

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

Date: **22 March 2007**

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

Title of report: **Internal Audit Progress Report – Quarter 3 (1 October 2006 – 31 December 2006)**

Purpose of report: **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 3**

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**RECOMMENDATION: 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 3**

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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 October 2006 and 31 December 2006.

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

3.1 Key audit findings from final reports issued during Quarter 3 are summarised in Appendix A. Overall, of the 18 formal audits completed 15 were judged 'Satisfactory', 3 were 'Weak' and none were found to be 'Unacceptable'. Of the 3 reviews subject to a weak audit opinion, 1 related to a school. The others related to Rights of Way within Transport and Environment and Hastings Parking Follow Up Review. In all cases these will be followed up by internal audit in 2007/08. Details of these reviews and other key findings from quarter 3 reviews are provided within Appendix A. Members attention is also drawn to the work completed on:

- Pre-Employment and CRB (Criminal Records Bureau) Checking Arrangements
- Adult Social Care Business Transformation
- Financial Management Standard in Schools (FMSiS)

## **4 Performance against targets.**

4.1 During quarter 3 of 2006/07 we delivered 488.6 productive audit days. Overall, a total of 1436.9 days have therefore been delivered to date, equating to 69.7% of the revised plan. We remain on course to achieve our target for the year.

4.2 A total of 78 audit assignments have now been finalised in the year to date and once again that these continue to be delivered within the budgeted time available. Performance against both of our effectiveness targets remains strong with 95.7% of recommendations being accepted and customer satisfaction running at 87.9%, both in excess of target.

4.3 The Council successfully retained its score of 3 out of 4 for internal control within the Comprehensive Performance Assessment Use of Resources 2006, and also achieved 3 out of 4 for each of the sub elements covering: risk management, internal control systems and propriety, probity and conduct.

## **5 Other Issues**

5.1 CIPFA has published a revised version of the Code of Practice for Internal Audit in Local Government in the United Kingdom, which sets out the professional standards with which we must comply. We will carry out a self assessment against the Code to inform our business planning for 2007/08.

5.2 The Audit Commission has proposed the appointment of PKF as the Council's external auditors for 2007/08. Internal audit will work closely with both the incoming and outgoing external auditors to ensure a smooth transition.

## **6 Priorities for Quarter 4**

6.1 Priorities for the period 1 January 2007 – 31 March 2007 include:

- 2007/08 audit planning;
- Ongoing advice and support on the Business Transformation Programme within Adult Social Care, including a review of arrangements for implementing the new systems leading up to 'go live';
- Continuing school external assessments as part of the Financial Management Standards in Schools;
- Completion of the 2006/07 audit plan, including the second Accounts Payable and Accounts Receivable full systems reviews since SAP implementation;
- Evaluation and feedback from the CPA Use of Resources 2006;
- Completion of self assessment against the new Audit Code of Practice;
- Liaison with both incoming and outgoing external auditors.

SEAN NOLAN

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BACKGROUND DOCUMENTS

Internal Audit Strategy and Annual Plan 2006-07

## Appendix A

### Summary of key audit findings

#### **HR / Payroll (Corporate Resources)**

This was the first full internal audit review of the Human Resource (HR) / Payroll modules of SAP since implementation at the beginning of 2005 (as part of the second phase of implementation to replace the Council's core back office systems).

During the course of this review, some significant control weaknesses were identified, particularly in relation to access permissions and users roles. These weaknesses included the discovery that some users with write access permissions to the system could potentially amend their own records, including payment details. This was a key control identified during the implementation phase of the project which appears to have been removed at some stage since go live. It has not been possible to establish the exact reason for this change, although it is thought to have occurred as a result of a system upgrades known as 'transports'.

