

Report to:	Audit and Best Value Scrutiny Committee
Date:	21 November 2007
By:	Deputy Chief Executive and Director of Corporate Resources
Title of report:	Internal Audit Progress Report – Quarter 2 (1 July 2007 – 30 September 2007)
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 2

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 2

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 2007-08. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (12 June 2007) and Cabinet (17 July 2007). 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 July 2007 and 30 September 2007.

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 14 formal audits completed, 1 was given a 'Good' audit opinion, 4 were assessed as 'Satisfactory' and 3 as 'Weak' (Operational Risk Management, Debt Management – Property Ownership (ASC) and Children's Centres – Budgetary Control). The remaining 6 formal audits were schools, with 2 of these successfully passing their Financial Management Standard in Schools assessment and 3 improving from weak to satisfactory as a result of follow up reviews. One school continues to be assessed as weak and internal audit are working with Children's Services Finance to ensure appropriate action is taken to improve internal controls. A further follow up will therefore be conducted in due course.

3.2 The reviews subject to a weak audit opinion will be subject to formal follow up during 2008/09 to ensure satisfactory implementation of internal audit recommendations. The details of these reviews and other key findings from quarter 2 audits are provided within Appendix A. Chief Officers attention is also drawn to our work on:

- Adult Social Care Business Transformation Programme – this project reached a critical phase during the quarter with the new payments system going live for residential and nursing care. An extensive amount of internal audit resources have been spent working with management to ensure an adequate control environment is in place prior to going live, including the production of three separate internal audit reports. This work will continue during quarter three as further implementation takes place.
- Irregularity Investigations – the first half of 2007/08 has seen a number of allegations and potential irregularities requiring internal audit investigation. Many of these are ongoing with some likely to involve disciplinary action and in some cases criminal prosecution.

4 Performance against targets

4.1 During quarter 2 of 2007/08 we delivered 525 productive audit days, an increase of 68 over what was delivered in quarter 1. Overall a total of 982 days have therefore been delivered to date, equating to 44% of the plan days. A total of 47 audit assignments have now been finalised in the year to date which have been delivered in 102.4% of the budgeted time available, within the target of 105%. Performance against both of our effectiveness targets is strong with 97.6% of recommendations being accepted and customer satisfaction running at 82.9%.

5. Other Issues

5.1 Work is currently underway to review the 2007/08 audit plan to take into account a number of emerging issues and to therefore ensure it is both deliverable, in terms of the resources available, and continues to be targeted at the highest risk areas. The key issues prompting this review are as follows:

- FMSiS – a review of the time required to deliver support to schools and the external assessments has revealed that it is not currently possible to complete the work to the required standard within the Department for Children, Families and Schools (DCFS) recommended timescale of 2 days per school. An increase in the time allocation for this work is therefore required;
- Adult Social Care Business Transformation – due to the risks associated with such a large scale transformation and systems implementation programme, internal audit input has been significantly increased to ensure appropriate assurance can be provided on the internal control environment;
- Material Financial Systems – a recent lowering of the level above which a system is determined as being a ‘material financial system’ for external audit purposes, has resulted in additional internal audit coverage on a number of systems which were not included in the original audit plan;
- Investigations – as explained above, there have been a number of highly resource intensive audit investigations during the first half of 2007/08 which have used up the majority of the original contingency allowed for such activities.
- Maternity Leave – approximately 80 productive audit days have been lost as a result of maternity leave.

5.2 The audit plan review has been based on risk and has resulted in a number of adjustments within the audit plan and an overall reduction of approximately 100 days. All adjustments have been agreed with the relevant departments, the Director of Corporate Resources and external audit and despite the overall reduction in days, it is not felt that this will significantly impact on internal audit’s ability to provide an adequate level of assurance to the County Council. Details of the specific adjustments can be made available if required.

6. Priorities for Quarter 2

6.1 Priorities for the period 1 October 2007 – 31 December 2007 include:

- Adult Social Care Business Transformation Programme – continued work to provided assurance on the control environment as further services and systems are go live;
- FMSiS – primary schools assessments and the completion of assessments on the remaining secondary schools;
- Anti Fraud and Corruption – continued work to implement identified actions.

