

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

Date: **19 June 2008**

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 2007 to 31 March 2008**

RECOMMENDATIONS:

Audit and Best Value Scrutiny Committee is recommended to:

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

(b) consider whether there are any significant control issues that should be included in the Council's annual governance statement for 2007/08.

(c) consider whether the Council's system for internal audit has proved effective during 2007/08

1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2007/08 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 2007 to 31 March 2008 in accordance with the Internal Audit Strategy for 2007/08.

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 audit activity in the following areas:

- Adult Social Care Business Transformation Programme;
- Financial Management Standard in Schools;
- Fundamental Accounting Systems.

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 2007/08 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 addition, following the Audit Commission's annual assessment of the Council's performance on Use of Resources (UoR) for 2007, the County Council received an overall maximum score of 4 out of 4, an increase from 3 out of 4 compared to the previous year. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also improved to the maximum of 4 out of 4. Whilst it remains management's responsibility for managing its business risks and operating a sound system of internal control, these results also reflect particularly positively of the Internal Audit Service which has a key role in reviewing these arrangements for adequacy and recommending improvements accordingly. Further analysis of performance against agreed key performance indicators is included in Annexe A.

5.3 This report will be presented to Cabinet on 8 July 2008.

SEAN NOLAN

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Background documents

Strategic Audit Plan 2007-08

Internal Audit Progress Report Q1

Internal Audit Progress Report Q2

Internal Audit Progress Report Q3

Annexe A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2007/2008**



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 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.

1.3 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.

1.4 The full scope and responsibility of the IAS is set out within Internal Audit Charter and Terms of Reference which was approved by the Audit and Best Value Scrutiny Committee in November 2007 and which is attached as Appendix C.

2. Delivery of the Internal Audit Plan

2.1 In accordance with the 2007/08 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, in particular:

- Financial Management Standards in Schools (FMSiS) – a review of the time required to deliver support to schools and the agreed programme revealed that it was not 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 was 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 was significantly increased to ensure appropriate assurance can be provided on the internal control environment;
- Material Financial Systems – a lowering of the level above which a system is determined as being a ‘material financial system’ for external audit purposes, resulted in additional internal audit coverage on a number of systems which were not included in the original audit plan;
- Investigations – there have been a number of highly resource intensive audit investigations during 2007/08 which exceeded the contingency allowed for such activities;
- Maternity Leave – a significant number of productive audit days were lost as a result of maternity leave.

2.2 The adjustments to the audit plan were based on risk and resulted in an overall reduction of approximately 100 days. All adjustments were agreed with the relevant departments, the Director of Corporate Resources and external audit. Despite the overall reduction, it is not felt that this has significantly impacted on internal audit’s ability to provide an adequate level of assurance to the County Council. The actual internal audit coverage across departments compared to the revised audit plan has been summarised in Appendix A.

2.3 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 2007/08;
- 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 2007/08 were found to be in place and functioning satisfactorily. The majority of systems reports resulted in an opinion of satisfactory 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 Annual Governance Statement.

Adults Social Care Business Transformation Programme (ASC BTP)

4.2 In recognition of the importance of the Business Transformation Programme and the associated risks, internal audit provided a significant amount of support, advice and assurance to the Programme during 2007/08. This included a pro-active presence on the Programme Board as well as attendance at the fortnightly Project Group meetings.

4.3 As part of our work, internal audit reviewed and reported upon the contingency arrangements that had been put in place at the beginning of the year while the interface between CareFirst and Abacus and the financial assessment module of Abacus was still being developed. The recommendations made as a result of this review were all agreed by management.

4.4 The main area of development during 2007/8 has been the "go-live" of a significant part of Abacus. Internal audit carried out reviews of proposed systems and processes and delivered reports in relation to a number of areas. These included:

- Provider Payments – Residential and Nursing;
- Client Billing;
- Abacus ICT Controls;
- Abacus/SAP Interface Controls – the assurance provided was also used to support the Corporate sign-off of the interfaces;
- CareFirst/Abacus interface for Residential/Nursing Individual Service Agreements.

4.5 Although a number of recommendations were made and agreed with management during the course of year, no significant control issues were found which prevented the developments from progressing.

