

Report to:	<b>Audit &amp; Best Value Scrutiny Committee</b>
Date:	<b>29 November 2006</b>
By:	<b>Deputy Chief Executive and Director of Corporate Resources</b>
Title of report:	<b>Internal Audit Progress Report – Quarter 1 (1 April 2006 – 30 June 2006)</b>
Purpose of report:	<b>To provide Members with a summary of the key audit findings, progress on delivery of the audit plan and the performance of the internal audit service during Quarter 1</b>

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## **RECOMMENDATIONS**

**Members are recommended to consider and agree any action that should be taken in response to the issues raised as a result of the audits carried out during Quarter 1**

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### **1. Financial Appraisal**

1.1 There are no direct financial implications arising from the recommendations in this report.

### **2. Supporting Information**

2.1 The current annual plan for internal audit is contained within the Audit & Performance Division's Internal Audit Strategy and Annual Plan 2006-07. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (20 June 2006) and Cabinet (11 July 2006). It is updated each year.

2.2 An annual internal audit report, which gives Members and Chief Officers an opinion on the efficiency and effectiveness of the Council's internal control environment, is prepared each year, usually in June. This progress report covers work completed between 1 April 2006 and 30 June 2006.

### **3. Summary and Key Audit Findings**

3.1 Key audit findings from final reports issued during Quarter 1 are summarised in Appendix A. Overall, of the 20 formal audits completed 1 had an audit opinion of 'Good', 18 were 'Satisfactory', 1 was 'Weak' and none were found to be 'Unacceptable'. The only review subject to weak audit opinion related to the Community Partnership Fund. This review and other key findings from quarter 1 reviews are provided within Appendix A.

3.2 During the quarter Annual Internal Audit Reports and Opinions for 2005/06 were also provided for the County Council as a whole and individually for each department. In each case the opinion was satisfactory. In addition, the Internal Audit Service contributed to the preparation of the Council's Corporate Assurance Statement.

### 3.3 Other major work carried out during quarter 1 included:

- **Accounts Payable and Accounts Receivable Follow Up Reviews** – During 2005/06 'weak' audit opinions were given in relation to both of these systems, being the first full reviews following implementation of SAP. Our follow up work has now been completed and we can confirm that appropriate action has been taken to address the main control weaknesses and consequently a greater degree of assurance can be placed on the operation of the control framework within these systems. Full reviews of both systems will be undertaken again during 2006/07.
- **Financial Management Standard in Schools (FMSiS)** - this is a new standard launched by the DfES requiring all secondary schools to comply by 31st March 2007 and all primary schools over the next two or three years. Internal audit has reviewed the audit strategy and approach to school audit work in light of the FMSiS. Secondary schools will submit self assessments in three tranches over the next 7 months. Following training and accreditation by the DfES, Internal audit will review the self assessments and determine whether schools meet the standard. This work will replace our current self assessment and along with systems reviews and a reduced programme of school visits, will provide assurance to the Section 151 officer when signing the Section 52 grant. As a new process to both schools and internal audit, the guidance and instructions will be revised and updated based on experience gained with the first tranche, which is due for completion by 1<sup>st</sup> October 2006.
- **Adult Social Care Business Transformation Programme** – throughout the quarter internal audit have been working closely with Adult Social Care on this major change programme, of which four key work streams have been identified and Project Groups established. We are providing input into each stream as appropriate and are providing advice and support to the Project Board. Provision has also been made to allocate specialist ICT Audit input as the need arises. Our work in this area will continue throughout 2006/07.

## 4 Performance against targets

4.1 The Audit Commission have recently completed their triennial review of internal audit, which has assessed our compliance with the CIPFA Code of Practice for Internal Audit and relevant International Standards for Auditing (ISA). The Audit Commission's report was very positive and found that we were in full compliance. No recommendations for improvement were made. The overall conclusion from the report was that:

*'Internal Audit provides an effective service. It has a positive reputation and standing within the County which allows it to contribute fully to the corporate governance framework. We can rely on the work of Internal Audit where it is relevant to, and has an impact on, our external audit work.'*

4.2 During quarter 1 of 2006/07 we delivered 451.1 productive audit days, equating to 21.9% of the revised plan days. The original plan for the year has been increased by a total of 80 days during quarter 1. 20 days have been added to reflect additional chargeable work for East Sussex Fire and Rescue Service over and above that included within the contract, and a further 50 days have been added to cover additional work as a result of the FMSiS referred to above. This FMSiS work is funded through a charge of £600 to each secondary school.

4.3 We have finalised 32 audit assignments and it is pleasing to note that these have been delivered within 93% of the budgeted time available, which is well within our target of 105%. Performance against both of our effectiveness targets is strong with 93.9% of recommendations being accepted and customer satisfaction running at 97.7%.

## **5. Priorities for Quarter 2**

5.1 Priorities for the period 1 July 2006 – 30 September 2006 include:

- Ongoing advice and support on the Business Transformation Programme within Adult Social Care;
- Carry out a detailed follow up review on Pre-Employment arrangements and the processes for Criminal Records Bureau (CRB) checking;
- Undertake DfES training and obtain accreditation to undertake external assessments as part of the Financial Management Standard in Schools.
- Complete the preparation for the payroll, pensions, creditors and private care home residents data ready for submission as part of the 2006 National Fraud Initiative (NFI).

SEAN NOLAN, DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES

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### **BACKGROUND DOCUMENTS**

Internal Audit Strategy and Annual Plan 2006-07

## **Appendix A**

### **Summary of key audit findings**

#### **SAP Future Phases (Corporate Resources Directorate)**

As in previous years, we have continued to provide advice on queries and control issues arising from SAP implementation. For quarter 1, this has included:

- Advising on control issues following the inadvertent deletion of a SAP audit log file by a member of the ESCC System Administration team. Internal audit have reviewed the circumstances in relation to this and have made recommendations to assist in preventing this from happening in the future. The area of system administration and audit logs is to be covered in a planned audit to be undertaken in quarter 3.
- Advising on CBOSS authorisation issues where the System Administration team identified that a small number of orders had been approved in SAP by users who did not hold an appropriate approval role. The users were able to do this because they had received the approval request via workflow. This is contrary to how the system had worked previously whereby approval could only be granted where the appropriate 'authorisation' role was held. It is unclear when and why this control had changed, although it is believed that it could have been a result of a 'support pack' being added to the ESCC SAP system. The circumstances are currently under investigation.

