

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

Date: **8 July 2009**

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 2008 to 31 March 2009**

RECOMMENDATIONS: Members are recommended to

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

(2) consider whether there are any significant control issues that should be included in the Council's annual governance statement for 2008/09.

(3) consider whether the Council's system for internal audit has proved effective during 2008/09

1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2008/09 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 2008 to 31 March 2009 in accordance with the Internal Audit Strategy for 2008/09.

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 2003 (as amended). 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;
- SAP Upgrade;
- Governance and Standards of Behaviour.

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 2008/09 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 2003 (as amended) require the Council to carry out an annual review of the effectiveness of its system of internal audit. The information set out in section 5 of Annexe A provides a sound basis for making this assessment.

5.2 In addition, following the Audit Commission/PKF annual assessment of the Council's performance on Use of Resources (UoR) for 2008, the County Council once again received an overall maximum score of 4 out of 4. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also been maintained at the maximum of 4 out of 4 despite increasing expectations. 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 28 July 2009.

SEAN NOLAN

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BACKGROUND DOCUMENTS

Strategic Audit Plan 2008-09

Internal Audit Progress Report Q1

Internal Audit Progress Report Q2

Internal Audit Progress Report Q3

Annexe A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2008/2009**



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 2003 (as amended). 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.

1.5 During 2008/09, following appropriate consultation with staff, a revised structure for the IAS was implemented. The purpose of this restructure was to provide the IAS with an opportunity to improve the service still further whilst ensuring it remains cost effective. Two main changes over the previous structure have taken place. Firstly, the removal of one Audit Manager post and secondly, a change in the role of the Senior Auditors from being departmentally focussed to being more specialism based. These changes were discussed and endorsed by Finance Management Team on behalf of client departments and have been in place since 1st January 2009.

2. Delivery of the Internal Audit Plan

2.1 In accordance with the 2008/09 annual audit plan, approved by the Deputy Chief Executive and 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. In accordance with best practice, the programme of audit activity was reviewed during the year and revised to reflect changes in risk and priority to enable us to provide an adequate level of assurance to the County Council.

2.2 All adjustments to the audit plan were agreed with the relevant departments and the Deputy Chief Executive and Director of Corporate Resources. Following the implementation of the revised team structure with effect from 1st January 2009, the audit plan was reduced in quarter 4 by 58 days to reflect a reduction in one Audit Manager post. Despite this reduction, the IAS delivered 115 days more than this revised plan and 57 days more than originally planned at the beginning of the year. The actual internal audit coverage across departments compared to the 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 2008/09;
- 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 2008/09 were found to be in place and functioning satisfactorily. The majority of systems reports resulted in an opinions of either 'partial assurance' or 'substantial assurance' 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.

Fundamental Accounting Systems

4.2 Each year a significant proportion of internal audit time is spent reviewing the County Council's fundamental accounting systems, with this work being directly relied upon by our external auditors, PKF, for annual accounts purposes. The number of systems falling within this category has increased in recent years following the lowering of the level above which a system is determined as being a 'material financial system'. A total of nine such audits have been completed and reported in during 2008/09, all of which are required to be reviewed in accordance with the International Standard for Auditing:

Review	Opinion¹
Accounts Payable 2007/08	Satisfactory
Accounts Receivable 2007/08	Satisfactory
Aegis/Abacus 2007/08	Satisfactory
Carepay 2007/08	Weak
Treasury Management 2008/09	Full Assurance
Pension Fund Investments 2008/09	Full Assurance
Accounts Payable 2008/09	Substantial Assurance
General Ledger 2008/09	Substantial Assurance
Supporting People 2008/09	Partial Assurance

4.3 The fieldwork for the following reviews was completed at 31st March 2009 with the reports due to be finalised in quarter 1 of 2009/10:

Review	Opinion
HR/Payroll 2008/09	TBC
Accounts Receivable 2008/09	TBC
Pensions Processes and Systems 2008/09*	Substantial Assurance
Abacus Income 2008/09	Partial Assurance
Abacus Expenditure 2008/09	Partial Assurance
Carepay 2008/09	TBC
Trapeze 2008/09*	Partial Assurance

* - These reviews have been finalised at the time of producing this report

¹ 2007/08 reviews used old style audit opinions with new assurance based opinions implemented from 2008/09.

