

By: Richard Long – Chairman of Governance and Audit Committee  
To: Janet Dawson - The Head of Audit & Risk  
Governance and Audit Committee – 30 June 2009  
Subject: INTERNAL AUDIT PROGRESS REPORT  
Classification: Unrestricted

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**Summary:** This report summarises the outcomes of Internal Audit activity.

## **FOR INFORMATION AND DECISION**

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### **INTRODUCTION**

1. This report contains the outcome of Internal Audit's work completed during February, March and April 2009. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Annexe H.

21 audits were completed in this period, which are listed in the table below together with a brief description of the audit.

### **IRREGULARITIES**

2. Since the end of November 2008 four cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Two irregularity investigations were concluded during this period. For details of completed irregularity investigations please see Annex J.

### **PROGRESS REPORT**

3. Key points in the report

The first item provides details of a newly agreed protocol for clearing draft Internal Audit reports.

Annex A shows the audits from the 2008/09 audit plan that have started, are at draft report stage and completed. Annex B shows the status of audits from the 2009/10 audit plan as at 31 May 2009.

Annex E details summaries and directorates' responses for audits where a 'minimal' assurance was given.

Annex F shows the directorates' progress against the implementation of recommendations made and agreed which were due to be actioned by April 2009.

### **Recommendation**

3. Members are asked to note this report.

**Janet Dawson**  
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18 June 2009

## **Protocol for Clearing Draft Internal Audit Reports**

### **Background**

Since 2008/09 Members of the Governance and Audit Committee have requested quarterly reports that show the progress of the audit plan and individual audits in the plan. The information includes the date draft reports are issued and Members have expressed concern about the outstanding clearance of draft reports.

The objective of the draft report is to:-

- give the auditee(s) the opportunity to discuss the findings, risks identified and assurance given ;
- ensure that findings reported are factually accurate;
- ensure that recommendations made are practical and can be implemented;
- agree the management action plan, together with the name and post of the 'accountable' manager who will be responsible for ensuring agreed actions are implemented;
- the date by which the agreed action(s) will be completed

However, the delay in clearing draft reports is a concern because:-

- senior management and Members may not be aware of risks identified, and/or non compliance with agreed policies/practices;
- actions may not be taken to mitigate areas/findings identified as posing critical or high risk;
- Internal Audit is unable to provide assurance on controls and how risks are being mitigated within the Authority;
- poor use of Internal Audit resources (and the auditees) in 'chasing up' responses.

A report was taken to the Chief Officers Group (COG) the Finance Strategy Board (FSB) and the Resource Directors Group. The report made the following recommendations for improving the process and providing information to senior management.

- Where practical/relevant directorate to identify one person who will be responsible for collating responses.
- The Resource Director (or Head of Unit for CED) to be issued with draft reports at the same time as the 'auditee'.
- Date that responses are due to be received to be on the front cover of the report.
- If responses have not been received (ie responses that enable the report to be cleared) within 20 working days, the auditee(s) will be reminded and informed that the draft report will be issued to the auditee's line

manage/senior management informing them that the responses are outstanding.

- If responses have not been received after 35 working days the relevant Managing Director will be informed that there is an outstanding draft report, highlighting (where relevant) areas/risks that have been identified as critical and high.
- A report will be taken to the Resource Directors meetings (on a monthly basis) and the Finance Strategy Board (on a quarterly basis) showing the status of all draft reports, using a 'traffic light' system as follows:-
  - Green – responses not due or have been received within agreed timescales;
  - Amber – responses overdue by between 5 and 35 days
  - Red – responses overdue by more than 35 days

These recommendations have been discussed and agreed and the first report was taken to the April 2009 Resource Directors meeting. As a consequence four 'red' status reports were able to be cleared.

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW01	Corporate Governance Overview Health Check	Ongoing assurance is required.  Work to include high level review of corporate governance arrangements against best practice and will also consider adequacy of processes underpinning Governance Statement.  Include follow-up of prior year report.	Q4	6 Mar 09				
AW02	Risk Management	Work to build on the high level review undertaken in 2007/2008 to focus on the adequacy of corporate risk management arrangements and the linkages between; Business planning, Performance appraisal, Budgeting processes.	Q4	16 Mar 09				
AW03	Governance of individual partnerships	<b>Work to build on audit undertaken in 2007/08. Focus to include, follow up on progress made against previously agreed management actions. Assess level of compliance with policies and procedures in a sample of major/significant partnerships.</b>	Q2	7 July 2008	13 Nov 2008	6 May 09	Substantial	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW04	Contract monitoring and tendering process	Review of tendering procedures and contract monitoring. Scope to include, processes for tender evaluation and selection of suppliers, review of processes to manage key contracts, quality assurance of suppliers processes. The individual contracts that are reviewed will include Building Schools for the Future (BSF)	Q2/3	Apr 09				Delayed at officer request, due to progress of BSF programme
AW07	Information Governance (original title was Data Management Arrangements)	Review and assurance over implementation of data quality policy council wide, with a focus on management arrangements of critical/sensitive data, including testing to validate controls in place and review of existing guidance available to staff on acceptable practice for data handling.	Q3	15 Oct 2008	<b>9 April 09</b>			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
AW08	Third party ICT Provision - Procurement	Review the contractual arrangements for the provision of ICT services by third parties to business-critical computer systems. Sample to be agreed with management prior to audit.	Q3	<b>16 Mar 09</b>				