4.6 ICT Audit support was also provided in respect of ContrOCC (contract management system) implementation, including the development and testing of its Sourcing System (in house development) and the access arrangements for the provider portal.

4.7 Internal Audit will continue to be engaged with the programme, in order to ensure that the risks are effectively managed and a satisfactory control framework is maintained, including through the closing of the project in 2008/09.

Financial Management Standard in Schools (FMSiS)

4.8 During 2007/08, internal audit has continued to carry out external assessments to ensure that schools are meeting the standard laid down by the Department for Children Schools and Families. This is the second year of the programme and the first year in which primary schools are subject to assessment.

4.9 In addition to conducting the external assessments, we have been working with the schools to provide them with advice and support on the implementation of the Standard. Internal audit has issued several circulars to schools during the year giving guidance and information and has continued to provide training, jointly with Children's Services, for Governors, Bursars and Headteachers.

4.10 During the year, the secondary schools outstanding from 2006/07 were also assessed. Of these, three failed to meet the Standard, leaving a total of twenty four, including those from the previous year, accredited as having met the Standard. Internal audit are working with Children's Services Finance and CfBT to support those schools that have yet to pass the Standard to ensure they address the weaknesses identified. These will be subject to re-assessment in due course.

4.11 A total of 64 primary and special schools were due to submit their self assessments by 30th September 2007. However, as at 31 March 2008, 20 of these were still outstanding. Overall, internal audit completed 11 primary school external assessments in the year, with only one school failing to achieve the Standard. Once again, this will be re-assessed once the identified weaknesses have been addressed.

4.12 Although a small number of schools from the second and third years of the programme have submitted their self assessments early, it is concerning that overall the submission rate for primary schools is not meeting expectations. Should this pattern continue into 2008/09 and 2009/10, there is a significant risk that there will be a large number of primary schools failing to comply with the Standard within the timescales laid down by the DCSF. Internal audit will continue to monitor this situation closely in conjunction with Children's Services Finance and take every action to encourage schools to complete their self assessments promptly.

Fundamental Accounting Systems

4.13 As explained in paragraph 2.1 above, 2007/08 saw a lowering of the level above which a system is determined as being a 'material financial system' for external audit purposes. This resulted in additional internal audit coverage being required on a number of systems which were not included in the original audit plan. These fundamental accounting systems are required to be reviewed in accordance with the International Standard for Auditing with internal audit's work being relied upon by the County Council's external auditors, PKF, as part of their audit of the accounts. A total of 10 such audits were carried out during the year of which 6 have now been finalised:

- General Ledger - satisfactory
- Treasury Management - good
- Pension Processes and Systems - satisfactory
- Pension Fund Investments- satisfactory
- Supporting People (Adult Social Care) - satisfactory
- HR/Payroll - satisfactory

The remainder are in the process of being finalised with management:

- Accounts Receivable
- Accounts Payable
- CarePay (Children's Services)
- Abacus/Aegis (Adult Social Care)

Systems with Weak Opinions

4.14 During the year, a total of 47 formal audit reports (excluding FMSiS and ongoing advice and support activity) were issued across all County Council departments, of which 8 were subject to 'weak' audit opinions. No systems were found to have an 'unacceptable' control environment. 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 2008/09:

Quarter 4 reports (see Annexe B):

- Software Management – a review of arrangements for managing and controlling use of software across the Authority. Control weaknesses were identified in relation to software checking arrangements and widespread availability of 'local administration' rights on computers which allow potentially uncontrolled installation of software;
- Internet Monitoring – a review specifically covering the arrangements for monitoring of internet usage by staff (arrangements for controlling access to the internet were considered robust). Main control weaknesses related to inadequate monitoring of attempted access to inappropriate sites by staff and the system for blocking and unblocking inappropriate sites;
- Hillcrest School – a follow up review to a previous weak opinion. Control weaknesses continued to be found over budget accuracy, reconciliation and procurement processes.

