

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

Date: **4 March 2009**

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

Title of report: **Internal Audit Progress Report – Quarter 3 (1 October 2008 – 31 December 2008)**

Purpose of report: **To provide Members with a summary of the key audit findings, progress on delivery of the audit plan and the performance of the internal audit service during Quarter 3**

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**RECOMMENDATION: Members are recommended to consider and agree any action that should be taken in response to the issues raised as a result of the audits carried out during Quarter 3**

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## **1. Financial Appraisal**

1.1 There are no direct financial implications arising from the recommendations in this report.

## **2. Supporting Information**

2.1 The current annual plan for internal audit is contained within the Audit & Performance Division's Internal Audit Strategy and Annual Plan 2008-09. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (19 June 2008) and Cabinet (8 July 2008). 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 2008 and 30 September 2008.

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

3.1 Key audit findings from final reports issued during quarter 3 are summarised in Appendix A. Overall, a total of 56 formal reports have been issued, of which 5 received 'Substantial Assurance' and 4 received 'Partial Assurance'. The remaining 47 reports all related to schools, of which 45 successfully passed the Financial Management Standard in Schools. A considerable amount of audit work in the quarter did not result in the issuing of a standard audit opinion. This related primarily to investigation reports (and subsequent internal control reports) and support and assurance in relation to ongoing projects.

3.2 All reviews subject to 'Partial Assurance', 'Minimal Assurance' or 'No Assurance' audit opinions will, as a matter of course, be subject to formal follow up during 2009/10 to ensure satisfactory implementation of internal audit recommendations. In addition, an ongoing exercise is undertaken to monitor implementation of all high risk recommendations (regardless of the overall audit opinion).

3.3 Details of all completed audits and other key activity from quarter 3 are provided within Appendix A.

## **4 Performance against targets**

4.1 During quarter 3 of 2008/09 we delivered 647.9 productive audit days, an increase



## Appendix A

### Summary of key audit findings

#### **User Authorisations Follow-Up (Corporate Resources Directorate)**

Internal Audit carried out a review of 'User Authorisations – SAP R3 System Administration' in 2007. 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.

From the audit work completed during this review, Internal Audit provided **partial assurance** that there is a sound system of control in place. The main reasons for this opinion are that, whilst there is a clear commitment from management to improve the control environment and the general direction of travel is positive, vacancies and difficulty in recruiting to posts in the Corporate Systems Team have meant that progress has been slower than planned. Diverting the limited staff capacity to this would have had a higher risk impact on key day to day business operations.

The main issues to highlight are:

- Although the SAP system does not enforce a division of duty between the creation of users and allocation of roles, the Corporate Systems Team have implemented a process whereby these functions are separated, with a third independent person checking that this has been properly adhered to (due to staffing shortages this has not always been possible). A recommendation has been made regarding the need to strengthen further monitoring arrangements in this area and this is in process of being implemented.
- It was reported previously that a number of SERCO consultants had indefinite high-level access to the system. Whilst SERCO consultant activity remains an issue, the level of access has now been reduced to a more acceptable level, whereby consultants are now given, wherever possible, more defined roles rather than the previously high levels of system wide access.
- In addition to the monitoring of users created, there is still a requirement for other managerial and more general monitoring of on SAP activity to be undertaken (again this has been affected by staff shortages). This is now in the process of being implemented.

It is important to note that regular discussion has taken place with ICT Services and the Deputy Director of CRD to ensure continued progress on improving the control environment and looking at alternative sources of assurance during the interim. Specific actions to date include:

- Appointments have recently been made, including increasing resources within the Corporate Systems Team through the appointment of an additional SAP Support Administrator and a secondment to cover maternity leave.
- Commissioning of an external consultancy to undertake a detailed interrogation of the on-SAP control environment, using specialist software, in order to identify user role conflicts and other system risks. It is hoped that this work will be completed by the end of March 2009;
- Internal Audit undertaking a programme of extended substantive testing in addition to the regular testing of key controls as part of annual SAP audit activity. Whilst this work is still in progress, at the time of writing this report, no significant issues of concern have been identified;
- Further work around the impact of implementing the on-SAP data interrogation package – Compliance Calibrator.