4.4 In addition to the various fundamental accounting systems audits detailed above, internal audit have undertaken a significant amount of work supporting the development of systems and systems modules which went live during the year or are due to go live during 2009/10. The majority of these systems are high risk, have high materiality levels and/or directly interface to SAP. The development work undertaken during the year has included the Galaxy to SAP Interface, Trapeze Development and SAP Interface, SIMS Learning Gateway, CareFirst 6 Development, N3 Connectivity Project, E-Recruitment Project and the ROCS CoSY Programme. In all these cases, internal audit worked closely with management to provide advice, support and assurance as the initiatives progressed and in a number of cases, the new systems will form part of future fundamental accounting system audit work.

Audits with 'Weak' or 'Minimal/No Assurance' Assurance Opinions

4.5 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and FMSiS external assessments. Of the 37 reviews completed in 2008/09 with standard audit opinions, the following were given audit opinions of weak or, under our new style opinions, where no assurance or only minimal assurance could be provided over internal controls:

- SAP Transports (Weak) – this review assessed controls around the implementation of changes into the different SAP environments through the agreed 'transport' process. The review identified weaknesses associated with testing arrangements, sequencing of transports and the roles and responsibilities of the County Council and Serco. In response to the publication of the original report, immediate action was taken by management to address a number of the weaknesses identified and progress has been reported by management to the Audit and Best Value Scrutiny Committee during the year. This has now been subject to a follow up review by internal audit and it is pleasing to report that a revised audit opinion of 'substantial assurance' has recently been issued;
- Use of Consultants (Weak) – this review was undertaken to examine the adequacy of arrangements for the appointment and management of external consultants across all County Council departments. A weak opinion was given due to weaknesses being identified in relation to a lack of accurate information over levels of consultancy expenditure and limited awareness of the Council's Consultancy Code by managers. This had resulted in a subsequent failure by management to adhere to the requirements of the Code, particularly in relation to tax compliance, indemnity and liability insurance and adequacy of contract documentation. The management action plan arising from the review has been agreed with the Assistant Director – Resources from each department and will be subject to a follow up review during 2009/10;

- Home to School Transport Budgetary Control (Weak) – Both Transport and Environment (T&E) and Children’s Services have a joint responsibility for home to school transport, with the procurement element administered within T&E and eligibility and overall financial management the responsibility of Children’s Services. The review identified weaknesses in relation to the budget setting process, completeness and accuracy of budgetary information and the absence of a signed Service Level Agreement between the two departments. A joint action plan was agreed with both departments incorporating the internal audit recommendations and this will be subject to a follow up review during 2009/10.
- Carepay (Weak) – Carepay is the system used for the payment of Foster Carers and processes expenditure in excess of £6 million per annum. A weak audit opinion was given as a result of inadequate systems administration and user access controls, including segregation of duties. As a result of these weaknesses, internal audit conducted additional testing of transactions for completeness and accuracy which revealed no evidence of erroneous payments, unauthorised payments of any other inappropriate activity. It is understood that immediate action was to be taken by Children’s Services and ICT Services to address the audit recommendations, with the internal audit follow up work due to be reported in quarter 1 of 2009/10.

4.6 In addition, and as explained above, of the 96 FMSiS external assessments completed in the year, 7 schools failed to meet the Standard. These will all be reassessed during the course of 2009/10.

SAP Upgrade

4.7 During the year, audit advice, support and assurance was provided in relation to the project to upgrade SAP, which successfully took place in October 2008 following extensive testing by management and internal audit. Internal audit were actively involved in this project from the outset, which included providing assurance to management that the control environment in the upgraded system would be at least as sound as its predecessor.

4.8 A series of internal audit control reports were issued throughout the project providing assurance and setting out any recommendations to further improve the general control environment.