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BACKGROUND DOCUMENTS

Internal Audit Strategy and Annual Plan 2007-08

Appendix A

Summary of key audit findings

Operational Risk Management Arrangements (Corporate Body)

This review assessed the adequacy of risk management arrangements at an operational level across the Authority by reviewing and challenging the adequacy of risk identification, assessment and mitigation. A previous audit review of strategic risk management arrangements found these to be good and consistent with best practice.

This review concluded that whilst overall, the framework controls are in place and that there are examples of good practice, there are considerable differences between departments, so much so that individual audit opinions have been given as follows:

DEPARTMENT	OPINION
Chief Executive's	Satisfactory
Adult Social Care	Weak
Transport and Environment	Satisfactory
Children's Services	Weak
Corporate Resources	Satisfactory

Main findings were;

- Current arrangements within Adult Social Care and Children's Services Department are not sufficient to ensure that all risks and subsequent mitigations are reported through the management reporting structure;
- In the Children's Services Department there is no evidence of formal structured risk management activity, and within Adult Social Care, total reliance is placed on the risk assessment work of the service area managers;
- Only in certain departments are service area managers made aware of who to contact for advice and support on risk management;
- Insufficient regular updates in Children's Services, and in Adult Social Care indicate that risk management is not fully embedded in these departments;
- Each service unit is not updating its risk registers on a regular basis;
- Many "risks" are insufficiently focussed, in terms of their potential outcomes. As a consequence, the mitigations are broadly-based and insufficiently "SMART".

The recommendations arising from the review have been included within a management action plan and have been agreed with management. A full follow up of these recommendations will be conducted as part of a further review in early 2008/09. This will also take into account the publication of a revised Risk Management Strategy currently being produced, and due to be considered later in the year.

SAP Future Phases (Corporate Resources Directorate)

During the quarter, audit advice, support and challenge has been provided in relation to existing and future SAP developments including the planned CRD pilot of Employee / Manager Self Service (ESS/MSS) and the planned major upgrade of SAP in 2008/09. This will continue during the course of the year.

Ongoing ICT Audit Advice and Support (ICT Audit)

Part of the ICT Audit Plan for 2007/08 includes the provision of internal audit advice and support in relation to a number of ongoing projects and developments to ensure technical control issues are addressed as the activities progress. During quarter 2, this has included:

- Next Generation Network – liaison 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 network monitoring controls, as the NGN infrastructure is deployed over the coming months;
- Schools banking procedures – the proposed new Treasury Management system includes a schools online banking facility. Advice is being provided in relation to the controls required around such a system;
- Highways Maintenance System (EXOR) – advice and review of the testing arrangements;
- Galaxy (electronic procurement within Bibliographic Services) – seeking assurance as to the adequacy of the interface between Galaxy and the general ledger (SAP) and reviewing and advising on internal controls over access to the system functionality;
- Employee Self-Service/Manager Self-Service (ESS/MSS) – advice and support covering adequacy of controls over the access and operation of this system, which is to be piloted within CRD;
- Online “Speed-Awareness” Driver Training Programme – provision of advice over the proposed online booking and payment system for speed awareness training, as an alternative to prosecution of speeding drivers.

Business Transformation Programme (Adult Social Care)

Internal Audit continues to support the Business Transformation Programme at Project Board and individual Project Stream level, providing advice on risk and internal control matters. During the quarter work has included reviewing both the contingency measures in place subsequent to April 2007 and the arrangements for the introduction of Abacus, the new provider payments and client billing system.

The system is being introduced in stages, the first being to accommodate the payment of schedules for residential and nursing care service provision. The first payments were generated utilising Abacus during October 2007.

In advance of the system “go-live” two reports have been issued covering:

- The ICT arrangements for identifying, controlling and managing user access and permissions;
- The adequacy of controls around the proposed new payment processes.

In both cases Internal Audit staff work closely with management and the project team to ensure that no significant control weaknesses existed which would prevent the first phase of Abacus becoming operational. Recommendations were made to further strengthen system controls, all of which have been agreed with management.

Pooled Budget Arrangements – Care for the Carers - Follow Up (Adult Social Care)

Internal Audit carried out a review of the Care for the Carers Pooled Budget during 2006/07. 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.

In response to Internal Audit's original recommendations, improvements in reporting protocols and governance arrangements have been made. The actual use of funds provided for carers' services is also being monitored more closely.

Whilst these actions resulted in a **satisfactory** audit opinion being given, there are still areas where improvements in internal control are required. Five new recommendations have therefore been made to address these weaknesses and incorporated within an agreed management action plan.