Internal Audit will continue to provide input to the above activity and monitor progress to ensure SAP User Authorisation arrangements remain robust.

### **Accounts Payable (Corporate Resources Directorate)**

The objectives of this review (which is part of the programme of Fundamental Accounting System reviews) were to ensure that:

- Official orders are raised for all goods and services and should be completed with all relevant details;
- All goods and services due to the Council are received in a controlled manner;
- All payments made are accurate, legitimate, appropriately authorised and accounted for correctly in the Council's accounts;
- The creation and maintenance of vendor master records is undertaken in a controlled manner, ensuring that all vendors are appropriate and fit for purpose;
- Manual cheques for urgent payments are subject to the same authorisation controls as for standard payments;
- Transactions posted from feeder systems are complete and accurate;

From the audit work completed during this review, Internal Audit are able to provide **substantial assurance** that there is a sound system of controls in place. Testing encompassed SAP systems controls as well as individual transactions across all County Council departments. No significant controls weaknesses were identified and all recommendations have been agreed with management and incorporated within a formal action plan.

### **General Ledger (Corporate Resources Directorate)**

The objectives of this review (which is part of the programme of Fundamental Accounting System reviews) were to ensure that:

- All direct journal inputs to the general ledger are complete, accurate and properly authorised;
- Transactions posted from feeder systems are complete and accurate;
- Unrecognised accounts or suspense balances are reviewed and cleared on a timely basis;
- Adequate bank reconciliation procedures are in place.

From the audit work completed during this review, Internal Audit are able to provide **substantial assurance** that there is a sound system of controls in place. Several minor recommendations have made and incorporated within an agreed management action plan.

## Ongoing ICT Audit Advice and Support (Corporate)

The ICT Audit Plan for 2008/09 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:

SIMS Learning Gateway - A report has already been issued with respect to the review of the Learning Gateway pilot. Internal Audit continues to review controls for the wider deployment of the Gateway to all schools by the end of August 2009. Key issues as part of this work include adequacy of project management arrangements, systems support and security (particularly associated with remote access data risks), back-up arrangements, user administration and project management.

ICT Controls within fundamental accounting systems - As part of the managed audit of fundamental accounting systems, a review of the technical ICT controls within those systems is also being conducted, and will be reported within the individual fundamental accounting systems audit reports.

N3 (NHS) Connectivity Project – Internal Audit continues to review the Information Governance controls, in support of this project, which ensures that only properly authorised persons have access to sensitive data on the NHS database.

Review of Information Security – Internal Audit continues to offer advice, guidance and support to this review, which will shortly result in the publication of best practice surrounding the secure transmission of data within and outside the Council. The main risk areas are associated with sensitive personal data being accessible to unauthorised parties and therefore current internal audit focus is on access controls and system security.

### **Pre-Employment and Criminal Records Bureau (CRB) Checks – Follow Up (Chief Executive's Department)**

Internal Audit carried out a review of CRB and Pre-Employment checks during 2005/06 and conducted a follow up review in 2006/07. Due to the control weaknesses highlighted in the original audit (the majority of which were addressed at the time of the 2006/07 follow up review) and the importance of effective CRB checking procedures, a further follow-up review has been undertaken to assess the implementation of the outstanding recommendations as reported in the follow up of 2006/07. The scope of this follow up did not cover arrangements for the CRB checking of contractors as this is an area still under development. This will however be subject to further Internal Audit review during 2009/10.

From the audit work completed during this follow-up review, Internal Audit is able to provide **substantial assurance** that there is a sound system of controls in place.

The main reasons for this opinion are the improvements to the arrangements to ensure the relevant checks are made as employees are engaged and the prospect that the re-check of existing employees' records may now be brought to a speedy conclusion. Some opportunities have been identified to aid the completion of this task and to improve the effectiveness of the longer term maintenance of the process, and these have been agreed with management in an appropriate action plan.

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

Whilst the Business Transformation Programme itself has now been closed by Adult Social Care, some systems development work has continued as part of mainstream service provision. Internal Audit has therefore continued to provide ongoing support to this work, including advice on internal control, risk and ICT issues.