Adult Social Care Business Transformation Programme (ASC BTP)

4.9 Building on the extensive amount of activity supporting this programme in 2007/08, internal audit work during the past year has included providing assurance relating to the development and testing of new system modules and associated interfaces to SAP, Aegis system closedown and tracking the implementation of earlier audit recommendations on the programme. The programme has now been closed by Adult Social Care with any remaining developments being picked up through mainstream service provision.

Financial Management Standard in Schools (FMSiS)

4.10 Internal audit has continued to undertake external assessments to ensure that County Council schools are meeting the standards laid down by the Department for Children, Schools and Families (DCFS).

4.11 During the year a total of 93 primary and special school external assessments have been completed, along with 1 secondary school, of which 89 schools were found to comply with the Financial Management Standard and will receive accreditation in due course from the DCSF.

4.12 The remaining 5 schools that failed to meet the standard in the year will be reassessed in due course following the implementation of the management action plans agreed with those schools.

4.13 As at the 31st March 2009, a total of 98 primary and 25 secondary schools across the county have successfully achieved the standard. The remaining 69 schools will be externally assessed by internal audit during 2009/10, along with a re-assessment of a number of secondary schools as part of the cyclical approach required by the DCFS.

Agewell

4.14 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.

4.15 Internal Audit carried out an exercise to identify the nature and level of detailed assurance required to enable the Deputy Director of Corporate Resources to complete a Due Diligence statement before the signing of the PFI contract. Work will continue in 2009/10 to ensure that the sources of evidence needed to provide the required assurance are both available and adequate.

Governance and Standards of Behaviour

4.16 During 2008/09, two separate and extensive investigations into potential conflicts of interest were undertaken by internal audit. Both investigations related to LMG managers within Children's Services Department and both arose following receipt of allegations under the County Council's Confidential Reporting Policy.

4.17 In the both instances, the managers concerned had been actively involved in the engagement of close relatives (as employees or contractors), had allowed clear conflicts of interest to materialise, had failed to make their line managers aware of the relationships or to formally declare them in accordance with the Code of Conduct for Employees. In one of the cases, a contract had also been let to the relative in breach of County Council Contract Standing Orders.

4.18 The two separate investigations were completed in conjunction with Children's Services Senior Management and Personnel and Training with both the individuals concerned subject to formal disciplinary action and dismissed for gross misconduct.

4.19 The circumstances contributing to these cases have been discussed with Children's Services Management and formally reported on where appropriate. In particular, it is concerning to note neither individual, despite being in a senior position and managing a team of staff, appeared to be fully aware of, or properly understand, the requirements of the County Council's Code of Conduct for Employees.

4.20 In response to the issues raised, Children's Services Department have taken action to improve awareness via Divisional meetings with Heads of Service and Senior Managers for subsequent cascading to all staff. Completion by staff of the Standards of Behaviour E-Learning Package is also being closely monitored by Senior Management Team.

4.21 Whilst these are only two cases within a large organisation, they emphasise the importance of the Council, and individual departments, continuing to build on its existing work to raise awareness of key governance policies, especially the Code of Conduct for Employees.

Anti Fraud and Corruption

4.22 During 2008/09, internal audit has undertaken a range of investigation and anti fraud and corruption activity, some of which has resulted from an assessment of the County Council's arrangements against national best practice guidance from CIPFA. Details of this work have been summarised below:

- Investigations - a total of 15 investigations have been undertaken, accounting for 139 days of internal audit resource. Where appropriate, the conclusion of investigations has also resulted in the production of an internal control report for management highlighting any control weaknesses identified during the investigations along with recommendations for improvement;
- National Fraud Initiative (NFI) – In October 2008, internal audit submitted data to the Audit Commission as part of the NFI 2008 national data matching exercise. This involved a significant amount of work, not only in co-ordinating the production and submission of an increased number of data sets, but also in ensuring that appropriate Fair Processing Notices were in place to inform all individuals that their data was being used in accordance with the Data Protection Act. In January 2009, the results from the data matching were received and internal audit are working with the relevant data owners to co-ordinate the subsequent investigations. These will be reported on during 2009/10;
- Awareness – internal audit has worked closely with Legal Services and Corporate Communications to raise awareness amongst staff of the County Council's Confidential Reporting ('Whistleblowing') Policy. A new leaflet entitled 'Don't Turn a Blind Eye – Tackling Fraud, Corruption and Other Wrongdoing' has been distributed to all non-school staff with the October 2008 payslips and is supported by new guidance for managers on how to respond when receiving such reports. A similar leaflet focussed on school based staff is due to be issued with payslips early in 2009/10.