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW09	Business Continuity Planning	A review of Business Continuity Planning and Disaster Recovery arrangements.	Q2/3	7 Oct 2008	11 Jan 2009	14 April 09	Minimal	Audit finalised
S02	Bank Reconciliations	Assurance that income and payments are accounted for in the correct financial year	Q3/Q4	26 Feb 09	20 Mar 09	24 April 09	High	Audit finalised
S04	Fixed Assets	Systems based approach considering key risk exposures. Include mapping of key control areas.	Q4	4 Feb 2009	9 June 09			
S06	Accounts Receivable	Systems based approach considering key risk exposures. Include mapping of key control areas and liaison with external audit requirements	Q3	3 Dec 2008	25 Feb 09	7 May 09	Substantial	Audit finalised
S08 (a)	Payroll Allowances	Substantive "Cradle to Grave" approach, following through samples of payments for example, allowances paid to staff.	Q3	3 Nov 2008	14 Jan 2009	12 May 09	Substantial	Audit finalised
S12	Follow up to Overtime Payments	Follow up to audit carried out in 2007/08.	Q3	5 Feb 2009	31 March 09	29 April 09	N/A	Audit finalised - No assurance given as the implementation of recommendations made in previous audit needs a longer period of time to be implemented.
CED01	Energy Procurement	Review of the revised	Q4	12 Jan 2009	24 March	16 April 09	High	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		<b>energy procurement process to ensure that risk assessment and controls are in place to ensure compliance with legal requirements and the authority's Code of Practice.</b>			<b>09</b>			
CED02/ CED03	Operating System Security (Windows XP)	Review of operating system security, administration, support and maintenance procedures (as extension of network security review 2007/08). This will be done as one audit.	Q3	19 Jan 2009	15 April 09			Report being finalised
<b>CED04</b>	<b>Kent Public Service Network (KPSN) Project Part 2</b>	<b>A review to assess the project management processes and procedures in place to manage system development activities to ensure the successful delivery of the new KPSN.</b>	<b>Q2</b>	<b>30 July 08</b>	<b>4 Nov 2008</b>	<b>16 Feb 09</b>	<b>Substantial</b>	<b>Audit finalised</b>
CED05	Oracle Review HRMS, Payroll & I procurement	Oracle application security controls covering Oracle system embedded controls configured in the system design within selected modules as identified from the previous 0708 Oracle Application Security audit.	Q3	25 Nov 2008	16 March 09			Responses being collated to finalise report
CED07	One – Office	One Office application	Q4	9 Feb	1 April			Report being finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	Application Security	security controls, focussing on users' access rights and segregations of duties.		2009	09			
<b>CED08</b>	<b>Members Code of Conduct – Locally Managed Framework</b>	<b>A review against the Standards Board checklist for the implementation of the locally managed framework of compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.</b>	<b>Q1</b>	<b>15 Jan 2009</b>	<b>9 March 09</b>	<b>10 March 09</b>	<b>High</b>	<b>Audit finalised</b>
CED10	Expenditure - Direct Purchases	A review to provide assurance that purchasing of direct materials at Commercial Services business units are properly managed, controlled and accounted for.	Q4	9 Feb 09	29 April 09			
<b>CFE01</b>	<b>Allocation of Cluster Funding</b>	<b>An audit of the processes in a sample of Clusters to provide assurance that the funding allocated to the Clusters is spent by them following an appropriate bidding and evaluation process linked to objectives and that records are maintained to enable management to monitor the expenditure</b>	<b>Q1</b>	<b>1 May 2008</b>	<b>9 July 08</b>	<b>24 Feb 09</b>	<b>Minimal</b>	<b>Audit finalised</b>

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

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		and evaluate the results.						
CFE06	CRB checks	Assess adequacy of, and compliance with, procedures for identifying staff that require CRB checks due to having access to the records of vulnerable people. (Non schools staff).	Q3	22 Sep 2008	22 Jan 2009	24 March 09	High	Audit finalised
CFE07	Effectiveness of Financial Management	Confirmation that the Directorate is obtaining assurance on financial management in schools and by non delegated budget holders.	Q3	23 Feb 2009	17 April 09	1 May 09	Substantial	Audit finalised
CFE10	ICS Data Migration	A review of the controls in place fro migrating data from the Swift system to the Integrated Children's Service (ICS) system.	Q4	Jan 09	Mar 09	11 May 09	Limited	Audit finalised
CMY02	CRB checks for volunteers-follow up	A follow up on the findings of a 2007/08 audit, which gave minimal assurance that volunteers working with clients are appropriately checked.	Q2	22 Sep 2008	22 Jan 2009	27 Feb 09	High	Audit finalised
CMY03	Internet access in CMY establishments accessed by the public	To provide assurance that the Directorate is taking sufficient precautions to safeguard the users of the internet in their establishments	Q3	16 Oct 2008	10 March 09	10 May 09	Various	Audit finalised – four Community services included in audit review all provide with an individual audit assurance ranging from