During the quarter, Internal Audit work focussed on providing assurance and advice on the development and testing of system modules prior to go-live in respect of the CONTROCC system, Direct Payments and Real Time Telephone Monitoring, particularly in terms of authorisation controls and system security.

Audit support will continue to be provided in 2008/09 in respect of these remaining system developments.

## **Putting People First (PPF) (Adult Social Care)**

The PPF project framework continues to be developed and implemented. The role of Internal Audit is to provide support and advice on an ongoing basis as well as seeking assurance on control issues associated with new ways of working. Internal Audit input to date has been through attendance at Project Management Team meetings, liaison with the Programme Manager and via reviews of project documentation.

Work is currently underway to agree key risk focus areas for Internal Audit assurance based on the approach used on the CBOSS Project and the Business Transformation Programme in Adult Social Care.

## **Appointeeships (Adult Social Care)**

The status of Corporate Appointee can be granted by the Department of Works and Pension (DWP) to Adult Social Care (ASC) to allow them to take over the daily financial management needs of individuals who are unable to manage their own affairs. ASC is currently responsible for 179 clients and at the time of the audit, the Council held a cumulative balance of £839,895 on behalf of those clients.

The audit reviewed key controls within the system to ensure that:

- Arrangements in place for receiving and administering client monies are efficient and effective;
- All income received is properly accounted for and held securely;
- Appropriate division of duty is in place preventing any one member of staff from controlling all parts of the system;
- Any payments made on behalf of the client from accumulated monies held are valid, appropriate and authorised at the correct level;
- Accumulated sums held surplus to the immediate requirements of the client are invested on their behalf;
- Client accounts are subject to a regular process of reconciliation.

Based on the audit work carried out, **substantial assurance** was given that there was a sound system of controls in place.

A total of seven recommendations were made to improve system controls and these were all accepted by management. A particular issue related to current lack of arrangements for investing or paying interest on clients' monies held by the County Council. However, Adult Social Care are now intending to introduce a Clients' Monies Service system that will enable interest to be paid on balances held. The Clients' Monies Service is an electronic banking system which allows accounts to be set up and managed on an individual basis, with clients benefiting directly from interest paid to them on accumulated balances held.

### **Debt Management – Property Debts Follow Up (Adult Social Care)**

The purpose of the Deferred Payment System (DPS) is to provide financial assistance by way of loan funding to individuals residing in care homes (where they own their own property) in order to meet their accommodation costs pending the sale of the property and where the individual is unable to meet the cost of accommodation from any other means. The original 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.

The follow-up audit found that while progress had been made in implementing the recommendations made in the original report, there remain some issues which need to be addressed in order to strengthen the system of control. These include the need to ensure that deferred loan application forms and required documentation is obtained for all deferred loans and the need to inform clients of how long the Council anticipates that the proceeds from the sale of their property will cover the ongoing costs of accommodation.

The follow up review concluded that given the progress made and management's agreement to the new recommendations, the revised audit opinion is one of **partial assurance**. Further follow up activity will be undertaken in the future to ensure continued progress on improving the control environment.

### **Imprest Accounts (Adult Social Care)**

The imprest account system should ensure that only small items of expenditure, normally less than £25, are incurred either by cash or cheque from locally operated bank accounts in accordance with the Council's procedures.

Comprehensive monitoring should also take place covering all petty cash accounts to prevent overdrawn bank balances and provide adequate reconciliation and reporting processes.

From the audit work completed during this review, Internal Audit are able to provide **partial assurance** that a sound system of controls is in place. The main reasons for this opinion are as follows:

- Inadequate departmental monitoring of accounts particularly in relation to challenging the types/nature of payments being made;
- A lack of involvement by management in ensuring that differences in calculated and actual cash figures are resolved in a timely manner;
- Accounts not being fully operated in accordance with ESCC Financial Regulations/Standard Financial Procedures, for example high value payments and staff travel and subsistence payments from petty cash;
- Reimbursements not being processed on a regular basis;
- The existence of dormant and unused accounts which have not been investigated on a timely basis;
- Some accounts being regularly overdrawn.

