. As a result of the audit an options appraisal is being undertaken by the service to inform the future delivery model and we understand that this will be concluded imminently.

4.3. **Establishment Visits**

During the past 9 months we have concluded audits of 9 establishments with the following outcomes:

	Assurance level	Directorate
Hardelot Centre	Limited	Growth, Environment & Transport
Kent Mountain Centre	Limited	Education & Young Peoples Services
Guru Nanak Day Centre	Substantial	Social Care,

Cranbrook Childrens Centre	Adequate	Health & Wellbeing
Southfields Respite Centre	Substantial	
Whitstable Road Respite Centre	Adequate	
Meadowside Respite Centre	Substantial	
Dorothy Lucy Centre	Limited (draft opinion)	
Westview Integrated Care Centre	Limited (draft opinion)	

- 4.4. Overall the level of control across the establishments visited varied. General trends relate to essential training not being completed by all staff, which in some cases is attributable to staff not having relevant access to E-learning; declarations of interest not being regularly completed and asset registers not being up to date.

Other Audit Activity

- 4.5. KCC Internal Audit currently offers a comprehensive internal audit service for smaller 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 14 visits in total.
- 4.6. We also provide 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 December 2014 63.5% of the plan has been delivered.
- 4.7. The Internal Audit team certifies a number of grant claim forms and returns, working closely with the Council's External Funding team. This year to date the total value verified is approximately £2.07m. With a 50% grant recovery rate, this equates to grant income to the Council of approximately £813,000 and £223,000 for other

bodies including Visit Kent, Locate in Kent and Kent Fire and Rescue Service’.

5. Group Audit Work - Commercial Services

- 5.1. A key development during this period has been the creation of a Group Audit function within the team. This has in part been as a result of the dissolution of the internal audit unit within Commercial Services from the end of December 2014. The new Group Audit function will provide audit coverage and assurance to future arm’s length organisations and trading companies set up and owned by the Council, such coverage being based on risk. Initially resources will continue to be focused on Commercial Services and the new member of staff has been recruited from the previous team.
- 5.2. Up until the dissolution of the Commercial Services audit team we continued to work with them to ensure work undertaken was performed to professional standards and to provide appropriate coverage and assurance. The next meeting of the Commercial Services Shareholder Board will receive a position statement on 2014/15 audit coverage and outcomes from the new Group Audit function.
- 5.3. We have also liaised with Commercial Services management to ensure that the anti-bribery and hospitality policies in relation to the acceptance and declarations now conform with those of the Council, more particularly that it is not permitted to accept significant personal gifts or hospitality.

6 Counter Fraud and Corruption

Fraud and Irregularities

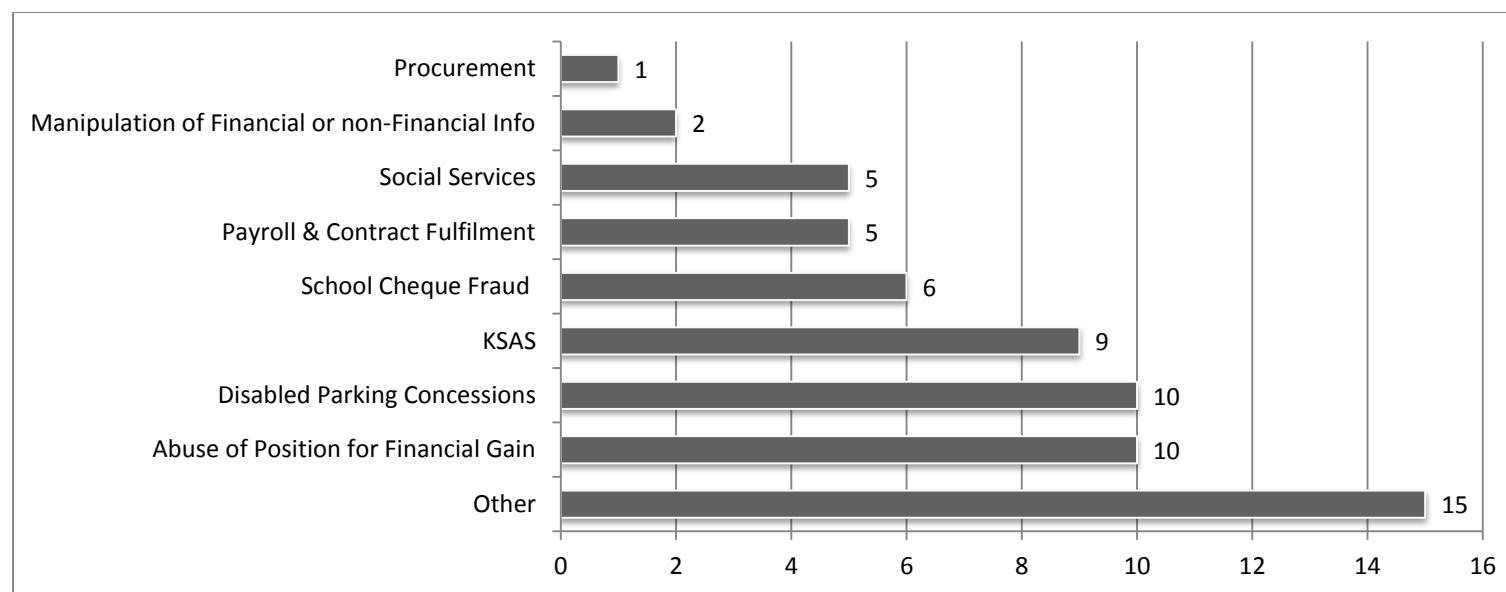
- 6.1. Tables CF1 to CF4 summarises current works in progress and the outcomes of concluded irregularities.
- 6.2. Appendix B details the more notable fraud and irregularity cases we have investigated and brought to a conclusion.
- 6.3. The most common types of fraud continue to be ‘Abuse of position for financial gain’ and the most common source of referral continues to be from staff which is indicative of good levels of fraud awareness across KCC,

6.4. Table CF5 shows patterns of fraud referrals over periods of the year. This demonstrates how remarkably 'seasonal' fraud reporting can be, but also the beneficial impact of the result of the launch of the fraud awareness campaign in November 2014.

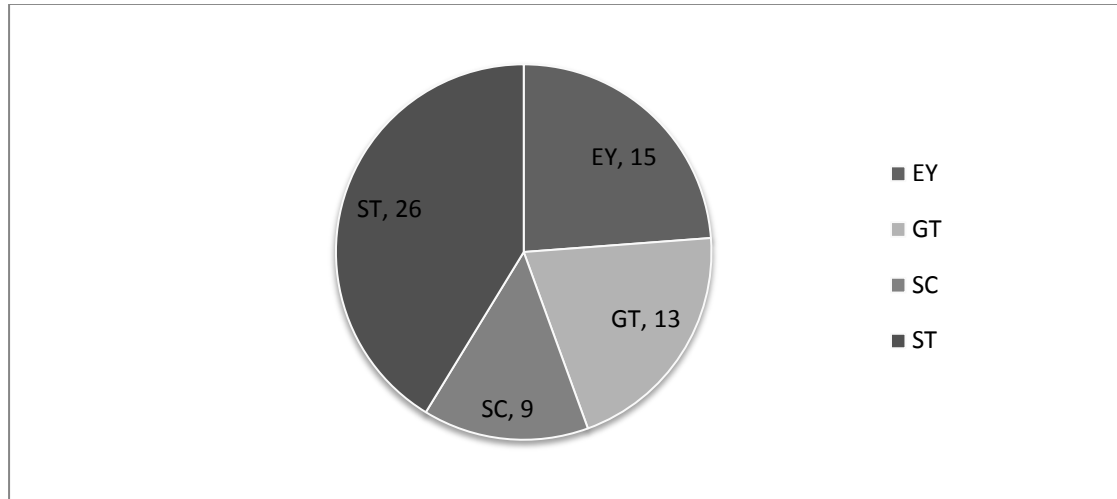
CF1 - Summary of Financial Irregularity Activity

