

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

Date: **12 June 2007**

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

Title of report: **Internal Audit Services: Annual Report and Opinion**

Purpose of report: **To give an opinion on the County Council's control environment for the year from 1 April 2006 to 31 March 2007**

RECOMMENDATIONS: The Committee is recommended to

(a) note the internal audit service's opinion on the Council's control environment.

(b) consider whether there are any issues the Committee wishes to draw to the attention of the Governance Committee before it decides whether to advise the Leader of the Council and the Chief Executive to sign a Corporate Statement of Assurance for the year ended 31 March 2007 for inclusion in the Statement of Accounts.

(c) consider whether the Council's system for internal audit has proved effective during 2006/07

1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2006/07 Internal Audit Plan and was funded from the agreed Audit and Performance Division budget.

2. Supporting Information

2.1 The purpose of this report is to give an opinion on the adequacy of the East Sussex County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2006 to 31 March 2007 in accordance with the Internal Audit Strategy for 2006/07.

3. Internal control and the role of Internal Audit

3.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2006. The latter states that authorities must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices.

3.2 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council's Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

3.3 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

3.4 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4. Audit Opinion and key issues

4.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. On the basis of the audit work completed, the Council has in place a satisfactory framework of internal control which provides a reasonable assurance regarding the efficient and effective achievement of its objectives.

4.2 The opinion and the evidence that underpins it is further explained in the full Internal Audit Services Annual Report and Opinion which forms Annexe A of this report. The report highlights key control issues in the following areas:

- Adult Social Care Business Transformation Programme;
- Financial Management Standard in Schools;
- CBOSS / SAP;
- Pre-employment and CRB checks;
- National Fraud Initiative / Anti Fraud and Corruption.

4.3 During the year a number of audits have reported on systems where controls are not satisfactory and these systems are also highlighted in the Annexe A. A summary of the major findings from audit reviews completed during quarter 4 of 2006/07 is included in Annexe B (major findings from previous quarters have already been reported).

5. Performance and the effectiveness of the Council's system of internal audit

5.1 The Accounts and Audit Regulations 2006 require the Council to carry out an annual review of the effectiveness of its system of internal audit. No further guidance on this process has been provided but the information set out in section 5 of Annexe A should provide a sound basis for making this assessment.

5.2 In summary a CPA score of 3/4 was maintained for the internal control as part of the CPA. In addition, the Audit Commission's Triennial Review of Internal Audit, along with its comments in the Audit and Inspection Annual Letter confirmed 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'*. Further analysis of performance against agreed key performance indicators is included in Annexe A.

SEAN NOLAN

Deputy Chief Executive and Director of Corp[orate Resources

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Background documents
Strategic Audit Plan 2006-07
Internal Audit Progress Report Q1
Internal Audit Progress Report Q2
Internal Audit Progress Report Q3

Annexe A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2006/2007**



1. Internal control and the role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2006. The latter states that authorities must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices.

1.2 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council's Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

1.3 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.4 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. To carry out this role the Audit and Performance Division's Internal Audit Service (IAS) aims to:

- satisfy legal requirements and professional standards;
- examine, evaluate and report objectively on the adequacy of arrangements to secure proper economic, efficient and effective use of resources;
- assist management with its responsibility for establishing and maintaining internal control systems and for ensuring that resources are properly applied, risks are appropriately managed and outcomes are achieved;
- investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy; and
- provide an annual opinion to Members and Officers on the adequacy of the Council's control environment, and regular reports on key audit findings.

1.5 In pursuance of their duties, internal audit staff have the authority under the Accounts and Audit Regulations to:

- visit all County Council establishments and premises to carry out audits of their activities;
- access, at all times, all property documents and records considered necessary to the audit by the Director of Corporate Resources;

- require any employee of the County Council to produce cash, stores or any other property of the Council, or to produce the property of persons for whom the Council is responsible which is under his/her control.

1.6 All officers of the County Council are required to co-operate with audit enquiries and to provide any information and explanation considered necessary for the audit activity.

2. Delivery of the Internal Audit Plan

2.1 In accordance with the 2006/07 annual audit plan, approved by the Director of Corporate Resources and endorsed by the Audit and Best Value Scrutiny Committee, a programme of audits, based on an assessment of risk, was carried out, covering all County Council departments. This programme was reviewed during the year and revised to reflect changes in risk and resources available to deliver the plan. The actual internal audit coverage across departments compared to the audit plan has been summarised in Appendix A.

2.2 As well as progress reports made during the year to both COMT and Audit and Best Value Scrutiny Committee, separate reports have been made to each departmental management team which include an opinion on that department's internal control system.