Previously reported in Quarters 1, 2 and 3:

- SAP User Authorisations – a review covering arrangements for setting up new SAP users and allocating permissions to them. Control weaknesses related to division of duty controls, monitoring of user activity, systems administration roles and responsibilities and high levels of access permitted to non-ESCC users (e.g. SERCO consultants);
- Operational Risk Management – a review covering the adequacy of operational risk management within County Council departments. Whilst CRD, Chief Executive's and Transport and Environment arrangements were considered satisfactory, Children's Services and Adult Social Care risk management at an operational level was found to be weak;
- Adult Social Care Debt Management (Property Ownership) – an audit of the system for making loans to service users for the cost of their care, where this is secured against property. The review found that weaknesses relating to accuracy of records, property insurance and loan recovery arrangements;
- Children's Centres Budgetary Control – a review covering budget and performance management within Children's Centres which identified weaknesses in relation to budget forecasting, general budget management and contract monitoring;
- Building Maintenance – an audit covering the commissioning, monitoring and payment for building maintenance services. Despite improvements being made since the last audit, particularly in the way in which maintenance works are managed and monitored, control weaknesses were identified in relation to the invoice checking arrangements, accuracy of service records and adequacy of invoice supporting records.

4.15 In addition, a total of 4 schools failed to meet the Financial Management Standard in Schools following external assessment, and will be reassessed in due course.

Anti Fraud and Corruption

4.16 Following the publication of best practice guidance by the CIPFA Better Governance Forum on 'Managing the Risk of Fraud', internal audit carried out an assessment of the County Council's arrangements and developed an action plan for improvement. One key aspect of this was a review and update to the County Council's Anti Fraud and Corruption Strategy which is due to be formally approved by the Governance Committee in May 2008. Further work to progress the remaining actions will be carried out in 2008/09 following receipt of additional funding to support this.

4.17 Internal audit has also assessed and, where appropriate, investigated a number of potential instances of fraud and corruption during 2007/08, in each case reporting to management on the outcome. 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. Such investigations are often complex and lengthy and have accounted for 194 days of internal audit resource in 2007/08.

4.18 During 2006/07 East Sussex County Council submitted data to the Audit Commission as part of the National Fraud Initiative (NFI). This data, which included payroll, pensions, residential care homes and, for the first time creditors, was subsequently matched to the records of other authorities' and the Department of Works and Pensions Benefits Agency, to detect any possible errors or fraud.

4.19 The results of this work were received in 2007/08 (including 1,400 potential payroll matches and a 32,000 potential creditor matches) and internal audit worked throughout the year with staff from the various areas of work to investigate the matches and report on progress to the Audit Commission. Where overpayments have been identified through this work, appropriate recovery arrangements have been put in place. One significant overpayment on pensions is still subject to negotiation on recovery.

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 year a self assessment was carried out against the Code of Practice for Internal Audit in Local Government in the UK to assess our compliance with it. This self assessment was an update to that carried out in 2006/07 and showed an overall high level of compliance with further improvements against the previous year. Those outstanding areas relate mostly to the documentation of existing procedures and appropriate actions have been identified and incorporated within the IAS Business Plan for 2008/09. Implementation of these will be monitored and reported on a quarterly basis throughout the year.

5.3 Performance against agreed targets is set out in Appendices B. In total the IAS has delivered 2,114 direct days or 101.3% of the total revised audit plan. 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 (excluding FMSiS) also continues to improve and again exceeds target. Whilst the number of completed audits is 3.9% below our 90% target, this represents 20 audit assignments (excluding FMSiS) 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 2008/09.

5.4 Whilst in previous years the IAS has carried a number of vacancies and has used agency staff to backfill, 2007/08 has provided a year of stability with a full compliment of permanent staff in post for the whole year. As explained above, some productive audit days were lost through maternity leave although this was partially offset by some limited use of agency staff.

5.5 Performance against effectiveness targets remains positive and reflects both the quality of work completed and its focus on key areas of risk. Whilst customer satisfaction survey scores remain high and in excess of target, we have recently expanded on their use to include an annual survey of all Chief Officers to gauge their view on the overall quality of the IAS. The results of this are still awaited and will be reported on within the 2008/09 Annual Report and Opinion.

5.6 Internal audit continues to work closely with the Council's appointed external auditors. The Audit Commission reviewed our work on material financial systems as part of the 2006/07 accounts and were again able to place reliance on it in forming their opinion. This reliance is reflected in the high level of risk based discount applied to the external audit fees that the Council pays. We have also worked closely with the Council's new external auditors, PKF, and have established a good working relationship with them.