Internal audit raised these control issues with management promptly upon discovery and we can confirm that immediate action was taken to strengthen internal controls. Further testing was also undertaken to assess the likelihood of inappropriate use and no evidence of this was discovered. The Deputy Director of Corporate Resources has raised the issue of 'transports' with the service provider and is seeking further assurances that no similar alterations to the control environment will occur in the future. Internal audit will be reviewing the protocols by which SAP 'transports' are processed, tested and approved during Quarter 1 of 2007/08.

In recognition of the positive action taken during the course of the audit by management upon discovery of these control weaknesses and the level of control across the remainder of the system, a **satisfactory** audit opinion was given.

In total, 35 recommendations were made to improve the control environment, covering both the operation of the system and associated HR / Payroll related processes. All recommendations, with the exception of one low risk action, have been agreed by management and will be followed up as part of a second HR/Payroll review in 2007/08.

#### **SAP Projects (Corporate Resources)**

As part of the reciprocal arrangements with West Sussex County Council (WSSC) following our review of their Fastway Project in 2005, a review was undertaken of the Projects Module of SAP by WSSC auditors.

This review sought assurance that SAP Projects is operating as intended and is being used to its full potential, utilising all available features within the system, and that access to SAP Projects and functionality within it is strictly controlled and enforced, including effective control over project approvals.

Overall controls in place were found to be **satisfactory**. A number of recommendations were made to improve controls, particularly in relation to improved recording of cost information and improved reporting functionality. All recommendations were agreed with management within CRD Finance and ICT Services and incorporated within a formal management action plan.

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

Ongoing specialist advice and support continues to be provided in relation to the corporate development and implementation of ESCC's Next Generation Network (NGN). This includes holding periodic liaison meetings with the NGN Programme Manager, Schools NGN Project Manager, Voice and Data Communications Team Leader and attendance at the monthly NGN Delivery Meetings. This work includes seeking assurance over NGN security (from both logical and physical security points of view) as the NGN infrastructure is deployed over the coming months.

### **Rights of Way and Countryside Management (Transport & Environment)**

During 2006/07, internal audit provided support to a T&E management investigation within the Rights of Way and Countryside Management Team. During the course of this work, a number of management and internal control weaknesses were identified, particularly in relation to:

- Management of conflicts of interest
- Management of volunteers and volunteer groups
- Project management (including project financial management).

The report opinion was that internal control within this area was generally **weak** with examples of unacceptable practice in parts. A comprehensive management action plan has been agreed with the Director of Transport and Environment and the Assistant Director, Environment Division which will be followed up during 2007/08.

### **Integrated Waste Services Management Contract (IWSMC) Advice and Support (Transport & Environment)**

Internal audit continues to support the IWSMC through regular liaison meetings between the Audit Commission (External Audit), Brighton & Hove City Council Internal Audit and the Contract Implementation Manager. The meetings provide an important mechanism for ensuring that the audit teams are kept up to date on implementation progress and service delivery. They also enable all audit activity to be properly co-ordinated and any key risk or control issues to be shared.

### **Hastings On Street Car Parking – Follow Up Review (Transport & Environment)**

An audit of arrangements relating to Hastings On Street Car Parking was reported on in January 2006. The report contained an audit opinion that stated that the system of internal control was weak and made ten recommendations to strengthen the controls. All of the recommendations were agreed by management. The main areas of concern centred on:

- Lack of compliance with the Agreement and Code of Practice

- Absence of the provision of full details of the cost apportionment methodology in relation to the recharging of overheads.
- Lack of agreement on the timing of budget setting arrangements.
- Lack of finalised arrangements for the format of management information.

Internal Audit subsequently carried out a follow-up review to check on the progress made in respect of implementing the recommendations. This showed that while progress had been made, only two of the original ten audit recommendations had been fully implemented as agreed. Seven other recommendations had been partly implemented and the remaining recommendation had yet to be tackled.

Accordingly the audit opinion remains that the system of internal control is **weak**. However, it is evident from management's responses to the report that they are working towards full implementation of the recommendations made. Internal Audit will follow this up in due course.

