

By: The Head of Audit & Risk

To: Governance and Audit Committee – 30 June 2008

Subject: INTERNAL AUDIT PROGRESS REPORT

Classification: Unrestricted

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

FOR INFORMATION AND DECISION

INTRODUCTION

1. The first part of this report details audits completed from the 2007/08 audit plan.

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

Directorate	Audit Title and Description	Assurance
AW	Schemes of Delegation – An audit to ensure that the responsibilities and authorities placed by the Scheme of Delegation on directors, managers and officers are being duly discharged and exercised.	Substantial
AW	Property Rent Income – An audit of rent collection and rent review processes to ensure that rent income from KCC's properties is being maximised and collected.	Limited
CED	Car Expenses Interrogation – An analysis of employees' mileage payments from September 2006 to October 2007 to identify inconsistencies in the payments to staff and to establish whether they were as the result of any system based errors.	Limited
CED Commercial services	Data Protection – A review of how confidential and sensitive data is handled, managed, secured and protected.	Substantial
CF&E	CRB and Recruitment Checks in Schools (schools' processes) – 13 secondary schools were visited to review their processes for managing CRB checks and recruitment of staff on the recruitment and selection checklist in the publication 'Safeguarding Children and Safer Recruitment in Education'.	CRB – High Recruitment - Substantial

Directorate	Audit Title and Description	Assurance
KASS	Swift System Review – An interim review covering, data management; roles & responsibilities, user access; change control and performance monitoring.	N/A
E&R	Revenue Budget Monitoring – A review of the revenue budget monitoring processes in E&R.	High
E&R	Landfill Allowance Trading Scheme (LATS) – A review of the processes to ensure that KCC is able to identify potential surplus/deficits for LATS.	Substantial
E&R	Contracts – Procurement – An audit to determine compliance with ‘Spending the Council’s Money’.	Substantial

IRREGULARITIES

- Since the end of January five cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Two of these involved schools where cheques have been intercepted and details of payee and amounts have been altered. These were identified by the schools’ reconciliation process and by the bank. An e-bulletin has been issued to the schools warning of this and has been included in Internal Audit’s May 2008 ‘Irregular Happenings’ publication. Details of completed irregularity investigations are provided in a separate report.

PROGRESS REPORT

- At the March 2008 Governance and Audit Committee Members received details of the proposed changes to Internal Audit’s progress report to be effective from 2008/09. The new format is as follows:
 - The Internal Audit Plan showing the planned start , actual start, progress for each audit and audit assurance. This will enable Members to review Internal Audit’s progress against the plan. Annex A
 - Other work carried out, for example pro active fraud work, National Fraud Initiative, fraud awareness training provided, advisory work. Annex B
 - Internal Audit consultancy work to drive continuous improvement – None to report
 - Summaries of reports for all completed audits. – None to report
 - Summaries of audits where control has been assessed as minimal, and follow up audits, together with directorates’ responses - None to report
 - The directorates’ progress against the implementation of recommendations made and agreed - Annex C

- Internal Audit's performance against its Performance Indicators - Annex D
- Information about how and where Internal Audit's time has been spent - Annex E
- Definitions of Internal Audit's Assurance Levels – Annex F

Recommendation

6. Members are asked to note this report.

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11 June 2008

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
07/08	Overtime Payments	To provide assurance that overtime payments are appropriately authorised and paid accurately and promptly	Q1	24 April 2008	23 May 2008			Brought forward form 07/08 plan
07/08	WAMS financial management	An audit of financial controls within the KHS procurement and ordering system (WAMS)	Q1	1 April 2008	15 May 2008			Brought forward form 07/08 plan
AW05	Access to Information	A review of controls in place to ensure council wide compliance with access to information legislation, including freedom of information and environmental regulation requests.	Q1	6 May 2008				
S01	Year End Accounting	Assurance that income and payments are accounted for in the correct financial year.	Q1	7 April 2008	9 May 2008			
S03	Local Area Agreement Certification	Annual review to validate the completeness and accuracy of LAA spend.	Q1	21 May 2008				
S09	Insurance Fund	A review to provide assurance on the adequacy, efficiency and effectiveness of controls operating to mitigate the risks within the operation of the Insurance Fund.	Q1	16 June 2008				
CED08	Members Code of Conduct – Locally	A review against the Standards Board checklist for the implementation of the locally managed framework of	Q1	Not yet started				Audit delayed as timing depends on receipt and implementation of government regulations

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	Managed Framework	compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.						and SBE guidance.
CED09	Rebate Income	A review of the process to ensure that all rebate income due has been correctly identified, collected and accounted for.	Q1	23 June 2008				
CFE01	Allocation of Cluster Funding	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 and evaluate the results.	Q1	1 May 2008				
CFE02	Family Group Conferencing	Assurance that controls achieve compliance with referral policy and that funding is adequate to provide accreditation training.	Q1	21 April 2008				
CMY01	Adult Education Budget Management	To provide assurance that budgets are set effectively with a clear link with spending and income sources. Variations are managed effectively (in particular when courses are running at a surplus or deficit). This will be a joint piece of work by Internal Audit and	Q1	Not yet started				Audit Owner has requested that this audit takes place in Q3 or Q4

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		Communities Directorate staff, timed to inform the directorate budget planning process.						
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).	Q1	Not yet started				ToR issued, timing with Audit owner to be agreed
ER01	Health and Safety	Review of the Councils mechanism for ensuring compliance with Health and Safety Legislation for Public Rights of Ways and Country Parks.	Q1	5 June 2008				

National Fraud Initiative

Preparation of letters to pensioners advising of data matching exercise as part of the National Fraud Initiative and responding to queries.

Advisory Work

Joint working with CFHE with regards a school with a potential deficit budget. Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Active Life for Adults (ALFA).

