

By: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 23rd July 2015
Subject: **Internal Audit Annual Report**
Classification: Unrestricted

Summary: This Annual Report summarises the outputs of the Internal Audit and Counter Fraud work for 2014/15 and provides an opinion on the Council's systems of governance, risk management and internal control. It also provides a commentary on the performance of the internal audit and counter fraud unit in delivering this work.

FOR ASSURANCE

Introduction and background

1. Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit must deliver an annual audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). This report must:
 - Include an opinion on the overall adequacy and effectiveness of the organisations control environment
 - Present a summary of work that supports this opinion
 - Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Head of Audit Annual Report

2. The Annual Report is attached at Appendix 1
3. Internal Audit has concluded, overall, based on the scope and findings of work that it has performed over the year and taking into account the individual strengths and areas for development that **substantial assurance** can be given in relation to corporate governance, risk management and internal control arrangements. The formal opinion statement is also included in Appendix 1.
4. The Council has substantial assurance relating to internal control because:
 - 73% of systems or functions have been judged with adequate assurance or better
 - A pattern of general robustness of key financial systems audited
 - Five systems received the highest assurance rating principally relating to finance or HR related areas
 - Strong corporate controls evident in systems relating to procurement although day to day management of contracts can be inconsistent
 - A number of exemplar areas identified ranging from employment contracts to controls over pupil premium additional funding

- No incidences of systemic failures of internal control, material fraud, irregularities or corruption have been discovered or reported during the year
5. Internal control is not yet at the highest assurance rating because:
 - 27% of systems or functions have been judged with limited assurance or worse
 - Two systems received a 'no assurance' judgement during the year, being KDAAT and Section 17 Children's Payments (the latter being a small system with turnover of less than £500,000)
 - Those more material functions that received a 'limited' assurance rating, more particularly foster care and supervision systems (adults)
 - The need to maintain more robust controls during transformational change and ensuring such changes are sustainable and that they deliver planned benefits
 - The need to consistently maintain strong local non-financial controls in remote establishments
 6. In relation to risk management we consider there are strong top level corporate systems but with weaker elements at lower levels in the Council and in some change programmes that we reviewed.
 7. In Appendix 1 we have independently reviewed annual monitoring controls and mapped our findings against the corporate governance CIPFA / SOLACE framework. This mirrors a substantive opinion for the majority of principles but with 5 areas for further development identified.

Follow Up

8. Appendix 1 details management responses and progress to the actions identified from previous audits, The Council is receptive to addressing issues and progress in implementation of agreed actions is generally satisfactory, although sometimes slow (40% of agreed actions are still works in progress).

Conformance to Public Sector Internal Audit Standards

9. In relation to the competencies of internal audit and counter fraud underpinning these opinions, the Committee will be aware that in March of this year the unit was independently assessed against PSIAS by the Institute of Internal Auditors and awarded the highest level of grading.

Recommendations

10. Members are asked to note the internal audit annual report for 2014/15 (Appendix 1) and the associated 'substantial' opinion on governance, risk management and internal control arrangements.

Appendices

Appendix 1 Internal Audit and Counter Fraud Annual Report 2014/15

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Kent County Council

Internal Audit and Counter Fraud Annual Report

July 2015

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1 Introduction and Purpose

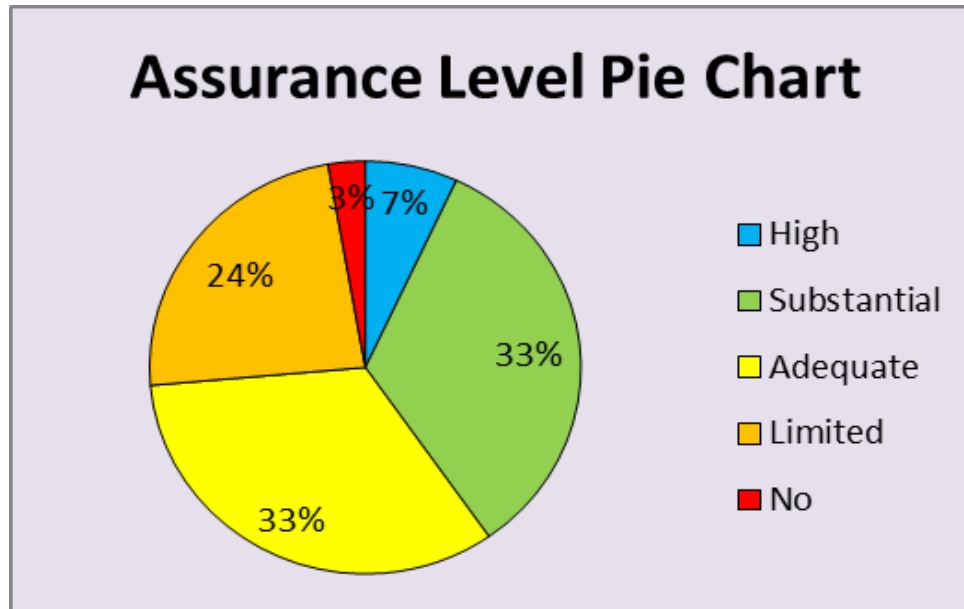
- 1.1. This report details cumulative internal audit and counter fraud outcomes for 2014/15. As well as providing the substantive evidence underlying our input into the Annual Governance Statement it also highlights key issues patterns, strengths and areas for development in respect to internal control, risk management and governance arising from our work.
- 1.2. Over the year we completed 72 substantive audits together with a further 10 establishment visits. In relation to counter fraud we have completed 135 investigations. The majority of this coverage was resourced and driven from the internal audit and counter fraud plan (previously reviewed by this Committee) 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 £ 1.5 billion of KCC turnover (excluding Treasury Management).
- 1.3. A further 18 counter fraud investigations remain ongoing and are carried forward into 2015/16.
- 1.4. In this annual report we highlight key messages and outcomes arising from our work together with the associated assurance levels. We also demonstrate how relevant audits dovetail into the components of the Annual Governance Statement. (See Table 2) We also provide relevant detail in Appendix A of those audits and substantive counter fraud investigations that have been completed since the April Governance and Audit Committee. In section 3 we also demonstrate where these findings provide appropriate assurance against key corporate risks or significant systems.
- 1.5. During 2014/15 internal audit has also remained 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

- 1.6. Table 1 and below maps the assurance levels from the 72 substantive internal audits (i.e., excluding establishment visits) undertaken in 2014/15. It also breaks down these outcomes into accountable Directorates. This results in an overall distribution of:

Assurance Level	#	%
High	5	7%
Substantial	24	33%
Adequate	24	33%
Limited	17	24%
No	2	3%



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

Audit Assurance Levels of 2014/15 Audits

25		Financial Assessment Unit	AGS Return	
24		Risk Management	VAT	
23		Records Management	IT Network Security	
22		Customer Feedback *	Members Expenses	
21		New Ways of Working	Data Protection - Control	
20		Schools Financial Services	Internal Redargas	
19		Revenue Budget	Use of Recruitment Agencies	
18		PG Compliance	Officers Expenses	Corporate Purchase Cards
17		Payments - AP & Proc	Imprest Bank Accounts	Information Governance
16		IT - Follow Up of Recommendations	Payroll	Procurement
15		Disaster Recovery	Waste Contract	General Ledger
14		Contract Management	RGF	Pension Contributions
13		Developer Contributions (Follow-up)	Schools Procurement & Purchasing Cards	Carbon Reduction
12		Gypsy & Traveller Unit	Apprenticeships*	Budget Build
11		Concessionary Fares	Secure Remand Process	Website Post Implementation Review
10		Community Based Nurseries	Data Quality	HR Performance & Capability
9		School's Additional Funding	UASC (Follow-up)	Schemes of Delegation*
8		Elective Home Education	Enabement (KEAH)*	Health & Safety
7		Optimisation	Local Financial Control - Establishment	Insurance (Follow-up)
6		Supervision (Adults)	Direct Payments (Adults) *	Accounts Receivable
5		Foster Care	Care Act Preparedness	School's Additional Funding
4		Promoting Independence Reviews (PIR)	IT Literat Post Implementation Review	Children Missing Education
3		Supporting People	Kent Card	NHS Health Checks
2	Section 17 Childrens Payments	Direct Payments (Childrens)*	Healthwatch	Public Health Commissioning
1	KDAAT	Healthwatch	Public Health Commissioning	Schools Returns

ASSURANCE LEVEL

Social Care Health & Wellbeing
Education and Young Peoples Services
Growth, Environment & Transport
Authority Wide and Strategic Services

*** Audits Reports currently at Final draft stage**

1.7. The following strengths and areas for development underlie these outcomes:

1.8. Strengths :

- The 73% of systems or functions that have been judged with adequate assurance or better
- A pattern of general robustness of key financial systems audited
- Five audits received the highest assurance rating, principally relating to finance or HR related functions and a number of exemplar areas have been identified ranging from employment contracts to controls over pupil premium additional funding
- Strong corporate controls over systems related to procurement, although day to day management of contracts can be inconsistent
- No incidences of systemic failures of internal control, material fraud, irregularities or corruption have been discovered or reported during the year (see below)
- Satisfactory progress in implementing previously agreed actions from audits, although this process can sometimes be slow