5.7 Finally, following the Audit Commission's annual assessment of the Council's performance on Use of Resources (UoR) for 2007, the County Council received an overall maximum score of 4 out of 4, an increase from 3 out of 4 compared to the previous year. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also improved to the maximum of 4 out of 4. The following key lines of enquiry were judged as part of the assessment to be "performing strongly - well above minimum requirements":

- 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.

5.8 Whilst it remains management's responsibility for managing its business risks and operating a sound system of internal control, these results also reflect particularly positively of the IAS which has a key role in reviewing these arrangements for adequacy and recommending improvements accordingly.

Appendix A

Actual Days delivered against the plan

The following table summarises the internal audit coverage across all County Council departments during 2007/08:

Service	2006/07 Actual Days	2007/08 Original Plan Days	2007/08 Revised Plan Days	2007/08 Actual Days	2007/08 % Plan Days Delivered
<u>ESCC:</u>					
<i>Corporate Body</i>	568.0	477.0	538.4	539.3	
<i>Computer Audit</i>	220.3	215.0	202.5	208.5	
<i>Children's Services</i>	393.3	332.0	395.2	427.3	
<i>Adult Social Care</i>	339.2	364.0	426.6	419.6	
<i>Transport & Environment</i>	182.2	210.0	222.3	233.5	
<i>Chief Executives</i>	206.8	240.0	197.0	180.4	
<i>Contingency¹</i>	-	250.0	-	-	
<i>Discretionary and corporate projects</i>	29.0	-	-	-	
<i>Sub total – ESCC</i>	1,938.8	2,088.0	1982.0	2008.6	101.3%
<i>External contracts²</i>	111.7	95.0	105.0	105.1	100.1%
Total audit days	2,050.5	2,183.0	2,087.0	2,113.7	101.3%

¹ Contingency of 250 days at the start of the year has been included in the revised plan figure for each department to reflect its allocation throughout the year. Actual days delivered also include use of contingency.

² The actual days delivered on external contracts includes additional contracted days delivered during the year (brought forward from 2006/07) 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 07/08</i>	<i>Actual 06/07</i>
<i>Economy and efficiency</i>			
<i>Planned days delivered (%)</i>	90	101.3%	99.4%
<i>Planned audits completed = final reports issued (%)</i>	90	86.1% ³	83.5%
<i>Actual v Plan time on completed audits (%)</i>	105	102% ⁴	102.9%

<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>4/4 Achieved</i>	<i>3/4 Achieved</i>
<i>Recommendations accepted (%)</i>	90	96.5%	96.8%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	80	85.5%	88.8%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 07/08.</i>	<i>Reports issued for every quarter during 06/07.</i>

³ Excludes FMSiS assessments

⁴ Excludes FMSiS assessments

Annexe B

Summary of major findings during quarter 4 (reports issued 1 January – 31 March 2008)

General Ledger System (Corporate Resources Directorate)

The objective of this review was to provide assurance that the General Ledger is complete, accurate and appropriately controlled, and is fit for the purpose to provide data for the production of the annual accounts and financial returns.

From the work carried out as part of this review, it is the opinion of internal audit that internal controls within the General Ledger are **satisfactory**. Some areas were identified where there is further scope for improvement, these included:

- Improving business continuity by documenting key activities carried out by the System Accountant, including those associated with specific authorisations and correction of errors.
- The need to improve journal processing controls, particularly in relation to authorisation arrangements for high value journals. This has been an issue raised in previous audit reports and although discussions with management have shown that alternative controls have been discussed, a full analysis of possible solutions has yet to be undertaken. All departments therefore need to comply with the current manual authorisation requirements until such time that automated solutions can be put in place.
- Implementing more robust arrangements for monitoring general ledger reconciliation where transactions are fed by other applications. Historic outstanding items on the “Goods Received/Not Invoiced” account are being analysed, and work has been scheduled by the relevant departments to clear these items.

Recommendations have been made to address all identified weaknesses and these have been incorporated within an agreed management action plan.

Treasury Management (Corporate Resources)

The overall objective of the Treasury Management system is to manage the County Council’s cash flows effectively, maximising the return on capital invested and minimising risk.