3. Audit Opinion

3.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. ***On the basis of the audit work completed, the Council has in place a satisfactory framework of internal control which provides a reasonable assurance regarding the efficient and effective achievement of its objectives.***

The level of assurance given takes into account:

- All audit work completed during 2006/07;
- Follow up of actions from previous years audits;
- Management's response to the findings and recommendations;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance;
- The extent to which resource constraints may limit the ability to meet the full audit needs of the County Council;
- Any limitations that may have been placed on the scope of internal audit.

3.2 All audit reports produced have included a management action plan where recommendations have been made which will enhance the level of control, together with an opinion of the systems reviewed. Timescales for the implementation of recommendations have been agreed with the managers responsible for each area reviewed.

3.3 The majority of the key internal controls audited during 2006/07 were found to be in place and functioning satisfactorily. The majority of systems reports resulted in an opinion of satisfactory or good in relation to the effective operation of controls. Although reports are generally written on an exception basis, good practice, where identified has been highlighted.

4. Key Issues

4.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues should also be taken into account when preparing and approving the Council's corporate assurance statement.

Adults Social Care Business Transformation Programme (ASC BTP)

4.2 During the course of 2006/07 internal audit have carried out an extensive amount of work providing advice, support and challenge to the ASC BTP at both Programme Board and individual stream level. Extensive specialist ICT Audit input has also been provided.

4.3 At an overall programme level our work focussed on the adequacy of governance arrangements (including quality of reporting to the Board), arrangements for co-ordinating the programme with other change initiatives across the organisation and the adequacy of risk management arrangements. This activity identified a number of areas where there was scope for improvement, particularly in relation to risk management and co-ordination with other projects. Appropriate recommendations were made and accepted by programme management.

4.4 During the first half of the year, our work at a detailed level covered reviews of Specifications of Requirement relating to the proposed system solutions and of new process maps, particularly in relation to income and procure to pay streams. Recommendations covering internal control requirements were made throughout this work and no significant issues of concern were identified.

4.5 Whilst it was recognised that programme timescales were extremely tight, it became apparent as the programme progressed that there was a high risk that not all day 1 deliverables would be achieved by the April 2007 target date. This issue was recognised by the Programme Board who commissioned the production of appropriate contingency plans.

4.6 The focus of internal audit activity in the second part of the year was therefore on supporting the project in achieving the revised day 1 deliverables in a controlled manner, assessing the adequacy of proposed contingency measures should this not be possible and providing assurance on the highest risk areas. Specific focus areas were therefore:

- 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.

4.7 During the final quarter of the year it was recognised by the Programme Team that going live with all the new systems in April 2007 was unlikely to be possible and that contingency arrangements would need to be implemented. This approach was supported by internal audit particularly in view of the lack of information available on revised business processes upon which we could provide the necessary assurance. As a result, the final aspect of our work in 2006/07 related to adequacy of the proposed contingency measures for day 1, most of which related to existing manual processes. Whilst we have not raised any significant control issues covering these day 1 arrangements, there is an ongoing risk regarding the availability of sufficient staff resources to delivery them effectively, and ASC management will need to continue to closely monitor the situation.

4.8 Appropriate provision has been made within the 2007/08 internal audit plan to continue to monitor the current position, to support and provide assurance on the implementation of the new systems and to carry out full audits of these systems following go-live.

Financial Management Standard in Schools (FMSiS)

4.9 This is a new standard launched by the DfES requiring all secondary schools to comply by 31st March 2007, and all primary and special schools, over the next three years. During the year, internal audit received accreditation from the DfES as an external assessor for the standard following the relevant training. We have continued to provide both formal and informal advice to schools on the implementation of the Standard, in particular we have been working with secondary schools to assist them in their achievement of the standard. As at 31st March 2007, 75% of secondary schools had completed the DfES self assessment questionnaire and adjudged themselves to have met the Standard. Two thirds of these have been assessed by internal audit and all of these schools have been awarded the standard. We are working with Children's Services Finance to ensure that the outstanding schools submit their questionnaires as soon as possible and that appropriate action is taken to support those schools who do not meet the Standard. We are also putting in place arrangements to ensure the smooth roll out of FMSiS accreditation to primary and special schools during 2007/08.

CBOSS/SAP

4.10 In addition to providing ongoing advice and support on SAP issues as they arise during the year, we have also completed a range of specific audit reviews of SAP modules.

4.11 During 2005/06 'weak' audit opinions were issued in relation to Procurement / Accounts Payable and Accounts Receivable being the first full reviews following SAP implementation. During 2006/07, we have completed follow ups to these original reviews which confirmed that appropriate action had been taken to address the original control weaknesses and that audit opinions improved to satisfactory. In the final quarter of the year a repeat of the full systems reviews was also undertaken and, whilst final reports have yet to be formally agreed, completion of the fieldwork

has confirmed the control environment in relation to each system remains satisfactory.