1.9. Areas for further improvement:

- The 27% or systems or functions that have been judged with limited assurance or worse
- Two systems received a 'no assurance' judgement during the year, being KDAAT and Section 17 Children's Payments, the latter being a small system with turnover of less than £500,000
- Those material functions and services that received 'limited' assurance, more particularly foster care and supervision (adults)
- The need to maintain more robust controls during transformational change, ensuring we learn the lessons from substantive change programmes, ensuring such changes are sustainable and they deliver planned benefits
- The need to maintain strong local non-financial controls in remote establishments where 50% of those audited this year have exhibited weaknesses

Counter Fraud

- 1.10. Transparency reporting of counter fraud data for 2014/15 was incorporated into the April performance report and for completeness is repeated in section 7.5 but in summary during 2014/15:
- A total of 135 fraud and irregularity cases were investigated
 - Of these 48 incidents were classified as fraud (in accordance with the Audit Commission's definition).
 - The total value of these incidents (both fraud and irregularities) was £176,208 and £152,362 has been identified as recoverable.
- 1.11. The nature of the majority of the fraud activity could best be described as 'low value, high volume' fraud and includes Blue Badge misuse and abuse of the Kent Support as Assistance Scheme (KSAS). The most common source of referral comes from staff which provides positive assurance that there are good levels of fraud awareness and accessible 'whistleblowing' systems
- 1.12. In relation to counter fraud work two initiatives during 2014/15 are of note:
- the section spearheaded a "Spot it – Stop it" Council wide campaign which was well received
 - the development of a pan Kent intelligence network which was initiated by a £498,000 award from the DCLG, from which the data matching outcomes with our Kent public sector partners are planned to come on-line from the autumn of 2015
- 1.13. Overall these summary findings support a positive assurance, in terms of both the fraud and irregularity levels detected within the Council together with a positive culture of fraud awareness.

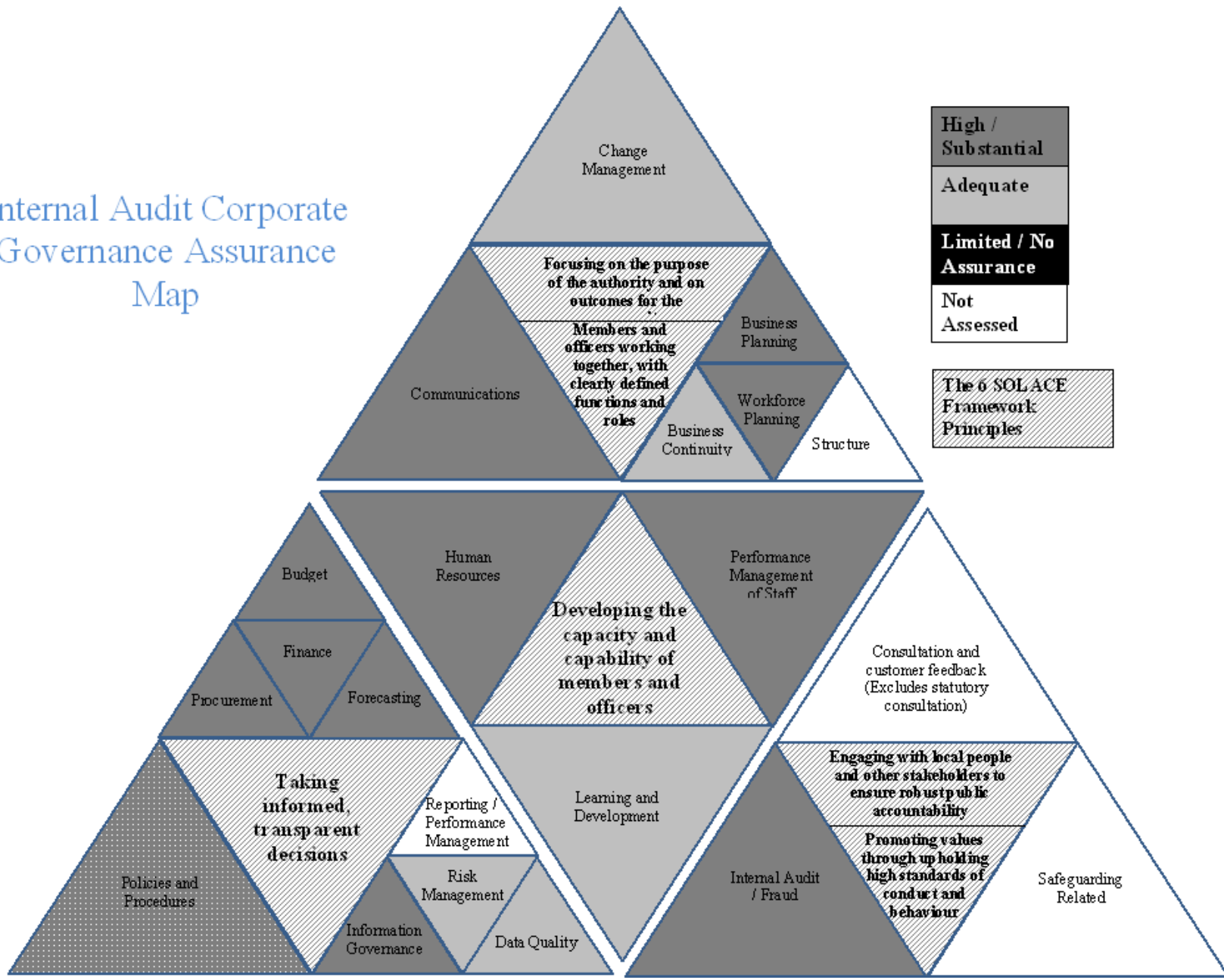
Overview Assurance and Opinion

- 1.14. The breadth of our coverage and outcomes from our work for the year has provided sufficient evidence to support a '**Substantial**' opinion on the overall adequacy and effectiveness of the Council's system of internal control, which relates to:
- Corporate Governance
 - Risk Management
 - Internal Control
- 1.15. There have been no limitations to the scope of our work but it should be noted that the assurance expressed can never be absolute and as such internal audit provides "reasonable assurance" based on the work performed.

Corporate Governance

- 1.16. Table 2 arranges our audit opinions around the 6 core principles of the CIPFA / SOLACE AGS framework. This is part of a more substantive report that has been submitted to the Director of Governance and Law. It will be noted that of the 21 areas we have aligned the framework , 12 have been judged as having high / substantial assurance and 5 with adequate assurance. (We have insufficient evidence to provide an opinion in 4 areas). Those with adequate assurance generally reflect our summary findings in section 2.3-2.4 and relate to
- change management,
 - risk management,
 - data quality,
 - business continuity and
 - learning and development
- 1.17. We have also provided a substantial assurance to the system and networks of Directorate and Departmental returns across the County Council that feed into the Annual Governance Statement. We found a robust system that ensured completeness of such returns accompanied by appropriate challenge and accompanying action plans.

Internal Audit Corporate Governance Assurance Map



High / Substantial
Adequate
Limited / No Assurance
Not Assessed

The 6 SOLACE Framework Principles

Table 2

Risk Management

- 1.18. As previously reported, our opinion on the Council’s risk management system was ‘adequate’, based on findings of a strong top level corporate systems but with weaker elements in change programmes and lower level risk awareness and evidence of monitoring

Internal Control

- 1.19. Overall we have concluded a substantial assurance relating to over- arching control environments. Strengths and areas for development have been detailed in Section 2.3 and 2.4. Particular assurance can be gained from the findings from our audits of core critical functions relating to finance and HR

1.20. Opinion for 2014/15

- 1.21. Based on these outcomes from work that we have performed and taking into account strengths and weaknesses identified a substantial assurance can be provided in relation to the adequacy of overall governance, risk management and internal control arrangements operating during 2014/15.
- 1.22. The full declaration that will be contained in the Annual Governance Statement is shown below:

Internal Audit has concluded, overall, based on the scope and findings of work that it has performed and taking into account the individual strengths and areas for development identified, that substantial assurance can be given in relation to corporate governance, risk management and internal control arrangements.

In relation to internal controls, internal audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a pattern of generally robust core support systems, with a number of exemplar areas identified. No incidences of material external or internal fraud or corruption have been detected or reported. Areas for further improvement have also been highlighted; more particularly the need to maintain controls and sustain improvements in transformational change programmes, ensure risk management is embedded within lower levels of the Council, that non-financial data quality is consistently maintained and that local controls in remote establishments are always properly applied and enforced.

The Council has been receptive to addressing issues raised by Internal Audit and implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.

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 April 2015 report to this Committee.
- 3.2. It is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the year. The tables below show these patterns on a cumulative basis with audits previously reported to the Committee in the shaded areas.