In view of the significant materiality of the transactions involved it is vital that this system activity is conducted within a sound control environment. It is therefore pleasing to report that the overall audit opinion was once again found to be **good** and there were no significant recommendations arising as a result of this audit.

HR/Payroll

The HR Payroll System is a constituent part of the Council's core accounting system and is therefore subject to annual review. The overall audit opinion was **satisfactory**, with the main area of control weakness covering on-SAP segregation of duties controls, particularly in relation to Business Workforce Planning (BWP) and Personnel Support Unit (PSU).

A comprehensive management action plan, incorporating the report recommendations has been agreed with both Personnel and Training and CRD Finance. This will also be followed up as part of planned 2008/09 HR/Payroll review.

Pension Fund Processes and Systems (Corporate Resources Directorate)

Following the latest good practice guidance on the audit of pension funds and in accordance with our Pension Fund Internal Audit Strategy, this review replaces and extends the scope of the previous annual Pension Payments and Contributions audit.

The key objectives were to ensure that;

- All payments due to and from the fund, through the whole of the employee and employer lifecycle, are made and accounted for fully and accurately and in a timely fashion;
- All pension payment and contribution data is reconciled promptly from the stand-alone pension administration system (AXISE) to the General Ledger of ESCC;
- The AXISE system is adequately controlled.

The overall control environment was found to be **satisfactory** with some recommendations being made in relation to the strengthening of controls to ensure that pension payments to all individuals are still due. All recommendations have been agreed with management and incorporate within a management action plan.

Pension Fund Investments (Corporate Resources Directorate)

The objective of this review, which also forms part of the Pension Fund Internal Audit Strategy, was to ensure that:

- The Pension Fund is operated in accordance with the long-term objectives of the scheme and its stakeholders;
- All Pension Fund transactions, assets and cash held by the Council on behalf of the Pension Fund are recorded completely and accurately, and are monitored on a regular basis;
- Pension Fund and fund manager performance is monitored regularly, and appropriate action is taken in the event of under performance;
- All income from dividends and interest is received promptly and completely.

The overall audit opinion was **satisfactory**, with some recommendations being made in the following areas:

- Ensuring the correct categorisation of investments following the transfer between fund managers;
- The formalisation of procedures for reconciliation between a new fund manager and the custodian to ensure that the market value of investments is reflected accurately in monitoring reports;
- Clarification of the correct accounting treatment for 'UK - Equity Derivatives - Futures' within custodian monitoring reports and the East Sussex Pension Fund accounts.

All recommendations have been agreed with CRD Finance and incorporated with a management action plan.

SAP Future Phases (Corporate Resources Directorate)

During the quarter, internal audit have continued to provide input to the SAP upgrade project which is due to take place in 2008/09. Internal audit activity, including specialist ICT Audit, will therefore continue into 2008/09.

Internet Monitoring – ICT Audit (Corporate Resources Directorate)

A review of the arrangements for monitoring Internet access within ESCC was carried out following a series of Internet related investigations earlier in the year. The objective of this audit was to assess the adequacy of controls around the monitoring of Internet usage within the ESCC corporate environment. From the audit work completed it is internal audit's opinion that, whilst the County Council has in place robust arrangements for managing and controlling user access to the internet, internal controls in relation to the subsequent monitoring of user activity are **weak**.

This is as a result of the following key issues:

- Whilst the control reports produced by the system are "technically accurate", they require careful interpretation in order to determine the extent of any wrongdoing, and this may impact on their reliability.
- There is insufficient monitoring of attempts to access inappropriate Internet sites, with the process being over reliant on informal, ad hoc monitoring by ICT Services staff.
- The system for blocking and unblocking sites should be formalised, and requests should receive approval from an appropriate level of management.

A comprehensive management action incorporating all of the report recommendations has been agreed with ICT Services and departmental E-Business Managers. This will be subject to a formal follow up review by internal audit during 2008/09.

Software Management - ICT Audit (Corporate Resources Directorate)

Internal Audit reviewed software management arrangements within the Council in order to assess the adequacy of arrangements for detecting and removing unlicensed software, monitoring software licensing compliance, controlling software licensing costs and ensuring appropriate software policies are in place.