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		<b>accessed by the public</b>						<b>substantial to limited.</b>
CMY05	Tribal EBS System	Review of operational, support and maintenance procedures system security and data integrity controls	Q4	11 Mar 09	11 May 09			A meeting is being held with Tribal at the end of June to discuss findings of report and to agree actions.
CMY07	Registration Service - Income	An audit to assess the adequacy of the systems and procedures for recording and accounting for income.	Q4	17 March 09	5 May 09			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
KASS01	Capital Projects	To examine the planning of capital projects, contracts/estimates and how these are drawn up and the corresponding governance arrangements (i.e. is the authority clearly set out and understood by all parties).	Q4	12 Jan 2009				
<b>KASS03</b>	<b>Financial Assessments</b>	<b>Evaluation for the system for undertaking financial assessments of clients and the role of the specialist finance teams.</b>	<b>Q2</b>	<b>15 Sep 2008</b>	<b>17 Feb 09</b>	<b>20 April 09</b>	<b>High</b>	<b>Audit finalised</b>
KASS09	Occupational Therapy Bureau Equipment	Review to assess the controls in place over the assessment of eligibility for occupational therapy equipment and the subsequent monitoring and return to the Directorate.	Q4	16 Feb 2009				
<b>KASS10</b>	<b>Swift system</b>	<b>Follow up to audit carried</b>	<b>Q3</b>	<b>26 Nov</b>	<b>23 Dec</b>	<b>16 Feb 09</b>	<b>Substantial</b>	<b>Audit finalised</b>

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	<b>Security</b>	<b>out in 2007/08.</b>		<b>2008</b>	<b>208</b>			
KASS11	Transitional Arrangements for Learning Disability client group	A review to identify the effectiveness of the transitional arrangements for the Learning Disability client group from Health to Social Care.	Q4	9 March 09	1 May 09			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
ER05	<b>Household Waste Recycling Contracts</b>	<b>Evaluation of the control environment of the recently re-let contracts. Scope to include contract management and monitoring. Adequacy of the KPIs of quality of service. Ensuring that the Council is getting VFM from the service.</b>	Q2	2 Oct 2008	19 Feb 09	8 April 09	Substantial	Audit finalised
ER06	<b>Securing adequate funding to deliver business objectives</b>	<b>A high-level review of the process within Environment and Regeneration for managing inward investment. The review will look to identify best practice and identify mechanisms to ensure that the directorate is identifying and maximising sources of funding.</b>	Q3	6 Feb 2009	14 April 09	27 May 2009	Substantial	Audit finalised
ER08	Local transport	Examine system and process for prioritising KCC	Q4	6 April 2009				

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	plan	transport schemes.						
<b>ER09</b>	<b>Empty Property Development Loans</b>	<b>Review to ensure that controls over empty property development loans are made to appropriate people and there are adequate controls in place over the recording, monitoring and collection of debt.</b>	<b>Q4</b>	<b>15 Jan 2009</b>	<b>19 March 2009</b>	<b>21 may 2009</b>	<b>Limited</b>	<b>Audit finalised</b>
<b>ER10</b>	<b>Kent Downs Area of Outstanding Natural Beauty (AONB)</b>	<b>Audit of financial controls</b>	<b>Q2/3</b>	<b>13 Nov 2008</b>	<b>19 Dec 2008</b>	<b>3 March 09</b>	<b>Limited</b>	<b>Audit finalised</b>

Audits highlighted in bold indicate completed audits

Progress Against 2009-10 Audit Plan quarter 1

Annex B

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW04	Pro-active Fraud work - Contracts	Review procurement practices in a sample of areas to provide assurance that potential of fraud is minimised.	Q1					This will be on going throughout the year
AW07	Premises Security	A review of premises security including the processes in place for decommissioning premises. Communities directorate in 2009/10	Q1	12 May 09				Terms of Reference issued
S01	Year End Accounting	Assurance that income and expenditure are accounted of in the correct financial year.	Q1	7 Apr 09	<b>15 May 09</b>			
S04	Imprest Accounts	A review of imprest accounts in the Authority to assess whether they are operated within approved limits and identify any accounts surplus to requirements.	Q1					Terms of Reference issued
S07	Treasury Management	A review of treasury management arrangements	Q1					This audit will take place in Q3/4
S13	Management Review	To provide assistance at year end for the 'close down'	Q1	8 May 09				
CED01	Income – Legal Department	Provide assurance that all income due is completely recorded, invoiced and collected in a timely manner.	Q1					Terms of Reference issued

Progress Against 2009-10 Audit Plan quarter 1

Annex B

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CED03	Property Management System Security	Property management application security controls, including users' access rights, web access and segregations of duties.	Q1					Terms of Reference issued
CED07	Axis Pensions System	A review of application controls, security and management of the operation of the Axis Pensions system	Q1					Terms of Reference issued
CFE01	Data Quality	An audit to assess controls the Directorate rely upon to ensure the accuracy of the information used to complete DCSF statutory returns.	Q1					Terms of Reference issued
CFE12	Children's Centre Resource system	Review of project management or review of the design of the application controls within the system.	Q3/4	6 May 09				Originally planned for Q3/4 changed to Q1 Audit commenced
CMY03	Business and Project Risk Identification	An assessment of the processes that enable the Directorate to identify and respond to key risks.	Q1					This was a management request, but the directorate has decided that they have processes in place to identify risks as part of heir business risk assessments. Another audit will be substituted, still to be agreed.
KASS01	CRB - Volunteers	Follow up audit of controls relating to CRB checks on volunteers used in KASS	Q1					Terms of Reference issued
KASS09	Swift – Client Billing	Post implementation review	Q1	6 May 09				Audit commenced

**Progress Against 2009-10 Audit Plan quarter 1**

**Annex B**

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
ER01	Kent Highways Service	Evaluation of costings	Q1					Will now take place in Q3/4

**National Fraud Initiative**

- Collation and submission of data sets to the Audit Commission as part of the National Fraud Initiative (NFI) has been completed and reports of potential matches (ie matches with other data sets) have been received. Reports of matched data are now being investigated.