### **Passenger Transport – Trapeze System (Transport & Environment)**

During Quarter 3, work has been carried out to review and advise on the payment controls within the new Passenger Transport System, Trapeze, prior to the interface with SAP going live. The focus of this work was to ensure consistency with the level of control currently applied to SAP, particularly where key functions normally performed within SAP are to be carried out within Trapeze.

Discussions have been held with members of the Trapeze Project Team in order to document the system and evaluate the proposed controls.

A small number of recommendations have arisen from this work and these have been reported orally to management. A formal report will be issued in due course which will include a management action plan to monitor implementation. A key issue arising from the review relates to the need to ensure that system administration function is performed independently from operational activity on Trapeze. This is currently under discussion with management.

### **Block Contracting Arrangements – Residential and Nursing Respite Care Services (Adult Social Care)**

In 2005/06, Internal Audit reported on the block contract arrangements with the independent sector for the provision of residential and nursing care long stay places. During this quarter a similar review was carried out looking specifically at the block purchase of respite care beds.

Areas of good practice around procedures for the booking of respite care beds and verifying the correctness of payments due to Providers for actual placements, as well as for void periods, were found to be in place. This resulted in a **satisfactory** audit opinion being given. However, value for money issues were identified including the amount of expenditure incurred for periods when the beds remained vacant.

Management have commented on the usefulness of the review, responding positively to all nine recommendations made as part of an agreed action plan. Internal Audit's findings

will be utilised to inform current practice as part of the Business Transformation Programme and more immediately, the review of future internal and external respite care provision that is currently out to tender.

### **Health Recharges – Follow Up Review (Adult Social Care)**

A review of the main controls within the Health Authority Recharge system was the subject of a review by Internal Audit in July 2005, the outcome of which resulted in an unacceptable opinion being given. This has necessitated a follow-up review being undertaken, focusing on the control weaknesses previously identified with a view to confirming that these have been properly addressed.

A **satisfactory** audit opinion has been given with all 21 recommendations originally made acted on. Existing controls in place should minimise the risk of the Health Authority disputing or failing to pay their agreed contribution towards joint funded packages of care in the future.

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

Internal audit has continued to support the delivery of a Financial Awareness training courses to staff within Adult Social with a successful session being held in Eastbourne during Quarter 3 for Practice Managers. This support will remain ongoing.

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

In addition to the ongoing support and advice work reported on previously in Quarters 1 & 2, an internal audit work programme has been agreed with management, setting out the focus areas for internal audit activity over the remainder of the project. This includes new process key controls, ICT controls, system interfaces and testing arrangements.

Revised plans have now been produced by the Project Team covering more realistic day one deliverables and contingency arrangements should these not be achieved. In light of this, it has been agreed that the Internal Audit priority will be on supporting the project in reaching day 1 and providing assurance on the highest risk areas. Regular monitoring of progress will be taking place, whilst operational audit work will focus on the following areas:

- Income (Financial Assessment and Client Billing) - assurance that key system and process controls will be in place.
- Payments - as above.
- Key Interfaces (Abacus to SAP on income and Abacus to SAP on payments) - focussing on adequacy of testing arrangements.

There is still much work to be done by the Project Team in achieving the day one deliverables. Internal Audit will therefore look to continue to obtain assurance around the proposed contingency arrangements. It should be noted however that many processes and procedures have still to be finalised and properly documented, so the extent of our assurance will clearly be heavily dependent, both on the amount of information available and the amount of time we will have to review and comment on it.

### **Connectivity to the NHS network (Adult Social Care)**

Controls over access to the NHS network and NHS applications were reviewed and found to be **satisfactory**.

The review included the following control objectives:

- ESCC's network components are properly configured to ensure that access to the NHS network is controlled in line with expectations and does not expose the ESCC network to unauthorised access.
- The NHS applications accessed by ESCC are properly supported on the ESCC network.
- Use of the NHS application data is properly controlled
- Access control mechanisms to the NHS applications are properly defined and administered.