Debt Management – Property Ownership (Adult Social Care)

In circumstances where a person is placed permanently in a County Council administered or independent sector nursing / residential home, the value of any property owned by them will normally be taken into consideration for assessment of charge purposes. The value of property is such that the full cost of the service is usually payable. However, pending the sale of the property, the Council can financially support the cost of the placement by providing an interest free loan. This is known as the Deferred Payment System (DPS).

This review was carried out by Internal Audit to provide assurance to management that all deferred property cases are identifiable, protected by a legal charge and individual cases are monitored on a regular basis to track progress around the sale of a property and the eventual recovery of the deferred sum.

Control weaknesses were identified around the accuracy of record keeping in support of the amount due to the Council, the adequacy of arrangements to ensure that insurance is maintained on the property throughout the period of the loan and the arrangements for the eventual recovery of the loan amount. These weaknesses expose the County Council to the risk that amounts owed, some of which can be significant, will not be recovered resulting in a financial loss the Authority.

This resulted in a **weak** opinion being given with a total of twenty six recommendations being made. Adult Social Care management have acknowledged that the system is in need of full review and have agreed a comprehensive management action plan covering all Internal Audit recommendations. This will be subject to a follow up review during 2007/08.

Gilda Resource Centre (Adult Social Care)

Gilda Resource Centre, Polegate, provides residential, day care and rehabilitation services for Adults. Internal Audit carried out a review of the Centre in August 2006. Due to the control weaknesses highlighted and the weak audit opinion that resulted, a follow-up review has been undertaken to assess the implementation of the original recommendations contained within the management action plan. Additional work around cash handling responsibilities was also carried out.

As a result of the follow up work undertaken, Internal Audit can confirm that all of the 24 original recommendations have been addressed. Where control weaknesses were identified or improvements to existing controls could be made, these have all been acted on. The security and safeguarding of cash was also found to be sound. Consequently a **good** audit opinion is now in place.

Music Service (Chief Executive's)

Internal Audit carried out a review of the Music Service during December 2004. Due to the control weaknesses identified during the review, an audit opinion of 'unacceptable' was given.

A follow-up review was undertaken during February 2006 to assess the implementation of the original recommendations. From the audit work completed it was Internal Audit's opinion that internal controls remained 'unacceptable'.

The objective of the follow up audit, undertaken during July 2007 was therefore to assess the implementation of the recommendations made during the 2006 review, to provide assurance to management on the adequacy of the Music Service's budgetary control arrangements and to identify any areas where improvements may still be necessary.

From the audit work completed during the follow up review, it is pleasing to report that internal controls are now considered **satisfactory**.

The reasons for this opinion are that 19 of the original 27 recommendations have been implemented in full. Four of the remaining recommendations have been partially implemented with varying degrees of work being undertaken on each of them. The final four recommendations were deemed to be no longer applicable.

It should be noted that much work has been undertaken by the Music Service to revise and update its guidance and procedures since the audit of December 2004, including improved compliance with corporate procurement best practice guidance and regulations.

Hastings On-Street Parking Scheme– Follow Up (Transport and Environment)

The original internal audit of Hastings On-Street Parking Scheme was carried out in February 2006 and resulted in a weak audit opinion being given. Ten recommendations were made relating to non-compliance by both ESCC and Hastings Borough Council (HBC) with the Agreement and Code of Practice governing the Scheme.

As a result of the original weak opinion, a follow up review was conducted in January 2007 which found that insufficient progress had been made in implementing the previous audit recommendations and therefore internal control remained weak.

In accordance with standard practice, a further follow up review was carried out in Therefore quarter two of 2007/08 to establish whether the required improvements had been made.

This review found that sufficient progress had been made in implementing the original recommendations and therefore reassessed the control environment as **satisfactory**.

The report did however highlight some areas which Management need to continue to address, including finalising the model of cost apportionment for income/expenditure related to the parking account and their understanding of the process for extracting this information. Both areas are evolving, but require further attention to ensure that future financial periods can be monitored adequately.

The establishment of new quarterly senior management meetings between ESCC and HBC to discuss strategic issues on the parking scheme will aid this development.

Street Lighting – Follow-Up (Transport and Environment)

In January 2007 Internal Audit issued a report highlighting a number of control weaknesses in relation to Street Lighting arrangements resulting in an overall audit opinion of weak.