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

- 3.3. During the year we have reviewed seven areas that have a common theme connected to the management of change.

	Assurance level	Issues Raised	
Enablement	Adequate	High: 2 Medium: 3	Final Draft report issued, All Accepted
Optimisation	Limited	High: 5 Medium: 2	All Accepted
Promoting Independence Reviews (PIR)	Limited	High: 2 Medium: 0	All Accepted
Care Act Preparedness (1)	Adequate	N/A	N/A
Supporting People	Limited	High: 1 Medium: 1	All Accepted
Healthwatch	Adequate	High: 0 Medium: 3	All Accepted

New Ways of Working	Adequate	High: 1 Medium: 4	All Accepted
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- 3.4. Overall these outcomes reflect that there is a need to improve how the Council sometimes responds to and plans for change. In particular the three substantive consultancy based 'Facing the Challenge' programmes have delivered more limited assurance principally around common themes of sustainability of efficiencies. It is important that lessons are learnt for future programmes particularly over set up arrangements, data quality and integration of stand-alone monitoring and core KCC systems and that new arrangements deliver a consistency of working against the complexity and geography of current arrangements.
- 3.5. The unit is also involved in a number of change programme groups and boards as well as making input towards checkpoint reviews. This allows us to make timely 'pre event challenge' rather than post event criticism' as transformation progresses.

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	
IT Network Security	Substantial	High: 0 Medium: 1	All Accepted
Data Protection-central control	Substantial	High: 0 Medium: 1	All Accepted
PCI Data Compliance	Limited	High: 1 Medium: 2	Accepted bar 1 Medium risk issue where no further action proposed due to high costs involved
Data Quality Education and Young People	(Overall) Adequate	High: 5 Medium: 3	All Accepted
IT Liberi Post Implementation Review	Adequate	High: 1 Medium: 1	All Accepted

IT – Information Governance	Substantial	Medium: 2	All Accepted
Disaster Recovery	Limited	High: 3 Medium: 2	All Accepted
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 10 audits evidence 40 % as substantial but 30% as limited. It is encouraging that top level management action is being taken over disaster recovery arrangements but data quality, as evidenced from the 'deep dive' work into the four EYP systems (previously reported) demonstrates inconsistencies in this important area.

Safeguarding related

3.8. Safeguarding of vulnerable children and adults is a critical risk for the Council. We have completed elements of assurance work associated to this risk:

	Assurance level	Issues Raised	
Secure Remand Process	Adequate	High: Medium:	All Accepted
Direct Payments - Children	Limited	High: 3 Medium: 2	Final Draft report issued, responses received

Direct Payments – Adults	Adequate	High: 1.5 Medium:0.5	Final Draft report issued, All Accepted
Supervision (Adult Social Care)	Limited	High: 3 Medium:3	Final report issued, Some issues disputed
Foster Care	Limited	High: 7 Medium:2	Partially accepted. No action proposed on one high risk issue
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. During 2014/15 coverage was more limited and peripheral to safeguarding with the exception of Foster Care and Supervision audits, both of which received limited assurance. The Foster Care outcomes have already been reported to the G&A Committee but the detail of the Supervision in key elements of Adult social care is shown in Appendix A. In summary testing found significant lapses of supervision of front line staff and an absence of quality assurance controls and transfer of relevant decisions to case files. One of the key barriers to effective supervision appeared to be high levels of work stress of supervisors. As supervision is a key control contributing to the delivery of effective services to groups of vulnerable people it is important these are rectified as soon as possible. To date the management action and response has not been comprehensive.

Access to resources to aid economic growth and enabling infrastructure

3.10. Summary results for the year are:

	Assurance level	Issues Raised	
Regional Growth Funding	Adequate	High: 1 Medium: 3	All Accepted
Developer Contributions follow up audit (S106 Agreements)	Limited	No new issues raised	N/A

3.11. The two audits undertaken against this risk (both previously reported to G&A Committee) demonstrate mixed results. The RGF framework and controls were found to be robust with extremely low incidences of failure or default on funding. The follow up on Section 106 systems showed slow progress on system upgrades such that underlying weaknesses continue.

Governance and Internal Control - critical systems and services

3.12. 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	
Schemes of Delegation	Substantial	High: 0 Medium:1	All Accepted
Revenue Budget Monitoring	Adequate	High: 0 Medium:4	All Accepted
Officers Expenses	Adequate	High: 1 Medium:1	All Accepted
Members Expenses	Substantial	No high or medium risk issues	N/A

Customer Feedback	Adequate	High: 1 Medium:4	Final Draft report issued, All accepted
Risk Management	Adequate	High: 1 Medium: 3	All Accepted
General Ledger	Substantial	No high or medium risk issues	N/A
Financial Assessment Unit	Adequate	High: 0 Medium:3	All Accepted
Internal Recharges	Substantial	High: 0 Medium: 1	All Accepted
Inland Revenue Accounting	High	High: 0 Medium: 1	All Accepted
Payments – AP and iProc	Limited	High: 3 Medium: 3	All Accepted
Pension Contributions	Substantial	High: 0 Medium: 2	All Accepted
Pension Fund Investment Income	High	No high or medium risk issues	N/A
Contracts of Employment	High	No high or medium risk issues	N/A
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

- 3.13. Over 65% of critical financial and corporate systems examined have received substantial assurance or better, with only the payments (AP and Iproc) systems receiving limited assurance. This theme has continued with audits since April 2015, with substantial assurance given to the over-arching schemes of delegation across the Council and for the Member and officer expenses systems. Overall we are able to provide continuing positive assurance over the robustness of the 'backbone' central systems within the County Council.
- 3.14. As previously reported, our audit of corporate risk management found corporate and top level risk management to be robust and risk registers were present for most of the major transformation projects, although they were not always consistently assembled and presented. However we found there was an inconsistent understanding of the Council's risk appetite and audit work highlighted material services and areas where lower level risk

management and resultant registers were not present.

Procurement and Contract Management

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

	Assurance level	Issues Raised	
Waste Contract Management	Adequate	High: 0 Medium: 2	All Accepted
Corporate Purchase Cards	Substantial	High: 0 Medium: 1	All Accepted
Highways - Term Maintenance Contract Payments	Substantial	High: 0 Medium: 2	All Accepted
Procurement	Substantial	High: 0 Medium: 3	All Accepted
Schools Procurement and Purchase Cards	Adequate	High: 2 Medium: 2	All Accepted
Contract Management	Limited	High: 1 Medium: 0	All Accepted
Concessionary Fares	Limited	High: 2 Medium: 1	All Accepted

The overall findings are indicative of generally strong controls over how the County Council procures goods and services with compliance to the Council's overarching policies and practice. However from sampling a number of contracts we found day to day contract management is inconsistent.

Other Audit Work

3.16. A further 13 pieces of work have been undertaken with the following outcomes:

	Assurance level	Issues Raised	
Unaccompanied Asylum Seeker Children (follow up)	Adequate	High: 1 Medium: 4	Final Draft issued, All Accepted
Apprenticeship Schemes	Adequate	High: 1 Medium: 3	All Accepted
Schools Financial Services	Adequate	High: 1 Medium: 2	All Accepted
Section 17 – Childrens Payments	No	High: 2 Medium: 5	All Accepted
NHS Health Checks	Substantial	High: 0 Medium: 6	All Accepted
Use of recruitment agencies – Sen Staff	Substantial	No high or medium risk issues	N/A
Kent Card	Adequate	High: 2 Medium: 4	Draft
Schools Additional Funding - Collaborations	Limited	High: 1 Medium: 2	All Accepted
Schools Additional Funding – Pupil Premium	Substantial	High: 1 Medium: 2	All Accepted
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
Kent Resource Partnership	Advisory	High: 0 Medium: 2	All Accepted

3.17. This miscellany of audits overall demonstrates 75% of functions with adequate assurance or better. With the exception of collaborative funding systems, outcomes from schools related functions are positive with positive assurance over schools returns and schools financial services. The recent follow up audit of unaccompanied asylum seeking children also showed positive progress being made on the system improvements identified in the previous audit.

Establishment Visits

3.18. During the year we have concluded audits of 10 establishments with the following outcomes:

	Assurance level	Directorate
Local Financial Controls - Establishments	Adequate	Various
Osborne Court	Limited	Social Care, Health and Wellbeing
Hardelot Centre	Limited	Growth, Environment & Transport

Kent Mountain Centre	Limited	Education & Young Peoples Services
Guru Nanak Day Centre	Substantial	Social Care, Health & Wellbeing
Cranbrook Childrens Centre	Adequate	
Southfields Respite Centre	Substantial	
Whitstable Road Respite Centre	Adequate	
Meadowside Respite Centre	Substantial	
Dorothy Lucy Centre	Limited	
Westview Integrated Care Centre	Limited	

3.19. Overall financial controls were good with no material overspends. Nevertheless 50 % of the establishments have been judged to have limited assurance, principally over their non-financial controls including shortfalls in core training, declines in safety and security controls and inadequate evidence of DBS checks. We have received positive action plans from management to address the issues identified, but these findings point to the risks associated with weaker supervisory controls over remote establishments.