4.12 All other SAP related audits completed during the year have resulted in satisfactory audit opinions covering HR / Payroll, Pension Payments and Contributions, SAP Projects, General Ledger and User Authorisations – Work Flow Follow Up.

Pre-Employment and CRB Checks

4.13 In November 2005 internal audit reported that County Council Pre-Employment and CRB Checking Arrangements were unacceptable with a number of significant control weaknesses being identified. Immediate action was taken by management to begin addressing these weaknesses.

4.14 During 2006/07 internal audit conducted a detailed follow up review to assess the extent to which our original recommendations had been implemented and it was pleasing to note that much progress had been made. As a result, a revised audit opinion of satisfactory was issued. Some actions still required further time to implement in full and become embedded, however, Personnel and Training have agreed a timescale for full implementation.

Systems with Weak Opinions

4.15 During the year a number of audits have reported on systems where controls were not satisfactory. In all these cases management have agreed to take action to strengthen the controls in place. These systems are highlighted below and will all be subject to follow up during 2007/08:

- T&E Rights of Way (Transport and Environment)
- Hastings Parking Follow Up (Transport and Environment)
- Community Partnership Fund (Chief Executive's)
- Street Lighting (Transport and Environment)
- Pooled Budget Arrangements - Care for the Carers (Adult Social Care)
- 3 Schools (Children's Services)
- 1 Adult Social Care Establishment (Adult Social Care)

In addition, as a result of issues identified during our review of HR / Payroll a further piece of work relating to salary payments within the Emergency Duty Service was carried out. Whilst this report did not give a standard opinion, it did identify a range of issues which management have agreed to address as part of a comprehensive action plan. This will be followed up by internal audit during 2007/08.

National Fraud Initiative (NFI) / Anti Fraud and Corruption

4.16 During September and October 2006 the internal audit co-ordinated the data required for the Audit Commission's National Fraud Initiative 2006/07. This is a statutory exercise carried out every two years and involved the submission of

information covering employees, pensioners, creditors and payments made to residential care homes in respect of clients.

4.17 The details are matched against other Authorities' records and the Department of Works and Pensions Benefits Agency to detect any possible errors or fraud. For the first time in 2006/07, details of creditor records and creditor payments were included in the submission. The results of the matching exercise were received in January 2007 and work has begun on working through the outputs with the County Council officers responsible for the various areas of work.

4.18 Completing this exercise is likely to take some time in view of the almost 2000 potential matches on payroll and pensions and nearly 32,000 potential matches for creditors. Progress reports are required to be sent to the Audit Commission during 2007 on the output review work and on any actual frauds discovered.

4.19 Internal audit has also assessed and, where appropriate, investigated a number of potential instances of fraud and corruption. A number of these cases were allegations made under the Confidential Reporting ("whistleblowing") Policy. Internal disciplinary processes and external criminal and civil proceedings have been pursued where appropriate. Reference to completed cases and any wider control issues identified has been made in our regular reports to COMT and Audit and Best Value Scrutiny Committee. Such investigations are often complex and lengthy and have accounted for 135 days of internal audit resource in 2006/07. We have also contributed to the development of a Standard of Behaviour e-learning package which is due to be launched in 2007/08. A full review of the Council's Anti Fraud and Corruption Strategy against the new guidance issued by CIPFA is planned for 2007/08 and will be reported to members in due course.

5. Internal Audit Performance

5.1 The Accounts and Audit Regulations 2006 require the Council to carry out an annual review of the effectiveness of its system of internal audit. No further guidance on this process has been issued but the following paragraphs provide a sound basis for carrying out such an assessment.

5.2 During the first half of 2006/07 the Audit Commission 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.'

5.3 During 2006 a revised Code of Practice for Internal Audit in Local Government in the UK was published and an exercise was completed during the year to assess

our compliance with it. Overall, this self assessment showed continued compliance in the majority of cases with only a small number of areas requiring action, mostly relating to the documentation of existing procedures. Appropriate actions have been identified and incorporated within the IAS Business Plan for 2007/08. Implementation of the actions will be monitored and reported on a quarterly basis throughout the year.

5.4 Performance against agreed targets is set out in Appendices A and B. In total the IAS has delivered 2,051 direct days or 99.4% of the total revised plan (the original planned was increased by 73 days for FMSiS activity and an additional East Sussex Fire and Rescue Service review). This represents a continued improvement and is once again the highest proportion of planned days delivered in a number of years. Actual v. planned time on completed jobs has also improved and exceeds target. Whilst the number of completed audits is 6.5% below our 90% target, this represents 32 audit assignments all of which were work in progress at the year end and all of which we are planning to complete in the first quarter of 2007/08.