A follow up review has subsequently been undertaken to assess progress made on the recommendations and, based on the results of this work, the audit opinion is now considered to be **satisfactory**. This is subject to a number of key documents being finalised, fully adopted and complied with by staff. There is also need for Management to clearly demonstrate best value should they wish to extend the current contract beyond 2010. These actions are addressed in a new action plan fully agreed with management.

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.

Children's Centres - Budgetary Control and Performance Management (Children's Services)

This review focussed on budget and performance management for 2006/07 and highlighted a range of key weaknesses, some of which were known to management prior to the commencement of the review.

The audit opinion was assessed as being **weak** because budget monitoring had not been effective in 2006/07 for a wide range of interrelated reasons, and the processes in place were not in accordance the County Council's Budget Manager's Guidance Manual. In particular:

- Ineffective forecasting and monitoring of budgets could result in significant overspends or under spends;
- The subsequent impact of under spends would be the potential loss of grant whilst overspends would have a negative impact on future service provision;
- The lack of formalised monitoring processes being developed in line with the contracted requirements increases the risk that service provision will not be to an appropriate standard or that payment is made for services not provided.

A detailed management action plan has been agreed and action has already been taken to improve the systems in place. A follow up review will be carried out early in 2008/09 to ensure successful implementation of the audit recommendations.

Emergency Duty Service (Children's Services)

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

The need for this review to be undertaken was agreed with management as a result of findings from Internal Audit's corporate review of the HR/Payroll module of SAP. This revealed that in addition to a basic salary entitlement, significant additional sums were being claimed and received by some staff engaged by the EDS.

A number of issues have arisen as a result of Internal Audit's review, the one area of greatest consequence being that the Council was found not to be in compliance with the Working Time Directive. The need to undertake a review looking at all aspects of EDS pay levels, formally document any agreements reached to support the current or any revised EDS remuneration package, was also recommended to management. In total 15 recommendations have been made to address the issues highlighted above. These have all been agreed with Management.

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

In accordance with the requirements of the Department for Children, Schools and Families, Internal Audit has asked all secondary schools to complete the FMSiS self evaluation questionnaire and submit these for external assessment.

During quarter 2, external assessments were carried out at two schools:

- Heathfield Community College
- The Grove School

Both schools were found to be complying with the Financial Management Standard. They will receive accreditation in due course from the Department for Children, Schools and Families, which will last for three years, when the process will need to be revisited.

A further three secondary schools submitted their self evaluation questionnaires for external assessment during quarter 2 that are currently being processed. Primary Schools have started to submit their self evaluation questionnaires for external assessment by internal audit and work has commenced on those received.

The awareness training, provided jointly with Children's Services, for Governors and Bursars has also continued during the quarter.

Follow Up Reviews (Children's Services)

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

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.

Internal Audit Performance Indicators

Performance Indicator	Target	Actual Performance			
		At 30/6	At 30/9	At 31/12	At 31/03
Economy & efficiency					
Planned days delivered (%)	90	20.9%	45.0%		
Planned audits completed = final reports issued (%)	90	19.6%	30.7%		
Actual v Plan time on completed audits (%)	105	115.4%	102.4%		
Effectiveness					
External Audit reliance on internal audit	Achieved	Achieved for 2006. 2007 assessment not expected until Q3			
Maintain a CPA score of at least 3 / 4 for internal control.	3/4	Achieved for 2006. 2007 assessment not expected until Q3			
Recommendations accepted (%)	90	97.5%	97.6%		
Customer feedback forms scoring 3 out of 5 or higher (%)	80	84.7%	82.9%		
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	477		477	130.3	113.4		243.7	
Computer Audit	215		215	45.7	53.6		99.3	
Children's Services	325		325	68.5	79.8		148.3	
Adult Social Care	364		364	124.6	132.6		257.2	
Transport & Environment	210		210	18.0	79.8		97.8	
Chief Executive's	247		247	41.3	53.8		95.1	
Contingency ¹	250		250	-	-		-	
Sub total – internal customers	2,088	0.0	2,088	428.4	513.0		941.4	45.1%
External customers	95		95	28.6	12.4		41.0	43.2%
Total audit days	2,183	0.0	2,183	457.0	525.4		982.4	45.0%

¹ Contingency days delivered include completion of audits carried forward from 2006/07 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.