	No. of Irregularities
Brought forward at 9 September 2014	28
New irregularities recorded in period	32
Concluded in period	33
Carried forward at 8 January 2015	28

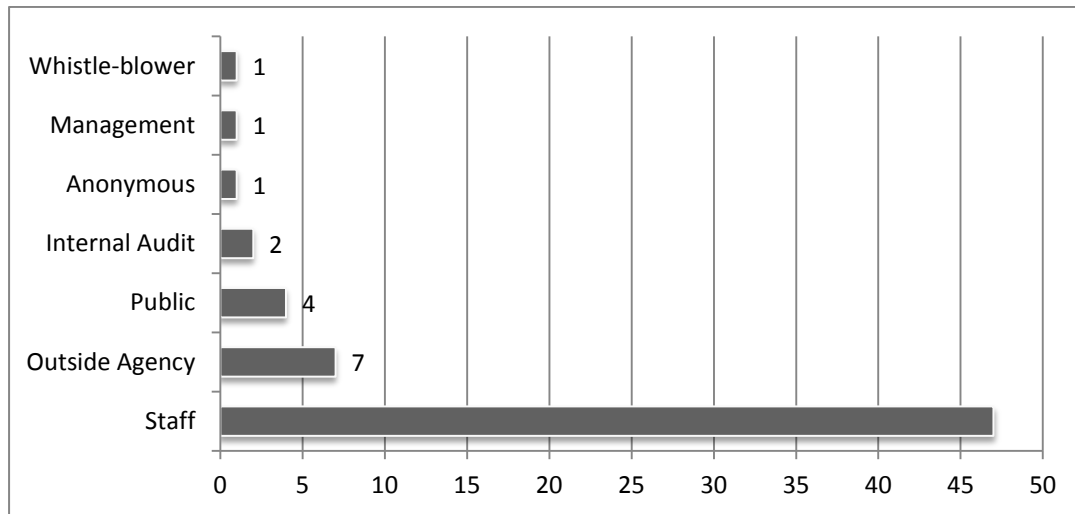
CF2 - Irregularities by Type



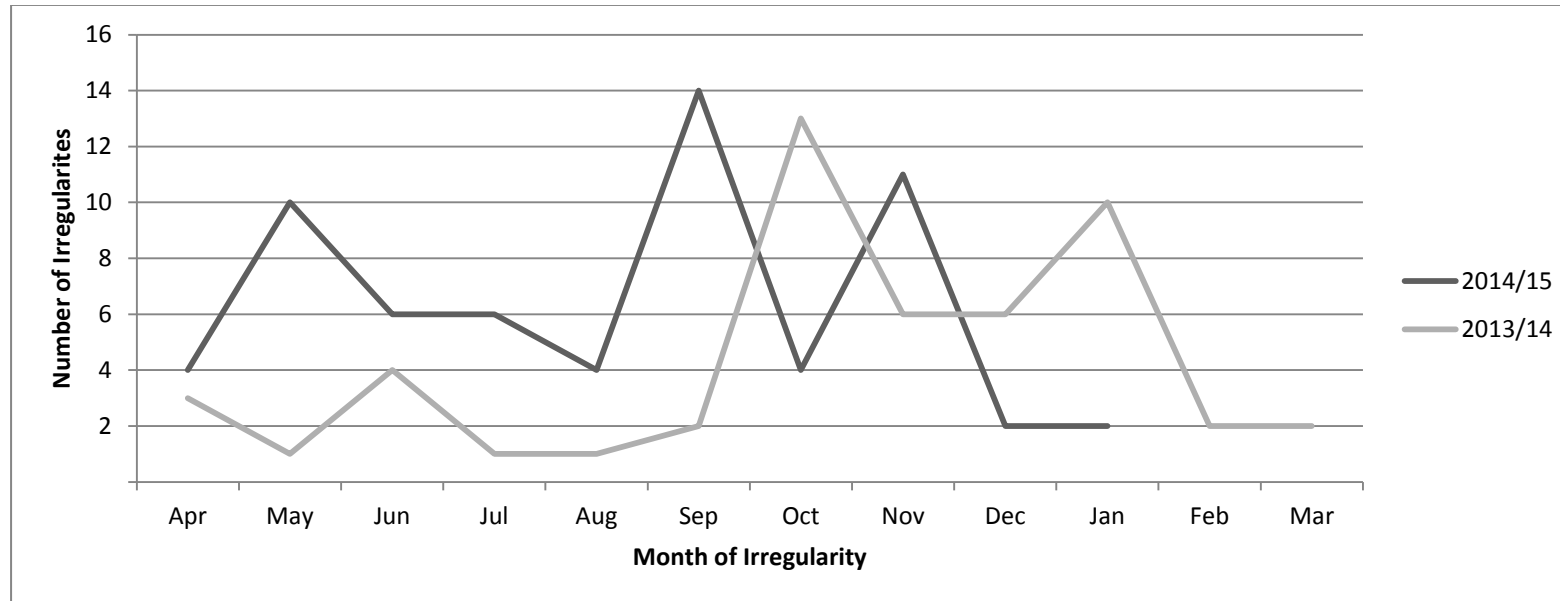
CF3 - Irregularities by Directorate



CF4 - Irregularities by Source



CF5 – Irregularities by Month



Code of Practice for Counter Fraud

6.5. In October 2014 the Chartered Institute of Public Finance & Accountancy (CIPFA) published a voluntary Code of Practice for Counter Fraud which sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

Applicable to all public services organisations, the five key principles are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

- 6.6. We have self-assessed against the code of practices and are pleased to report that we are compliant with the five key principles. CIPFA are intending to publish further guidance in relation to the principles at which time we will repeat the self-assessment and ensure we remain compliant.

Anti-Money Laundering Policy

- 6.7. We have completed a reviewed of the council's Anti-Money Laundering Policy. The policy is out of date and very long. We have therefore rewritten the policy to make it shorter and more user friendly.
- 6.8. In these circumstances it is appropriate for the policy to be presented to the Committee for review and agreement. A copy of the revised Anti-Money Laundering Policy is attached at Appendix C for the Committee to approve.

7 Follow Ups

- 7.1. It will be noted that there have been a number of formal follow up audits over the period under review with one outcome being particularly unsatisfactory. Indeed there are concerns that in some areas of the Council there is a culture of slow progress on previously agreed recommendations. This finding has been reported on to CMT and in future follow up processes will be undertaken more vigorously.
- 7.2. Periodic review of progress of implementation of recommendations / issues continues but unfortunately the current systems within the unit are not efficient. However the system is being upgraded. It is therefore proposed that a comprehensive review of progress in implementing recommendations and issues is brought forward to the April G&AC.

8 Internal Audit and Counter Fraud Performance

Internal Audit

8.1. Internal audit performance against our targets to the end of December 2014 are shown below:

Performance Indicator	Target	Actual
<i>Effectiveness</i>		
% of recommendations / issues accepted	98%	99%
<i>Efficiency</i>		
% of plan delivered	90% by year end	59%
% of available time spent on direct audit work	85%	85%
% of draft reports completed within 10 days of finishing fieldwork	90%	87%
Preparation of annual plan	By April 14	met
Periodic reports on progress	G&A Cttee meetings	met
Preparation of annual report	Prior to AGS 2014	met
<i>Quality of Service</i>		
Average Client satisfaction score	90%	92%

8.2. In general the achievement of these outcomes are in line with our plans. For 2015/16 we are aiming to overhaul the performance targets for the unit. This will be reported back to the Committee at the same time as the presentation of the 2015/16 plan.