**Advisory Work**

- Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Self Directed Support.

**Irregularities**

- Working on a number of investigations.

### **AW – Governance of Individual Partnerships**

#### **Scope**

The objective of the audit was to review the governance arrangements for a sample of significant and/or major partnerships.

#### **Overall Assurance - Substantial**

The audit confirmed that there are governance arrangements in place for partnerships. One of the issues identified from the audit was the lack of a corporate register of partnerships that are key to the Authority. To take this forward, the directorates have agreed to include their significant/major partnerships in their risk registers, and partnerships 'key' to the Authority will be included in the Corporate Risk Register.

The recommendations have been accepted by management.

### **AW – Business Continuity Planning**

#### **Scope**

The objective of the audit was to assess the Authority's business continuity planning arrangements.

#### **Overall Assurance - Minimal**

A continuity of Business (CoB) manual was created in 2004 by the Emergency Planning team to serve as a template for the CoB for directorates. Not all directorates have developed their own CoBs and there is a risk that a lack of clear guidance, communication and understanding of roles and responsibilities means that the

Authority may not be able to restore key and/or critical processes within the timescales required in the event of a disaster.

Recommendations have been made which have been agreed by management and an action plan is in place to address the issues identified.

### **CED – Bank Reconciliation**

#### **Scope**

The objective of the audit was to review the effectiveness and timeliness of the bank reconciliation process for KCC's three major bank accounts.

#### **Overall Assurance – High**

KCC has three major bank accounts, the General Account, Salaries Account and Payments Account. The audit confirmed that controls are in place and operating well to ensure that reconciliations are carried out accurately and in a timely manner. There is an adequate separation of duties between accounting, reconciliation and the review process to ensure that any error or potential fraudulent activity would be identified promptly. No recommendations were made.

### **CED – Accounts Receivable (AR)**

### **Scope**

The objective of the audit was to review the processes and controls in place to ensure that debts are accurately recorded, invoices raised promptly, income receipted and banked properly, debts recovered, and VAT is properly accounted for.

### **Overall Assurance – Substantial**

The audit confirmed that Exchequer Services has good effective controls in place relating to the AR system. Invoices requests are processed and dispatched promptly. However, invoice requests are not always submitted promptly by directorates and mandatory information required on invoice requests is not always completed. We also found that officers who authorised write offs were not consistent with the delegations made in the Scheme of Delegation.

Two recommendations have been made to improve controls which have been accepted by management.

### **CED – Payroll Allowances**

#### **Scope**

The objective of this audit was to review the controls and authorisation process for paying allowances

### **Overall Assurance – Substantial**

The audit found that for the majority of allowances paid there is evidence of good controls and authorisation from appropriate officers. However, for one group of officers, payments had been

made, which at the time of the audit, there was no evidence that they had been properly authorised. Subsequent to the audit documentation was found to evidence authorisation of the majority of these payments. The exception was one payment, where appropriate authorisation had not been received by Employee Services until after the payment had been made.

Recommendations have been made to improve controls which have been accepted by management.

### **CED – Overtime Payments Follow Up**

#### **Scope**

The objective of the audit was to review the progress of the implementation of recommendations made in the audit of Overtime payments carried out in 2007/08.

### **Overall Assurance – Not Applicable**

A follow up audit was carried out to review progress on the implementation of recommendations made. A number of the recommendations had been implemented including the introduction of a universal overtime claims form to replace a number of different forms that had been in use. However, recommendations around the Working Time Directive and ensuring that overtime is worked in line with the KCC Scheme and Conditions of Employment need some time to be implemented. A further follow up is therefore, planned for 2009/10.

### **CED - Energy Procurement**

**Scope**

The objective of this audit was to review the controls and governance arrangements in place. Regarding the planning and consultation with stakeholders, the tendering and selection decisions, initial start up process and the ongoing procurement and supply of energy.

**Over Assurance – High**

The Framework for the flexible procurement of energy is a new concept which is being introduced by the Laser Energy Buying Group. The Group procures energy for over 70 local authorities with an expected turnover of £300 million. The audit found that there were good standards of documentation to support information used to calculate the level of energy that was needed to be purchased for members of the Group. All Laser members are consulted on the proposals for the flexible procurement of energy prior to undertaking the tender process. The Governance Panel is provided with information to enable them to make informed decisions.

One recommendation was made to further improve controls and this has been agreed by management.

Eight recommendations have been made which have been accepted by management. A follow up audit will be carried out in 2009/10 to review implementation of the recommendations made.

**CED – Kent Public Service Network (KPSN) Migration Review (Part 2)****Scope**

The objective of the audit was to review the proposed migration and roll out strategy plan for the Kent Public Service Network.

**Overall Assurance – Substantial**

The Kent Public Service Network is a network solution to support KCC's operational activities delivering services to the community and people of Kent. The audit found that the KPSN migration is a complex project with numerous partners involved and tight deadlines, and the KCC and KPSN implementation team are taking the necessary steps to minimise the potential for technical risks to materialise. Whilst this does not eliminate the possibility of issues occurring, the control environment examined was considered to be robust.