It is now understood that the approval role in relation to orders has been corrected and that all other approval roles are being tested by the System Administration team. Internal audit will ensure testing in this area is undertaken as part of the next fundamental accounting system audits such as Procurement / Accounts Payable, Accounts Receivable etc.

- Continuing to advise on Employee Self Service (ESS) and Manager Self Service (MSS) issues, particularly in relation to travel management and the change to on-line travel claims from manual forms. Audit input into the ESS/MSS project will continue in quarter 2.
- Advice on the use of generic user logon ID's within SAP.

#### **Budgetary Control Self Assessment (Corporate Resources Directorate)**

In 2004, Internal Audit co-ordinated a budgetary control self assessment exercise across all County Council departments. The responses were completed by members of the Finance Management Team (FMT) and a summary was produced identifying areas for improvement.

This exercise has now been repeated in order to assess the extent of improvement in the control environment, particularly in light of SAP implementation. A self-assessment pack was issued to all departments which set out a series of expected controls grouped together under five main objectives:

- budgetary control roles and responsibilities are clearly defined
- budgets are monitored effectively
- budget forecasts are effective
- budgetary control and management is effective
- budget information is adequate and facilitates effective decision making

Receipt of the completed self assessments has enabled us to:

- assess progress against the results of our last review
- assess the impact of SAP on budgetary control arrangements
- make recommendations for further improvements in budgetary control
- plan our next budgetary control audit which will take place in quarter 3 of 2006/07

We were encouraged to note that overall scores were high and all areas have improved since the last self-assessment review, suggesting an upward trend in control. There continues to be scope for some improvement in the following areas:

- Roles and responsibilities in relation to budgetary control
- The active involvement of budget managers in budget monitoring
- Budget profiling, in particular the monitoring and investigating of variances against profiled budgets

### **Fundamental Accounting Systems - Accounts Receivable Follow Up (Corporate Resources Directorate)**

In October 2005, Internal Audit carried out a full review of the Accounts Receivable system. This was the first audit in this area since SAP implementation.

From the audit work completed during the review, the system of internal control was deemed to be weak for the following reasons:

- Delays within departments in the time taken to request invoices and delays in processing invoices upon receipt of requests
- Lack of adequate accounts receivable reporting resulting in limited management information for monitoring purposes
- Lack of adequate information (such as date goods or services provided) from departments to allow effective monitoring to take place
- Inaccurate reporting on aged debt analysis as a result of the way SAP records part payments
- Weakness in the approval process for changes to customer master data
- Potential to bypass SAP workflow approval in relation to write-offs and credit notes
- Potential for inaccurate SAP reporting of outstanding debt to impact on the County Council's bad debt provision

Due to the control weaknesses highlighted and the resultant weak audit opinion, a follow-up review was completed in order to assess the implementation of the agreed management action plan. The review focussed on action taken against the key recommendations.

From the audit work completed during the review, controls in place were deemed to be **satisfactory** for the following reasons:

- Significant progress had been made against the majority of the priority (three star) recommendations and, where not fully implemented, it could be seen that sufficient progress had been made.

- Action had been taken to rectify the issue of part payments which had a detrimental impact on the aged debt report. A formal process in relation to AR residual invoices (a result of part payments) had been developed. This provides a much more accurate position on outstanding debt.
- A formal process for debt write-off had been developed and is in operation.
- Management reports have been developed which will assist the debt recovery and write-off process.

In addition, a major exercise was undertaken in 2005/06 by CRD Finance to review the backlog of older outstanding debtor accounts. This involved working with departments and Legal Services and reviewing over 3500 accounting entries.

There are, however, a small number of instances where further action is still required and internal audit has made additional recommendations where appropriate which, when implemented, will further improve the control environment. These have all been agreed with management.

### **Fundamental Accounting Systems - Accounts Payable and Procurement Follow-Up (Corporate Resources Directorate)**

In February 2006, Internal Audit carried out a full review of the Accounts Payable/Procurement system. This was the first audit in this area since SAP implementation.

The audit incorporated a review of key controls within the following areas:

- Ordering
- Goods Receipting
- Payments, including invoice plans (periodical payments)
- Payment terms
- Vendor creation and maintenance

The audit work completed during the review and the testing carried resulted in a weak audit opinion. Significant audit findings included:

- The inappropriate usage of non-order invoice payments
- Poor practice in relation to the ordering process, including inadequate order description text and the use of retrospective orders (orders raised only when an invoice has been received for payment)
- Inconsistent practice over goods receipting
- Outstanding snags in relation to the approval of service and framework orders which could potentially result in inappropriate approval

Due to the significance of the audit issues arising, a follow-up review was commissioned shortly afterwards. This allowed only limited time for action to be taken against the recommendations and, therefore, for correct practice to be fully embedded across the Council. As a result, the review focussed mainly on ensuring that appropriate instructions were issued to departments in order to address the recommendations made.

From the audit work completed during the review, controls in place were deemed to be **satisfactory** for the following reasons:

- SAP users have received appropriate instruction via further training and revised documentation to ensure all orders contain adequate information.
- A number of reports have been developed which will enable the monitoring of departmental practice.
- A revised off-SAP goods/service receipting process has been implemented. This will assist in ensuring the on-SAP aspect of goods/service receipting will only be completed when there is adequate and documented evidence that the goods/services have been received.
- Requisitioner training has been undertaken with the intention of reducing the instances of orders being raised retrospectively.
- Reminders have been issued to staff to ensure all invoices are date stamped upon receipt. This will enable the council's performance against BVPI8 to be more effectively monitored.