Counter Fraud

- 8.3. As a result of the new Transparency Regulations there is now an obligation to publicly report on a suite of 11 indicators in relation to Counter Fraud work. This will be undertaken on an annual basis. These indicators are detailed below together with the results achieved in the last financial year:

New counter fraud transparency measures	Results for 2013/14
Total number of employees undertaking fraud investigations	3
Total number of professionally accredited counter fraud specialists	2
Amount spent on investigation and prosecution of fraud	£128,781
No of fraud cases investigated	35
No of irregularity cases investigated	51
Total No of occasions on which (a) fraud and (b) irregularity was identified	(a) 35 (b) 15 ¹
Total monetary value of (a) and (b) detected	(a) £409,072 (b) £43,739
Total monetary value of (a) and (b) recovered	(a) 113,625 (b) £31,680

¹ One incident remains under investigation.

This is illustrative of a particularly good performance for the Counter Fraud function for 2013/14, although as has been demonstrated earlier, often fraud detections and recoveries can be erratic.

9 Internal Audit and Counter Fraud Resources

- 9.1 During this period staffing resources have stabilised. Only one resignation has been received and the internal audit and counter fraud compliment of staff (19 FTE) is being bolstered by secondments of a senior officer from Social Care and a recently qualified accountancy trainee. In addition an intern with a criminology related degree is to join the counter – fraud until from early January for 12 weeks.
- 9.2 The new IT audit contract with the new supplier is also working extremely well.

10 Work in progress and future planned coverage

- 10.1 Appendix D details progression against the agreed plan coverage and substantiates the estimation that we are on target to achieve our planed coverage.
- 10.2 In the last quarter of the year we have a number of substantive audits to complete including
- Procurement
 - Capital Project Delivery
 - Regional Growth Fund
 - Supervision systems
 - Domiciliary Care
 - Optimisation
 - Enablement
 - Foster Care
 - Better Care Fund

11 External Quality Assessment

- 11.1 In order to comply with the Public Sector Internal Audit Standards (PSIAS) it is now a requirement for internal audit to be subject to an external quality assessment (EQA) every 5 years. Such an independent assessment examines compliance to professional internal auditing standards. It provides an overall assessment of internal audit's independence, scope, profile and resources and the reliance that can be placed on its work and the resultant impact on the Council.
- 11.2 With a new Head of Internal Audit it would be sensible to engage in an EQA in the current year and to be provided with an effective 'charter mark' and / or improvement plan for the next 5 years.
- 11.3 Quotations have been sought from 3 contractors to carry out this assessment, and it is likely such costs can be contained within the 2014/15 budget.

12 Emerging Plans for 2015/16

Future Audit Planning

- 12.1 Work has started on developing the 2015/16 audit plan. Following on from the main presentation in this report, it is proposed to develop and map a proportion of audit work against the top corporate risks.
- 12.2 Initial work has highlighted a need to refine or develop audit work to meet this objective, particularly in relation to independently assessing risks relating to change programmes and safeguarding.
- 12.3 In relation to audit participation in change programmes it is important that internal audit contribution is clear, understood and purposeful. As such we will be developing key lines of enquiry around audit involvement and review and would propose to report at critical times in the life cycle of such projects.
- 12.4 It is also evident that there is currently limited audit involvement against safeguarding, although this is a critical risk on the corporate risk register. Although safeguarding functions exist within relevant departments they are clearly not an independent 'third line of defence' and it is important that a proportionate assurance should periodically take place by internal audit on such critical non-financial controls. As such we would

propose to develop coverage potentially partnering with external expertise.

Future Internal Audit Judgements

- 12.5 Internal audit should be focused on helping management on driving through improvements and the current assurance judgement system does not provide an improvement or direction of travel assessment.
- 12.6 As such for 2015/16 it is proposed the audit assurance score should wherever possible be accompanied by a 'prospects for improvement' assessment. Appendix D outlines current and proposed judgements.

Establishment Visits

- 12.7 Currently all establishment audits are announced well in advance of a visit. Although this eases administration it means as a potential counter fraud exercise it is ineffective. As such it is proposed that from 2015/16 at least 50% of such visits will be unannounced. Clearly this change of emphasis will need to be communicated to the relevant departments.

13 In conclusion

- 13.1 We are satisfied that over the past 9 months sufficient internal audit and counter fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC's standards of control, governance and risk management.
- 13.2 In addition line management have taken, or have planned, appropriate action to implement our issues and recommendations.
- 13.3 We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable change.

Appendix A - Summary of individual 2014/15 Internal Audits issued Sept - Dec 2014

Human Resources – Performance and Capability

Scope

The overall objective of the audit was to provide assurance that there is consistency and fairness of treatment; that employees are given the opportunity and time to improve standards/attendance and that any Performance and Capability meetings and hearings take place in a timely manner.

Overall assessment – Substantial

The HR Advisory Team (HRAT) provides support and advice to managers in employee related issues. They follow ACAS guidelines ensuring that employees are made aware of the performance problem, the improvement that is required and the timescale for achieving this improvement.

The “Substantial” assurance is based on sample testing which established that HRAT have processes in place regarding sickness reporting and occupational health referrals which enables them to offer support at an early stage. All cases are recorded on an electronic system and records are securely held.

Issues were identified which included improvements to be made to the reporting and analysis of Performance and Capability cases and the need to develop a document/records destruction process.

We have raised 2 issues, 1 medium priority and 1 low priority.

KCC Staff Payroll

Scope

The overall objective of the audit was to provide assurance that there are adequate and effective controls in place to ensure the integrity of the Council’s payroll system and the accuracy of payments to KCC staff.

Overall assessment – Adequate

The “Adequate” assurance is based on sample testing of starters, leavers, recovery of overpayments and the payroll production process.

A number of areas were identified where controls are operating effectively. All KCC staff starters, leavers and amendments sampled had been accurately and promptly set up. Records are held detailing overpayments and appropriate recovery action is carried out.

However some issues and areas for improvement were identified. Instances were found where staff access to payroll systems was not removed when they left and buddy checking is not always carried out promptly.

A total of 9 issues have been raised, 3 high priority, 3 medium and 3 low.

New Ways of Working

Scope

The overall objective of the audit was to provide assurance that the New Ways of Working programme is progressing as planned and achieving its objectives adequately and effectively in order to meet corporate objectives.

Overall assessment – Adequate

The New Ways of Working Programme sits within the Council's 'Doing Things Differently' approach. The change initiative was initially set up as 'New Work Spaces' in 2012 and was later refined into the New Ways of Working Programme. It was established as an enabling programme aimed at providing fit for purpose accommodation for staff to support increased mobility across the workforce, improve efficiency and technology and to prepare the Council for change. Linked to this is the delivery of property related revenue savings. The 'Adequate' assurance is based on evidence that the Programme has been set up with appropriate documentation and has a clearly defined governance and management structure. A 30 year base case has been set up to determine whether savings are achievable over the long term for this Programme. Regular reports are provided to relevant bodies on progress of the Programme and no inaccuracies in reporting were identified during the audit. Individual projects are set up for each building and working group meetings of interested parties are held during the projects.

However, issues were identified in some areas, for example there are no performance measures in place to monitor achievement of the 'softer' core aims of the Programme, there is varied engagement with other support teams on individual projects and formal lessons learnt reviews have not been undertaken for completed building projects.

We have raised seven issues as part of this audit, one of which is high priority.

Records Management

Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to comply with organisational and statutory requirements for Records Management.

Overall assessment - Adequate

A Code of Practice has been issued under section 46 of the Freedom of Information Act 2000 which gives guidance on good practice in records management. The Code of Practice states that records management is important because "Records and information are the lifeblood of any organisation. They are the basis on which decisions are made, services provided and policies developed and communicated". Failure to comply with the Code could mean that the Council is "failing to comply with legislation relating to the creation, management, disposal, use and re-use of records and information and may consequently be in breach of their statutory obligations". The 'Adequate' assurance is based on sample testing that in the majority of cases, records were being held securely and appropriately, and facilities for storage were available to enable teams to meet their legal and regulatory requirements in relation to record keeping. Data sharing with third parties was managed by formal agreements in all but one of the cases sampled and the Council has an information sharing agreement set up which covers a large number of bodies.