One recommendation was made which has been accepted by management.

**CED – Members' Code of Conduct – Locally Managed Framework****Scope**

To review compliance with the Locally Managed Framework under the Code of Conduct for Members.

**Overall Assurance – High**

The audit confirmed that the Framework has been adopted and is being complied with. The Standards Committee is compliant with the guidance relating to the monitoring and assessment of complaints and the Monitoring Officer makes quarterly and annual returns to the Standards Board. One recommendation was made

to with regards to the updating of the Terms of Reference of the Standards Committee. This has been accepted by management.

### **CFE – CRB Checks for Non School Staff**

#### **Scope**

To review the controls in place for the CRB checks for non school staff who come into contact with vulnerable groups of their details.

#### **Overall Assurance – High**

The audit found that there were comprehensive procedure notes for staff with responsibility for processing CRB applications and that these procedures are being complied with. There are formal procedures within the Recruitment Section to remind new employees of the need to complete CRB applications, with written reminders issued at set intervals. Positive responses are properly identified and action within the agreed protocol taken with the relevant manager and Business support. However, at the time of the audit, there were a number a number of applications could not be processed because of insufficient/incomplete information. One recommendation has been made to improve controls which have been accepted by management.

### **CFE – Effectiveness of Financial Management**

#### **Scope**

This objective of the audit was to assess the effectiveness of financial management for both the delegated schools' budget and non-delegated budgets.

#### **Overall Assurance – Substantial**

The audit found that there are processes and controls in place for monitoring the budgets. For schools' assurance, CFE assess schools' compliance with the Financial Management Standard in Schools (FMSiS). Assurance is also obtained via the Financial Compliance Unit who carries out a rolling programme of financial compliance visits to schools over a three year period. However, at the time of the audit no visits had been carried out during 2008/09 but plans were in place to start the visits in the first half of the 2009/10 financial year. For non delegated budgets, a programme of financial compliance visits was undertaken. The programme is designed to provide assurance on the financial management of 159 units in CFE who are accountable for non delegated budgets.

Five recommendations were made to improve controls and processes and these have been accepted by management.

### **CFE – ICS Data Migration**

#### **Scope**

To review the controls in place for migrating data from the Swift system to the Integrated Children's Service (ICS).

**Overall Assurance - Limited**

The reporting on the delivery of the Integrated Children's Services became a national requirement in January 2006. KCC was initially going to use a module within the Swift system but it was determined that the application did not meet the business requirements. There was therefore, the need to migrate data held on Swift to a new ICS and Fostering and Adoption (FA) system. There were issues identified, for example there were not always formally defined data quality data cleansing and data migration objectives. It was not possible to implement any recommendations for this particular migration. However, recommendations have been made which management have agreed will be applied to future projects of this nature.

**CMY – Criminal Records Bureau (CRB) Checks for Volunteers – Follow up audit**

**Scope**

The objective of the audit was to review the progress over the implementation of recommendations made in the previous audit carried out during 2007/08.

**Overall Assurance – High**

The original audit identified both areas of excellent and poor practice in the units where volunteers are involved in assisting with service delivery. Overall, matters are much improved since the original audit. With the exception of Youth Offending, however there is one weakness common to all the areas of activity reviewed, and this is the practice of allowing volunteers to commence their duties prior to the issue of a CRB. Reliance is placed on the relevant manager to supervise and/or restrict the activities of the volunteer prior to the issue of the CRB check. However, there is no guarantee that the supervision is completely effective of that circumstances will not arise where such supervision is either absent or ineffective. One recommendation has been made to further improve controls.

**CMY – Internet Access by the Public**

**Scope**

The objective of the audit was to assess the adequacy of controls to safeguard users from accessing inappropriate material and to protect KCC's reputation.

**Overall Assurance – Minimal to Substantial**

The following Communities establishments were visited as part of the audit, Libraries, Youth Service, Adult Education and Key Training. With the exception of Libraries, the main issues identified were that users were not always made aware of the

correct protocols to follow when accessing the internet on public computers and therefore, there was a risk that inappropriate sites could be accessed. There was also no assurance that unlawful or inappropriate activities could be identified to an individual user.

Recommendations have been made to improve controls and these have been accepted by management.

### **KASS – Financial Assessments**

#### **Scope**

The objective of the audit was to review the processes in place that KASS has to achieve optimum benefit for the financial assessment process.

#### **Overall Assurance – High**

There were good processes in place to ensure that clients' financial assessments are accurate and that benefit maximisation is achieved for all eligible adults in receipt of a care managed service. However, there were some instances where documentation to support that benefit advice had been given were not always completed.

Two recommendations have been made to further improve controls which have been accepted by management.

### **KASS – Swift System Security Review**

#### **Scope**

The objective of the audit was to review the progress of the implementation of recommendations made in a previous audit.

#### **Overall Assurance - Substantial**

An interim audit carried out in 2007/08 identified a number of issues including access controls and data quality. Six recommendations were made to address the issues. Since the original audit management has now fully addressed one of the recommendations made and there is an action plan in place to address the remaining five. Each action has been assigned a designated accountable officer with responsibility for implementing the recommendations.