There are, however, some areas where improvements are still required, particularly over the processing of non-order invoice payments. There is a need to more clearly define and communicate to departments the responsibilities of staff with regard to processing and approving payments. This is key to ensuring only valid payments are made.

Internal audit has made additional recommendations where appropriate which, when implemented, will further improve the control environment. The report and its recommendations have been discussed and agreed with management.

### **Fundamental Accounting Systems – Pension Payments and Contributions (Corporate Resources Directorate)**

This review focussed on the adequacy and effectiveness of internal controls in relation to the system of pension payments and contributions. The review covered the following control objectives:

- all pension payments are paid only to those eligible and are calculated correctly based on an individual's entitlements
- all pension contributions due are received completely and in a timely manner
- all pension payment and contribution data is completely and accurately reconciled within the County Council systems

In addition, the audit recommendations made in a previous audit report relating to access to the AXISe pensions system were also followed-up.

Overall, internal controls in place were found to be **satisfactory**. A management action plan containing appropriate recommendations to further improve controls is currently being agreed with CRD Finance.

## **National Fraud Initiative (NFI) (Corporate Resources Directorate)**

Internal audit has analysed the data requirements and liaised with the relevant parties in preparation for the NFI return which is due in mid October. The mandatory data includes the usual Payroll and Pensions information for both ESCC and ESFRS.

A new mandatory requirement this year is to provide Creditors information. This includes both current and historical data back to 2004 when SAP was introduced.

We will also be supplying data in relation to Residential Care Homes. This will require data sets to be merged from both the Aegis and Carestore systems.

## **Review of BACSTEL Operations under Serco (Corporate Resources Directorate – ICT Audit)**

The objective of this review was to assess the controls in place between ESCC and Serco around the processing of BACS payments.

We assessed whether:

- Controls are in place to prevent duplicate or unauthorised BACS payments.
- Security mechanisms are in place to ensure the confidentiality, integrity and availability of electronic BACS files during storage at Serco and ESCC, and during transmission to BACS.
- All relevant agreed recommendations made in the 2003-04 review have been implemented within the new arrangements with Serco.

Overall the controls within the system were found to be **good** with a number of additional recommendations being made and agreed with management to strengthen these controls even further. These included the need to formalise some undocumented and draft procedures.

## **Review of ESCC's vulnerability to unauthorised wireless access to the network (Corporate Resources Directorate – ICT Audit)**

The objective of the review was to review ESCC's vulnerability to unauthorised wireless access to the network and to assess whether:

- ESCC has a strategy and policy for the use of wireless local area network (LAN) technology within the County Council.
- ESCC has technological controls in place to prevent unauthorised access to the ESCC network.

Overall controls were found to be **satisfactory** with some recommendations being made in the following areas:

- Software guidance and policy documents to cover controls over the installation of unauthorised software which may facilitate wireless access.
- Guidance to schools.
- Improved risk assessment.
- Security of network equipment, particularly at non County Hall establishments.
- Communication mechanisms between ESCC and partners over the potential use of wireless connectivity in shared premises by these organisations.



All recommendations made have been incorporated within a management action plan agreed with ICT Services.

## **ICT Audit - General**

Computer Audit have also started and progressed reviews of the following :

- The corporate development and implementation of ESCC's Gateway and Portal.
- Transport & Environment's Real Time Bus Information Project.
- Adult Social Care's connectivity to the NHS network.
- Adult Social Care's new Supporting People payment system.
- The corporate development and implementation of ESCC's Next Generation Network (NGN).
- Adult Social Care's Business Transformation Programme.

## **South Downs Joint Committee – Governance (Transport & Environment)**

The Financial Regulations of the Joint Committee have not been updated since its formation and the opportunity has recently been taken to improve governance arrangements by separating Financial Regulations from Standard Financial Procedures. The regulations have been based on those in use by East Sussex County Council and will be updated as necessary by the Joint Committee Treasurer.

The new framework will provide a strong base for any successor authority to work from.

As part of Internal Audit's support to the Joint Committee, advice has been provided on the contents and scope of the Financial Regulations, Standard Financial Procedures and a Scheme of Financial Delegation.

## **Review of the Trapeze Passenger Transport ICT System (Transport & Environment – ICT Audit)**

The objective of the review was to assess the following key control objectives:

- Data is migrated in a controlled manner from legacy systems e.g. Children's Services Pupil Database, EMS to the new Trapeze system.
- Interfaces to/from Trapeze are properly identified, developed and tested.
- Contingency plans are in place where data migration or the development and testing of interfaces are not complete by agreed target dates.
- Access to Trapeze and its various modules is properly controlled (to include role-based levels of access control).
- Logs and audit trails are provided in the Trapeze system that are periodically reviewed.
- Technical and contractual controls ensure the availability of the live Trapeze system.

Whilst the overall audit opinion was **satisfactory**, some recommendations were made in the areas of:

- Access control and user administration.
- Password criteria.
- The periodic review of user activity through the use of logs and audit trails.

- The review and removal of users' workstation local administration rights in order to strengthen security over data in the underlying database.
- The documentation of test results.

Discussions are currently underway between the Passenger Transport team, the software supplier and ESCC ICT Services in order to obtain agreement to all of the recommendations or to obtain assurance of appropriate compensating controls will be in place.

### **Direct Payments – Carers Scheme (Adult Social Care)**

A recently introduced Direct Payments for Carers Scheme provides one-off funding of up to £1,000 to give formally recognised Carers the opportunity to arrange the support they personally need. Once funding has been approved, a formal contract is entered into and the recipient agrees to use the money for the purposes intended. Proof of expenditure in support of services or equipment purchased is a requirement of the scheme. For the period ending 31<sup>st</sup> March 2006, approximately £108,000 has been paid to Carers.