However, further work needs to be completed to ensure that the action plans and recommendations agreed following the 2013/14 Records Management audit are fully implemented, as from the ten raised, eight have missed their target dates for implementation.

We have raised a further two issues (one medium and one low priority) in relation to protective marking of documentation and managing shared storage. The medium risk issue has been accepted and no management actions are proposed.

Client Financial Affairs

Scope

The overall objective of the audit was to provide assurance on controls over management of finances for clients who are incapable of managing themselves. e.g. payments for client care personal property and benefits maximisation.

Overall assessment – Adequate

The Client Financial Affairs (CFA) team is responsible for managing the financial affairs of clients who have no one to act for them and who are unable to manage their own financial affairs. All actions taken by the CFA team must be in accordance with benefits legislation, Court of Protection requirements, Office of the Public Guardian regulations, and the Council's policies and procedures.

The adequate assurance is based on the controls in place in a number of areas. The process for the referral of new Clients to CFA by Case Managers was seen to be well managed, with each new referral being reviewed and formally approved for acceptance by the CFA team leader. Appointeeship and Deputyship were applied for accurately and appropriately. Client details are held on the CASPAR database and each client has their own named KCC bank account and a reserve account for savings where relevant. Banking is done online using Bankline with user access restricted and privileges set. Client income is correctly identified and redirected to the client's KCC bank account and hard copy records and documents are being held securely. On receipt of notification of death or request for discharge, client accounts are closed and all relevant parties informed promptly by CFA.

However the audit identified a number of issues and areas for further improvement, in particular we noted that full bank reconciliations were not being completed regularly and a reconciliation of personal allowance payments made to care homes on behalf of clients was not available in all cases. In addition, payments made via imprest by the Social Care locality offices are coded to the CFA imprest suspense account, but there was no evidence of authorisation or the rationale for many of these payments.

We have identified six issues, two of which are high priority.

Schools Financial Returns

Scope

The overall objective of the audit was to provide assurance that statutory school returns are submitted to the Returns and Compliance team promptly and data collected for KCC and the Department of Education is accurately recorded.

Overall assessment – High

Responsibility for financial management has been delegated to schools. However KCC has a statutory responsibility to produce certain consolidated information for the annual accounts and to submit Council wide returns and therefore schools financial information needs to be collected centrally. The "High" assurance is based on sample testing a number of returns submitted by schools and the collection of this data. Controls were found to be operating effectively in all areas.

No issues have been raised.

Treasury Management

Scope

The aim of the audit was to provide assurance that all investments and borrowings are undertaken and authorised in accordance with organisational policy.

Overall Assessment – High

Treasury Management is defined by CIPFA as ‘the management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

The ‘High’ assurance is based on sample testing and interviews with key officers which identified in general controls are operating adequately and effectively. Formal policies and procedures are in place, investment activity is limited to approved counterparties and limits, cash flow and liquidity is monitored daily and regular, timely Treasury Management reports are produced. Based on the sample of transactions tested we are satisfied that there is a sound system of control in place to ensure all investments and borrowings are undertaken and authorised in accordance with the Treasury Strategy.

We have raised two low risk issues to further improve controls.

Insurance

Scope

The aim of the audit is to provide assurance that the Council has adequate insurance cover, it is effectively managed and that there are robust procedures in place for insurance claims handling.

Overall assessment - Substantial

Insurance is arranged centrally to protect the Council against claims for compensation, to enable the authority to enter into contractual arrangements and to comply with legislation. The main policies purchased are Employers Liability, Public Liability, Property and Motor, which between them make up approximately 84% of the annual expenditure on premiums. The ‘Substantial’ assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. After testing 60 claims this audit has found that all these claims were logged and processed correctly. The sample testing also showed that claims are being checked, assessed and authorised in line with agreed procedures, with further checks being carried out throughout the progress of the claim. There was no evidence in the sample of any undue delays or backlogs or breaches of customer based PI’s.

However, we found that authorisation levels of staff at officer level set at £500, which is above the normal self-approval level for Officers within the Council and the internal quality checking of Public claims is not recorded. It was also found that limited information is uploaded on to claims management system, Figtree, so there is no opportunity for the service to analyse claim data for potential fraud risk and the procedure notes do not include any reference to consideration of fraud in the claims handling process.

In total 4 issues were reported, 3 low priority and 1 medium priority, however the medium priority issue has not been accepted by management.

Scope

The overall objective of the audit was to follow-up on the recommendations made in the 2013/14 audit of procurement in schools and review of relevant documentation, interviews with key officers and sample testing of procurement processes and purchase card transactions within a sample of schools. We also reviewed procurements undertaken/purchases made using a purchase card over the last 12 months.

Overall assessment – Adequate

A number of areas for improvement are required and are similar to those identified in the 2013-14 audit of procurement, including instances where three quotes had not been obtained, spend had not been appropriately approved and value for money requirements had not been considered for aggregated spend and procurements did not have supporting paperwork. However, it is acknowledged that some of the recommendations raised in our previous audit had only recently been addressed, which therefore could be attributable to why considerable improvement has not been realised and has supported our adequate rating.

For purchase cards we found no instances of cards being used to circumvent procurement processes. However we did identify transactions that did not have supporting receipts and some transactions where we were unable to determine whether spend was appropriate, for example gifts or food for staff at notable events. Head teachers had not defined what constitutes appropriate spend which may be causing an inconsistent use between schools. Additionally, VAT is not being consistently claimed. There were 3 incidences of potentially inappropriate use of purchase cards including one particular transaction of note which relates to an outgoing Chair of Governors who had spent £118 on alcohol during an overnight hotel stay which the Head teacher has successfully reclaimed following our review.

We have raised five issues to improve on existing controls, two of which are high priority.

Scope

The aim of the audit was to provide assurance that proper governance arrangements are in place, expenditure through imprest accounts is appropriate and that imprest account balances are reconciled regularly to the bank statements.

Overall assessment - Adequate

An imprest account is a separate bank account which provides a cheque book and is used for local 'petty cash' facilities. The account should be operated in accordance with the Imprest Account guidelines and used for urgent day to day expenditure or for small items purchased locally which cannot be purchased through other means such as iProc, Accounts Payable or corporate purchase card. There are currently approximately 100 imprest bank accounts within Kent County Council of which we audited 10 in detail. The total balance on imprest accounts is approx £500k.

The 'Adequate' assurance is based on sample testing that although guidance notes and training are available to staff operating Imprest accounts, adherence to the key controls was inconsistent. A significant proportion of the imprest transactions reviewed should have been made through other means such as iProc or Oracle self-service and not all transactions had been authorised. We also found instances where cash differences were not being disclosed and some Imprest Operators held pre-signed cheques to avoid having to locate 2 cheque signatories each time a cheque was required.

We have raised 8 issues where further action should be taken to improve controls, one of which is high risk. These included: ensuring all cash discrepancies are reported for investigation, pre-signed cheques, use of imprest accounts only for appropriate expenditure, ensuring all payments are authorised and keeping imprest account balances at an appropriate level.

Website Redesign – Post Implementation Review of Controls

Scope

The overall objective of the audit was to provide assurance over the controls put in place by the Strategic & Corporate Services Directorate and the Digital Team to manage the Implementation of the Website Redesign Project and to maintain quality and robustness of the Council's web presence.

Overall Assessment – Substantial

In January 2013, the Corporate Management Team (CMT) agreed to the redesign of the existing KCC website in line with four principles: to design the website for customers; to follow user experience best practice for any changes to the website; to be robust and reliable; and to turn service information into usable and accessible content in order to meet customer expectations and user needs. Initial user feedback received via the GovMetric tool noted some initial issues and concerns and a plan was put in place to address these. As a result the initial website implementation plan was delayed from January to March 2014 when the new website was launched.