### **E&R – Household Waste Recycling Contracts**

#### **Scope**

The objective of the audit was to review the processes and compliance with the recycling contracts.

#### **Overall Assurance - Substantial**

The audit found that there was generally the view that the new contracts had provided staff with a greater leverage to deal with compliance issues and was thought to be a more effective framework than had existed in the previous contracts. Value for money was a major consideration in the selection and award of recycling contracts and an evaluation was made on the amount of savings offered from each tender applicant was carried out and approved by the Procurements and Projects Manager.

Exercises have taken place to ensure users' views are taken into account however; the current method of public engagement is not

as robust as it could be. Regular meetings take place between the contractor and KCC to deal with matters arising and this was felt to be an effective method.

Recommendations have been made to further improve processes and controls which have been agreed by management.

### **E&R – Securing Adequate Funding**

#### **Scope**

The objective of the audit was to review the adequacy of the processes and controls in place that are used to identify, secure and maximise funding to ensure the directorate can deliver its business objectives.

Overall Assurance – Substantial

The audit found that there were processes in place to ensure that external funding streams are maximised. Funding requirements are realistic and funding sources are usually only pursued where the division knows that there is a good chance of being awarded the funds.

### **E&R – Kent Downs Area of Outstanding Natural Beauty (AONB) – Financial Controls**

#### **Scope**

The objective of the audit was to review the financial controls in place at the Kent Downs AONB Unit.

#### **Overall Assurance - Limited**

The processes and controls for the payment of travel claims were found to be working well and salary documentation and travel claims are all authorised by the Director. Key areas requiring improvement include the need to introduce a division of duties between placing orders, checking deliveries, making payments, maintaining records and reconciling the account to the records produced from Oracle and the preparation of any returns.

- The need to develop an appropriate system for ordering, recording and evidencing purchases,
- and the development of an asset register to record the Unit's assets.

Ten recommendations have been made which have been accepted by management.

## Summaries of Audits with a Minimal Assurance and the directorates comments

### Authority-wide – Business Continuity Planning Review

#### Assurance – Minimal

Internal Audit were requested by the Director of Finance to undertake a review of the Authority's business continuity planning arrangements and to provide assurance over the control framework in place to mitigate the risks to business continuity it faces.

The Civil Contingencies Act of 2004 places a legal obligation on all local authorities to assess the risk of, plan and exercise for emergencies, as well as to undertake business continuity management. In addition, the Audit Commission's Key Line of Enquiry 4.2 for use of resources now requires (as mandatory) the Council to have a business continuity plan in place which is reviewed on a regular basis. Maintaining an effective disaster recovery and business continuity regime within an organisation is fundamental to the ongoing provision of key systems and services in the event of a 'disaster' situation arising. An organisation therefore needs to fully understand what its key services and systems are, and the means by which critical functions may be maintained, and how systems and data can be restored following system loss. The importance of business continuity planning is recognised by the Authority and a formal Emergency Planning Team is in place, supported by teams within each Directorate.

In 2004, a wide ranging initiative was launched to roll out business continuity management (BCM) across the Authority. This included the development of document templates to simplify and standardise the implementation of plans within each Directorate, as well as other supporting materials. However, since the completion of the risk and impact assessments and development of business continuity manuals as part of the initial drive, it was evident that the maintenance and development of these plans has varied across the Authority, with some Directorates more advanced in the development of their plans than others. This in part can be attributed to the restructuring that has occurred within a number of the Directorates which has delayed the rollout of a full business continuity capability. Action plans are now in place to review and update the current business continuity plans in 2009/10, once the existing business impact and risk assessments have been reviewed. The knowledge and experience of managers across the Authority has proved invaluable when business operations have been disrupted in the past, such as during the heavy snowfall in February 2009, due to their understanding of what action needed to be taken.

The key areas for action identified during the review were:

- The establishment of a formal plan for the further development of business continuity management across the Authority
- The development of a business continuity policy to define the objectives, roles and responsibilities, resourcing and other requirements from an Authority-wide perspective
- The review of legacy business impact and risk assessments within some Directorates, to ensure the key business priorities and risks to these have been accurately captured
- The review of business continuity plans within some Directorates, to ensure they reflect current business processes and key business requirements
- The establishment of a formal process for the review of business continuity plans by the Emergency Planning Team

### **Summaries of Audits with a Minimal Assurance and the directorates comments**

- The development of a formal programme for the testing of business continuity plans
- The implementation of a formal framework for raising staff awareness and communicating business continuity arrangements to staff
- Supporting the ongoing development of staff with business continuity responsibilities with a formal training / education programme

#### *Directorate Comments*

This audit confirmed the Resource Directors' view that business continuity planning needed fresh impetus, and they welcomed the report's observations. Good progress has already been achieved in the areas recommended for action.

A formal plan for developing the Council's business continuity management system has been prepared, and its first stage was approved by Chief Officers' Group (COG) in November 2008. It provides an integrated framework for coordinating the complex series of actions that, over the coming year, will embed greater resilience against disruptions in delivering the Council's services.

In January and February 2009, the discontinuity risk to vulnerable clients, and the scale of disruptive effects, was assessed across all service units. Attention focused on critical functions (defined as those that cannot tolerate disruption for more than seven calendar days). Resource directors, managers and a cross-directorate group of staff are refining those assessments.