4. Group Audit Work - Commercial Services and other LATCo's

- 4.1. A Group Audit function was formed at the start of January 2015 to provide internal audit cover to Commercial Services and other future emerging LATCo's, the aim being to strengthen governance and provide consistency and learning from current and future LATCo (or equivalent) operations.
- 4.2. In relation to Commercial Services we are currently preparing our year end opinion, which is likely to be 'limited' (no change from 2013/14) due to the continuing problems with a large number of legacy systems and practices. We will be reporting this opinion to the next Commercial Services Audit Committee. Management have taken these issues seriously and have developed thorough recovery and action plans which are regularly monitored. A

number of improvements have already been evidenced as a result.

5. Counter Fraud and Corruption Fraud and Irregularities

- 5.1. As previously stated the counter fraud team investigated a total of 135 fraud and irregularities of which 48 incidents were classified as fraud (in accordance with the Audit Commission's definition) and 11 remain under investigation. The total value of these incidents (both fraud and irregularities) was £176,208 and £152,362 has been identified as recoverable.
- 5.2. In relation to investigation outcomes, 3 simple cautions¹ were issued, 15 formal written warning letters were sent (mainly to members of the public who had misused their Blue Badge or submit a misleading application to KSAS) and 5 incidents were reported to the police. Other outcomes have included redeployment, resignation prior to disciplinary and financial recovery.
- 5.3. In relation to proactive preventative counter fraud work the activity can be summarised as follows:
 - The section delivered the 'Spot it, Stop it' fraud awareness campaign which was well received and resulted in an increase in awareness and additional irregularities being reported to Internal Audit.
 - The service led the Council's participation in the Cabinet Office's National Fraud Initiative (NFI) which is a biennial exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. In total (but excluding finance related matches) the NFI identified 11,000 high priority matches. Results to date include cancelling 1,900 Blue Badges belonging to deceased persons and annulling a further 5,800 concessionary travel passes. 39 matches are currently being investigated further.
 - The team led a successful bid and were awarded £480,000 from the DCLG Counter Fraud Fund to implement a pan Kent data analytics and intelligence network. The network will launch in the autumn of 2015 and is projected to save Kent authorities £3.9 million over the next five years by reducing fraud and error across a range of council services.

¹ A simple caution (once known as a formal or police caution) is a formal warning that may be given to persons aged 18 or over who admit to committing an offence. The simple caution scheme is designed to provide a means of dealing with low-level, mainly first-time, offending without a prosecution.

- 5.4. In accordance with CIPFA's Code of Practice for Managing the Risk of Fraud we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and is committed to maintaining its vigilance in tackling fraud.

Kent Intelligence Network

- 5.5. We previously reported our success in a bid to the DCLG 'Counter Fraud Fund' to facilitate the creation of a county wide counter fraud intelligence network working in partnership with all the Kent districts and Medway. We are the lead authority and anticipated host.

6 Follow Ups

- 6.1. In relation to follow up work and independent analysis on progress by management to implementing agreed actions from audits, a summary is shown in Appendix D. This data follows on from the format used at the last Governance and Audit Committee where we are now spotlighting implementation of higher priority actions and in areas previously judged to have an assurance rating of 'adequate' or less.
- 6.2. In summary the results from such follow up work indicates that progress in implementation of agreed actions is generally satisfactory, although sometimes slow. In particular the implementation of 40% of agreed actions are still in progress.

7 Internal Audit and Counter Fraud Performance

Internal Audit

- 6.3. Internal audit performance against our targets to the end of March 2015 are shown below:

Performance Indicator	Target	Actual
<i>Effectiveness</i>		
% of recommendations / issues accepted	98%	98%
<i>Efficiency</i>		
% of plan delivered	90% by year end	96%

% of available time spent on direct audit work	85%	85%
% of draft reports completed within 10 days of finishing fieldwork	90%	83%
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
Quality of Service		
Average Client satisfaction score	90%	93%

6.4. It will be noted that 96% of the audit plan was achieved during 2014/15, exceeding our target and in addition to special investigations and unplanned work. Appendix C details the final plan progression for 2014/15.

Counter Fraud Transparency Measures

6.5. For completeness on performance, the counter fraud performance for 2014/15, as previously reported to Committee is repeated below:

Counter fraud transparency measures	2014/15
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	53

No of irregularity cases investigated		82
Total No of occasions on which (a) fraud and (b) irregularity was identified	(a)	53
	(b)	20
Total monetary value of (a) and (b) detected	(a)	£84,908
	(b)	£90,735
Total monetary value of (a) and (b) recovered	(a)	£73,946
	(b)	£84,433

It will be noted that fraud recoveries exceeded the costs of the team in 2014/15.

7. Conformance with Public Sector Internal Audit Standards

- 7.1. It is clearly essential that when delivering an opinion on the control, governance and risk environment of the Council, senior management and Members can rely on the quality of audit and counter fraud work and the associated staff competencies. In particular it is a requirement that the audit and counter fraud function complies with public sector internal audit standards. (PSIAS).
- 7.2. As previously reported to this Committee, in March the unit was subject to a full independent external quality assessment by the Institute of Internal Auditors (IIA). The outcomes from this assessment was that the unit had full compliance with 52 of the 56 internal audit standards (and partial compliance with the remainder) and as a result received the highest level of grading from the IIA. Backing up this assessment are the periodic self-assessments and quality assurance and improvement programmes that the unit undertakes.

8. Conclusion and Opinion

- 8.1. Based on the scope and findings from internal audit and counter fraud work performed during the year and taking into account strengths and areas for development identified that **substantial assurance** can be provided on the adequacy of overall governance arrangements, risk management and internal control.

8.2. In relation to our own performance we believe we continue to offer an effective independent assurance service that provides added value to the Council during a time of considerable challenge and change.

Appendix A - Summary of individual 2014/15 Internal Audits issued April - July 2015

Optimisation	Annual Governance Statement
<p>Scope</p> <p>The aim of the audit was to provide assurance that the improvements and changes developed and piloted by Newton Europe have been rolled out and imbedded in the practices of area teams, budgeted and cashable savings have been achieved, and that these changes are sustainable without further external consultancy support.</p> <p>Overall assessment – Limited Prospects for Improvement - Good</p> <p>The Limited assurance relates to concerns over the implementation and sustainability of the revised optimisation system which are having an impact on staffing efficiencies and ultimately the service to clients. There are indications that this has not been comprehensive and although guidance is available it is not widely used. There were examples where calendar slots were not entered by staff, or were categorised incorrectly which affected the number of slots identified by the scheduling tool and the tracker sheet. In addition calendar slots, open to all KCC staff, contained personal, confidential information.</p> <p>The savings from the new model were reliant on the reduction of staff during the recent restructure. Projected savings are on course to be realised, but we were informed by management that the reduction of staff and current vacancy levels is making the model hard to sustain. The stand-alone system is not being centrally supported resulting in availability and maintenance problems.</p> <p>Performance management processes within the division use good reporting tools to identify issues and track them. There is a clear process for escalating issues and drilling down in to areas of poor performance. There are staff and management groups in place to address issues identified.</p>	<p>Scope</p> <p>The overall objective of the audit was to provide assurance that there are adequate and effective processes in place to ensure that returns are completed appropriately, in order to provide the information required to produce the Council’s Annual Governance Statement (AGS). This did not include a review of the final AGS which is included in the Statement of Accounts, as this will be reviewed by the external auditors.</p> <p>Overall assessment: Substantial</p> <p>Overall, we found that adequate processes were in place to manage completion of AGS returns. Suitable evidence was received to support: Corporate Director review and challenge; actions taken on issues raised; discussion of issues at DMT Meetings and resolution of recommendations raised in the 2014/15 internal audit report. In addition, consolidated Part A returns represented a fair reflection of the priority issues facing each directorate for the year ahead.</p> <p>The Substantial assurance level reflects that the Authority largely operates a sound process for completing AGS returns. We found two minor exceptions to this where returns had not demonstrated that all expected resources had been considered. In addition, whilst we received satisfactory evidence to support management of raised issues, it was not clear from the AGS returns themselves whether issues were completed or remained outstanding. Specifically one return had not included any of their 2013/14 issues that had been completed.</p> <p>In total, we identified 3 issues, 2 rated medium risk and 1 rated low.</p>

There were 8 issues raised, of which 5 were high.

Apprenticeships

Scope

The objective of this audit was to provide assurance that the eligibility of young people, quality of placement and payments made for Apprenticeships are in accordance with agreed procedures and that sufficient monitoring is in place to establish the success/ progression of young people within apprenticeship schemes.

Overall assessment: Adequate (Draft)

We found that there is comprehensive guidance in place that sets out best practice; supporting records were mostly retained in line with the guidance. Key performance indicators have been established and are regularly monitored to evidence the success of apprenticeship schemes.