5. Internal Audit Performance

5.1 The Accounts and Audit Regulations 2003 (as amended) require the Council to carry out an annual review of the effectiveness of its system of internal audit and the following paragraphs provide a sound basis for carrying out such an assessment.

5.2 Each year, internal audit update a self assessment against the Code of Practice for Internal Audit in Local Government in the UK to assess compliance with it. Overall the service continues to maintain a high level of compliance with further improvements achieved each year. Any actions identified through these assessments are incorporated within the IAS Business Plan with implementation monitored and reported on a quarterly basis.

5.3 Performance against agreed targets is set out in Appendix B. In total the IAS has delivered 2,428 direct days or 102.4% of the total audit plan. This represents a continued improvement and is once again the highest proportion of planned days delivered in a number of years. Actual vs. planned time on completed jobs (excluding FMSiS) once again exceeds target. Whilst the number of completed audits is 7.1% below our 90% target, this represents 34 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 2009/10. At the time of issuing this annual report, a total of 22 of these work in progress reviews had been finalised.

5.4 Performance against effectiveness targets remains positive and reflects both the quality of work completed and its focus on key areas of risk. Customer satisfaction survey scores continue to exceed target and we now issue an annual survey to all Chief Officers to gauge their view on the overall quality of IAS. The results from most recent survey in 2009 were once again very positive and also enabled us to identify some simple actions to help us improve the service further.

5.5 Internal audit continues to work closely with the Council's appointed external auditors, PKF, who reviewed our work on material financial systems as part of the audit of the 2007/08 accounts and have confirmed in their Annual Governance Report that they were 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.

5.6 Finally, following the Audit Commission/PKF annual assessment of the Council's performance on Use of Resources (UoR) for 2008, the County Council once again received an overall maximum score of 4 out of 4. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also been maintained at the maximum of 4 out of 4 despite increasing expectations. 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.

5.7 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 2008/09:

Service	2007/08 Actual Days	2008/09 Original Plan Days	2008/09 Revised Plan Days	2008/09 Actual Days	2008/09 % Plan Days Delivered
<u>ESCC:</u>					
<i>Corporate Body</i>	539.3	561.0	566.3	571.2	
<i>Computer Audit</i>	208.5	165.0	249.0	255.3	
<i>Children's Services</i>	427.3	470.0	564.1	669.2	
<i>Adult Social Care</i>	419.6	375.0	409.4	408.3	
<i>Transport & Environment</i>	233.5	240.0	249.0	247.0	
<i>Chief Executives</i>	180.4	205.0	168.8	162.4	
<i>Contingency²</i>	-	250.0	0.4	-	
<i>Discretionary and corporate projects</i>	-	-	-	-	
<i>Sub total – ESCC</i>	2008.6	2266.0	2206.9	2313.4	102.9%
<i>External contracts³</i>	105.1	105.0	106.5	114.5	109.1%
Total audit days	2,113.7	2,371.0	2,313.4	2,427.9	102.4%

² 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.

³ The actual days delivered on external contracts includes additional contracted days delivered during the year (brought forward from 2007/08) 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 08/09</i>	<i>Actual 07/08</i>
<i>Economy and efficiency</i>			
<i>Planned days delivered (%)</i>	90	102.4%	101.3%
<i>Planned audits completed = final reports issued (%)</i>	90	82.9%	86.1% ⁴
<i>Actual v Plan time on completed audits (%)</i>	105	101.9% ⁵	102% ⁶

<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</i>	<i>4/4 Achieved</i>
<i>Recommendations accepted (%)</i>	90	96.3%	96.5%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	80	88.1%	85.5%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 08/09</i>	<i>Reports issued for every quarter during 07/08.</i>