Arrangements for the management and control of this scheme have been reviewed by internal audit which showed that that within the flexibilities of the scheme, monies allocated from the Carers Grant are being used for the purposes intended. Consequently the adequacy of the control environment was considered to be **satisfactory**. Recommendations made included the need to ensure that Carers fully account for the grant payments received and within pre-agreed timescales (any failure to comply with conditions would necessitate repayment of the grant sum). A management action plan incorporating all recommendations arising from the review has been agreed with management.

### **Irregularity (Adult Social Care)**

As a result of Internal Audit receiving details of around £1,170 cash that could not be accounted for, a visit to an establishment was made, primarily to review, appraise and report on the adequacy of controls specific to cash handling and security.

Having considered all the circumstances leading to the loss of cash from the safe, on the basis of the evidence available, it was not possible to identify who was responsible. However, it became evident that controls around the safeguarding of residents' cash were not always being followed in their entirety in that two members of staff were not always present when cash was handed over and returned to an individual. Recommendations were made to address these issues, and other control weaknesses identified, which have all been agreed with management.

### **Community Partnership Finance (Adult Social Care)**

The Council supports voluntary organisations and community groups across the county through the Community Partnership Finance (CPF) grant scheme. The total available budget for 2005/06 amounted to £353,674. The cumulative value of applications received for the corresponding period was £674,573.

The purpose of this review was to give assurance to management on the overall adequacy of the CPF grant arrangements and to identify any areas where there is scope for improvement and strengthening. Evidence was found of the grant application and approval system being managed and co-ordinated well. However, Internal Audit considered that robust mechanisms were not in place for ensuring a transparent and consistent approach for recommending financial support for applications. Inconsistencies were also identified between decisions made by the CPF Approval Panel, the Code of Practice on Funding and Procurement, CPF Scoring Criteria Guidance and Application Guidance. As a result a **weak** audit opinion was given.

A series of recommendations have been made to improve the control environment, all of which have been discussed and agreed with management within Adult Social Care. However, with effect from April 2006, allocating grant sums to voluntary bodies has become the corporate responsibility of the Chief Executive's Department. It is anticipated that the recommendations made will be included in the Chief Executive's Department administration of the scheme and this will be followed up by internal audit in 2007/08.

### **Pooled Budget Arrangements for Learning Disability Services (Adult Social Care)**

Internal Audit carried out a review in March 2005, reporting on the framework of controls in place relating to the Partnership Arrangements with the Primary Care Trusts (PCT's) for the provision of learning disability services. Building on this review, further work has been undertaken to confirm the adequacy of controls around the accountancy management, budgetary control and service planning arrangements. Recommendations made in March 2005, have been followed up as part of this review.

As a result of the latest review, Internal Audit can report that as the lead accountable body, the Council is considered to be providing accurate and regular budget and spending related information. This should enable both Adult Social Care and the PCT's to monitor the effectiveness of the Partnership Arrangement from a cost and service delivery viewpoint. Consequently, the current control environment is considered to be **satisfactory**. A management action plan incorporating the recommendations to further improve internal control has been agreed with management.

### **Business Transformation Programme (Adult Social Care)**

As part of the 2006/07 Strategic Internal Audit Plan, a significant amount of time has been allocated to support the Business Transformation Programme (BTP). This is a wide ranging programme of change designed to introduce more efficient and effective working processes in Adult Social Care to improve standards of care for clients and their carers.

Four key work streams have been identified and Project Groups established. Internal Audit are providing input into each stream as appropriate and are providing advice and support to the Project Board. Provision has also been made to allocate specialist ICT Audit input as the need arises. Our work in this area will continue throughout 2006/07.

### **Procurement in Schools – Themed Review Follow Up (Children's Services)**

The audit followed up the previous review of procurement in schools undertaken in July 2002. Due to the control weaknesses highlighted at that point and the weak audit opinion given, the follow up review assessed the implementation of the original recommendations contained within the agreed management action plan.

It should be noted that since the issue of the original audit report, Contract Standing Orders for schools have been revised, one of the impacts being the increase in the tendering and quotation threshold values.

To assess how effectively some of the recommendations made have been implemented, nine schools were visited.

From the audit work completed and the testing undertaken, internal audit's opinion is now assessed as **satisfactory**. However, there is still some non compliance with Contract Standing Orders in schools. There is a continuing need for the LA to remind schools of the purpose of obtaining competitive tenders and quotations and ensuring that the decision making process is documented at appropriate Committees. A management action plan has been agreed with the Director of Children's Services to address the issues raised.

### **Schools Sickness and Absences – Themed Review Follow Up (Children's Services)**

The audit followed up the previous review that was undertaken in March 2003 when the audit opinion was assessed as weak. To determine the progress made in this area, ten schools were visited to assist in evaluating whether recommendations made had been implemented.

Since the last review, the Children's Services' personnel function has been centralised within Personnel and Training (PAT), whilst the legacy personnel and general ledger systems have been replaced with SAP. Schools have also been encouraged to adopt the Corporate Attendance Management Policy.

Attendance Management Tables are now produced to highlight trends within Children's Services including schools, enabling targets to be monitored.

The revised audit opinion has now been assessed as **satisfactory**. However, there is a need for Children's Services management to promote and develop an approach to reducing absences within schools on an individual basis. This will require input from CfBT and PAT to ensure that they develop their current processes and introduce appropriate targets which are monitored and reviewed and included as part of their School Implementation Plans. A management action plan has been agreed with management to address the issues raised.

### **Financial Management Standard in Schools (FMSiS) (Children's Services)**

This is a new standard launched by the DfES requiring all secondary schools to comply by 31st March 2007 and all primary schools over the next two or three years. Internal audit has reviewed the audit strategy and approach to school audit work in light of the FMSiS. Secondary schools will submit self assessments in three tranches over the next 7 months.

Following training and accreditation by the DfES, Internal audit will review the self assessments and determine whether schools meet the standard. This work will replace our current self assessment and along with a reduced programme of school visits and systems reviews, will provide assurance to the Section 151 officer when signing the Section 52 grant.