5.5 During the year, the audit plan has been reviewed against available resources in order to ensure the highest risk areas were given priority, including increasing the resource assigned to the ASC Business Transformation Programme and SAP related audits.

5.6 Whilst for much of the year the IAS has carried a number of vacancies and has used agency staff to backfill, we were successful in filling these posts on a permanent basis during quarter 4. This is the first time in a number of years we have been able to operate with a full compliment of permanent staff.

5.7 Performance against effectiveness targets continues to be positive and reflects both the quality of work completed and its focus on key areas of risk. Our score of 3 / 4 for internal control was maintained as part of the CPA process for 2006 and no areas of non compliance with the specified Key Lines of Enquiry were identified by the Audit Commission. In addition, the Audit and Inspection Annual Letter confirmed that the Audit Commission continues to place reliance on the work of Internal Audit, stating that 'the Council has an effective Audit Committee and a strong, well regarded internal audit service that we have assessed as meeting the relevant professional standards and upon whose work we continue to rely'. This level of reliance on the work of internal audit continues to contribute to the level of "risk based discount" which the Council receives on its external audit fees (2006/07 24% against a maximum of 30%).

5.8 Finally, customer satisfaction survey scores remain high and in excess of target. However, in each case where a response fails to meet the required level, we follow this up with the customer concerned to establish the reason for the score and made improvements to our service where appropriate.

Actual Days delivered against the plan

The following table summarises the internal audit coverage across all County Council departments during 2006/07:

Service	2005/06 Actual Days	2006/07 Revised Plan Days	2006/07 Actual Days	2006/07 % plan days delivered
<i>East Sussex County Council:</i>				
<i>Corporate Body</i>	501.7	477.0	568.0	
<i>Computer Audit</i>	200.0	238.0	220.3	
<i>Children's Services</i>	447.1	310.0	393.3	
<i>Adult Social Care</i>	288.4	289.0	339.2	
<i>Transport & Environment</i>	222.6	167.0	182.2	
<i>Chief Executives</i>	226.5	169.0	206.8	
<i>Contingency¹</i>	-	250.0	-	
<i>Discretionary and corporate projects</i>	78.3	40.0	29.0	
<i>Sub total – ESCC</i>	1,964.6	1,940.0	1,938.8	99.9%
<i>External contracts²</i>	107.4	125.0	111.7	89.4%
Total audit days	2,072.0	2,065.0	2,050.5	99.3%

¹ Contingency days delivered are included in the total for the department to which the work related.

² The actual days delivered on external contracts includes additional contracted days delivered during the year (brought forward from 2005/06) and additional non contract days paid for by external customers.

Appendix B

Internal Audit Performance Indicators

<i>Performance Indicator</i>	<i>Target</i>	<i>Actual 06/07</i>	<i>Actual 05/06</i>
<i>Economy and efficiency</i>			
<i>Planned days delivered (%)</i>	90	99.4%	97.5%
<i>Planned audits completed = final reports issued (%)</i>	90	83.5%	85.1%
<i>Actual v Plan time on completed audits (%)</i>	105	102.9%	103.0%

<i>Effectiveness</i>			
<i>External audit reliance on internal audit</i>	<i>Achieved</i>	<i>Achieved</i>	<i>Achieved</i>
<i>CPA score maintained</i>	<i>3/4</i>	<i>Achieved</i>	<i>Achieved</i>
<i>Recommendations accepted (%)</i>	90	96.8%	98.0%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	80	88.8%	91.2%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 06/07.</i>	<i>Reports issued for every quarter during 05/06.</i>

Annexe B

Summary of major findings during quarter 4 (reports issued 1 January – 31 March 2007)

Energy Procurement and Supply (Corporate Resources Directorate)

The audit review of Energy Procurement and Supply focussed on the adequacy and effectiveness of internal controls in relation to the following areas:

- Energy procurement procedures
- Budget setting and monitoring
- Ordering of energy supplies
- Departmental expenditure
- Invoice validation and payment

Internal audit found that arrangements in place were **satisfactory**, although some recommendations have been made to further improve controls and associated processes. Key issues included the following:

- No recent evaluation of energy procurement strategies has taken place. Only limited assurance could therefore be provided that prices for the supply of energy are competitive.
- Energy budgets are not always realigned to reflect the most recent actual energy costs. Budgets are generally calculated using the previous budget plus inflation. There is a risk that financial planning and control is undermined as a result.

The recommendations arising from the review have been included within a management action plan and all have been agreed with management.