⁴ Excludes FMSiS assessments

⁵ Excludes FMSiS assessments

⁶ Excludes FMSiS assessments

Annexe B

Summary of major findings during quarter 4 (reports issued 1 January – 31 March 2009)

Capital Project Management (Corporate Resources Directorate)

The objectives of this review were to ensure the following:

- The Capital Programme is monitored, controlled and reported effectively through regular management accounting processes;
- Each individual project should actually represent the most appropriate effective and best-value solution to the issue it seeks to resolve;
- Each individual project has a clearly defined management and governance structure, with roles and responsibilities specified;
- Individual capital projects are monitored, controlled and reported in a timely and effective manner, in terms of cost, timescales, quality and outcome. Potential variations in delivery of the individual projects on time and on budget are identified through the project management process, and reported to stakeholders in good time;
- All potential variations in delivery of the individual projects are fed back into the overall capital monitoring and reporting process, and the Departmental and Corporate risk management processes adequately, accurately and in good time.

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

Recommendations have been to improve the existing control environment, including the need for:-

- Operational instructions to be issued to client departments to help increase the quality of commission orders being issued to the Capital Projects Team;
- Increased levels of monitoring to be introduced at the front-end of the process, in order to reduce the time it takes clients to formally inform the Capital Projects Team to proceed with the management of projects;
- Increased project officer involvement in the overall financial monitoring;
- The reconciliation of consultant and project manager cost reports to SAP;
- Introducing post project reviews for ICT Capital Projects;
- Ensuring that the requirements of the Project Management Toolkit and those of the external funding protocol are adhered to when bids are made for external funding for capital projects.

A comprehensive management action plan has been agreed with management incorporating all of the report recommendations.

Pension Fund Governance and Strategy (Corporate Resources Directorate)

This review was undertaken in accordance with the annual Internal Audit plan for 2008/09 and the Pension Fund Audit Strategy.

The objectives of the review were to ensure the following;

- The investment strategy is appropriate and is followed by the Pension Fund;
- Decisions are implemented correctly, and in a timely manner;
- Performance of external advisers is managed;
- Fund assets are sufficient to meet the Fund's obligations and liabilities;
- Statutory reports and stakeholder reports are appropriate;
- The Fund is run in compliance with all statutory regulations; and
- Those charged with governance of the Fund and the scheme can fulfil their responsibilities effectively.

In the majority of cases, sources of assurance have been obtained and reviewed, although there remains a need to obtain governance reports from most fund managers. A formal routine to obtain and review the reports from the private equity organisations' numerous individual funds has not yet been fully established.

From the audit work completed during this review, we are able to provide **Substantial Assurance** that there is a sound system of controls in place.

Last year's review resulted in two recommendations and these have been implemented. Two new recommendations have been made this year concerning the process for recording declarations of interest, and these have been incorporated within an agreed management action plan.

National Fraud Initiative (Corporate Resources Directorate)

Internal Audit continues to support and co-ordinate the Council's response to the Audit Commission's National Fraud Initiative 2008/09. During the final quarter, our work has focussed on co-ordinating management's response to the data matches found in the exercise, together with the investigation of any concerns arising. This process is continuing during 2009/10 with Audit Commission monitoring progress on a regular basis.

AXIS Employee System (Corporate Resources Directorate)

An audit review commenced in support of the implementation of a system whereby pension scheme members would be able to access their records online. The objectives of the review were to ensure that the solution was implemented in accordance with the specification, that it was secured against unauthorised access and that, once deployed, it operated in accordance with expectations.

Advice and assurance was provided to the Project Management Team, around the information security arrangements. However, management decided not to proceed with the initiative on the grounds of cost, and the review was closed. Details of the advice and assurance given will be retained, for use should the project resume at a later date.

Review of Information Security (Corporate Resources Directorate)

Internal Audit continued to offer advice, guidance and support to this review, which resulted in the approval of a Data in Transit Policy for the Council on 31st March 2009. The Policy covers the controls surrounding the secure transmission of data within and outside the Council. The main risk areas are associated with confidential and sensitive personal data being accessible to unauthorised parties. Internal audit will continue to undertake assurance activity in this area during 2009/10 as part of planned work on Information Governance and Security Arrangements.