The overall control environment was found to **weak** with key control weaknesses being identified in relation to:

- Insufficient software checks being carried out;
- Delays in completing software checks and failure to promptly remove software identified as being unlicensed;
- The widespread availability of 'local administration rights' on County Council computers which allow users to install new software (legal or otherwise);
- The lack of a formal County Council software management policy.

All recommendations have been agreed with ICT Services and incorporated within a management action plan with immediate action being taken to address some of the control weaknesses. A follow up review will be carried out during 2008/09.

Action Tracking of Previous Computer Audit Recommendations (Various)

During 2007/08 an exercise was carried out to obtain assurance that the recommendations made in the following previously completed ICT audit reviews had been implemented by management as agreed:

- Management and Control Infrastructure for the ESCC Website
- Email & Internet Usage Controls
- ICT Provision in Outlying Offices
- Review of the effectiveness of security and operation of the Peoples Network
- Children's Index
- ICT Security Arrangements
- Review of Vulnerability to Unauthorised Wireless Access to the Network

The follow up review found that the majority of the original recommendations had been implemented as agreed. A total of eight recommendations remained outstanding at the time of the review, however, none of these were high risk recommendations and revised implementation dates have been agreed with management.

Ongoing ICT Audit Advice and Support (Various)

Part of the ICT Audit Plan for 2007/08 included 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 4, this has included:

- Next Generation Network (Corporate Resources)
- T&E CoSY Programme - Highway Maintenance (Transport and Environment)
- Galaxy - electronic procurement within Bibliographic Services (Chief Executive's)
- Online "Speed-Awareness" Driver Training Programme (Transport and Environment)
- Electronic Document & Records Management (Corporate Resources)

Rights of Way Management Issues Follow Up (Transport and Environment)

This review was carried out to follow up on recommendations made in a December 2006 report which identified significant control weaknesses within Rights of Way Group within Transport and Environment. The original report contained a total of 18 high priority recommendations covering project management and monitoring, staff management and supervision and the monitoring and management of volunteers, especially relating to Health and Safety.

Internal audit follow up work found that the majority of the original recommendations have been either fully implemented or are no longer applicable due to alternative measures being put in place. Significant progress has also been made on all other outstanding recommendations resulting in an audit opinion of **satisfactory** being given.

Supporting People (Adult Social Care)

Through the Supporting People initiative, the Council, in partnership with other statutory agencies, voluntary organisations and service users themselves, provides housing related support services to assist vulnerable people to live independently in the community. For 2007/08, the Council has received a grant of £11.56 million for this purpose.

Payments to providers are managed through SPOCC, computer software designed specifically to support the programme. The main objective of this review has been to ensure that payments to providers are being made in a controlled manner, against a valid contract or formal agreement, at the rate specified and for clients confirmed as being in receipt of services.

As a result of this review a **satisfactory** opinion has been given, with the main areas for improvement relating to developing a more proactive approach to confirm that service user related data is correct as part of the payment process and the need to strengthen controls around recovering overpayments to providers.

Of the fourteen recommendations were made in review, thirteen were agreed with management and incorporate within an action plan. The one recommendation not agreed was not of a high risk nature with compensating controls being in place.

Business Transformation Programme (Adult Social Care)

During quarter 4 internal audit work focussed on providing assurance in support of the Corporate sign-off of system interfaces, where modules of the new Adult Social Care financial systems link with SAP. Specifically internal audit reported on Residential Payments, Domiciliary Payments and Client Billing processes. While some recommendations were made and accepted by management, there were no significant findings arising from our work that would have prevented "go-live".

Internal audit has continued 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.

AgeWell (Adult Social Care)

AgeWell is a major Private Finance Initiative (PFI) project to build four new residential homes for older people across the county. The project is based on the receipt and expenditure of PFI credits of £39m affecting up to 200 service users.

A request was received from the Project Directors to provide assurance on the proposed pre-tender procurement process. This included:

- Reviewing project documentation relating to the procurement process;
- Determining if an appropriate approach has been adopted;
- Ensuring that appropriate independent advice had been requested and obtained.

Internal audit concluded that a process is in place which defines the tender requirements of the project, schedules a timetable and the level of evaluation required. The approach reflected forward planning for key elements and expected outcomes. Additionally appropriate professional advice has been sought in order to progress the project to the tender phase.