The Substantial opinion is based on sample testing and interviews with key officers, which identified a number of areas where controls were operating adequately and effectively. Content owners have been identified and the content users and managers are adequately trained to manage the day to day operations of the site. Data has been accurately and completely migrated using a content matrix to make decisions on which pages to migrate and templates have been established for requesting and changing content. The website application and database servers are hosted by the supplier and are backed up appropriately.

We identified four issues which should be addressed to further improve controls, none of which are high priority. These include: the absence of a process to log, report and review changes made by the supplier or through the use of the Out of Hours account; the Customer Service Strategy being out of date; and the lack of evidence to confirm the outcome of test restores and security over the web servers.

Follow-up of Outstanding ICT Audit Recommendations

Scope

The aim of the audit was to confirm that the outstanding recommendations from ICT audits completed in the last 2 years remain relevant and that they have either been satisfactorily implemented or will be implemented by an agreed date.

Overall Assessment – Limited

ICT Audits are undertaken under a formal outsourced arrangement against an agreed annual plan. The audit reports are written in the standard KCC format and detail the audit findings and recommendations to address issues identified. Recommendations are assigned as high, medium, or low priority and management actions are agreed with the relevant issue owners prior to the audit reports being finalised.

Of the 18 recommendations reviewed during this audit, 8 recommendations had been satisfactorily implemented, but of these only three were of high or medium priority. Two further medium priority recommendations have been 'Risk Accepted'. Having completed this follow-up exercise, a revised implementation schedule has been agreed. 75% of high and medium priority recommendations were deferred at least once from the original target date agreed in the Final report and three of the deferrals were approaching two years. Seven medium priority recommendations remain outstanding.

Whilst we understand that delays are sometimes unavoidable the number and length of deferrals gives cause for concern.

We have not made any new recommendations as a result of this audit.

Disaster Recovery

Scope

The aim of the audit is to provide assurance that the Council has a robust Disaster Recovery framework that allows it to restore key services and systems in a defined timeframe, enabling services to continue key operations.

Overall Assessment – Limited (draft opinion, report not yet finalised)

A Disaster Recovery framework should allow an organisation to recover its key infrastructure and systems in the event of a 'disaster' scenario that prevents normal operation for an extended period. Typically such a scenario would mean loss of a primary data centre.

The 'Limited' assurance is based on the key findings regarding the current DR Infrastructure at the backup site in Medway Council and the adequacy of DR plans. The DR infrastructure has been built only for a limited number of critical systems and hence in the event that the Sessions House data centre is not available for an extended period, only these systems are recoverable in the short term. Extending the ability to make other systems recoverable would require significant business investment in infrastructure. Currently systems without DR infrastructure would only be recovered on a 'best endeavor' basis in a priority order that would have to be defined according to the circumstances or time of the disruption.

Seven issues have been raised with management, three of which are high risk. In addition to the key issue above the recovery plans for systems that have a DR infrastructure at the Medway recovery site are not written in a consistent format and are not centrally stored to ensure accessibility in an emergency situation.

A priority order for recovery of all systems is not defined and agreed with the business.

Kent Resource Partnership

Scope

The overall objective was to provide advice on the internal governance arrangements relating to the Kent Resource Partnership (KRP).

The present KCC governance arrangements were subject to a critical review, taking into account the present structure of the partnership, the financial arrangements, staffing and changes to KCC's approach to partnership working.

Overall Assessment – N/A - Advisory

The partnership was set up in 2006/07 to include the twelve district councils and KCC to provide a forum for the formation and delivery of the Kent Joint Municipal Waste Management Strategy. The establishment of a partnership effectively pooled the recycling credits available to the districts paid by KCC.

The review recommended that the present partnership relationship should be reassessed taking into account changes identified since the partnership was established. If the reassessment concludes that a partnership will still continue that the overall governance arrangements should be changed to ensure that outcomes are clearly defined and can be measured;

- The governance and reporting channels are based on clear accountability for outcomes and decision making areas;
- The financial contributions from KCC are reduced to reflect the changed working arrangements; and
- The staffing requirements are reassessed to ensure that line management reporting responsibilities are clear and unambiguous and reflect the actual working arrangements with regard to the allocation of time.

The Head of Waste has accepted all the issues identified.

National Concessionary Travel Scheme

Scope

The overall objective of the audit was to provide assurance that the systems and controls to calculate and process payments to bus operators are secure, adequate and operating effectively.

Overall Assessment – Limited

The KCC budget for the ENCTS for 2014/15 is approximately £17m. The Council has a contract for the management and administration of the ENCTS arrangements in relation to bus operators.

The 'Limited' assurance is based on findings that the contract is not being effectively managed.

The contractor has detailed and documented processes in place and calculations for the various parameters for reimbursement of bus operators required by the Department of Transport are well controlled. The payments to operators were processed by KCC in line with the information from the contractor and were paid within the required timescales. There is appropriate monitoring of expenditure against budgets.

We have raised three issues of which consideration would further improve control.

Two of the issues are high priority. These include the need for KCC Transport Section to carry out checks on the reimbursement calculation rather than place complete reliance on the data provided by the contractor. Also the contract is not presently monitored in line with agreed Key Performance Indicators set out in the contract and formal meetings with the contractor are not recorded.

Health & Safety Follow-up

Scope

The aim of the audit is to provide assurance that Health and Safety risks are being managed adequately and effectively in order to meet service and corporate objectives.

Overall Assessment – Substantial

The last audit completed on Health and Safety was in the 2011-2012 financial year and Substantial assurance was given that controls over Health and Safety are operating effectively. Controls over Health and Safety training received a Limited assurance opinion.

The 'Substantial' assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. This audit reviewed the progress made with the six recommendations from the previous Health and Safety audit in 2012 to establish whether controls are now operating adequately and effectively. Testing has shown that five of the six recommendations have now been successfully implemented.

However, we found that 56% of the incident report forms were received from managers with missing information. It was noted that work place inspections were not completed for two out of six workplaces tested during the audit, one of which was a remote service site whose role includes close working with children and which had no formal health and safety programme in place.

We have raised 2 issues, 1 medium priority and 1 low priority.

KCC Operated Nurseries

Scope

The overall objective of the audit was to provide assurance that key financial controls are in place at each of the three community nurseries operated by KCC, KCC performance monitoring standards are being addressed, the nurseries comply with KCC safety and security standards, and risks are being managed adequately and effectively in order to meet service objectives.

We also provided a strategic opinion with options for overall future service delivery of these nurseries.

Overall Assessment – Limited

The overall objective of the audit was to provide assurance that key financial controls are in place at each of the three community nurseries operated by KCC, KCC performance monitoring standards are being addressed, the nurseries comply with KCC safety and security standards, and risks are being managed adequately and effectively in order to meet service objectives.

Conversely financial controls were considered to be weak and costs had not been fully allocated resulting in financial management information being undermined.

We also provided a strategic opinion with options for overall future service delivery of these nurseries.

Kent Alcohol and Drug Team (KDAAT)

Scope

The audit aimed to provide assurance on the governance, risk management, contract management and performance monitoring arrangements in place, to ensure that associated risks were being managed adequately and effectively.

Overall Assessment – No Assurance

At the time of fieldwork, KDAAT was not part of Public Health and therefore commissioning structures had not been integrated. Governance structures were not integrated with KCC's constitution and formal decision making process/structure with decisions being taken outside of constitutional processes and some expenditure not receiving appropriate approval. Services provided on behalf of NHS England had no written agreement and one service had been delivered since January 2013 without a signed contract. There was no defined clinical governance assurance framework in place. The budget allocated was in excess of the services being commissioned and contractual payments were not being made in accordance with the payment schedule. However there is a clear process for Payment by Results and payments had been made accurately. Contractual performance monitoring takes place and performance is scrutinised and challenged. Performance information reported to the KDAAT Board was accurate and Kent is performing well in some areas. Seven issues were raised, all of which were high priority. On 1st October 2014, the service moved into Public Health, who created an action plan to mitigate the identified issues with appropriate implementation dates and accountable officers. We followed up this action plan in January 2015 and identified that significant progress had been made. Retrospective key decisions have now been made where necessary and appropriate approval routes for expenditure are in place. A clinical governance framework has been drafted and agreed, including for the investigation of Serious Untoward Incidents. Public Health and Legal Services are in the process of negotiating a written agreement with NHS England. We will continue to follow up actions which are not yet fully complete.