Corporate Review of Partnership Arrangements (Chief Executive's)

During the final quarter of 2008/09, internal audit undertook an exercise to identify, in conjunction with departments, all significant/high risk partnerships across the Authority, with a particular emphasis on those which underpin the Council Plan and Local Area Agreement delivery. All departments have been asked to submit pro-formas detailing their major partnerships, supported by a simple risk assessment. The result of this work will now be used to inform a more detailed review during 2009/10 involving identifying and assessing the adequacy of assurance and governance arrangements for the highest risk partnerships, including the application of corporate guidance on partnerships.

E-Recruitment (Chief Executive's)

Internal Audit has provided advice at the procurement stage, on the ICT controls associated with the implementation of the E Recruitment system, including systems security, access controls, interfaces, backup and recovery. Work will continue in the current year, once the solution has been introduced.

Financial Assessments (Adult Social Care)

The overall objective of this review was to assess the effectiveness of systems and controls that ensure that all clients eligible to receive services for which a charge is payable were identified, the amount payable was correctly calculated based on the clients ability to pay and the outcome of client financial assessments were recorded accurately to enable the assessed sums due to be recovered.

While the assessment system is generally well controlled, there was a need to ensure that all assessments were up to date and carried out on a timely basis. Other key findings related to increasing the use of reporting capabilities within Abacus and improving the accuracy of financial assessment correspondence with clients.

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

A number of recommendations were made to improve controls and with one exception where compensating controls exist, all were agreed by management.

Online Self-Assessment (Adult Social Care)

Internal Audit carried out a review of the ICT controls associated with the implementation of Online Self-assessment within Adult Social Care, in accordance with the annual Internal Audit plan for 2008/09. The review incorporated systems security, access controls, system availability and back-up arrangements.

From the audit work completed during this review, Internal Audit is able to provide **full assurance** that there is a sound system of controls in place, that compliance with controls is good, and that all major risks have been identified and are being managed effectively.

Business Transformation Programme (Adult Social Care)

Internal Audit continued to provide support to the Business Transformation Programme, providing advice on internal control, risk and ICT issues.

During quarter 4, Internal Audit work focussed on providing assurance and advice with respect of the continued development and testing of system modules prior to go-live in relation to:

- A revised Abacus/SAP interface relating to the billing of clients for Residential and Domiciliary Care. Following a review of the testing carried out, there were no issues identified that prevented the interface from going live;
- Mobile Financial Assessments (Atlas IT system) – the system for collecting and recording client data locally and transferring it into the main assessment module of Abacus.
- Interactive Resource Monitoring system – this module will provide management access to reports in respect of financial and personnel data.

Audit support will continue to be provided in 2009/10, including ongoing work in relation to Mobile Financial Assessments and the Interactive Resource Monitoring system, until the project reaches its conclusion.

Joint Commissioning Arrangements (Adult Social Care)

Adult Social Care is developing a Joint Commissioning Protocol to be applied in areas where they are working in partnership with external agencies or other organisations.

The main purpose of the audit was to review the existing arrangements in place covering the Joint Commissioning Strategy for Older People, in order to evaluate its effectiveness and to identify examples of best practise in order to assist with the production of the Joint Commissioning Protocol.

The audit included:

- Ensuring that adequate governance arrangements were in place including risk management, accountability responsibilities and delegation arrangements;
- Reviewing the financial management arrangements;
- Ensuring that statutory requirements were complied with and the Council's service aims and main strategic objectives and developments were adequately supported.

From the audit work completed during this review Internal Audit was able to provide **partial assurance** that there is a sound system of controls in place.

Whilst the review found that in general effective governance structures were in place to co-ordinate the delivery of the Joint Commissioning Strategy, the roles of partners have not been clearly defined and no signed partnership agreement between the County Council and all partners was found to be in place. In addition, in order to improve budgeting and financial accountability, the financial contributions made to the delivery of older peoples' services need to be more clearly linked to the objectives of the Strategy.