From the work undertaken it was evident that an approach is being adopted which is appropriate under PFI procurement practices and has the basis to comply with EU procurement rules and ESCC requirements.

Absence Management Review (Chief Executive's)

This review of absence management was carried out to assess compliance with corporate policies and to ensure that adequate controls are in place to manage and accurately report on absence reduction targets.

From the audit work completed during the review and testing carried out, a **satisfactory** audit opinion was given. The main weaknesses identified related to compliance by managers with the existing policy for attendance management.

The majority of recommendations made were agreed with PAT management and incorporated within a management action plan. A total of three recommendations were not agreed to, however, none of these were of a high risk nature.

Adult Community Colleges (Chief Executive's)

Adult Learning is funded directly from the Government through a network of regional Learning and Skills Councils (LSC) and is delivered in East Sussex through the Community Colleges and the Further Education Colleges.

This audit was undertaken to review the contractual and governance arrangements between the County Council, a consortium of seven colleges known as ACRES (Adult College for Rural East Sussex) and two other Community Colleges responsible for delivering family learning programmes in East Sussex.

As part of reviewing the ACRES management structure and especially the roles and responsibilities of the County Council's representative to the board, it was established that the provision of services funded by ACRES did not always operate within the policies and procedures of the County Council, as required by the agreement. Recommendations were made to help ensure compliance with all the contractual requirements of the ACRES Agreement and to further improve the internal controls within ACRES.

Testing showed that the finances of the Community Colleges were being administered well by ESCC finance officers but that the management and control arrangements for two of the colleges needed to be formally confirmed and agreed.

From the audit work completed during the review and testing carried out, a **satisfactory** audit opinion was given. The majority of recommendations made in the report were agreed with management and incorporated within a management action plan. A total of three recommendations were not accepted by management. These were however considered to be of a low risk nature and related to having formal Service Level Agreements in place with the Colleges.

Budgetary Control (Chief Executive's)

The objective of this review was to ensure that budget monitoring for a sample of services was effective, appropriate and identifies potential variances at an early stage with timely action taken where significant variations are identified.

From the audit work completed during the review, Internal Audit was of the opinion that the controls in place were **satisfactory**. The main findings related to the opportunities to reduce reliance on spreadsheets for budget monitoring by better use of SAP and the need to more clearly evidence action planned or taken to address significant variations and under / overspends where these are identified. A limited number of recommendations was made and agreed with management as part of an action plan to help further improve the internal control environment.

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

In accordance with the requirements of the Department for Children, Schools and Families, all schools have been asked to complete the FMSiS self evaluation questionnaire and submit for external assessment as part of a three year programme.

During quarter 4 of 2007/08, external assessments were completed at 14 schools with the following results:

Primary

St. Philip's Catholic Primary School	Pass
Salehurst C of E Primary School	Pass
Sandown Primary School	Pass
Rodmell C of E Primary School	Pass
Sedlescombe C of E Primary School	Pass

Special

Cuckmere House School Pass

Secondary

Uckfield Community Technology College Pass

Seaford Head Community College Pass

Thomas Peacocke Community College Pass

The Bishop Bell C of E School Pass

Helenswood School Pass

Hailsham Community College Pass

Claverham Community College Fail

Hillcrest 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.

Work in Progress (All Departments)

The following audit reviews were work in progress as at 31 March 2008:

- Home to School Transport Budgetary Control (Transport and Environment)
- Integrated Waste Management Contract – Project Governance Arrangements (Transport and Environment)
- South Downs Joint Committee (Transport and Environment)
- Aegis/Abacus (Adult Social Care)
- Corporate Governance (Chief Executive's)
- Use of Consultants (Chief Executive's)
- Carepay (Children's Services)
- Children's Centres Programme and Project Management (Children's Services)
- Business Continuity (Children's Services)
- ICT – Galaxy Access Rights (Chief Executive's)
- SAP Transport Process (Corporate Resources Directorate)
- Accounts Payable (Corporate Resources Directorate)
- Accounts Receivable (Corporate Resources Directorate)
- Grant Funding Governance Arrangements (Chief Executive's)
- Pension Fund External Control Assurance (Corporate Resources Directorate)
- Pension Fund Governance and Strategy (Corporate Resources Directorate)