As a new process to both schools and internal audit, the guidance and instructions will be revised and updated based on experience gained with the first tranche, which is due for completion by 1<sup>st</sup> October 2006.

### **School Business Systems (School BUS) (Children's Services)**

Internal audit continue to offer guidance and assistance regarding controls and procedures on this project to improve the management of back-office systems in schools, and the exchange of data between schools and the centre.

### **School Visit Reviews (Children's Services)**

The three schools audit reports were finalised in the quarter, all three being assessed as **satisfactory**.

### **School Follow Ups (Children's Services)**

Follow up work has been carried out in relation to three schools which were previously assessed as being weak. As a result of this work, all three schools are now considered to be operating **satisfactorily** in line with the School's Finance Handbook.

In addition to these, another school, which was previously assessed as unacceptable, has been reassessed and is now considered **satisfactory**.

### **Libraries Book Fund Ordering and Budgetary Control (Chief Executive's)**

The County Council's budget for the purchase of books in the County's libraries was £1.23 million during 2005/06. Internal audit have undertaken a review to ensure that all purchases from the Book Fund are made from approved suppliers, properly authorised and completely and accurately recorded in the accounting records.

The review identified a number of orders placed outside the current Central Buying Consortium (CBC) arrangements for which formal quotations or tenders had not been obtained. It was confirmed that these vendors related to specialist suppliers of books and it was agreed with management that appropriate controls would be implemented to ensure that all contracts not covered by the CBC contract would in future comply with the Corporate Procurement requirements for Preferred Suppliers.

It was also agreed with management that the reporting and reconciling to the Galaxy System of the Book Fund account would be carried out on a more regular and consistent basis.

Overall, from the audit work completed during the review and testing carried out, a **satisfactory** audit opinion was given. Some recommendations were made and agreed with management to further improve the control environment.

### **Best Value Performance Indicator (BVPI) Arrangements (Chief Executive's)**

The review of the Corporate Best Value Performance Indicators (BVPI) arrangements within the County Council was undertaken in accordance with the annual Internal Audit plan for 2005/06.

The review focussed on the systems in place for collating BVPI information and maintaining the audit trail within selected service departments of the Council. This was achieved by selecting, in consultation with the Corporate Performance Team (CPT), specific BVPI's that have been classed as 'High Risk' and/or have proved problematic in previous years.

Each BVPI was examined for accuracy against the Audit Commission definitions and robustness of the audit trail from the reported figure to source documents.

Officers in CPT demonstrated a good understanding of the BVPI process and the review established that a comprehensive corporate approach is in place that operates throughout the year. The review did however establish that there was scope to formalise the lines of communication and all existing operational procedures to promote efficiency and consistency. It was also agreed that there is a need for a written protocol that pulls together all the activity that is undertaken to provide a clear framework for the County Council.

Overall, from the audit work completed during the review and testing carried out, a **satisfactory** audit opinion was given, with some recommendations being made and agreed with management to further improve controls and the associated processes.

## Internal Audit Performance Indicators

Performance Indicator	Target	Actual Performance			
		At 30/6	At 30/9	At 31/12	At 31/03
<b>Economy &amp; efficiency</b>					
Planned days delivered (%)	90	21.9%			
Planned audits completed = final reports issued (%)	90	23%			
Actual v Plan time on completed audits (%)	105	92.4%			
<b>Effectiveness</b>					
District Audit reliance on internal audit	Achieved	Achieved – Audit Commission review of Internal Audit 2005-06. Further judgement expected in Audit and Inspection Annual Letter.			
Maintain a CPA score of at least 3 / 4 for internal control.	3/4	Not expected until autumn 2006.			
Recommendations accepted (%)	90	93.9%			
Customer feedback forms scoring 3 out of 5 or higher (%)	80	97.7%			
Reports to Chief Officers and Members	Quarterly	Quarterly reports issued.			

## Analysis of actual days delivered against the annual internal audit plan

Service	Plan Days	Amend - ments	Revised Plan	Actual Q1	Actual Q2	Actual Q3	Actual to date	% plan delivered
East Sussex County Council:								
Corporate Body	475		475	107.6			107.6	
Computer Audit	245		245	44.7			44.7	
Children's Services	267	50.0	317	82.4			82.4	
Adult Social Care	289		289	54.6			54.6	
Transport & Environment	167		167	52.3			52.3	
Chief Executives Office	162		162	57.1			57.1	
Contingency <sup>1</sup>	250		250	-			-	
Discretionary and corporate projects	40		40	10.7			10.7	
Sub total – internal customers	1895		1945	409.4			409.4	21.1%
External customers	95	20.0	115	41.8			41.8	36.4%
Total audit days	1990	70.0	2060	451.2			451.2	21.9%

<sup>1</sup> Contingency days delivered include completion of audits carried forward from 2005/06 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.





Report to: **Audit & Best Value Scrutiny Committee**

Date: **29 November 2006**

By: **Deputy Chief Executive and Director of Corporate Resources**

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2.2 An annual internal audit report, which gives Members and Chief Officers an opinion on the efficiency and effectiveness of the Council's internal control environment, is prepared each year, usually in June. This progress report covers work completed between 1 July 2006 and 30 September 2006.

### **3. Summary and Key Audit Findings**

3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A. Overall, of the 12 formal audits completed 1 had an audit opinion of 'Good', 8 were 'Satisfactory', 3 were 'Weak' and none were found to be 'Unacceptable'. Of the 3 reviews subject to a weak audit opinion, 2 related to schools and 1 related to an Adult Social Care establishment. In all cases these will be followed up by internal audit in 06/07 or 07/08. Details of these reviews and other key findings from quarter 2 reviews are provided within Appendix A.