Pension Fund – External Control Assurance (Corporate Resources Directorate)

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all participating employers and, in turn, past and present contributing members.

This review was undertaken to ensure that the various sources of information regarding fund managers and global custodians internal controls provide sufficient assurance that investments are adequately safeguarded.

No major issues or concerns were identified and no recommendations arose from this review. However, it has not been possible to obtain assurance documents for all fund managers and therefore any assurance reports still outstanding will be reported on during 2007/08.

Pension Fund Investments (Corporate Resources Directorate)

This review, which focussed on the adequacy and effectiveness of internal controls in relation to the system of Pension Fund Investments, concluded earlier in the year and was reported upon in quarter 2.

At the time of the audit, however, it had not been possible to complete the entire audit testing in this area as the master custodian fund manager accounting data had not been transferred into SAP.

This has now been completed and audit testing has been undertaken to ensure that the pension fund transactions relating to each fund manager have been accurately and completely recorded in SAP.

No issues of concern were identified as a result of this work and the overall audit opinion of **satisfactory** remains unchanged.

Capital Project Management (Corporate Resources Directorate)

This review was undertaken to evaluate the project management arrangements in place for capital projects within ESCC. The review included detailed assessment of a sample of capital projects, as follows:

- Bexhill to Hastings Link Road
- Tideway School Rationalisation
- Causeway School Sports Hall
- Beacon Community College

Audit work was undertaken to ensure capital projects are monitored, controlled and reported in an efficient manner in terms of cost, timescales, quality and outcome.

Common findings (applicable to at least two of the reviews) arising from this work are as follows:

- A Project Board, or officer with overall responsibility for the project, was not always established at the commencement of the project.
- Roles and responsibilities of officers involved in the projects had not always been formally documented.
- A project brief, terms of reference or equivalent was always produced.
- Local financial records were not always adequate for monitoring purposes as they do not compare actual expenditure to budget or record the total expected outturn for the project.
- Where local financial records have been kept they have not always been reconciled to SAP. The reconciliation of such records is considered essential to ensure that financial information is accurate and complete.
- Financial reports supplied to the Board do not always provide sufficient information to allow them to effectively monitor the budgetary position of the project, as they do not formally compare actual expenditure to budget.

- Consultant cost reports contain do not always contain adequate and complete financial information.

In addition, a number of findings specific to individual projects were also identified and were covered within separate reports for each project. In each case management action plans have been agreed with management. A further review of capital project management has been included in the audit plan for 2007/08 and will assess compliance with the recently launched Project Management Toolkit.

Review of the ESCC Gateway and Portal (Corporate Resources Directorate)

This review examined controls in relation to use of the new ESCC Gateway and Portal as future flexible working solutions and covered the following control objectives:

- Technical controls exist to prevent unauthorised access to ESCC data and systems via the Gateway and Portal.
- Comprehensive documented functionality and security testing is performed on the Gateway and Portal, and identified weaknesses are adequately addressed prior to go-live.
- Appropriate guidance is provided to staff using the Gateway and Portal.
- Procedural controls are in place to ensure that access to the Gateway and Portal is revoked in a timely manner for staff leavers and for those who have been suspended from duty.

During the review, independent audit testing of the Gateway solution established that it was possible, in certain circumstances, to recover data on a user's computer, after logging out of the Gateway, using data recovery software. As a result, ICT Services liaised with the Gateway's software supplier to evaluate and test an updated version of the software. Internal Audit independently confirmed that the new version of the software deleted data beyond recovery, at the end of a user session.

The overall audit opinion was that controls in place were **good** with only a small number of low risk recommendations being made. These were agreed with ICT Services and incorporated with a management action plan.

Review of the ESCC Information Kiosks and Community Help Points (Corporate Resources Directorate)

The objective of the review was to assess security and functionality controls in place in relation to ESCC-owned kiosks and Community Help Point (CHP) PCs deployed across the county. The review covered physical and logical security, management of information content, availability and legal compliance.

The overall opinion was **satisfactory** with some recommendations being made to further strengthen the control environment. All of these were incorporated within an action plan agreed with management.

Next Generation Network (NGN) (Corporate Resources Directorate)

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

Corporate Governance (Chief Executive's)

This review involved following up on the implementation of recommendations made in the 2004/05 review of Corporate Governance, checking compliance with the Members Code of Conduct on declarations of gifts and hospitality and surveying staff and schools on their awareness of corporate governance arrangements.

From the audit work completed and the tests carried out, Internal Audit was of the opinion that the ESCC corporate governance framework in place was **good** and consistent with best practice

The follow up review confirmed that much work had been undertaken by Democratic Services and the Corporate Governance Group to revise and update corporate governance guidance and related procedures with all the original recommendations implemented or in progress. Compliance with the Members Code of Conduct in relation to gifts and hospitality was also confirmed.