Some recommendations were made to further improve controls and associated processes, all of which were incorporated within an action plan:

- Clarification whether individual agreements are required to be signed for access to the STEIS application and hence whether individual user names and passwords are required in order to access the STEIS application.
- The documenting of the process within ESCC for obtaining access to the NHS application for business continuity purposes and as best practice.
- The formal definition of support arrangements within ESCC and with the NHS for business continuity purposes and as best practice.

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

### **Supporting People Payment System (Adult Social Care)**

The objective of the review was to assess the controls in place to ensure that the Supporting People (SPOCC) system and its interface to SAP have been properly configured and tested, and controls are in place on an ongoing basis, including user administration, system availability, system development and support, payment authorisation and reconciliation.

Overall controls were reviewed and found to be **satisfactory** with some recommendations being made to further improve the control environment in the following areas:

- Controls over access to the application's underlying database.
- The bringing of the SPOCC.NET portal's password criteria in line with the ESCC corporate standard.
- The inclusion of the SPOCC.NET portal in the periodic penetration testing regime.
- Formal documentation of processes and testing plans.
- Controls over payments e.g. over manual calculations, retention of the duplicate payment report and system controls to prevent future payments to providers from exceeding the available commitment.

All recommendations made were incorporated within a management action plan and all, except one of a minor/low risk nature, have been agreed with management.

### **Pre-Employment and CRB (Criminal Records Bureau) Checking Arrangements (Chief Executive's)**

This audit was a follow up to the review carried out in November 2005 when due to the control weaknesses highlighted at that time an unacceptable audit opinion was given.

The objective of the follow up review was to assess the implementation of the 40 recommendations contained within the management action plan of the original report and to identify any areas where improvements may still be necessary.

It was evident from the checking carried out that much work has been undertaken by Personnel and Training (PAT) since the original report to revise and update its guidance and procedures with regard to CRB.

From the audit work completed and the testing carried out, it is internal audit's opinion that the controls are now **satisfactory**. 28 of the original recommendations have been implemented in full. 11 have been partially implemented with varying degrees of work being undertaken and 1 was deemed to be no longer applicable.

It was acknowledged that such fundamental revising of working practices would take time to implement in full. However, with continued management support the standard of compliance with the new procedures should improve and become fully embedded as part of the normal employment routine.

The main areas where recommendations had been partially implemented, at the time of the audit, were around agency staff procurement arrangements and employee rechecks. PAT management has agreed a time scale for full implementation of all outstanding recommendations.

### **Local Public Service Agreement (LPSA) – Performance Reward Grant Claim (Chief Executive's)**

Internal Audit carried out the audit of the Authority's reward grant claim paid by the Government if we achieve the range of performance targets which were set out in our LPSA agreement with the Government dated October 2003. The claim was for £7.1m and the work involved verifying the systems and controls that are used to produce the data to measure the outturn performance figures.

The audit found that the authority has adequate systems in place to produce all the performance indicators required for the grant and that they had been fairly stated in the claim. The Chief Executive was therefore able to sign the claim for the reward grant on behalf of the County Council.

### **Grounds Maintenance (Children's Services)**

A review was undertaken to assess the Grounds Maintenance contract tendering process. Further work was also undertaken to review the payments process and performance monitoring of service delivery. The audit opinion was assessed as **satisfactory**, although a range of recommendations were made to further improve the control environment, particularly in relation to documenting the processes for payments and performance monitoring.

All recommendations were agreed with the Contracts Management Team as part of the management action plan.



## **Teacher's Performance Related Pay (Themed Review) (Children's Services)**

This review followed up the original report on this area that was issued in March 2003. Whilst the original report had an audit opinion of satisfactory, there were a number of areas identified that required improvement.

The follow up review was undertaken to assess the implementation of the original recommendations contained within the management action plan. Internal audit visited ten schools and also carried out some central testing to verify the controls in place. As a result of the work completed, internal audit is satisfied that the majority of recommendations have been implemented, although there is a need to review the documentation that should be retained by Personnel and Training to evidence the approval of performance related pay. The audit opinion remains **satisfactory**.