3.2 Other major work carried out during quarter 2 included:

- **Adult Social Care Business Transformation Programme** – At an overall programme level, internal audit have sought to obtain assurance as to the adequacy of governance arrangements (including quality of reporting to the Board), the effectiveness of arrangements for co-ordinating with other change management initiatives within the department and across the authority and the adequacy of risk management and reporting. Whilst we have identified a number of areas where there is scope for improvement, particularly in relation to risk management and co-ordination with other activities across the organisation, our recommendations have been accepted by departmental management and the Board and will be addressed. We will however continue to monitor these as the project progresses.

Whilst it is reported that the programme remains on track, the timescales involved are considered to be extremely tight with a high risk that not all planned 'Day 1' deliverables will be achieved by the April 2007 target. This issue has however been recognised by the Programme Board and appropriate contingency plans are being developed.

At a detailed level, our work has included key control reviews of Specifications of Requirement relating to proposed system solutions and of process maps arising from the recent development workshops. This work is continuing and focuses in particular on the Income and Procure to Pay Streams. At this stage, no significant issues of concern have been identified.

- **Financial Management Standard in Schools (FMSiS)** - Internal audit have continued reviewing the audit strategy and approach to school audit work in light of the introduction of the FMSiS. Guidance and instructions on the completion of the FMSiS self assessment documentation and outlining the external assessment process to be undertaken by internal audit, has now been issued to all secondary schools.

We are now waiting for secondary schools to complete their self assessments and address any areas of weakness before visiting the schools to undertake the external assessment.

Action has also been taken to start to inform primary schools of the process and the need for some work to be undertaken now, to assist them in achieving the Standard.

- **SAP Related Systems** – During the quarter, a systems based audit of the General Ledger (SAP) was completed. This was given a satisfactory audit opinion with no key control weakness being identified. In addition, we have also now carried out a follow up review of SAP Workflow which was deemed to be weak when previously reviewed in 05/06. It is pleasing to note that sufficient action has now been taken in response to our previous recommendations to enable us to conclude that internal controls are now satisfactory.

#### **4 Performance against targets.**

4.1 During quarter 2 of 2006/07 we delivered 497.1 productive audit days, an increase of 46 days over that delivered in quarter 1. Overall, a total of 948.3 days have therefore been delivered to date, equating to 46% of the revised plan. This is currently above target for the year.

4.2 A total of 56 audit assignments have now been finalised in the year to date and it is pleasing to note that these continue to be delivered within the budgeted time available. Performance against both of our effectiveness targets remains strong with 96.3% of recommendations being accepted (93.9% in quarter 1) and customer satisfaction running at 87.5% (87.7% in quarter 1).

## **5. Priorities for Quarter 3**

5.1 Priorities for the period 1 October 2006 – 31 December 2006 include:

- Ongoing advice and support on the Business Transformation Programme within Adult Social Care;
- Completion of first school external assessments as part of the Financial Management Standards in Schools;
- Start of the second Accounts Payable and Accounts Receivable full systems reviews since SAP implementation.
- Development of a revised audit report and opinion format in consultation with client managers.

SEAN NOLAN, DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES

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## **BACKGROUND DOCUMENTS**

Internal Audit Strategy and Annual Plan 2006-07

## Appendix A

### Summary of key audit findings

#### **Treasury Management (Corporate Resources Directorate)**

The annual review of the Treasury Management system found that controls were once again operating well, with only a small number of minor control issues being raised. The audit opinion was **good**.

The review covered the following control objectives:

- All Treasury Management lending and borrowing transactions are properly authorised and in accordance with the County Council's Treasury Management policies.
- All Treasury Management transactions are recorded completely and accurately within the accounts of the Authority.
- Treasury Management transactions are only undertaken with approved organisations and performance is monitored effectively.
- Use of the Money Transfer System (MTS) is strictly controlled.
- CHAPS payments are only made in accordance with approved policy and are strictly controlled.

The small number of recommendations arising from the review have been included within an action plan and agreed with management.

#### **Pension Fund Investments (Corporate Resources Directorate)**

This review focussed on the adequacy and effectiveness of internal controls in relation to the system of Pension Fund Investments. The agreed key control objectives for this review were to ensure that:

- All Pension Fund transactions are completely and accurately recorded, especially within the General Ledger (SAP).
- Cash held by ESCC on behalf of the Pension Fund is completely and accurately recorded and monitored on a regular basis.
- Pension fund and fund manager performance is monitored regularly and appropriate action taken in the event of under performance.
- All income from dividends and interest is received promptly and completely.

The adequacy of the control environment was found to be **satisfactory**. Some recommendations were made to further improve the control environment and these were agreed with management.

#### **User Authorisations – Workflow Follow-Up (Corporate Resources Directorate)**

Internal audit carried out a review of the operation of SAP workflow in August 2005. The audit opinion at the time was deemed to be weak due to the nature of control weaknesses identified. Significant audit findings included:

- Insufficient checking/management review and a lack of adequate SAP reporting to ensure only valid workflow approvers are set-up within the system.
- Inadequate approval controls over the creation and amendment of workflow approvers.

- The lack of robust controls over access to the role which allows amendments to the SAP workflow approver configuration.

A follow-up review has since been undertaken to assess the implementation of the agreed management action plan and, in particular, the priority recommendations. This identified that controls had been strengthened and the revised audit opinion was **satisfactory**. The main improvements were the introduction of a management approval process in relation to amendments to the SAP workflow structure and the development of a report which will enable management to ensure that workflow structures are accurate.

Some further recommendations were made within the follow-up report which included the necessity to develop clear procedural guidance for all staff involved in the workflow process. These have all been agreed with management.

### **General Ledger (Corporate Resources Directorate)**

This review focussed on the adequacy of controls in relation to the general ledger system. Audit work was undertaken to cover the following control objectives:

- The main accounting system should provide complete and accurate data for the production and publication of the annual accounts and financial returns required by, for example, government departments, agencies and regulatory bodies.
- The Council's Bank reconciliations are carried out at regular intervals and are calculated correctly.
- All data and transactions recorded in feeder systems are appropriately authorised and transferred completely and accurately to the main accounting system.

