

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

Date: **10 March 2008**

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

Title of report: **Internal Audit Progress Report – Quarter 3 (1 October 2007 – 31 December 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 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**

### **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 October 2007 and 31 December 2007.

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

3.1 During quarter 3 there has been a reduction on the number of final reports issued compared to previous periods. This has occurred for a number of reasons, specifically:

- Focussing a significant amount of audit activity on providing advice and support to major developments across the Authority, including Adult Social Care Business Transformation Programme (approximately 50 days);
- The need to conduct a number of ongoing, unplanned, investigations (approximately 70 days);
- Having a high number of audit assignments being work in progress, some of which were at draft report stage awaiting formal agreement with management prior to finalisation. These work in progress assignments have been set out at the end of Appendix A and will be reported on in quarter 4.

3.2 The key audit findings from those final reports issued during quarter 3 are summarised in Appendix A. Overall, of the 3 formal audits completed, 2 were given a 'Satisfactory' audit opinion and 1 was assessed as 'Weak' (Building Maintenance). In addition to this, a total of 8 external assessments of schools were carried out as part of the Financial Management Standard in Schools of which 6 were assessed as meeting the standard. The remaining 2 schools will be subject to re-assessment once they have addressed the weaknesses identified.

3.3 The review subject to a weak audit opinion will be formally followed up during 2008/09 to ensure satisfactory implementation of internal audit recommendations. The details of this review and other key findings from quarter 3 audits are provided within Appendix A.

## **4 Performance against targets**

4.1 The Audit Commission in their Use of Resources assessment for 2007 has judged to Council as scoring 4/4 overall for the first time. In addition, we have also scored 4/4 for the first time for both the internal control key line of enquiry (KLOE) and also for all the relevant sub criteria as follows:

- The Council manages its significant business risks;
- The Council has arrangements in place to maintain a sound system of internal control;
- The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

This is a very positive endorsement of the Council's efforts to achieve excellence in its arrangements for internal control, risk management, internal audit and anti fraud and corruption, and exceeds a number of our key targets within the Council Plan.

4.2 During quarter 3 of 2007/08 we delivered 577.5 productive audit days, an increase of 52.1 days over what was delivered in quarter 2. Overall a total of 1559.9 days have therefore been delivered to date, equating to 74.7% of the revised audit plan. Performance against both of our effectiveness targets is strong with 97.3% of recommendations being accepted and customer satisfaction running at 83.4%. There have been difficulties in securing sufficient resources to deliver external assessments for the FMSiS programme and we are continuing to liaise with colleagues in Children's Services to try to resolve this.

## **5. Priorities for Quarter 4**

65.1 Priorities for the period 1 January 2008 – 31 March 2008 include:

- Delivery of the remaining audits within the 2007/08 audit plan;
- Audit planning for 2008/09, including consultation with all the A&BVSC and all departmental management teams;
- 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;

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BACKGROUND DOCUMENTS

Internal Audit Strategy and Annual Plan 2007-08

## Appendix A

### Summary of key audit findings

#### **Building Maintenance (Corporate Resources Directorate)**

The objectives of this planned audit review were to evaluate the key controls in relation to the commissioning, monitoring and payment for building maintenance services across the County.

The review incorporated a follow-up of the recommendations made in previous audits, together with a review of the new systems and processes which have been introduced since the last audit. Despite improvements being made since the last audit, particularly in the way in which maintenance works are managed and monitored, the overall audit opinion was **weak**, and an action plan has been agreed with management to address the following key areas:

- Lack of assurance that invoices are always checked properly, prior to payment.
- Retrospective orders raised for term maintenance work as a result of service plan and equipment details not being up-to-date.
- Contractors do not always submit the necessary evidence with their invoices to confirm that goods and services have been delivered and costs are justified.
- Clarification of responsibilities in relation to monitoring schools' compliance with their devolved obligations in relation term maintenance.

In addition, the report highlighted the need to clarify policy and processes relating to CRB checks for building maintenance contractors working in schools. Managers were already aware of this issue which should now be addressed through a new corporate policy and processes for CRB checks on contractors which will take effect from 1st April.

A follow up review will be carried out during 2008/09 to ensure satisfactory implementation of the audit recommendations and to re-assess the internal control environment.

#### **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 major upgrade of SAP in 2008/09. This will continue during the remainder of the current year, and into 2008/09.

#### **SAP Security Follow-Up (Corporate Resources Directorate)**

This review sought to establish the extent to which the actions agreed following the 2005/06 review had been implemented, in order to ensure adequate internal control and systems access control are in place. Although the previous audit found internal controls to be satisfactory, a follow up was agreed in view of the importance of effective security within the SAP system. The audit found that although most of the original recommendations had been implemented, a number still remained outstanding. These were discussed with management and a commitment was received for implementation of them all by 31<sup>st</sup> March 2008. The audit opinion therefore remains **satisfactory**.

## **Ongoing ICT Audit Advice and Support (Corporate)**

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 3, this has included:

Next Generation Network – this includes periodic meetings with the NGN Programme Manager, Schools NGN Project Manager, Voice and Data Communications Team Leader and attendance at the monthly NGN Delivery Meetings. Assurance will be required over the NGN's network monitoring controls, as new technology within the NGN infrastructure is deployed and configured over the coming months.