Despite these weaknesses, Internal Audit recognised that recent improvements had been made and positive action is being taken by Adult Social Care in response to the review findings. This has included an increase the number of staff monitoring and reimbursing imprest accounts and improved monitoring procedures.

All Internal Audit recommendations have been accepted by management and incorporated within a comprehensive management action plan. A follow up review will be conducted during 2009/10 to confirm implementation.

### **Trapeze/SAP Interface (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 procurement process for passenger transport needs.

There are three modules of Trapeze that require a direct link (interface) with SAP and these are:

- Home to School Transport
- Parental Mileage
- Public Transport

To date, Trapeze has successfully “gone live” in respect of Home to School Transport, assurance on which has previously been provided by Internal Audit.

The scope of this latest audit review was to give assurance on the testing of controls and processes for the interface between SAP and Trapeze Financial Module in respect of Parental Mileage.

Overall no significant control weaknesses were identified which Internal Audit believed would prevent the system from going live. A number of recommendations to further improve internal control were made in relation to some aspects of Trapeze systems administration and control and these have been agreed with management.

## **Passenger Transport Executive Review Follow Up (Transport and Environment, Children's Services and Adult Social Care)**

ESCC offers statutory and non-statutory passenger transport services to provide travel support across the County. A 2001 best value review identified key transport services where a revision of current policies and systems would benefit service users, particularly in improvement of business efficiency. To further examine and challenge transport services an Executive Best Value Review board was formed to consider the quality, quantity and flexibility of transport services provided and their sustainability with the resources available. As a result this Board made 14 recommendations (reported to Cabinet on 25<sup>th</sup> September 2007) to help focus and influence the strategic direction of future services.

The purpose of the audit was to evaluate the way in which Council officers had approached and responded to the Board's report. The objective was to then provide independent assurance that the direction being taken by Transport and Environment (T&E), Children's Services (CSD) and Adult Social Care (ASC) effectively implemented the recommendations within a reasonable timescale.

Whilst generally the review found that good progress has been made, with five recommendations fully implemented and six in progress, two recommendations had not been implemented at the time of the audit. These recommendations related to:

- Reviewing transport charging arrangements in relation to ASC clients (deadline of March 2009 confirmed by ASC);
- Assessing the potential for incorporating ASC client transport services into T&E Passenger Transport (deadline of September 2009 confirmed by ASC).

The remaining recommendation relates to the implementation of the Trapeze system, which whilst the majority of the system elements have been implemented, a number of aspects of the integration and reporting capabilities still require further development.

From the audit work completed during this review, Internal Audit provided **Partial Assurance** that there has been a sound approach to implementing and monitoring the recommendations.

As part of the review, Internal Audit took the opportunity to issue an additional eleven new recommendations intended to further improve progress and all of these have been agreed with management from the three departments involved.

### **Hastings/St Leonards Excellence Cluster (Children's Services)**

The Excellence Cluster (ExC) was set up as a successor to the Hastings Education Action Zone to provide additional, targeted, support to schools in the Hastings area.

The ExC is funded mainly by the Department for Children Schools and Families through its Standards Fund and the County Council is designated the accountable body. The ExC has an expenditure budget for the financial year 2008/09 of £1.724m.

The audit aimed to provide assurance that there are effective governance arrangements in place for the ExC. In particular the review focused on the effectiveness of financial management processes ensuring that there are appropriately formalised management structures in place with appropriate delegations and reporting mechanisms to enable effective control of income and expenditure.

From the audit work completed, Internal Audit was able to provide **substantial assurance** that there was a sound system of controls in place. A number of recommendations were made to improve the system of control, all of which have been agreed with management.

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

Internal Audit has continued to carry out external assessments to ensure that schools are meeting the standards laid down by the Department for Children, Schools and Families (DCSF).

During the quarter, external assessments were carried out at 43 primary and 4 special schools as part of the three year programme for all schools to achieve the standard by 31<sup>st</sup> March 2010.