Overall, internal controls were found to be **satisfactory**. Some recommendations were made to further improve controls and associated processes in the following areas:

- Strengthening controls around creating, amending and deleting SAP user roles.
- Enforcing existing controls on journal transfers.
- Clearing of payroll suspense accounts.
- Formalising roles, responsibilities and procedures for reconciling bank balances with SERCO.

All recommendations made were incorporated within a management action plan and agreed with management.

### **Next Generation Network (Corporate Resources Directorate)**

This Programme involves the corporate development and implementation of the Next Generation Network (NGN). Computer Audit are providing ongoing advice and support to the Programme through periodic meetings with the NGN Programme Manager, the Schools NGN Project Manager, the Voice and Data Communications Team Leader and through attendance at the monthly NGN Delivery Meetings. Assurance continues to be sought over the NGN's security (from both logical and physical security points of view) as the infrastructure (which is shared with partner organisations such as schools) is deployed over the coming months.

## **E-Tendering Project (Corporate Resources Directorate)**

Internal Audit work on this project has included attendance at a presentation made by the intended supplier (BIP) and liaison with the supplier on a number of key control issues, including:

- Security.
- Controls over activity logs.
- Backup, availability and disaster recovery arrangements.
- Ownership of the data hosted by the company.
- Business Continuity.

Discussion and liaison with the intended supplier on these issues will continue as the project progresses.

## **Aegis Systems Review (Adult Social Care)**

The Aegis system collates and stores data and generates all payments to independent sector suppliers of home care, day care, residential and nursing care services provided on behalf of the Adult Social Care Department. On average, approximately 2,300 invoices per week are processed for payment. Aegis also provides commitment data for the purposes of budgetary control. Annual expenditure accounted for via Aegis is around £83 million, net of client contributions payable.

The overall objective of this review was to provide assurance that all payments made to independent sector providers of residential, home and day care services are accurate and that reliance can be placed on budget management information produced. The system's controls that were reviewed are operating **satisfactorily**. However, management needs to review current arrangements around the recovery of overpaid sums to providers. In total, 10 recommendations were made where it was considered the control environment could be improved. These were all agreed with by management.

## **Appointeeships -Follow Up (Adult Social Care)**

Appointeeships are granted by the Department of Works and Pensions (DWP) in circumstances where a client lacks the mental capacity to deal with their own affairs. East Sussex County Council acts on behalf of clients as a Corporate Appointee if that person is placed in a long term residential setting, has less than £16,000 in capital and there is no relative able to assume responsibility for this role. The Council's responsibility generally includes settling fees payable for residential services provided and managing the client's personal allowance entitlement.

Internal Audit carried out a review of the main controls of the Appointeeship system during February 2005. Due to the control weaknesses highlighted and the weak audit opinion given, a follow-up review has been undertaken to assess the implementation of the original recommendations contained within the management action plan. As a result of the follow-up work, the control environment is now considered to be **satisfactory** with all recommendations originally made successfully implemented. Six new recommendations have been agreed by management.

## **Self-Assessment Questionnaire - Management Competency (Adult Social Care)**

Internal Audit has contributed to the work of a Project Group, set up to develop a self-assessment process for Adult Social Care managers. The resulting Questionnaire will enable operational managers to be made more aware of their roles and responsibilities in relation to the internal control environment, to enable their knowledge and competencies around business practice to be assessed. Adult Social Care, Exchequer Services, is in the process of distributing the Questionnaire.

## **Financial Awareness Training (Adult Social Care)**

As part of Adult Social Care's commitment to improve the internal control environment within the department, Internal Audit has contributed to the design and delivery of a Financial Awareness training course which continues to be rolled out across the department.

## **Establishment Visits (Adult Social Care)**

Internal Audit continues to support operational managers by arranging site visits, or facilitating the use of a self-assessment process. Both methods continue to provide Internal Audit with an opportunity to comment on the adequacy of financial control at establishment level.

During this quarter two establishments providing services for older people were reviewed. The outcome of a self-assessment carried out at one establishment resulted in a **satisfactory** audit opinion being given. There were however, a number of areas where it was considered that controls could be improved or where procedures to be followed required clarification. A positive response was received to the report with management agreement to all recommendations.

As a result of the audit work completed at a second establishment, Internal Audit was unable to provide assurance that all aspects of the financial administration and internal controls were operating efficiently and effectively. Weaknesses around income collection, safeguarding resident's property and the use of a non-approved supplier of agency staff were found, resulting in a **weak** opinion being given. A number of recommendations were made and agreed with management. In many cases, corrective action was taken immediately to improve controls operating at this establishment. A follow-up visit will take place in due course to obtain assurance that the new measures introduced are working effectively.

## **Business Transformation Programme (Adult Social Care)**

Internal audit activity in relation to this programme has involved advice and support on governance arrangements, risk management and internal control at all levels, ranging from individual project teams to the overall Programme Board.



At a programme level, we have sought to obtain assurance as to the adequacy of governance arrangements (including quality of reporting to the Board), the effectiveness of arrangements for co-ordinating with other change management initiatives within the department and across the authority and the adequacy of risk management and reporting. Whilst we have identified a number of areas where there is scope for improvement, particularly in relation to risk management and co-ordination with other activities across the organisation, our recommendations have been accepted by departmental management and the Board and will be addressed. We will however continue to monitor these as the project progresses.

Whilst it is reported that the programme remains on track, the timescales involved are considered to be extremely tight with a high risk that not all planned 'Day 1' deliverables will be achieved by the April 2007 target. This issue has however been recognised by the Programme Board and appropriate contingency plans are being developed.

At a detailed level, internal audit have reviewed all available Specifications of Requirement relating to proposed system solutions and provided comment to the Project Teams on any risk or internal control issues. In all cases, these comments have been acted upon with no outstanding issues of concern to highlight.