CoSY Programme – Advice and review of the development of the modules in the CoSY programme within Transport and Environment. Delays have been experienced in the development and implementation of the systems due to external factors outside the control of the County Council. Hence the programme will now continue into 2008-09 and appropriate provision will be made for this in next year's internal audit plan.

Galaxy (electronic procurement within Bibliographic Services) – seeking assurance as to the adequacy of the interface between Galaxy and the general ledger (SAP) along with reviewing and advising on internal controls over access to the system functionality. This is continuing during quarter 4 due to delays in the implementation of the interface and the associated controls.

Online "Speed-Awareness" Driver Training Programme – provision of advice over the proposed online booking and payment system for speed awareness training, which is being introduced as an alternative to the prosecution of speeding drivers.

Electronic Document & Records Management (EDRM) - Internal Audit has been reviewing arrangements over the implementation of the EDRM pilot within SEN (Special Educational Needs) and PAT (Personnel and Training). This work will continue in quarter 4 and early 2008/09.

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

Internal Audit continues to provide ongoing support to the Business Transformation Programme at both the overall Programme Board and individual project level, providing advice on internal control and risk matters. Currently audit work is focussed on providing assurance to assist with the corporate sign-off of system interfaces where modules of the new Adult Social Care financial systems link with SAP.

## **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. Advice and consultation regarding the proposed introduction of 'Bankline' which could enable schools to make payments using BACS has been given during this quarter.

## Schools Sports Grants (Children's Services)

Internal audit has carried out the 2006/07 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.

## 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 for external assessment.

During quarter 3 external assessments were completed at 8 schools with the following results:

Catsfield Church of England Primary School	Pass
Hawkes Farm Primary School	Pass
Ringmer Community School	Pass
Uplands Community College	Pass
Wadhurst C of E Primary School	Pass
Silverdale Primary School	Pass
St Richards Catholic College	Fail
Peasmarsh Church of England Primary School	Fail

Schools that were found to be complying with the Financial Management Standard 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. Where schools fail the Standard they will be asked to resubmit their assessment once they have addressed the weaknesses identified.

Internal audit and Children's Services have continued jointly to provide FMSiS awareness training for Governors and Bursars. Updated guidance and assistance regarding the completion of the FMSiS self assessment continues to be given.

## Schools Follow Up Reviews (Children's Services)

In addition to the FMSiS audit activity, one primary school was subject to a follow up audit visit during the quarter having previously been assessed as having a weak internal control environment. It is pleasing to report that this school has implemented the previous audit recommendations and is now assessed as **satisfactory**.

## Work in Progress

At the time of writing this report a number of audit assignments across the Authority were underway, many of which at draft report stage and nearing completion. These will be reported on in more detail within the Quarter 4 Internal Audit progress report but have been listed below for information:

## Corporate Resources

- HR/Payroll
- General Ledger
- Treasury Management
- Pension Fund Process and Systems
- Group Funding Governance Arrangements
- SAP 'Transport' Arrangements
- Software Management
- Internet Monitoring Arrangements

## Transport and Environment

- Home to School Transport (HTST) - Budgetary Control
- Integrated Waste Management Contract – Project Governance Arrangements
- Environment - Rights of Way – review of recommendations made following an investigation into the operation of Rights of Way and Countryside Management.

## Adult Social Care

- Supporting People Payments System
- Aegis/Abacus – covering payments to independent sector suppliers of home care, day care, residential and nursing care services, financial assessments and client billing.

## Children's Services

- Children's Centres Programme and Project Management
- Imprest Account Review (Corporate)

## Chief Executive's

- Corporate Review of Absence Management
- Use of External Consultants
- Business Continuity

## 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	20.9%	45.0%	74.7%	
Planned audits completed = final reports issued (%)	90	19.6%	30.7%	51.6% <sup>1</sup>	
Actual v Plan time on completed audits (%)	105	115.4%	102.4%	102.2% <sup>2</sup>	
<b>Effectiveness</b>					
External Audit reliance on internal audit	Achieved	Achieved for 2006. 2007 assessment not expected until Q4			
Maintain a CPA score of at least 3 / 4 for internal control.	3/4	4/4 Achieved.			
Recommendations accepted (%)	90	97.5%	97.6%	97.3%	
Customer feedback forms scoring 3 out of 5 or higher (%)	80	84.7%	82.9%	83.4%	
Reports to Chief Officers and Members	Quarterly	Quarterly reports issued.			

<sup>1</sup> Excludes Financial Management Standard in Schools

<sup>2</sup> Excludes Financial Management Standard in Schools

## 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	-55.0	422	130.3	113.4	135.4	379.1	
Computer Audit	215	-14.0	201	45.7	53.6	61.8	161.1	
Children's Services	325	41.0	366	68.5	79.8	155.2	303.5	
Adult Social Care	364	-12.0	352	124.6	132.6	76.2	333.4	
Transport & Environment	210	-26.0	184	18.0	79.8	78.5	176.3	
Chief Executive's	247	-50.0	197	41.3	53.8	41.1	136.2	
Contingency <sup>3</sup>	250	20.0	270	-	-	-	-	
Sub total – internal customers	2,088	0.0	1,992	428.4	513.0	548.2	1489.6	74.8%
External customers	95	-	95	28.6	12.4	29.3	70.3	74.0%
Total audit days	2,183	-96.0	2,087	457.0	525.4	577.5	1559.9	74.7%

<sup>3</sup> 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.