All of the recommendations arising from the review have been agreed with management and incorporated within a management action plan. This has included identification of additional areas for inclusion in the Joint Commissioning Protocol.

Supporting People (SPOCC) (Adult Social Care)

Through the Supporting People initiative, the County 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 2008/09, the total funding available was £12.3m.

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 approved benefits.

As a result of this review an audit opinion of **partial assurance** has been given, with the main areas for improvement relating to controlling access to the system and strengthening the way in which changes to the system are made.

Of the fourteen recommendations made in the review, all were agreed with management and incorporated within an action plan. Progress on implementing the recommendations will be followed up as part of a repeat review during 2009/10.

Putting People First (PPF) (Adult Social Care)

The PPF project framework continues to be developed and implemented by Adult Social Care. 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.

During the quarter, Internal Audit carried out an exercise to identify the key risk areas of the project from an audit perspective. The results were agreed with management and will provide the key focus areas for future audit assurance work including:

- Personal budgets;
- Resource Allocation System;
- Project governance (including risk management);
- Development of new systems and processes.

Integrated Waste Management Services Contract (IWMSC) – Project Governance (Transport and Environment)

The disposal of municipal waste within East Sussex and Brighton and Hove is managed through the Integrated Waste Management Services Contract (IWMSC). Veolia Environmental South Downs Ltd (VES) is the chosen contractor to provide these services to both East Sussex County Council (ESCC) and Brighton & Hove City Council (B&HCC) as part of a joint £1.3 billion contract.

This audit was carried out by members of both the internal audit sections of Brighton and Hove City Council and East Sussex County Council and reviewed the effectiveness of governance arrangements, in particular the role of decision making and performance monitoring.

From the audit work completed during this review, **partial assurance** was given that there is a sound system of controls in place. Whilst the review found that a governance framework for the IWMSC is in place that is based on a formal Joint Working Agreement/Constitution and includes a Joint Waste Committee (JWC) and a Joint Waste Board (JWB), supported by a number of Working Groups, this could be improved further by:

- Reviewing the need for the JWC, as this committee had not met since 2006. The decision making role of Members has instead been fulfilled by both Council's Cabinet Committees (formerly Policy and Resources at B&HCC);
- Introducing an annual review process for the Constitution to ensure that it reflects current requirements;
- Ensuring that the minutes of the JWB and the Working Groups reflect the agreed action points and their subsequent monitoring;
- Ensuring that the Contract Team structure is appropriate and reflects an adequate segregation of duties and manageable workloads;
- Having an effective project monitoring mechanism to monitor the progress made by the Contractor against key milestones;
- Having a robust risk management process in place.

All of the recommendations made were accepted by management and included in a formal action plan. It is understood that many of the recommendations had been immediately acted upon by management and this will be followed up as part of future audit work on the IWMSC.

Review of the Integrated Waste Management Services Contract (IWMSC) - Contractors Finance Model (Transport and Environment)

The IWMSC Contractor, Veolia ES South Downs Ltd., has designed a revised financial model to calculate its Internal Rate of Return (IRR). Before acceptance of any third party model, both East Sussex County Council (ESCC) and Brighton and Hove City Council (B&HCC) must be satisfied with its accuracy, robustness, flexibility and reliability.

Waste Management Finance Officers within ESCC and B&HCC (plus ESCC Internal Audit) have undertaken a review of the proposed model to ensure that it functions effectively and calculates a fair and reasonable rate of return for the Contractor.

Following an initial review Veolia has been asked to re-submit its proposals for a new model. The reasons for this are:

- While the structure of the proposed new model was basically sound, there were too many proposed changes from the existing model and this had not allowed an easy comparison against the original model to be made. The proposed new model had become too complicated with the risk of error or incorrect calculation of the IRR, if this version was accepted in its current state.
- There were also a number of errors found by Waste Management Finance Officers which did impact on the calculation of the IRR. These were referred back to Contractor by Waste Management Finance Officers to be corrected.

On receipt of a second version of the new model, further work will be undertaken by Waste Finance Management Officers supported by Internal Audit in order to ensure that the agreed adjustments have been made. This is due to take place during 2009/10.