The Adequate assurance is based on sample testing identifying that 55% of employer's expressions of interests (EOI) were not retained for the Kent Employment Programme (KEP) and, that grant agreements and EOI do not specify the responsibility to perform eligibility checks. Payments made in advance of set periods as set out in guidance for KEP were identified. Within Assisted Apprenticeships (AA) a significant proportion of payments, 66% of our sample, were not paid in line with the monthly amount as stated in guidance documentation. KCC apprenticeships only select two providers for all apprenticeships though there is no reason that others could not be considered. There are gaps in leaving data collected for apprenticeship schemes leading to schemes not being able to evidence the progress of all Apprenticeships.

In total, we identified 4 issues, 1 rated high risk and 3 medium.

Corporate Governance

Scope

The aim of the audit was to provide assurance that the Corporate Governance arrangements within the Council are being managed effectively in order to meet corporate objectives and to support the Annual Governance Statement.

Overall assessment – Substantial

Over half the completed audits reviewed against the SOLACE 'Delivering Good Governance in Local Government framework' were assessed as giving Substantial or High levels of assurance.

The Substantial assurance reflects that there are accessible strategic plans and that operational policies and procedures are in place across the organisation. However, training that has been made mandatory, such as Kent Manager and Information Governance, has not been completed by all staff. There was also poor up take of the e-induction course for new members of staff.

We found that Safeguarding was not specifically mentioned in the Annual Governance Statement and that there was no central monitoring of Ofsted inspections and quality of Kent children's homes.

There were 5 issues raised, none of which 1 was high.

Direct Payments

Scope

The overall objective of the audit was to provide assurance over the controls in place in both Adults and Disabled Children's Direct Payments to mitigate associated risks including legal, financial and safeguarding risks.

Overall assessment: Split Assurance – Adults Adequate, Children Limited

The Direct Payments process was last audited in 2011-12 and resulted in a 'Limited' assurance for both adults and children.

Adults Social Care

Overall, we found that there had been control improvements, for example there had been a large increase in the number of Direct Payment (DP) agreements retained on file. We also found that policies and guidance are comprehensive, payments had been made accurately and amendments had been processed timely.

The Adequate assurance reflects that controls in place for Mental Health DPs were not operating as effectively as the rest of Adults Social Care. Additionally, at the time of fieldwork 40% of DP reviews were overdue. The DP Team has worked to address this, which resulted in a decrease in overdue reviews, however there has also been a 30% increase in Direct Payments clients in which means we cannot be certain that this direction of travel is sustainable.

In total we identified 2 high (summarised above), 1 medium risk and 1 low risk issues.

Children

We found that appropriate policies and guidance are in place. Additionally, all Direct Payments tested had been reviewed in the last 12 months and endings had been processed timely, reducing the risk of overpayment.

The Limited assurance level reflects that at the time of fieldwork, there was no signed contract extension in place between KCC and the providers of the Direct Payments Support Service. There was no Direct Payment Agreement on file for 35% of our sample, and there was also insufficient documentation retained to support that the majority of Direct Payments had been appropriately authorised. There is also no control in place to ensure that the service user continues to be paid if the adult service is not set up for the service user's 18th birthday, as required by the Care Act 2014.

In total, we identified 3 high, 2 medium and 1 low risk issues

Customer Feedback

Scope

The overall objective of the audit was to provide assurance that the risks associated with Customer Feedback are being managed adequately and effectively in order to meet system, service and corporate objectives.

Overall assessment – Adequate (Draft)

Customer feedback is received through a number of channels and by numerous service units and teams, many of which have developed their own procedures. This audit cannot give assurance that all feedback and complaints are captured in the first instance, and instead focussed on assessing whether those complaints that are recorded were being dealt with in line with the various policies and procedures that exist across the Council.

The Adequate assurance is based on testing of the handling of complaints received by a sample of services, as well as those escalated to the Local Government Ombudsman (LGO), which generally found procedures were being followed. Where the Council is working with third party providers, we found instances where there was insufficient detail in the contract to ensure that feedback (including complaints) was captured and appropriately addressed.

A number of areas for improvement were identified, one of which was high risk regarding inconsistencies in defining, recording and processing complaints across the Council. The Policy, procedures and website require updating once the new Customer Service policy is finalised and approved, third party provider arrangements for complaints handling are unclear and not consistently monitored by contract managers. Improvement could be made to the processes for identifying lessons learned from complaints and reporting of these.

A total of 6 issues have been raised, 1 high, 4 medium and 1 low risk.

Kent Enablement at Home (KEaH)

Scope

The objective of this audit was to provide assurance the Enablement Service policy and practice guidance is being applied and adhered to effectively to facilitate independence and thereby supporting reduction or elimination of the need for further intervention.

Overall assessment: Adequate (Draft)

The Adequate assurance is based on there being detailed protocols and guidance available to all staff. Performance is being monitored on a regular basis with weekly trackers and dashboards generated at a local level and also on an overarching basis for the whole service. The 50% 'success rate' of service users going on to live independent lives is a slight decline on previous performance but with considerably higher volume of referrals.

However, results of testing on client files that established evidence of service user agreement to enablement was not available on a substantial proportion of client records and 37% didn't have evidence on file of required reviews. We were informed that this may have been due to a lack of resources within locality teams regarding filing. We identified data quality issues within the trackers including dates, length of service and number of referrals. Service users had been added to the tracker without a Swift ID, as this is not always available at the time of starting the service. This presents risks over duplicate records and resultant inflated contractor payments. Those declined by the service or by the service user are not recorded on Swift as required in the procedural guidance. There is no risk register in relation to the delivery of the KEaH service. Testing found that not all staff had completed required training in full. Referral figures include all referrals regardless of how long the client was in the service, for example 11% of those that entered enablement were only in the service for a day or less.

In total, we identified 4 issues, 1 rated high risk and 3 medium risk. All of these are summarised above.

Data Protection Compliance

Scope

The overall objective of the audit is to provide assurance that the Information Resilience and Transparency Team are effective in contributing to the Council's obligations under the Data Protection Act (DPA).

Overall Assessment – Substantial

Duties for compliance with the Data Protection Act 1998 rest with the Information Resilience and Transparency Team. Business areas are relied on to report any suspected data incidents to the team. Investigations are carried out and, if a breach has occurred, a referral would be reported to the Information Commissioners Office.

The Substantial assurance is based on sample testing and interviews with key officers, which identified that controls are operating effectively. The team centrally maintains data protection procedures and provides information and guidance to staff through Knet, along with regular bulletins in K-mail. All staff have access to a DPA training course, however, the course is optional and there is no monitoring of numbers of staff who have completed it. Hence although all staff are expected to conduct their business with due regard to DPA, they are not made explicitly aware of their obligations.

All reported incidents are logged, investigated and assessed to identify whether a serious breach has occurred which needs to be reported to the Information Commissioners Office. Audit testing confirmed the accuracy of the logs and that appropriate records have been maintained for all data incidents. The IR&T team also logs and oversees the collation of data for subject access requests by individuals under the DPA.

One medium risk issue has been raised in this Audit.

Member and Officer Expenses

Scope

The overall objective of the audit was to provide an assurance that adequate, robust controls exist and are operating effectively to ensure that only appropriate and bona fide payments are made.

Overall assessment: Members - Substantial; Officers - Adequate

KCC reimburses Members and officers for expenses incurred whilst on Council business. Annually, the Council spends approximately £6m reimbursing officers and £120,000 reimbursing Members for expenses incurred.

We found that there were detailed and up to date policies, procedure notes and guidance available for both officers and Members. Although one duplicate manual expense claim (for an officer) was identified, we found no evidence of fraud.

The Substantial assurance for Members is based on sample testing that confirmed that key controls were operating as intended.

The Adequate assurance related to officer's expenses is based on sample testing that revealed a significant number (33%) of officer claims did not include receipts for all expenditure and/or sufficient details of journeys undertaken for mileage claims (37%). Although we recognise that this is an improvement from the previous audit, which identified that 50% of claims sampled failed to include a receipt.

In total, we identified 4 issues, 1 of which was high risk (summarised above).

Network Security

Scope

The overall objective of the audit was to provide assurance that the Council's network is secure, effectively managed and has resilience, in order for it to provide the platform delivery of business and communication applications.

Overall Assessment – Substantial

The Corporate ICT Network Infrastructure provides the platform to support delivery of primary business applications and communication systems. The Network is based around two key data centres, with a further 10 'tier 1' sites to support distributed network components. The internal network is supported by the Council's in-house ICT team, but the WAN that provides the backbone for connectivity between sites, is supported by an outsourced service provider.

The Substantial opinion is based on an assessment of network security arrangements which found that the internal network structure is designed to facilitate resiliency and network equipment is held in suitably secure areas; the network is administered effectively. For the Windows environment, security patches are identified, evaluated and installed as appropriate. The Firewall configuration is considered fit for purpose, antivirus is installed on the server and desktop environment and both privileged and regular user access is administered adequately.