We have also examined a number of development workshop outputs, in the form of process maps, against key control matrices, to identify and review the adequacy of expected controls. This work is continuing and focuses in particular on the Income and Procure to Pay Streams. At this stage, no significant issues of concern have been identified.

Planned future work on the Transformation Programme will focus on:

- Advice and support at Programme Board and Project Stream levels;
- Ongoing review of proposed systems and processes against key control matrices;
- Adequacy of risk management and reporting;
- Development, testing and sign off of system interfaces;
- Data integrity;
- System testing arrangements;
- IT security controls, including passwords, audit trails, access permissions and back up and contingency;
- Adequacy of staff training and support arrangements.

### **Financial Systems Support (Transport & Environment)**

The ongoing development of IT solutions within Highways Maintenance and Passenger Transport has required input from Internal Audit in respect of system and process controls. A particular focus area for this work has been the need to ensure an acceptable level of control is provided by these IT systems consistent with the standard set within SAP (the core financial system). This is particularly important where there are interfaces to SAP and where key activities, including payment approvals, which would normally take place within SAP, are to be carried out within the departmental systems. We will continue to work closely with both teams to ensure the necessary standards of control are maintained.

### **Financial Management Standard in Schools (FMSiS) (Children's Services)**

As outlined in the 2005/06 annual report, this is a new standard launched by the DfES requiring all secondary schools to comply by 31st March 2007 and all primary schools over the next three years. Internal audit have been reviewing the audit strategy and approach to school audit work to be undertaken following the full assessment of the FMSiS issued by the DfES on the 7th March 2006.

Circulars (136/2006, 157/2006 and 176/2006) have been sent to secondary schools giving guidance and instructions on the completion of the self assessment documentation and outlining the external assessment process to be undertaken by internal audit.

As a new process to both schools and internal audit, the guidance and instructions have been revised and updated based on experience gained following DfES training and our accreditation to undertake the external assessments on behalf of schools.

Internal audit are now waiting for secondary schools to complete their self assessments and address any areas of weakness before visiting the schools to undertake the external assessment. We are currently assisting secondary schools with their queries regarding the completion of their self assessments and encouraging their completion in a prompt manner, particularly in view of the amount of work to be undertaken by the financial year end.

Internal audit have also started to inform primary schools of the process and the need for some work to be undertaken now, to assist schools to achieve the Standard (Circulars 077/2006 & 195/2006). Internal audit are jointly providing awareness training with Children's Services Finance for Governors and improving awareness through bursars meetings.

### **School Business Systems (School BuS) (Children's Services)**

Internal audit continue to offer guidance and assistance regarding controls and procedures on this project to improve the management of back-office systems in schools, and the exchange of data between schools and the centre progresses.

### **School Visit Reviews (Children's Services)**

Two reports were finalised in the quarter, with one being assessed as **weak** and one assessed as **satisfactory**.

A management action plan containing recommendations for improvement has been agreed with each school. The school assessed as weak will be subject to a follow up review in 2007/08 to ensure appropriate action has been taken to address the identified weaknesses.

### **School Follow Ups (Children's Services)**

Follow up work has been undertaken in relation to two schools which were previously assessed as being weak. Whilst one of the schools is now considered to be operating **satisfactorily** in line with the School's Finance Handbook, the second school will be subject to a further review later in the year as the audit opinion remains **weak** and there are still a number of outstanding points to be addressed.

### **Registration Service Self Assessments (Chief Executive's)**

Financial self-assessments for the Registration Service have been introduced in order to provide wider audit coverage and to identify whether any control weaknesses exist at operational level. The self assessment was based upon the Council's Financial Regulations, Standard Financial Procedures, Registration Service Notes of Guidance and best practice.

The self assessments were issued in June 2006 to all Registration Service offices of which there are four and all have been completed and reviewed by internal audit.

Management Action Plans have been issued to the superintendent registrars at each office as a means of addressing the areas identified for remedial action and of these, one has so far been completed and returned. Those outstanding will be followed up by internal audit in due course.

## Internal Audit Performance Indicators

Performance Indicator	Target	Actual Performance			
		At 30/6	At 30/9	At 31/12	At 31/03
<b>Economy &amp; efficiency</b>					
Planned days delivered (%)	90	21.9%	46%		
Planned audits completed = final reports issued (%)	90	23%	39.4%		
Actual v Plan time on completed audits (%)	105	92.4%	100%		
<b>Effectiveness</b>					
District Audit reliance on internal audit	Achieved	Achieved – Audit Commission review of Internal Audit 2005-06. Further judgement expected in Audit and Inspection Annual Letter.			
Maintain a CPA score of at least 3 / 4 for internal control.	3/4	Not expected until autumn 2006.			
Recommendations accepted (%)	90	93.9%	96.3%		
Customer feedback forms scoring 3 out of 5 or higher (%)	80	87.7%	87.5%		
Reports to Chief Officers and Members	Quarterly	Quarterly reports issued.			

## Analysis of actual days delivered against the annual internal audit plan

Service	Plan Days	Amend - ments	Revised Plan	Actual Q1	Actual Q2	Actual Q3	Actual to date	% plan delivered
East Sussex County Council:								
Corporate Body	475		475	107.6	149.7		257.3	
Computer Audit	245		245	44.7	55.4		100.1	
Children's Services	267	50.0	317	82.4	74.9		157.3	
Adult Social Care	289		289	54.6	88.8		143.4	
Transport & Environment	167		167	52.3	41.6		93.9	
Chief Executives Office	162		162	57.1	46.8		103.9	
Contingency <sup>1</sup>	250		250	-	-		-	
Discretionary and corporate projects	40		40	10.7	8.1		18.8	
Sub total – internal customers	1895		1945	409.4	465.3		874.7	45.0%
External customers	95	20.0	115	41.8	31.8		73.6	64.0%
Total audit days	1990	70.0	2060	451.2	497.1		948.3	46.0%

<sup>1</sup> Contingency days delivered include completion of audits carried forward from 2005/06 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.