In order to establish the level of staff awareness and perceptions of the Council's key corporate governance arrangements, all County Council staff with access to the Council's intranet were invited to complete a on-line survey. The questionnaire focussed on staff awareness of key documents and processes underpinning the Council's corporate governance framework. A total of 547 responses were received and overall scores were high, with staff generally responding positively.

The review also sought to establish the degree of take up of key ESCC policy documents by schools and a questionnaire was sent out to a randomly selected sample of 32 schools. Responses to the questionnaire were received back from 18 schools and the majority indicated that all key documents were in place.

All recommendations arising from this review were included within an action plan agreed with management.

Employee Appointment (Chief Executive's)

The review found that the Personnel Support Unit (PSA) was generally in compliance with the Council's appointment policies and procedures and that regular monitoring and quality assurance checks were being undertaken by them to ensure compliance with quality standards and targets.

The adequacy of the control environment was found to be **satisfactory** and the main weakness identified was the retention of electronic personal data beyond the permitted six-month period by PSU and some recruiting managers.

Some recommendations were made to further improve the control environment and these were agreed with management.

Local Area Agreement (LAA) (Chief Executive's)

Audit work was undertaken to cover the following control objectives:

- *The LAA has robust governance arrangements in place.*
- *The LAA has effective financial management arrangements in place.*
- *The LAA has adequate and effective performance monitoring and management arrangements in place.*

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

- *Potential to further strengthen LAA risk management arrangements.*
- *Establishing a quality assurance programme that operates throughout the year to permit effective monitoring of Performance Indicators and allow corrective action to be taken in a timely manner.*
- *Strengthening controls around the budget recording and management arrangements of some of the funding streams.*

Review of Online Payments (Chief Executive's Department)

This review covered the process within used within the Registrars Service for receiving credit card income electronically via the internet. This covered the following control objectives:

- A controlled technical process is in place for accessing online payments that includes a standardised interface, Secure Socket Layer (SSL) encryption and compliance with legal requirements.
- The Registrars Service acts upon payments received and issues refunds, as required, in a controlled manner.
- Online payments are recorded and accounted for completely and accurately with the council's systems including SAP General Ledger (GL).

Controls were reviewed and found to be **satisfactory** with some recommendations being made in the following areas (all of which have been agreed with management):

- E-Forms database user administration.
- WorldPay Administration System password controls and ensuring compliance with terms and conditions.
- Documenting of the Online Payments process.
- Transaction reconciliation process.

Street Lighting (Transport and Environment)

Internal audit carried out a review of arrangements relating to the Street Lighting contract covering payments to the contractor (Colas) and performance monitoring/reporting.

At an early stage of the review we were informed by Lighting, Signals and Vehicles Group Management that a significant financial pressure had been created following the introduction of a new bonus payment scheme. The effect of the new bonus was that, as a result of the contractor's good performance, the County Council became liable for substantial bonus payments over the remaining life of the new contract (4 years 7 months). This issue was in the process of being addressed by Management through a re-negotiation of the original contract.

Consequently, a major part of the review focused on the bonus payment system and a subsequent re-negotiating process adopted by Management to limit the Council's liability.

As a result of the review, it was our opinion that the controls in place were **weak**.

The main areas of concern were:

- The contract was found to have been let on terms that were potentially not affordable.
- A lack of evidence to show whether or not the contract arrangements represent best value.
- No formalised contingency arrangements were in place should the dedicated IT system (Mayrise) fail.
- A lack of documented procedures.

A total of twenty one recommendations were made to improve the control environment, all of which have been agreed with management and incorporated within a comprehensive management action plan. A follow up review will be carried out during 2007/08 to ensure satisfactory implementation.

Highways Maintenance – Integrated Job Control/Works Ordering Management System (IJC/WOMS) – Payments to the Contractor

Following the appointment of May-Gurney as the Council's principal highways maintenance contractor, a number of administrative support systems were required to change or be completely re-designed. The system for making payments to the contractor was one of the systems undergoing major changes.

The main objectives of this system are to ensure that claims for payment from the contractor are correct and in accordance with the contract and that these are paid correctly within agreed timescales. The review also sought to test implementation of controls previously recommended and agreed with Transport and Environment.

Internal Audit found that the claims for payment tested were supported by agreed works orders with rates in accordance with the contract, that these had been correctly checked and certified for payment by authorised officers and that May Gurney had been paid promptly.

A **satisfactory** audit opinion was given with only a small number of recommendations being agreed with management to further improve controls.