We are now determining the resources needed in order to recover functionality, to negotiated levels within required time-periods. We are also deducing the critical dependencies on other services and facilities (such as computing and communication infrastructure, fuel for business travel, and particular location or accommodation facilities).

Our continuing programme of staff awareness training will be enhanced. Other training will create a response capability modelled on Emergency response procedures.

This overhaul of previous assessments and continuity plans has not only captured previous knowledge and experience, but has also ensured that the new portfolio of continuity plans reflects current processes, and will secure the indispensable resources required by critically important business functions. A secondary benefit is that many more officers know about continuity issues, and are becoming involved in considering their responses to various kinds of disruption.

We expect to begin generating a new series of business continuity plans (aided by specialist software) from July 2009 onwards. Pilot versions will be severely critiqued and tested by peers and the Emergency Planning team. As experience and expertise grows, more services will become equipped with reliable plans.

Progress and lessons will be reviewed by October 2009, and a second stage of work planned for the subsequent year. This synchronises with the annual revision of risk registers and operational plans. Thus the business continuity management system becomes embedded in our mainstream management processes.

**Summaries of Audits with a Minimal Assurance  
and the directorates comments**

David Cloake  
Head of Emergency Planning

## Summaries of Audits with a Minimal Assurance and the directorates comments

### Children, Families and Education

#### Cluster Funding – Assurance Minimal

The audit was undertaken to provide management with assurance that the funding allocated to clusters is spent following an appropriate planning and evaluation process that is linked to planned objectives. We also considered if records are maintained to enable management to monitor the expenditure and evaluate the results. Since this audit was conducted the 23 clusters have been re-developed and re-branded as 23 Local Children's Services Partnerships (LCSPs). Our recommendations apply equally to financial management in the LCSPs.

The basis of allocating funds from the centre to the clusters has remained unchanged for several years which mean that there was no assurance that the funding was reaching the target areas. Guidance on how funding should be spent was issued to clusters but there were inconsistencies in how this was cascaded to the schools who actually spent the funds and schools were often unaware of any specific conditions attached to the funding.

We reviewed six clusters in detail and found that there was insufficient planning of projects and expenditure in the medium and long term. The clusters varied in the way they spent their funding; whilst all was planned and authorised there were differences in how outcomes were reviewed and monitored. In some cases we felt it was difficult to establish a correlation between the expenditure and the benefit it was bringing to the children in the cluster.

In some instances the requirements to obtain quotations and tenders from external suppliers were not adhered to and there seemed to be a general lack of the clusters reviewing the appropriateness of the goods or services they were buying.

Clusters were concerned that if they did not spend their funding they would lose it, this led to cluster funding being given to schools and therefore showing that it had been 'spent' from the cluster budget. On a similar basis we found payments were being made in advance to suppliers for goods and services that would not be supplied until the following financial year. In some instances when payments were made, there were no specifications of the goods or services the clusters wished to buy in the following year.

We had concerns about the forecasting and monitoring of expenditure in the clusters. We found it was not always accurate or realistic and this could impede accurate decision making by management. We also felt that the clusters would benefit by sharing good and bad practices and ideas.

We made eleven recommendations to address these issues, ten of which have been accepted by the Children, Families and Education Directorate. Of these, eight have already been implemented or are in progress.

#### *Directorate's comments*

Awaiting comments

**Summaries of Audits with a Minimal Assurance  
and the directorates comments**

**Summaries of Audits with a Minimal Assurance  
and the directorates comments**

**Directorates Progress with the Implementation of Audit Recommendations  
(Covers February, March and April 2009)**

**Annex F**

Directorate	Actions due to be in place	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Chief Executive's Department	4	1	2	Microsoft Exchange	Further work is currently being undertaken on the 2 recommendations relating to this report and requirements are being reconsidered.
			1	Payroll – Appointment to Payment of new employees	ESC are currently undertaking a further project around the issue and return of contracts with a view to reviewing the process to ensure contracts are issued in the most timely fashion and to regulate the return process as far as possible.
Kent Adult Social Services	5	3	2	Procedures Supporting Care Management – East Kent	Recommendations due to be implemented from April 2009 for new clients – as this will be an ongoing process this will be followed up in September 2009 to review progress and ensure process is followed consistently.
Communities	2	2	0		All recommendations have been implemented
Environment & Regeneration	2	1	1	Landfill Allowance Trading Scheme	Job shadowing will be completed as part of the 2009 Action Plan
Children, Families & Education	8	8	0		All recommendations have been implemented
Authority Wide & S151	17	10	1	Data Protection	Information audits will be completed by March 2010 in the Directorates.
			2	Governance of Partnerships	The guidance is currently under review. Resource Directors will include partnership risks in their risk registers and the Risk and Insurance manager has developed a new style risk register to incorporate partnership risks.
			3	Schemes of Delegation	KASS have completed 3 recommendations from this audit; the other directorates will implement their recommendations by 31 August 2009.
			1	Accounts Payable	Recommendation for ISG regarding prime documentation being scanned and retained for the required period will be implemented once the rewritten Financial Regulations are published.
<b>TOTAL</b>	<b>38</b>	<b>25</b>	<b>13</b>		