Scope

The arrangements for s106 agreements were last audited in 2012/13 with the report (RB05-2013) being issued in May 2013. The audit report was Limited assurance and included nine recommendations, five of which were high priority.

This was a formal follow-up review of the s106 Developer Contributions recommendations in order to report on the progress made since the last audit report and the residual risks.

Overall Assessment – Limited

Section 106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding agreement or planning obligation with a landowner or interested party in association with the granting of planning permission. These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are used to support the provision of services and infrastructure such as highways, recreational facilities, education, health and affordable housing.

The 'Limited' assurance is based on the fact that although progress has been made since the previous audit was completed, it has been at a significantly slower pace than anticipated. Therefore the original risks identified still.

Four high priority recommendations and 2 medium priority recommendations have yet to be fully implemented. The original agreed implementation date for these recommendations was September 2013, therefore control weaknesses remain at the time of this follow up audit. It is expected that the planned introduction of a Single Monitoring System for developer contributions next year will enable all of the recommendations from the initial audit to be fully addressed by May 2015. Where appropriate, revised implementation dates have been agreed with service management for the outstanding recommendations.

No new issues have been identified from this follow up audit.

Scope

Supporting People is new to Strategic Commissioning and therefore the audit aimed to provide assurance on the handover of a "safe service", as well as the contract management and performance monitoring arrangements in place, to ensure that associated risks are being managed adequately and effectively.

Overall Assessment – Assurance to be determined. Draft assurance level is limited.

There are plans to cease the work of the commissioning body in its current guise and establish alternative governance arrangements. The replacement body will be internal to KCC. There is no date yet fixed for the new arrangements to be implemented nor is the composition of that body been decided.

There isn't a separate risk register for Supporting People but risks are considered for the Social Care divisional risk plans and risk registers are maintained for individual projects.

While the number of contracts managed has been reduced over the last few years, from over five hundred to two hundred, this remains a large number and impacts on monitoring. There are plans to reduce the number of contracts further by modernising and reshaping, changing the configuration, reducing duplication and erasing artificial boundaries between provision of services.

Scope

The overall objective of the audit was to provide assurance to the accuracy of the base data used for measuring carbon usage and reduction in relation to the Carbon Reduction Commitment Energy Efficiency Scheme (CRC Scheme) and to assess the management processes put in place to allow the Council to give assurance that the evidence pack required by Central Government (the Environment Agency) is accurate and updated periodically.

Overall Assessment – Compliant

We found that the base data for measuring carbon usage and reduction is accurate, with the data based on actual rather than estimated consumption where possible. Management processes are in place to ensure that the evidence pack is accurate and updated regularly. Responsibility for maintenance of the evidence pack is properly assigned and the requirements are adequately understood.

The CRC annual report is not, however, published on KNet and this should be considered to allow interested staff within KCC to view and compare annual energy usage for sites and raise any questions

Scope

The overall objective of the audit was to provide assurance that contract risks are being managed adequately and effectively in order to meet service and corporate objectives. Analyses of total supplier spend during 2013/14 and the first quarter of 2014/15 was completed and a sample of fourteen suppliers was then selected.

Overall Assessment – Limited

To deliver its services to the people of Kent, the Council spends in the region of £1 billion each year on externally sourced goods, works and services. Rules on procurement are in place to ensure value for money, consistency of approach, competition, transparency and fairness. The detail on how procurement is achieved at operational level is found in KCC's 'Spending the Council's Money'. Once suppliers have been contracted, it is the responsibility of managers in the relevant services to manage the contract in order to ensure the required goods and services are received and approved for payment.

The Limited assurance is due to contract management practices and processes being identified during the audit as varied, with little consistency across the Council. Some instances of good practice were found, but these were isolated and dependent on individual officers developing their own contract monitoring protocols. Contract files were maintained for nine out of the 14 contracts tested, and half the contracts were registered on the Council's contract register. We identified instances of contract extensions and the continued use of a contractor after the contract term had finished without appropriate authorisation. For one of the contracts tested the provider had been instructed to invoice the school directly instead of KCC, but there was no evidence to support the rationale or authorisation of this decision. We found that contracts are being monitored effectively at a local level, however in general there is no formal reporting on contractor performance and no annual review of contract performance with the provider. Payments and budget variances are being monitored and authorised appropriately.

One high priority issue has been raised regarding inconsistent or inadequate contract management processes being in place.

Public Health – Commissioning and Delivery

Scope

The aim of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet KCC service and corporate objectives and relevant legislative requirements, through review of governance arrangements and processes

Overall Assessment – Substantial

There is a framework and plans in place to achieve aims and objectives. There is evidence that Public Health work effectively with partner agencies, working across KCC and through external partnerships to improve health and reduce health inequalities. Innovative and effective communications and campaigns have been developed helping the public to easily access services.

There is an effective assurance framework in place to inform the Health & Well Being Board, Health Overview and Scrutiny Committee, and Cabinet on a regular basis. Statutory functions are being carried out as stipulated and the corporate and professional accountabilities of the Director of Public Health are being undertaken. The following issues have been identified during the audit and discussed with the service.

One issue has been identified as high risk, and one as low risk

Healthwatch Kent

Scope

The aim of the audit was to provide assurance that:

- KCC meets its statutory requirements to ensure HWK operates effectively and provides value for money.
- Adequate contract monitoring processes are in place to ensure that Engaging Kent delivers HWK in accordance with requirements.

Overall Assessment – Adequate

The requirement to set up a local Healthwatch has been addressed appropriately. There is performance management by KCC and HWK are undertaking the role required, including having a seat on the Health and Wellbeing Board. There is a HWK website with relevant information and advice. Monthly meetings are held between KCC and HWK and there is a monthly accounting report and a monthly outcomes report produced although the reports have been submitted in recent months only. Previous reports were not outcomes based as it was accepted that outcomes would not be delivered early on.

The Healthwatch initiative was part of a shifting landscape. KCC made allowances for the development and set up for Healthwatch in Kent in this new landscape. It was necessary to allow time for the new organisation to be set up by a brand new Community Interest Company. The workload of the new Information & Signposting service was overestimated and funding has had to be re-negotiated. Business cases that are submitted do not involve any independent assessment and projects once approved are not always undertaken in a timely manner.

Three issues have been identified as medium risk.

Appendix B -Summary of Significant Concluded Financial Irregularities

Ref	Internal or External	Allegation	Outcome
857	Internal	Internal audit were alerted to allegations that illogical payments had been made from a Kent school to its academy sponsor (another school in Kent).	The investigation established that significant payments (in excess of £280,000) were made to the sponsoring academy without the appropriate approval from the school's governors. As a result the Department for Education terminated the sponsorship agreement and KCC's legal services are pursuing financial recovery.
952	Internal	Management reported to Internal Audit that a member of staff was alleged to be abusing his position by undertaking household and garden maintenance work for payment for a social care client.	Management investigated and found the allegations proven on the balance of probabilities and the member of staff was dismissed for gross misconduct.
953	External	Internal audit were alerted to a member of the public who was routinely using a Blue Badge belonging to another badge holder that had died in 2011.	The offender was interviewed under caution and admitted she had been using the deceased users Blue Badge. Legal advice was sought and it was agreed to offer the offender a 'simple caution' which she accepted.
971	External	Internal Audit were alerted to several unusual transactions related to KCC's general account. Further investigation revealed an unknown person had successfully set up a standing order from KCC's general account. Approximately £6,000 was withdrawn, but later refunded by the bank, and around £1,000 was stopped before it was paid.	Due to the limitation of Internal Audit's legal authority we were unable to identify the perpetrator. The matter was referred to the police via Action Fraud. KCC did not suffer a loss and the general account continues to be reconciled every month.