IWMSC – Waste Collection Authorities Recycling Data (Transport and Environment)

Data is supplied by the District and Borough Councils in their role as Waste Collection Authorities (WCA's) to ESCC as the Waste Disposal Authority (WDA) for monitoring and management purposes in respect of recycling and for the purposes of paying recycling credits. Data supplied by the WCA's covers kerbside recycling and bringbank recycling.

A recent development relates to the need for recycling data from both the WCA's and the WDA to be entered into the on-line Department for Environment Food and Rural Affairs waste data flow model. One of the uses of this data is to inform the calculation of BVPI's and the credits that are payable to ESCC under the Landfill Allowance Trading Scheme.

The purpose of the audit was to ensure that the Council receives complete, accurate and timely management data from the WCA's to enable the robust monitoring and reporting of collection performance. This includes the production of BVPI's through the waste data flow model.

The initial findings of the audit, based on the analysis of data carried out by ESCC, were that the County Council has robust and effective systems for the monitoring of recycling data. Two minor recommendations have been made to improve controls and these have been agreed with management.

Audit work is planned to continue in 2007/08 and it is hoped that this will include a review of the processes within WCA's to collect and assemble the base data.

Passenger Transport - Trapeze Payment Controls (Transport and Environment)

Trapeze is a database IT system designed to meet the business needs of the Integrated Passenger Transport Service. Once fully implemented, the system will be linked directly to the general ledger (SAP) and will be used to manage the entire procurement to pay process of passenger transport needs.

Trapeze is being introduced in three stages. The first and current stage is to implement the home to school transport system. Whilst Trapeze is being used for the initial part of the payments process at the moment, the interface with SAP is not yet live.

The audit sought to give assurance to management on the adequacy of the proposed controls within Trapeze relating to the payments process and the planned interface to SAP.

Whilst no fundamental control weaknesses were identified in this area, a number of recommendations were made, and agreed with management, which require implementation prior to any SAP interface going live. These included ensuring that:

- The roles and responsibilities of key staff are clearly defined and properly assigned.
- Systems access and activity is regularly monitored and reported.
- Reconciliation procedures between Trapeze and SAP are clearly defined and communicated to staff involved in the processes.

Internal Audit will continue to support and review the Trapeze project during 2007/08

Funding Panels (Adult Social Care)

Three locality based Funding Panels operate in the same areas as the three East Sussex Primary Care Trusts: Eastbourne Downs, Hastings and Rother and East Sussex Downs and Weald.

Weekly Funding Panels meet to consider funding requests from Locality Teams for community based services including home care services, residential care, day care, Direct Payments, Lifeline, transport, and short break vouchers.

The overall objective of the audit was to ensure that the controls over the funding approval process of the panels operate effectively, in compliance with Council procedures and that financial reporting is accurate and timely. Internal Audit found that these areas of control were operating **satisfactorily**.

Nine recommendations were made to improve the control environment including the need to review existing approval and budget management arrangements relating to emergency and high-cost care packages. All of the recommendations have been agreed by management and incorporate into a management action plan.

Pooled Budget Arrangements – Care For The Carers (Adult Social Care)

The Council works in partnership with neighbouring Primary Care Trusts (PCT's) to procure a range of support services for Carers. Funding for these services is subject to a Pooled Budget arrangement, the Council's contribution for the 2006/07 Financial Year being £245,934 out of a total budget of £469,040.

Under the terms and conditions of the Pooled Budget agreement the Council is the nominated host authority for the partnership arrangement and is responsible for the provision of financial systems to support the accounting and management of the funds. The Council has also accepted lead responsibility for reviewing arrangements for commissioning care services. These are being provided through a contract with Care for The Carers Ltd.

Weaknesses in reporting protocols and governance arrangements were identified. Monitoring of the Council's contribution towards the pooled funds was also considered not to be at a sufficient level to provide adequate assurance that this Pooled Budget arrangement delivered regularity, propriety and best value for money in the achievement of its objectives. Consequently, a **weak** opinion was given.

Management has responded positively to all fifteen recommendations made and has provided a commitment to introduce changed practice by the end of this financial year. During 2007/08, Internal Audit will be seeking assurance that management has implemented the agreed recommendations.

Debt Management (Adult Social Care)

At the end of the 2005/06 financial year, the level of debt owing to Adult Social Care (ASC) was £9.2m. This amount stands against total income of £44.6m (£24.1m from client and customer receipts and £20.5m from grants and other contributions of which £19.7m related directly to health authorities). Other types of debt include debts secured against properties; appointeeships; outstanding client billing and outstanding home care accounts.