The audit identified a small number of areas for improvement: patch management for the Unix environment is largely reactive and it was noted that the CCTV within the Sessions House data centre does not cover the entrance door.

Two issues have been raised as a result of this audit, 1 Medium risk and 1 Low risk. No management action is proposed to address the Low risk issue; it was considered that the mitigating controls are sufficient.

PCI Compliance

Scope

The overall objective of the audit is to assess KCC's preparedness for compliance with Payment Card Industry Data Security Standard, including use of chip & pin terminals.

Overall Assessment – Limited

The Payment Card Industry Data Security Standard (PCI DSS) is an information security standard that applies to organisations that offer facilities for the public to make payments via credit and debit cards. The standard was introduced to increase controls around cardholder data to reduce credit card fraud. KCC has not yet certified itself to be compliant with PCI DSS; however it remains bound by the standard and may be fined if there are any security breaches leading to disclosure of card data.

ICT Security and Service Transition team has completed, on a quarterly basis, a self-assessment of PCI compliance for the business areas that process card payments via Worldpay. We understand, however, that there are other services which process payments via other merchants. The volume and value of such payments cannot yet be quantified, nor are the processes through which such payments are processed fully understood.

The Limited assurance opinion is based on the lack of clarity over all the processes in place through which the Council receives credit and debit card payments, which means that it is not currently in a position to assess PCI compliance across the Council. In addition, a number of other issues were identified around the security of payment data.

4 issues have been raised, 1 high and 3 medium risks. Due to high costs of software monitoring management have determined they will defer rectification of one medium risk

Revenue Budget Monitoring

Scope

The aim of the audit was to provide assurance that the budget monitoring process ensures that revenue income and expenditure is accurately recorded and reviewed, reliable forecasting is provided and that potential issues are identified on a timely basis for corrective action to be taken. This audit focused on the very high risk budgets.

Overall Assessment – Adequate

There are approximately 2,900 cost centres that are monitored and reported on each month, covering all the Council's services. Budget holders are required to take ownership and monitor their budgets proactively, with varying degrees of support from Finance according to the risk rating given to their budget. The very high risk budgets are each monitored by senior accountants in Revenue Budget Monitoring, who work closely with the service budget holders to understand the nature of the activity, expenditure and income and to forecast the budget position for the remainder of the financial year.

The 'Adequate' assurance is based on interviews with staff and testing of monitoring and forecasting arrangements for a sample of very high risk budgets. Each budget area has its own bespoke spreadsheet which is used to provide a monthly forecast at a subjective level and explain budget variances. Our audit testing confirmed that there is a clear link between the underlying financial data in Oracle and the income and expenditure reported in the Revenue Budget Monitoring Report to Corporate Board and Cabinet.

However, areas for improvement were also identified including: the analysis and understanding of projected transformation savings; effectiveness of the budget monitoring process and reliance on data quality of feeder systems; the timeliness of reporting to Cabinet; and the lack of procedure notes or process maps.

We have raised 5 issues, none of which are high risk.

Schemes of Delegations

Scope

The aim of the audit was to provide assurance that controls are in place to ensure decisions are made in line with the Council's Executive and Non-Executive Schemes of Delegation and that sub delegations are properly formulated, documented and complied with.

Overall Assessment – Substantial

The Council has a legal requirement to ensure that adequate governance arrangements are in place to help achieve its statutory responsibilities and to protect the Council's assets and finances. The Constitution records the arrangements made by the Council, the Leader and Council Committees for the allocation and delegation of the powers and functions of the Council, in accordance with the Local Government Act 2000. Functions may be sub-delegated and any sub-delegations should be formally documented and a copy sent to the Monitoring Officer.

The Substantial assurance is based on our key findings that the Constitution and Financial Regulations are regularly reviewed and updated, there were effective controls in place for recording and publishing decisions and most sub-delegation agreements were found to be appropriately detailed and up to date. Where sub-delegations were not fully up to date, work was already in progress to address this.

We have raised 3 issues for further improvement to controls, none of which are high priority.

Scope

The overall objective of the audit was to provide assurance that the regime of compliance visits undertaken by the Returns and Compliance (R&C) team is adequate and effective to support the Section 151 Officer's certification for the Schools' Financial Value Standard.

Overall assessment: Adequate

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

The Adequate assurance is based on the good progress that has been made by the R&C team since the last audit was completed in 2014. Areas of good practice include amending the work programme template taking into account a number of previous audit recommendations. Reports are issued to schools promptly following each compliance visit with consistent recommendations being made.

The audit identified a small number of areas for further improvement, including some additional enhancements of the work programme and the need to formally develop a protocol to follow up on recommendations raised during schools compliance visits.

In total we identified 3 issues, 1 high and 2 medium.

Scope

The objective of this audit was to provide assurance that the decision, approval and payments made under Section 17ⁱ of the Children's Act were in accordance with agreed procedures set out by the Council.

Overall assessment: No assurance

The service has made significant efforts to reduce this area of spend from £1.8m in 2011/12 to £533,000 in 14/15, and high level budget monitoring is good, however we found a number of significant operational control weaknesses.

The No assurance is based on there being limited policies and procedures and those that did exist were not available to all staff and were contradictory in regards to authorisation limits leading to inconsistent practices. There was no standard form for payments, and we were unable to establish whether a significant proportion of payments had been authorised correctly because either the authorisation was outside delegated limits or we could not trace the necessary documentation. Testing identified that some spend against Section 17 was not in line with current practice. While this spend may have been appropriate for the child it is unlikely it would be relevant to Section 17 and should have been allocated to an alternate budget or possibly claimed through business expenses. As a result we could place little reliance on either the validity or authorisation process for over 50% of the transactions sampled.

In total we identified 7 issues, 2 were high risk. The service has responded and all the corrective management actions are due to be implemented by the end of July 2015. We will follow up these recommendations and will report our findings to this Committee.

Section 17(6) of the Children Act 1989 states that the local authority may exercise its duty to safeguard and promote the welfare of children in need by 'providing accommodation and giving assistance in kind or in cash'

Scope

The objective of the audit was to provide assurance that adequate arrangements are in place for the recording and transfer of information to the YJB (Youth Justice Board), required visits/reviews and tracking of costs where young people are remand to secure custody

Overall assessment: Adequate

Since 2000, the YJB has been responsible for placing youth offenders in secure accommodation in England and Wales. Costs are met by Kent County Council (KCC) and a grant for this is provided by central government via the YJB. The grant does not meet the overall cost involved and therefore KCC has to supplement this. Whilst the Youth Offending Team (YOT) will make recommendations to the court as to where a young person should be placed securely, the final decision rests with the magistrate

The Adequate assurance is based on sample testing of remand cases for 2014/15. The majority of forms had been fully completed, submitted to the YJB timely and copies retained on the Case Management system (Careworks). All invoices tested related to a valid period of remand, had been passed for payment promptly and had been charged at the correct rate.

Weaknesses were identified in some areas; a small number of forms had not been completed, in one instance sampled the forms were not sent to the YJB within time limits. Careworks did not contain sufficient evidence of transfer of documents to the YJB for a high number of instances.

In total, we identified 4 issues, 3 rated medium risk and 1 low risk.

Scope

The overall objective of the audit was to provide assurance that key risks in relation to supervisions are managed to ensure supervisions are undertaken in line with KCC Policy and mandatory requirements.

Overall assessment: Limited

Supervision is a key control behind delivery of effective services to vulnerable people – indeed there are significant risks if a serious incident occurred and there was an absence of adequate supervision contributing to poor practice and / or record keeping. We found that there is a comprehensive policy in place that embraces best practice and supervision records evidenced discussion of many of the key areas outlined in the policy. Staff interviewed generally felt that they were well supported in case work and through informal supervision. There are robust arrangements in place to provide assurance on the quality of supervisions provided to Mental Health staff that are seconded to the Kent and Medway Partnership Trust. Staff appreciated the importance and value of supervision.

The Limited assurance is based on sample testing that showed 70% of Older People and Physical Disability (OPPD) and 61% of Learning Disability (LD) frontline staff had not received regular formal supervision over the last year, as defined in the policy. Additionally, a high level of work stress emerged in OPPD as both a key issue and a barrier to effective supervision. We also identified issues relating to records management, for example 30% contained insufficient detail of case discussion and the majority of key decisions had not been transferred to service user files. There was limited evidence that some areas outlined in the policy were covered in supervision, for example quality checks of service user files, and there are also no arrangements in place for the quality assurance of supervisions themselves.

In total, we identified 6 issues, 3 rated high risk and 3 medium.

Unaccompanied Asylum Seeking Children (UASC) - Budget Follow-Up

Scope

The aim of the audit is to provide assurance that the 18 recommendations that were raised in the previous audit of the Unaccompanied Asylum Seeking Children (UASC) budget have been implemented thereby reducing the identified risks.