Anti-Money Laundering Policy

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Version	Version 2

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	18 Sept 2014	Internal Audit	Governance & Audit Committee	

1. Introduction

- 1.1. Kent County Council has a zero tolerance policy concerning money laundering and is committed to the highest standards of conduct.
- 1.2. The Proceeds of Crime Act (POCA) 2003, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on Kent County Council and its employees to ensure that procedures are in place to prevent the Council's services being used for money laundering.
- 1.3. This policy sets out the process to minimise the risk, as well as provide guidance on the Council's money laundering procedures. Adhering to this policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.
- 1.4. The policy is not intended to prevent customers and service providers from making payments for Council services, but to minimise the risk of money laundering in high value cash transactions.

2. Policy Statement

- 2.1. Kent County Council is committed to:
 - Preventing the Council's services and employees from becoming a victim of, or unintentional accomplice to, money laundering activities.
 - Identifying the potential areas where money laundering may occur and strengthening procedures to minimise the risks.
 - Complying with all legal and regulatory requirements, with particular regard to the reporting of actual or suspected cases of money laundering.
- 2.2. It is important that every member of staff is aware of their responsibilities and remains vigilant.

3. Scope of Policy

- 3.1. This policy applies to **all** employees and Members of the Council, whether permanent or temporary.
- 3.2. The aim of this policy is to support employees and Members in responding to concerns that have been highlighted in the course of their work for the council. If staff or Members are concerned about a matter unrelated to work, the Police should be contacted.

4. Definition of Money Laundering

- 4.1. The term 'Money Laundering' can be used to describe a number of offences involving the proceeds of crime or terrorist financing. In simple terms, money laundering is a process used by criminals to make the proceeds of their crimes appear as though they

originated from a legitimate source. Money launderers aim to disguise the identity of the criminal and/or conceal their connection to the proceeds of the crimes.

4.2. The following constitute money laundering offences:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002).
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328).
- Acquiring, using or possessing criminal property (section 329).
- Doing something that might prejudice an investigation e.g. falsifying a document.
- Failure to disclose one of the offences listed above, where there are reasonable grounds for knowledge or suspicion.
- Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation.

4.3. There is a possibility that any member of staff could be prosecuted for money laundering offences if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This policy sets out the appropriate practice and how any concerns should be raised.

4.4. Although the risk to the Council of contravening the legislation is low, it is important that all employees are aware of their responsibilities as serious criminal sanctions may be applied to those who breach the legislation.

4.5. **The significant requirement for employees is to immediately report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO; see section 7.1). Failure to do so could lead to prosecution.**

5. Identifying Money Laundering

5.1. There is no clear definition of what constitutes a suspicion of money laundering – common sense will be needed. Although you do not need to have actual evidence that money laundering is taking place, mere speculation is unlikely to be sufficient to give rise to knowledge or suspicion. However, if you deliberately shut your mind to the obvious, this will not absolve you of your responsibilities under the legislation.

5.2. Examples of money laundering activity include:

- Large cash payments;
- Asking for cash refunds on credit card payments; or
- Overpaying bills and invoices and then asking for cash refunds.

- 5.3. Any transaction involving an unusually large amount of cash should cause concern and prompt questions to be asked about the source. This will particularly be the case where the value of cash paid exceeds the amount due to settle the transaction and the person(s) concerned ask for a non-cash refund of the excess.
- 5.4. If the person(s) concerned use trusts or offshore funds for handling the proceeds or settlement of a transaction, then the reasons for this should be questioned.
- 5.5. Care should be exercised and questions asked where:
 - A third party intermediary becomes involved in a transaction;
 - The identity of a party is difficult to establish, or is undisclosed;
 - A company is used where the ultimate ownership of the company is concealed or difficult to verify; and/or
 - A party is evasive about the source or destiny of funds.

6. The Council's Obligations

- 6.1. The Council is obligated to:
 - Appoint a money laundering reporting officer.
 - Maintain client identification procedures in certain circumstances.
 - Implement a procedure to enable the reporting of suspicions of money laundering.
 - Report any cash transactions over €15,000 (or the Sterling equivalent).
 - Maintain sufficient records.

7. The Money Laundering Reporting Officer (MLRO)

- 7.1. The Council has nominated the following officers to be responsible for anti-money laundering measures within the Council:

MLRO: **Andy Wood**, Corporate Director of Finance and Procurement.

Email: andy.wood@kent.gov.uk Tel: 03000 416854

Deputy MLRO: **Robert Patterson**, Head of Internal Audit

Email: robert.patterson@kent.gov.uk Tel: 03000 416554

- 7.2. In the absence of the MLRO or in instances where it is suspected that the MLRO themselves are involved in suspicious transactions, concerns should be raised with David Cockburn, the Head of Paid Service.

8. Reporting concerns

- 8.1. In the event of an employee suspecting a money laundering activity they must immediately report their suspicion to the MLRO, or to the deputy MLRO, using the disclosure report available on Knet. The report must contain as much detail as possible, ideally using the form at Annex 1.

- 8.2. If the suspicious transaction is happening right now, for example someone is trying to make a large cash payment, every effort should be made to speak with the MLRO or deputy, who will decide whether to accept the payment or suspend the transaction. If it is not practical or safe to do so, a report should be made to the MLRO or deputy immediately after the transaction is complete.
- 8.3. The information provided to the MLRO will be used to decide whether there are reasonable grounds to demonstrate knowledge or suspicion of money laundering, whether further investigation is necessary, whether the transaction should be accepted or suspended, and if appropriate, whether a suspicious activity report should be made to the National Crime Agency (NCA). If it is not practical or safe to suspend a suspicious transaction a report should be made to the National Crime Agency immediately after the transaction is complete.
- 8.4. The employee must follow directions given to them by the MLRO and must **not** discuss the matter with others or notify the person(s) who is suspected of money laundering. 'Tipping off' a person suspected of money laundering is a criminal offence.
- 8.5. The MLRO or deputy must immediately evaluate any disclosure to determine whether the activity should be reported to the National Crime Agency (NCA).
- 8.6. The MLRO or deputy must, if they so determine, promptly report the matter to NCA in a prescribed manner and on their standard report form (currently referred to as a suspicious activity report (SAR)). This can be found on the NCA website:
www.nationalcrimeagency.gov.uk

9. Identification of Clients

- 9.1. In general, management should ensure that appropriate checks are carried out on new partners, suppliers and contractors in accordance with the Council's existing policies and procedures.
- 9.2. However, where the Council is carrying out a '**relevant business**',¹ and as part of this:
 - forms an ongoing business relationship with a client; or
 - undertakes a one-off transaction involving payment by or to the client of €15,000 (or the equivalent in sterling) or more; or
 - undertakes a series of linked on-off transactions involving total payment by or to the client(s) of €15,000 (or the sterling equivalent) or more; or
 - it is known or suspected that a one-off transaction (or a series of them) involves money laundering.

Then the client identification procedures (listed below) must be followed before any business is undertaken for that client. In the event the business relationship with the client existed before 1st March 2004 this requirement does not apply.