**Directorates Progress with the Implementation of Audit Recommendations  
(Covers February, March and April 2009)**

**Annex F**

**Internal Audit performance**

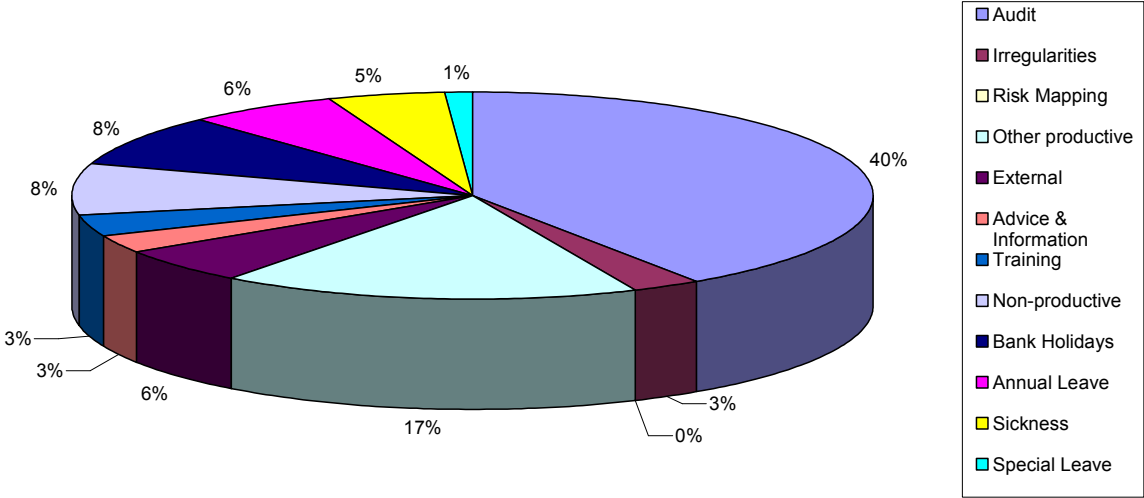
The following table is designed to provide Members with Internal Audit’s performance against Key Performance Indicators.

<b>Performance Indicator</b>	<b>Target</b>	<b>Actual (Apr – May)</b>
<p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>• % of recommendations accepted</li> <li>• % of recommendations implemented</li> <li>• CPA/CAA Score for Internal Control</li> </ul>	<p>98%</p> <p>90%</p> <p>Level 4</p>	<p>100%</p> <p>n/a*</p> <p>n/a*</p>
<p><b><u>Efficiency</u></b></p> <ul style="list-style-type: none"> <li>• % of plan delivered –</li> <li>• % of available time spent on direct audit work</li> <li>• % of draft reports completed within 10 days of finishing fieldwork</li> <li>• Preparation of annual audit plan</li> <li>• Periodic reports on progress</li>   <li>• Preparation of annual report and Annual Governance Statement</li> </ul>	<p>95%</p> <p>80%</p> <p>80%</p> <p>By March</p> <p>G&amp;AC meetings</p> <p>By May</p>	<p>n/a*</p> <p>93%</p> <p>75%</p> <p>March</p> <p>G&amp;AC meetings</p> <p>May</p>
<p><b><u>Quality of Service</u></b></p> <ul style="list-style-type: none"> <li>• Average Client Satisfaction Score –</li> </ul>	<p>70%</p>	<p>93%</p>

\* Figures not yet available for first quarter

Team Structure  
 Number of staff 12 FTE  
 Qualified 5  
 Number of staff training 2

Breakdown of all time in Internal Audit  
April 2009 to May 2009



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

Summary of Irregularities completed in the period February to April 2009

Annex J

Ref	Directorate	Nature of Irregularity	Value if applicable	Details and Outcome
xx747	CMY	Theft and falsification of signature	£405.92, original amount was £9,000 £8,594.08 has been recovered.	<ul style="list-style-type: none"> <li>▪ A member of staff stole nearly £9,000 by falsifying an absent member of staff's signature on cheques. The member of staff was dismissed. The police were informed and the member of staff was prosecuted and received a community sentence.</li> <li>▪ The member of staff was also ordered to repay KCC £8,594.08 which was the amount proved in court.</li> <li>▪ Recommendations have been made by Internal Audit to improve controls.</li> </ul>
xx780	KASS	Falsification of mileage claims	N/A	<ul style="list-style-type: none"> <li>▪ A member of staff was suspected of 'exaggerating' mileage claims. However, lack of details on claim forms has made it difficult to verify if claims are incorrect.</li> <li>▪ The member of staff was asked to resubmit claims with sufficient detail to enable the claim to be substantiated.</li> <li>▪ Advice has been provided by Internal Audit to the manager regarding the type of information that should be included on claims, who has also briefed all members of the team regarding details required on claims.</li> </ul>

Summary of Irregularities completed in the period February to April 2009

Annex J

Ref	Directorate	Nature of Irregularity	Value if applicable	Details and Outcome
xx781	CED	Contractor engaged without full employment history	N/A	<ul style="list-style-type: none"> <li data-bbox="1368 282 2051 576">▪ A contractor was engaged via an employment agency. It was later discovered that the contractor was employed by another local authority at the same time that they were working for KCC. The employee had been suspended from the other local authority pending an investigation.</li> <li data-bbox="1368 580 2051 724">▪ The contractor was immediately released from their contract with KCC and they also resigned from their employing authority.</li> <li data-bbox="1368 729 2051 873">▪ Internal Audit has provided advice to the agency regarding the types of checks that should be carried out prior to engagement.</li> </ul>