The main purpose of this audit was to assess the adequacy of arrangements that are in place to enable ASC to manage high levels of outstanding debt effectively. The review sought to clarify what steps are being taken to ensure that an outcome is reached with older debtors, whilst at the same time establish what systems had been put in place to identify and manage current debts. The audit also reviewed the implementation of key recommendations made in a recent internal audit report concerning Health Authority Recharges.

A considerable amount of work has been undertaken by ASC to reduce the debt level. For example the level of debt fell from the £9.2m total at the beginning of the 2006/07 financial year to £4.2m in February 2007.

From the audit work completed during the review and acknowledging that ASC is seeking to improve the arrangements in relation to debt collection, Internal Audit was of the opinion that the internal controls in place were **satisfactory**.

The main findings of the audit were:

- Reconciliation processes in respect of Health Authority recharges need to be strengthened.
- Debts in respect of Primary Care Trusts that are more than two months old should be referred to the Director of ASC for action.
- Some providers were allowing debts to accumulate to unacceptable levels before they notified ASC of debt collection difficulties.
- Debts were being placed under query without sufficient justification or adequate action being taken to recover them in a timely manner.

A total of thirteen recommendations were made to improve controls and all of these have been agreed by management. Internal Audit work planned for 2007/08 includes a review of property related debts.

Adult Social Care Business Transformation (Adult Social Care)

During the final quarter of the year it was recognised by the Programme Team that going live with all of the new systems in April 2007 was unlikely to be possible and that contingency arrangements would need to be implemented. This approach was supported by Internal Audit particularly in view of the lack of information available on revised business processes upon which we could provide the necessary assurance. As a result, the final aspect of our work in 2006/07 related to adequacy of the proposed contingency measures for day 1, most of which related to existing manual processes. Whilst we have not raised any significant control issues covering these day 1 arrangements, there is an ongoing risk regarding the availability of sufficient staff resources to delivery them effectively, and ASC management will need to continue to closely monitor the situation.

Appropriate provision has been made within the 2007/08 internal audit plan to continue to monitor the current position, to support and provide assurance on the implementation of the new systems and to carry out full audits of these systems following go-live.

Emergency Duty Service Staff Salary Arrangements (Children's Services)

The Emergency Duty Service (EDS) is currently responsible for providing a full range of out of hours services for both children and adults across East Sussex and Brighton and Hove.

The need for this review was agreed with management following the identification of high salary payments to EDS staff as part of the audit of HR / Payroll earlier in 2006/07. This original audit testing revealed that that in addition to a basic salary entitlement, significant additional sums were being claimed and received by some staff, resulting in a predicted budget overspend for the 2006/07 financial year.

This subsequent review identified a number of issues requiring management action, most notably:

- A failure to meet the requirement of the Working Time Directive, with some staff consistently working a high number of hours over and above what is legally permitted under the Directive;
- A lack of clarity and formalisation in relation to staff remuneration arrangements over and above the basic salary entitlement;
- The need to review staff remuneration arrangements to assess whether current arrangements are sustainable or whether there are more cost effective alternative's to staffing the service.

In total fifteen recommendations were made to address the issues highlighted above. These have all been agreed with management and incorporated into a comprehensive action plan.

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

In accordance with the requirements of the DfES, Internal Audit has asked all secondary schools to complete the FMSiS self evaluation questionnaire and submit it for external assessment.

During quarter 4, external assessments were carried out at eight schools and all were found to be complying with the Financial Management Standard. Each school 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 seven secondary schools submitted their self assessments during the quarter and are in the process of being externally assessed.

Internal audit has issued further guidance to primary and special schools to assist them in achieving the Standard and to also inform them of which of the next 3 years their external assessments are due. The awareness training, provided jointly with Children's Services, for Governors and Bursars has continued during the quarter.

Adoption Allowances (Children's Services)

A review covering the payment of adoption allowances was carried out in 2004/05 and this found controls to be weak. The main reasons for this opinion were a lack of documentary evidence to support the approval of an allowance payment, inaccuracies found between the data held in the Carefirst (client database) and FOPPS (foster parent payment system) systems, non compliance with operational instructions and "inter country" payments not being adequately recorded. A follow up review was carried out in 2005/06 and the audit opinion remained weak because of the lack of progress with implementing the recommendations. A further follow up review was therefore undertaken in 2006/07 which confirmed that sufficient progress had now been made to improve the control environment and a revised audit opinion of **satisfactory** was therefore given.

School Business Systems (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 involved advice and guidance on the controls relating to a new e-procurement package which allows suppliers to load their catalogue of goods/services, for schools to purchase, electronically. It is being piloted in 10 schools across the County as part of a national pilot. If successful the package is planned to be rolled out to all schools in late 2007.