## **Online Admissions System (Children Services)**

This review examined controls over the Online Admissions System used by parents and guardians to apply for school places for their children over the Internet, including access controls, protection of data, system availability, reconciliation and system interfaces.

Overall, controls were found to be **satisfactory** with some recommendations being made to further strengthen the control environment, primarily in relation to password management and data deletion.

All recommendations have been included in a management action plan agreed with both ICT Services and Children's Services.

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

As outlined in the Quarter 2 report, the Deputy Chief Executive and Director of Corporate Resources has required all secondary schools to complete the FMSiS self evaluation and submit this when it is completed. This will enable internal audit to undertake the external assessment for compliance with the DfES Financial Management Standard.

External assessments have so far been carried out for Beacon Community College and Cavendish School and these confirmed that both have achieved the Financial Management Standard. These schools will receive accreditation in due course from the DfES which will last for three years, when the process will need to be revisited.

A further 3 schools have submitted their self assessments with the remaining 22 still awaited. The awareness training, provided jointly with Children's Services Finance, for Governors and Bursars has continued during the quarter.

Internal audit have informed primary schools of the FMSiS process and the need for some work to be undertaken now to assist them to achieve the Standard (Circulars 077/2006 & 195/2006). A further circular for primary schools which will outline which schools will be requested to submit their self evaluations in 2007/08 for external assessment is to be sent out in January 2007.

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

Internal audit has continued 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. Recent work has specifically focussed on the pilot study to evaluate the electronic processing of supply claims for teachers.

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

Two reports were finalised in the quarter, with one being assessed as **satisfactory** and the second as **weak**. This school will be subject to further follow up work in 2007/08 to ensure internal controls are improved to an acceptable level.

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

Where a school receives a weak or unacceptable audit opinion, follow up reviews are undertaken to assess the implementation of recommendations made and agreed by the schools. As a result of this work two schools that had weak audit opinions and one that had an unacceptable opinion have now been reassessed as having **satisfactory** audit opinions and are operating in line with the School's Finance Handbook.

### **Schools Sports Grants (Children's Services)**

Internal audit has carried out the 2005/2006 grant claim audits for two specialist sports colleges in the County, Beacon Community College and Hailsham Community College. Both Colleges received an unqualified opinion indicating that the statements of expenditure were fairly stated.

### **'Czone' (Children's Services)**

As part of the redevelopment of the extranet for Children's Services (the 'ezone', now to be called 'czone'), internal audit has updated the information and guidance it gives to schools on financial procedures and controls. This will be available on the new web site to be launched in April 2007.

## 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%	69.7%	
Planned audits completed = final reports issued (%)	90	23%	39.4%	54.9%	
Actual v Plan time on completed audits (%)	105	92.4%	100%	99.5%	
<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	Achieved.			
Recommendations accepted (%)	90	93.9%	96.3%	95.7%	
Customer feedback forms scoring 3 out of 5 or higher (%)	80	87.7%	87.5%	87.9%	
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	2	477	107.6	149.7	125.1	382.4	
Computer Audit	245		245	44.7	55.4	56.4	156.5	
Children's Services	260	50	310	82.4	74.9	104.6	261.9	
Adult Social Care	289		289	54.6	88.8	79.0	222.4	
Transport & Environment	167		167	52.3	41.6	54.2	148.1	
Chief Executives Office	169		169	57.1	46.8	43.4	147.3	
Contingency <sup>1</sup>	250		250	-	-	-	-	
Discretionary and corporate projects	40		40	10.7	8.1	3.6	22.4	
Sub total – internal customers	1895	52.0	1947	409.4	465.3	466.3	1341.0	68.7%
External customers	95	21	116	41.8	31.8	22.3	95.9	86.4%
Total audit days	1990	73.0	2063	451.2	497.1	488.6	1436.9	69.7%

<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.