Overall assessment – Adequate (Draft Opinion)

The previous audit gave Limited assurance, since then the Unaccompanied Asylum Seeking Children (UASC) service has been mainstreamed, changes in Oracle coding have assisted in improving financial reporting and the UASC budget can now be split by age group and child. Issues regarding the justification of the gateway grant have been superseded as the grant has ceased and funding is now by individual child.

The audit showed that there is now greater focus on KCC in-house Foster Care as opposed to Independent Foster Agencies. This and the existence of two block contracts for accommodation for UASC care leavers, has helped control costs.

Decisions regarding UASC placements are now discussed and minuted, however more detail justifying these decision still needs to be included on the Liberi system.

Progress has been made in the monitoring of housing benefit and council tax exemptions although this has been disrupted by the mainstreaming of UASC. We were informed that new monitoring systems are in development.

There has been no progress on the use of agency staff for translators. The UASC service is required to source these through Connect 2 Kent.

A further 7 issues have been raised, 1 of which is rated high risk.

Waste Contract Management

Scope

The overall objective of the audit was to provide assurance that contract management and monitoring of waste contracts is carried out in line with the contract specifications and includes key performance indicators. In addition the audit reviewed payments made for accuracy in line with contract schedules.

Overall Assessment – Adequate

The Waste Management function procures and manages a range of contracts to deal with disposal, recycling, compostable waste and household waste recycling centres. The total net expenditure on waste services for 2014/2015 was approx. £62.7m.

The Adequate opinion is based on there being contract monitoring arrangements in place, however the quality of recording meetings, KPI monitoring and actions required was not consistent. This inconsistency had already been recognised by the Head of Waste and new management structures were put in place to develop more robust contract management practices. The new contract management arrangements were developed from April 2015 and are currently being rolled out for new contracts and for existing contracts based on value and complexity. This new approach is expected to be completed by December 2015.

There are a lack of defined procedures for contract monitoring and in particular for the review and authorisation of invoices. There is a need to define the reconciliations required and the range of tolerances that will be applied to reconciliations of the tonnages charged to source data. However reconciliation of payments to KCC financial systems (Oracle) is carried out accurately to allow up-to-date monitoring of actual expenditure against budget.

The assurance level is based on the 4 issues raised of which 2 are high priority.

Highways – Term Maintenance Contract Payments

Scope

The overall objective was to provide assurance that payments made under the contract are accurate and legitimate. This audit covered work ordering, approval and ensuring that payments are accurate, timely, in line with the contract schedules and properly recorded in the Council's financial systems.

Overall assessment - Substantial

Full use is made of the Works Asset Management System (WAMS) for ordering and approving highway works. Orders are based on the contractually agreed Schedule of rates. Variations, disputed claims and completions are all registered in WAMS.

The audit included reviewing the submission from AMEY, interfaces with WAMS, Oracle Payments, Oracle Project Accounting, management approvals of payments and the final payment via CHAPS to the Contractor. This payment is adjusted for all unresolved previous and current disputes. The process followed was accurate with appropriate reconciliations at all stages and payments were made within the contractual timescale.

Inspections of completed works are carried out on a sample basis and the results of these inspections are collected and monitored centrally. Larger projects are all monitored on a regular basis and are not subject to a sample approach.

Procedure notes are in place for the full payments process and for the related inspection procedures. These have been regularly updated, but the audit identified scope for improvement in the documentation of the range of bespoke spreadsheets used to manage and reconcile payments. In addition the links, data requirements and interfaces between the main systems (WAMS, Oracle Payments, Oracle Project Accounting, and Oracle General Ledger) are not fully described. Two medium priority issues were raised both of which were accepted by highways management.

Corporate Purchase Cards

Scope

The overall objective of the audit was to provide assurance that the risks associated with Corporate Purchase Cards are being managed adequately and effectively in order to meet system, service and corporate objectives.

Overall assessment – Substantial

There are approximately 470 Corporate Purchase Cards in use across the Council's directorates. The average monthly expenditure incurred in 2014/15 using corporate purchase cards has been about £187,000 with over 1,700 transactions each month. The eSolutions application is used to view transactions made on all Corporate Purchase Cards and allocate them to the correct budget code. The system is also used by managers to approve card transactions.

The "Substantial" assurance is based on audit testing that showed a number of areas where controls are working effectively in respect of receipts and evidence being approved in a timely manner, cards being held securely and Pin numbers not being divulged. All the transactions sample tested were confirmed as being for valid expenditure, cards were set up for the categories required to meet cardholder's needs and expenditure was within cardholder limits.

A small number of areas for improvement were identified although none were high risk. VAT was not being recorded for some transactions, so the VAT paid cannot be reclaimed and valid VAT receipts were not available for all transactions tested during the audit, notably for on-line purchases. In addition it was not clear whether approvers were validating the expenditure by checking receipts and descriptions, which should be done on at least a sample basis.

A total of 3 issues have been raised, one medium and two low priority.

Appendix B -Summary of Significant Concluded Financial Irregularities

Ref	Internal or External	Allegation	Outcome
928	External	A whistle-blower raised a safeguarding alert with the Directorate which included allegations of wide spread misuse of purchase cards in a KCC school.	The subsequent investigation established that the school's finance policies were breached and a member of school staff had fraudulently used the purchase card for their own purposes (£1,123). The member of staff was prosecuted by Kent police and following a guilty plea was sentenced in the local Magistrates Court.
939	Internal	Internal Audit was advised of the theft of six iPads from a Kent school by a Teaching Assistant.	At the time of the notification the school had already notified the police who had arrested and charged the Teaching Assistant (TA). The TA was subsequently convicted of fraud and sentenced (4 months custody suspended for a year and £900 compensation paid to the school). The TA resigned from the school prior to the conclusion of a disciplinary hearing.
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.

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.
977	Internal	Internal audit investigated an allegation that a member of staff had failed to bank letting income after KCC premises were let out for a number of private functions.	The investigation confirmed that the letting income was not banked in a timely manner and the event was not an appropriate use of KCC premises. The member of staff resigned prior to the completion of the disciplinary action.
1000	External	Internal audit were alerted to a social care client who had allegedly failed to declare an occupation pension payment and associated capital.	The subsequent investigation confirmed the client had failed declare his pension and capital however the client died before any further action could be taken. The overpayment (around £30,000) will be recovered from the client's estate.

Appendix C – Audit Plan 2014/15 Progress

Project	Progress at July 2015	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
Core Assurance							
Strategic Partnership Governance	Cancelled	N/A	N/A	Contract Management/ Individual Contracts	Complete	January 2015	Limited
Corporate Governance	Complete	July 2015	Substantial	Company Governance/ADSM Advice	Cancelled	N/A	N/A
Annual Governance Statement	Complete	October 2014	Substantial	Remote Site Compliance Visits	Complete	April 2015	Various
Schemes of Delegation	Complete	July 2015	Substantial *	Transformation Programme and CPO Support	Complete	July 2015	N/A – ongoing
Risk Management	Complete	April 2015	Adequate	Contracts of employment - new contracts and changes	Complete	April 2015	High
Business Continuity & Resilience Planning	C/F to 2015/16	TBC	N/A	Equality and Fairness at Work - Performance and Capability	Complete	January 2015	Substantial
Information Governance	Complete	April 2015	Substantial	Health & Safety Follow-up	Complete	January 2015	Substantial
Records Management	Complete	January 2015	Adequate	Use of Recruitment Agencies – Senior Appointments	Complete	April 2015	Substantial
Customer Feedback	Draft Report	July 2015	Limited *	Use of Recruitment Agencies – Temp and Hard to Fill	C/F to 2015/16	TBC	N/A

Core Financial Assurance							
Payroll	Complete	January 2015	Adequate	General Ledger	Complete	April 2015	Substantial
Revenue Budget Monitoring	Complete	July 2015	Adequate	Budget Build	Complete	October 2014	Substantial
VAT	Complete	October 2014	Substantial	Inland Revenue Accounting (PIID, PAYE, NIC)	Complete	April 2015	Substantial
Payments Processing	Complete	April 2015	Limited	Accounts Receivable (manual invoices and AR wizard, billing from SWIFT)	Complete	October 2014	Substantial
Bank Accounts	Complete	January 2015	Adequate	Financial Assessment Unit	Complete	April 2015	Adequate
Client Financial Affairs	Complete	January 2015	Adequate	Corporate Purchase Cards	Complete	April 2015	Substantial
Insurance - managing insurances and claims handling	Complete	January 2015	Substantial	Treasury Management	Complete	January 2015	High
Pension Fund Investment Income	Complete	April 2015	High	Pension Contributions	Complete	April 2015	Substantial
Schools Financial Services	Complete	July 2015	Adequate	Schools Financial Services (Returns)	Complete	January 2015	High
Procurement	Complete	April 2015	Substantial	Recharges	Complete	April 2015	Substantial
Risk/Priority Based Audit							
Capital Project Delivery	C/F to 15/16	TBC	N/A	Property Service Desk	C/F 2015/16	TBC	N/A
New Ways of Working	Complete	January 2015	Adequate	Total Facilities Management	C/F 2015/16	TBC	N/A
Direct Payments	Complete	July 2015	Adults – Adequate Children - Limited	Enablement	Draft Report	July 2015	Adequate *
Supervisions	Complete	July 2015	Limited	H&SC Integration – Kent Card	Complete	April 2015	Adequate
H&SC Integration – Better Care Fund	Complete	April 2015	N/A	H&SC Integration – Health Monies spend/audit	Cancelled	N/A	N/A
Optimisation	Complete	July 2015	Limited	Care Act Preparedness	Complete	April 2015	Adequate