Irregular Happenings

Production and issue of Internal Audit's 'Irregular Happenings' publication.

Pro Active Fraud Work

As part of Internal Audit's programme of pro active fraud work, 75 staff claims and 50 Members claims were checked to ensure compliance with claims procedures and to identify any potential incorrect claims.

**Directorates Progress with Implementation of Audit Recommendations
(covers period February, March and April 2008)**

Directorate	Actions due to be in place by end of April 2008	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Chief Executive's	19	16	1	Network Management Review	As part of the on-going procurement exercise for the replacement of Kent public service networks, suitable tools for capacity management will be purchased via the KPSN project. This will enable KCC and other public service partners to monitor bandwidth and application traffic capacities better than we are able to at the present time. It is expected that these tools will be available towards the latter end of 2008
			1	Accounts Payable	Work is in progress to produce a more comprehensive guide to VAT indicators for most items of income and expenditure including those that are directorate specific and a separate list for schools. Work on this major project will continue after closedown/P11D processes are complete.
			1	Payroll – Appointment to Payment of New Employees	Comparison report development has been unavoidably delayed. However, it remains a high priority target, and the test for the thresholds have now been completed, and the live reports are planned to be in place for the June payroll. Additional trend reports including tax payments and NI payments comparisons will also be introduced at that time.
Children, Families, Health and Education	14	13	1	Sharing Information on Children	The recent hardware problems with SWIFT have resulted in a restricted access situation. All attention is focussed at getting the live system back and available to all as the first priority. Once the access issue has been resolved, audit trail functionality will be examined further. Anite had initially advised switching off audit trail functionality due to the likely effect on performance. Therefore it is the Directorate's intention to explore limited audit trail functionality, covering only specifically requested actions, after consulting with the business about what functionality they would consider necessary.
Communities	8	7	1	Use of IT in Educational Establishments	There has been a delay in translating the internet policy into different languages, as there was the need to change the wording of the acceptable use policy. There has been a recent ruling relating to Libraries regarding the viewing of live TV on public access computers. Libraries would be required to hold current TV licences unless it is clearly stated in the Internet acceptable use policy that this is not allowed. The policy is currently with the Head of Service to be approved and once this is done this work will go ahead. It was not felt justified to get the policy translated and then amended to the new version.
Adult Social Services	3	3			
Environment & Regeneration	19	19			
TOTAL	63	58			

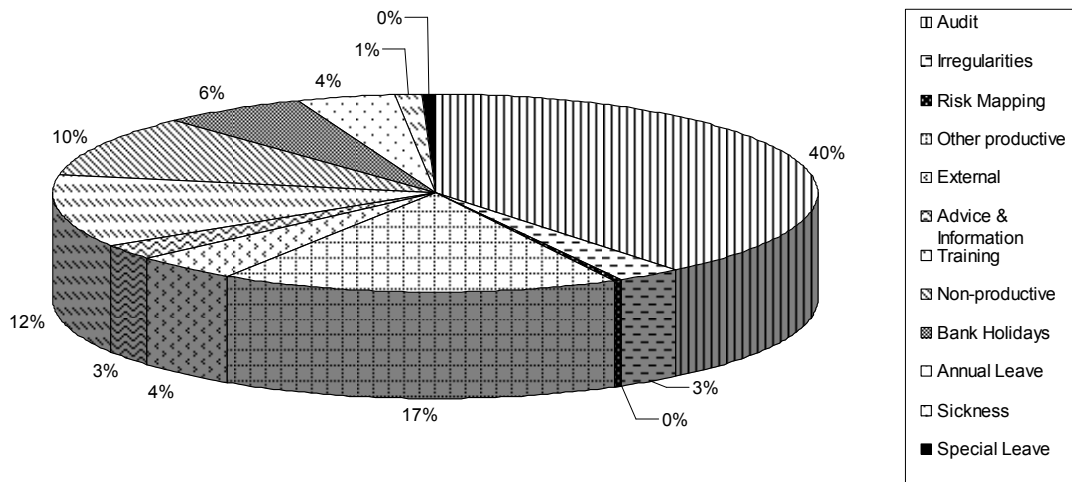
Internal Audit performance

At the Audit Committee meeting on 3 March 2004, Members agreed to receive regular reports on Internal Audit's performance against a range of indicators. To improve the information that is provided to Members on Internal Audit's performance and in line with best practice, I have (or the Head of Audit and Risk has) introduced some additional key performance indicators as shown below and would welcome any further suggestions from members of Key Performance Indicators that they would like to be included.

Performance Indicator	Target	Actual (Apr – May)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	<p>98%</p> <p>90%</p> <p>Level 4</p>	<p>*n/a</p> <p>*n/a</p> <p>*n/a</p>
<p><u>Efficiency</u></p> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	<p>95%</p> <p>80%</p> <p>80%</p> <p>89%</p> <p>By March G&AC meetings</p> <p>By May</p>	<p>*n/a</p> <p>*n/a</p> <p>86%</p> <p>93%</p> <p>March G&AC meetings</p> <p>May</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – <p>Team Structure</p> <ul style="list-style-type: none"> • Qualified Staff • Staff training for professional qualifications 	<p>70%</p> <p>TBC</p> <p>TBC</p>	<p>98%</p>

*NB No final reports from the 2008/09 audit plan have been issued at the time this report was prepared, therefore there is no information available regarding recommendations accepted/implemented. Similarly, % of the plan delivered is over the entire year.

**Breakdown of all time spent in Internal Audit
April 2008 to May 2008**



Assurance Level	Summary description	Detailed definition
High	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.
Substantial	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.
Limited	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, or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	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, or there is evidence that there is significant non-compliance with key controls.</p>