It is pleasing to report that 45 schools were found to comply with the Financial Management Standard. There were 2 schools that failed and these will be reassessed in due course following the implementation of the management action plans agreed with the schools. The schools that achieved the standard will receive accreditation in due course from the DCSF, which will last for three years, when the process will need to be revisited.

65 primary schools are due to submit their self evaluation questionnaires for external assessment during 2008/09 and 54, (83%), had submitted by the end of quarter 3 (31/12/08).

External assessments have now been completed at 118 schools from the total of 192 and it is hoped that the target date of 2010 will be achieved for all schools. Some schools are finding the process challenging and Internal Audit is working with Children's Services Finance to support these schools.

FMSiS awareness training, provided jointly with Children's Services, for Governors and Bursars has continued during the quarter and has been well attended by schools.

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

Internal audit has carried out the 2007/08 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.

### **ICT Investigation – Inappropriate Use (Children's Services)**

An investigation was undertaken by Internal Audit into the suspected inappropriate use of ICT equipment by a member of staff in a County Council school. An examination was carried out of the personal and work-related network drives of the person concerned, along with the local hard-drive, internet usage logs and email logs. No evidence of inappropriate material was found.

## **Cash Handling Investigation (Children's Services)**

During the summer of 2008 Internal Audit conducted an investigation into the suspected theft of cash from a secondary school in the County by a member of the catering staff. Utilising CCTV footage, review of documentary evidence and interviews with all catering staff members, the investigation found sufficient evidence to support the allegation. The member of staff concerned was subsequently dismissed for gross misconduct. Whilst evidence obtained was sufficient for internal disciplinary purposes, this was not considered enough to support a criminal prosecution.

In addition to the investigation report, Internal Audit also produced an internal control report covering cash handling procedures at the school which were found to require strengthening. All recommendations made were accepted by management.

## **Conflict of Interest Investigation (Children's Services)**

Following receipt of a 'whistleblowing' allegation, an extensive investigation was undertaken by Internal Audit, supported by Personnel and Training, relating to the undeclared employment of relatives by a manager within Children's Services Department. The investigation included the examination of a significant amount of documentation and interviews with all members of staff from the team concerned. Evidence of clear conflicts of interest was found along with serious breaches of the County Council's Code of Conduct for Employees and Recruitment Procedures. The manager concerned was subsequently dismissed for gross misconduct following a disciplinary hearing. No evidence of criminal activity was found.

## Appendix B

### 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	23.7%	50.1%	79.3%	
Planned audits completed = final reports issued (%)	90	20.1%	36.3%	60.6%	
Actual v Plan time on completed audits (%)	105	91.8%	103.4%	96.7%	
<b>Effectiveness</b>					
External Audit reliance on internal audit	Achieved	Achieved			
Maintain a CPA score of at least 3 / 4 for internal control.	$\frac{3}{4}$	Results of 2008 Use of Resources Assessment expected in Quarter 4.			
Recommendations accepted (%)	90	95.0%	96.9%	96.6%	
Customer feedback forms scoring 3 out of 5 or higher (%)	80	87.4%	91.1%	89.2%	
Reports to Chief Officers and Members	Quarterly	Quarterly reports issued.			

## Appendix C

### 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	561.0		561.0	124.0	93.1	158.6	375.7	
Computer Audit	165.0		165.0	58.0	95.6	62.2	215.8	
Children's Services	460.0	10.0	470.0	163.4	166.9	194.0	524.4	
Adult Social Care	375.0		375.0	99.1	107.5	132.7	339.3	
Transport & Environment	240.0		240.0	59.7	89.4	44.6	193.7	
Chief Executive's	215.0	-10.0	205.0	34.4	30.2	35.0	99.5	
Contingency <sup>1</sup>	250.0		250.0	-	-	-	-	
Sub total – internal customers	2266.0	0.0	2266.0	538.6	582.7	627.1	1748.4	79.2%
External customers	105.0		105.0	24.0	41.8	20.7	86.56	
Total audit days	2371.0	0.0	2371.0	562.6	624.5	647.8	1835.0	79.3%

<sup>1</sup> Contingency days delivered include completion of audits carried forward from 2007/08 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.