¹ Relevant business is defined as the provision 'by way of business' of advice about tax affairs; accounting services; audit services; legal services; services involving the formation, operation or arrangement of a company or trust; or dealing in goods wherever a transaction involves a cash payment of €15000 or more

- 9.3. Where the 'relevant business' is being provided internally signed, written instructions on Council headed notepaper or an email on the internal email system should be provided at the outset of the business relationship.
- 9.4. If the 'relevant business' is being provided externally then the following additional checks must be completed:
- Check the organisation's website and other publically available information such as telephone directory services and Companies House to confirm the identity of the personnel, their business address and any other details.
 - Ask the key contact officer to provide evidence of personal identity and position within the organisation, for example a passport, photo ID card, driving licence and signed, written confirmation from the Head of Service or Chair of the relevant organisation that the person works for the organisation.
- 9.5. Remember, these additional client identification procedures are **only** required when conducting a 'relevant business.'

10. Training

- 10.1. Officers considered to be most at risk of being exposed to suspicious situations will be made aware by their senior officer and provided with appropriate training.
- 10.2. Additionally, all officers and Members will be familiarised with the legislation and regulations relation to money laundering and how they affect the employees (themselves) and the Council.
- 10.3. It is not necessary for all staff to be aware of the specific criminal offences, staff that are likely to encounter money laundering should be aware of the procedures that are in place. This policy and procedures provides sufficient information to raise awareness for most staff.
- 10.4. It is recommended that staff in areas that are highly vulnerable to money laundering, should be provided with targeted training that is specific to the Council activity at hand. This could be achieved by in house resources, or through training courses and seminars run by external providers

11. Further information

- 11.1. Further information can be obtained from the MLRO and the following websites:
- www.nationalcrimeagency.gov.uk
 - Proceeds of Crime (Anti- Money Laundering) - Practical Guidance for Public Service Organisations'- CIPFA
 - Money Laundering Guidance at www.lawsociety.org.uk
 - HM Revenue & Customs <http://www.hmrc.gov.uk/mlr/>

12. Conclusion

- 12.1. The likelihood of Kent County Council service being exposed to money laundering is extremely low. However, the legislation and requirements that have been implemented must be followed. Failure to comply with such legislation and requirements by individuals could lead to prosecution.

Anti Money Laundering Reporting Form

Your Contact Details

Please provide your contacts details in the box below so we can confirm that we have received the report and get into contact with you if required.

Name :	
Role:	
Email:	
Contact Telephone:	

Main Subject

Please provide the details of the person you suspect of money laundering. If you suspect more than one person, please fill in the additional boxes below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Address	Type: (Home, work etc)		

Transaction(s)

Please enter the details of the transactions you think are suspicious

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction:			

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction			

Account(s)

Please enter details of the account(s) used.

Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	
Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	

Associated Subjects:

If there are any other people you suspect are involved in money laundering, please enter their details below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

Linked addresses:

Please enter details of any linked addresses:

Address	Type: (Home, work etc)	

Reason for Suspicion:

Please enter details of your suspicions. Please provide as much information as possible.

Appendix D - Audit Plan 2014/15 Progress

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Core Assurance							
Strategic Partnership Governance	Planning			Individual Contracts	Fieldwork		
Corporate Governance	Planning			Company Governance/ADSM Advice	Planning		
Annual Governance Statement	Complete	October 2014	Substantial	Remote Site Compliance Visits	Fieldwork	Update in each paper	Various
Schemes of Delegation				Transformation Programme and CPO Support	Fieldwork		
Risk Management	Draft Report			Contracts of employment - new contracts and changes	Planning		
Business Continuity & Resilience Planning	Cancelled	N/A	N/A	Equality and Fairness at Work - Performance and Capability	Complete	January 2015	Substantial
Information Governance				Health & Safety Follow-up	Complete	January 2015	Substantial
Records Management	Complete	January 2015	Adequate	Use of Recruitment Agencies – Senior Appointments	Draft Report		
Customer Feedback	Planning			Use of Recruitment Agencies – Temp and Hard to Fill	Planning		
Core Financial Assurance							
Payroll	Complete	January 2015	Adequate	General Ledger	Draft Report		
Revenue Budget Monitoring	Planning			Budget Build	Complete	October 2014	Substantial
VAT	Complete	October 2014	Substantial	Inland Revenue Accounting (PIID, PAYE, NIC)	Draft Report		

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Payments Processing	Fieldwork			Accounts Receivable (manual invoices and AR wizard, billing from SWIFT)	Complete	October 2014	Substantial
Bank Accounts	Complete	January 2015	Adequate	Financial Assessment Unit	Draft Report		
Client Financial Affairs	Complete	January 2015	Adequate	Corporate Purchase Cards	Fieldwork		
Insurance - managing insurances and claims handling	Draft Report	January 2015	Substantial	Treasury Management	Complete	January 2015	High
Pension Fund Investment Income	Review			Pension Contributions			
Schools Financial Services				Schools Financial Services (Returns)	Complete	January 2015	High
Procurement	Planning			Recharges	Planning		
Risk/Priority Based Audit							
Capital Project Delivery				Property Service Desk	Merged with Total Facilities Management	N/A	N/A
New Ways of Working	Complete	January 2015	Adequate	Total Facilities Management	C/F 2015/16	N/A	N/A
Direct Payments	Fieldwork			Enablement	Planning		
Supervisions	Planning			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	Draft Report		
Promoting Independence Reviews	Draft Report			Safeguarding – Financial Abuse	Fieldwork		
Foster Care	Fieldwork			Adoption	C/F to 2015/16	N/A	N/A

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Children's Services Transformation Programme - Watching Brief	Fieldwork			Children's Services Transformation Programme - Baseline Assurance	Cancelled	N/A	N/A
Children's Payments – s17	Review			Commissioning & Quality in Care Frameworks	Fieldwork		
Supporting People	Draft Report			Kent Drug and Alcohol Action Team (KDAAT)	Complete	January 2015	No
Adult Social Care Transformation Programme – Watching Brief	Fieldwork			Domiciliary Care – Post Contract Review	Planning		
Sexual Health (replaced by Health Checks)	Cancelled	N/A	N/A	Health Checks	Review		
Prescribing	C/F to 2015/16	N/A	N/A	NICE Guidance	C/F to 2015/16	N/A	N/A
Serious Untoward Incidents	Planning			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	Draft Report		
Apprenticeships				Workplace Nurseries	Complete	January 2015	Limited
Additional Funding, including Premiums & Collaborations	Draft Report			SEN Assessment & Funding	Planning		
Schools Themed Reviews, including purchase cards and procurement	Complete	January 2015	Adequate	Troubled Families	Ongoing		
KIASS, including Checkpoint Review	Cancelled	N/A	N/A	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

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Concessionary Fares	Complete	January 2015		Expenses – Members & Officers	Planning		
Household Waste & Recycling Contract	Fieldwork			Waste Contract Management	Planning		
West Kent Waste Partnership				Kent Resource Partnership	Fieldwork		
Libraries Programme – Checkpoint Review	Fieldwork			Carbon Reduction Commitment	Fieldwork		
Commercial Services - Watching Brief	No Longer Applicable	N/A	N/A	Sports Grants			
Healthwatch Kent (carried forward from 13/14)	Complete	January 2015	Adequate	Public Health Governance – Deliver and Commissioning	Complete	January 2015	Substantial
IT Audit							
Website (carried forward from 13/14)	Complete	January 2015	Substantial	Liberi Post-Implementation	Fieldwork		
Follow-up Post Implementation Review (Carried Forward from 13/14)	Complete	January 2015	Limited	PCI DSS Compliance			
ICT Governance and Strategy				Network Security			
IT Disaster Recovery	Review			DPA Compliance	Planning		

Appendix E - Internal Audit Assurance Levels

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

Proposed Prospects for Improvement

Very Good

The operation displays strong building blocks for future improvement with exceptional leadership, direction and capacity

Good

The operation has satisfactory building blocks present for future improvement, there are minor improvements required in leadership, direction and capacity

Adequate

The operation has limited building blocks present for future improvement and there are weaknesses in leadership, direction and capacity

Uncertain

There are no building blocks evident for future improvement, leadership and direction is absent and there is no capacity.