Promoting Independence Reviews	Complete	April 2015	Limited	Safeguarding – Financial Abuse	Complete	July 2015	N/A
Foster Care	Complete	April 2015	Limited	Adoption	C/F to 2015/16	N/A	N/A
0-25 Transformation Portfolio – Watching Brief	Ongoing therefore C/F to 2015/16	N/A	N/A	Children’s Services Transformation Programme – Baseline Assurance	Cancelled	N/A	N/A
Children’s Payments – s17	Final Draft Report	July 2015	No	Commissioning & Quality in Care Frameworks	Complete	July 2015	Advisory
Supporting People	Complete	January 2015	Limited	Kent Drug and Alcohol Action Team (KDAAT)	Complete	January 2015	No
Adult Social Care Transformation Programme – Watching Brief	Ongoing therefore C/F to 2015/16	N/A	N/A	Domiciliary Care – Post Contract Review	C/F to 15/16	September 2015	N/A
Sexual Health (replaced by Health Checks)	Cancelled	N/A	N/A	Health Checks	Complete	April 2015	Substantial
Prescribing	C/F to 2015/16	N/A	N/A	NICE Guidance	C/F to 2015/16	N/A	N/A
Serious Untoward Incidents	Complete	July 2015	Advisory	Home-to-School Transport, including Special Educational Needs	C/F to 2015/16	N/A	N/A
Elective Home Education/ Home Teaching & Children Missing Education	Complete	October 2014	Split Substantial/ Limited	Data Quality – Education & Social Care	Complete	April 2015	Various
Apprenticeships	Complete	July 2015	Adequate	Workplace Nurseries	Complete	January 2015	Limited
Additional Funding, including Premiums & Collaborations	Complete	April 2015	Split – Substantial/ Limited	SEN Assessment & Funding	C/F to 2015/16	N/A	N/A
Schools Themed Reviews, including purchase cards and procurement	Complete	January 2015	Adequate	Troubled Families	Complete	April 2015	Compliant
KIASS, including Checkpoint Review	Cancelled	N/A	N/A	Broadband Development UK	Complete	July 2015	Advisory

Regional Growth Fund	Complete	April 2015	Adequate	Developer Contributions	Complete	January 2015	Limited
AMEY Contract Payments	Complete	April 2015	Substantial	Gypsy & Traveller Unit (allocation of Sites)	Complete	October 2014	Limited
Concessionary Fares	Complete	January 2015	Limited	Expenses – Members & Officers	Complete	July 2015	Substantial – Members Adequate - Officers
Household Waste & Recycling Contract	C/F to 2015/16	N/A	N/A	Waste Contract Management	Complete	July 2015	Adequate
West Kent Waste Partnership	Complete	N/A	N/A	Kent Resource Partnership	Complete	January 2015	Advisory
Libraries Programme – Checkpoint Review	Complete	N/A	N/A	Carbon Reduction Commitment	Complete	January 2015	Compliant
Commercial Services - Watching Brief	No Longer Applicable	N/A	N/A	Sports Grants	C/F to 2015/16	N/A	N/A
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	Complete	April 2015	Adequate
Follow-up Post Implementation Review (Carried Forward from 13/14)	Complete	January 2015	Limited	PCI DSS Compliance	Complete	July 2015	Limited
ICT Governance and Strategy	C/F 2015/16	N/A	N/A	Network Security	Complete	July 2015	Substantial
IT Disaster Recovery	Complete	January 2015	Limited	DPA Compliance	Complete	July 2015	Substantial

Appendix D – Internal Audit & Counter Fraud Follow-up on Implementation of Agreed Actions





 No Assurance






Audit	Date	Management Actions		Implemented/ In Progress*		Comment on Progress/ Improvement	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium		
KDAAT	07/2014	7	0	5 2*	0	Interim follow-ups in Jan and March 2015 indicate good progress on rectifying issues through robust improvement plans under new management. The two outstanding actions are in progress and nearing completion.	 GREEN
Total All No Assurance Audits		7	0	5 2*	0		















Limited Assurance

Audit	Date	Management Actions		Implemented/ In Progress*		Comment on Progress/ Improvement	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium		
Foster Care Payments	01/2014	4	7	3 1*	6 1*	The two actions in progress are dependent on the implementation of Controcc and therefore the date has been extended to September	AMBER
IT Disaster Recovery	02/2015	2	2	1 1*	1 1*	The two actions in progress were due for implementation at end of April and are in the process of being followed up	AMBER
UASC	01/2014	9	9	6 3*	6 3*	A follow-up audit is in progress, additional evidence is awaited to confirm sign-off on implementation for the 6 actions shown as in progress.	GREEN
Children Missing Education and Elective Home Education	09/2014	5	7	5	6 1*	Good progress has been made in all areas. The one action in progress is close to completion and due to be implemented by end of June	GREEN
Community Based Nurseries	12/2014	6	2	1 5*	2*	An options appraisal has been undertaken with decisions on delivery going forward and there has been a change of management, as such we have agreed to revise implementation to end of June	AMBER


Gypsy and Traveller Unit	09/2014	1	1	1*	1*	Good progress has been made at this stage in relation to both actions, full implementation due at end of June	
Schools Themed Reviews - Procurement	06/2014	1	2	1	2	Implemented	
Payments process	02/2014	4	3	2 2*	2 1*	These actions were followed-up as part of 2014/15 audit, 3 recommendations had not been implemented and were raised again	
Section 106	39/2015	4	5	4*	3 2*	This audit followed-up recommendations made in 2013, 4 high priority actions had not been implemented, although revised implementation dates have now been agreed.	
Total All Limited Audits		36	38	19 17*	26 12*		

Audit	Date	Management Actions		Implemented/ In Progress*		Comment on Progress/ Improvement	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium		
Records Management	11/2014	1	0	1*	0	Follow-up of the outstanding action is in progress	
Payroll	08/2015	3	3	3*	1 2*	It has been reported to us that all actions have been implemented however we await evidence for review prior to full sign-off	
Imprest Bank Accounts	01/2015	1	5	1*	1 4*	The one high priority action and one of the medium are not due for implementation until end of June. Of the remaining three medium actions in progress two require the publication of guidance and training which has been drafted, one has not been implemented	
Schools Financial Services - Compliance	09/2014	3	4	1 2*	4	Although good progress has been made overall, two high priority actions remained outstanding; one was partially implemented and has therefore been down-graded to medium. The other had not been actioned.	
Property Statutory Compliance	12/2013	2	5	2	3 2*	For the two actions in progress one requires production of	

						guidance which has been approved and due to be published in May. The second was delayed to end of May due to the letting of the new facilities management contract and is in the process of being follow-up.	
New Ways of Working	01/2015	1	4	1*	3 1*	While progress has been made further action is required before full implementation can be signed off, a follow-up audit is scheduled for 2015/16	
Children Services Improvement	10/2013	0	5	0	5	Implemented	
Contract Letting and Compliance – Adult Social Care	10/2013	1	5	1	5	Implemented	
Contract Letting and Compliance – Children’s Services	06/2014	0	5	0	4 1*	Good progress has been made however full implementation of the final medium action requires verification before sign-off	
Community Learning Services	11/2013	1	12	1*	12*	Due to potential changes to delivery model follow-up was delayed to early 2015/16, this is due to commence at end of June and status on implementation can then be confirmed	
Schools Themed Review – Procurement and Purchase Cards	02/2015	2	2	2	2	Implemented	

Information Governance	05/2014	2	3	2	3	Implemented	
Good Day Programme	07/2014	0	5	0	5	Implemented	
EY Capital Projects – Cost Overruns	06/2014	0	5	0	5	Implemented	
Client Financial Affairs	11/2015	2	2	1 1*	1 1*	Two actions have been implemented while two remain in progress. The two actions in progress are currently being reviewed as part of a follow-up audit	
Recruitment and Selection	11/2014	0	4	0	4	Implemented	
Business Continuity Planning and Resilience	05/2014	0	3	0	3*	The outstanding actions will be followed up in the Business Continuity audit planned to commence July 2015	
Total All Adequate Audits		19	72	8 9*	46 26*		

No reports of follow-up on substantial or high assurance audits with judged good prospects of improvement.

Total All Follow-ups	Management Actions		Implemented/ In Progress*	
	 High	 Medium	 High	 Medium

	62	112	33 29*	73 39*
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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 of non-compliance with some controls that may put system/service objectives at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non-compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant of error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.
Not Applicable	Internal audit advice/guidance no overall opinion provided.