Bexhill/Hastings Link Road – Project Governance (Transport and Environment)

The Link Road is a highway scheme to support the regeneration of the Bexhill and Hastings area. The estimated costs of the scheme are around £100m with approximately 80% of the cost being funded by the Department for Transport.

The objective of the audit was to review the effectiveness of the project management and governance arrangements and from the audit work completed, **partial assurance** was given that there is a sound system of controls in place.

Whilst generally the project governance arrangements were found to be adequate and effective, some scope for further improvements was identified in relation to risk management methodologies, improved communication arrangements and progress monitoring. A number of recommendations have been agreed with management intended to improve governance arrangements and these have been incorporated within a comprehensive management action plan. This will be subject to a follow up review as part of our planned work for 2009/10.

Children's Centres Budgetary Control and Performance Management – Follow Up Review (Children's Services)

Internal audit undertook a review of the Children's Centres budget management and the monitoring and managing of performance during 2007/08. Due to a number of control weaknesses highlighted and the weak opinion given, a follow-up review was undertaken to assess the implementation of the original recommendations contained within the management action plan.

This follow up established that all but one of the original recommendations had been implemented by management, resulting in **substantial assurance** being given that an effective control environment is now in place. In addition to the one remaining recommendation outstanding, internal audit took to opportunity to make a number of additional recommendations to further enhance controls, all of which were 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 14 primary schools as part of the three year programme for all schools to achieve the standard by 31st March 2010.

A total of 10 schools were found to comply with the Standard, with 2 conditional passes, where a small number of recommendations need to be implemented promptly for the schools to meet the standard, and 2 schools failing the assessment. Both of the schools concerned will be reassessed in due course following the implementation of the agreed management action plans. Schools that have 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.

External assessments have now been completed at 132 schools from a total of 192 across the County, with 123 schools having now achieved the standard. It is hoped that the target date of 2010 will be achieved for all schools. Although some schools are finding the process challenging, Internal Audit are continuing to work 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 generally well attended.

Schools Applications Support – Internal Control Report (Children's Services)

During 2008/09, internal audit conducted an investigation into a conflict of interest allegation within the Schools Application Support Team. This investigation resulted in disciplinary action being taken against the manager of the team who was subsequently dismissed for gross misconduct.

Following completion of the investigation, an internal control report was produced for Children's Services highlighting the management and internal control weaknesses which, in the opinion of internal audit, were contributing factors to a number of the investigation findings. The main issues arising from the review included:

- A lack of understanding and appreciation amongst staff of the Code of Conduct for Employees or potential conflict of interest issues;
- Improving the way in which managers respond to potential conflict of interest issues;
- A lack of effective control over the management and recording of attendance, including sickness absence.

A number of recommendations have been made within the report, all of which have been agreed with Children's Services management.

Frauds Involving Schools' Bank Accounts (Children's Services)

During 2008/09, a number of incidents were once again identified where fraudulent payments had been made against school bank accounts. Internal audit have worked closely with the individual schools, the bank, the Police and Children's Services Finance to ensure any losses are recovered from the bank, that appropriate warnings are sent to all other schools and to ensure that appropriate internal controls remain in place.

Two particular types of fraudulent activity have been identified, involving the replication of cheques and the creation of bogus standing orders. There have been nine schools across the County affected by these activities during the year and in all cases the attempted frauds have been identified through the vigilance of school staff and/or staff at the bank.

The bank has accepted liability for losses incurred by schools and is liaising with the Police in their attempts to identify the fraudsters. A fraud alert has been issued to all schools during 2008/09 regarding controls over standing orders and a further alert is due to be issued early in 2009/10 in relation to cheque frauds.

Conflict of Interests – Investigation (Children's Services)

Internal audit undertook an investigation into an alleged conflict of interest at a County Council school in relation to a contract for building design services. Whilst no evidence of impropriety was found, weaknesses were identified in the system for making declarations and in the way in which positive declarations were handled at the school. A number of recommendations for improvement have been agreed with the school and further more detailed internal audit activity associated with the handling conflicts of interest in schools is due to take place as part of the 2009/10 Internal Audit Plan.