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| Report to: | **Audit and Best Value Scrutiny Committee** |
| Date: | **2 September 2009** |
| By: | **Deputy Chief Executive and Director of Corporate Resources** |
| Title of report: | **Internal Audit Progress Report – Quarter 1 (1 April 2009 – 30 June 2009)** |
| 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 1** |

**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 1**

**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 2009-10.  This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (8 July 2009) and Cabinet (28 July 2009).  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 April 2009 and 30 June 2009.

**3.      Summary and Key Audit Findings**

3.1     Key audit findings from final reports issued during Quarter 1 are summarised in Appendix A.

3.2     Overall, of the 28 formal audits completed, 1 resulted in a 'full assurance' audit opinion, 6 with 'substantial assurance' and 9 with 'partial assurance'.  The remaining 12 formal audits were schools, all of which successfully passed their Financial Management Standard in Schools assessment.

3.3     It is pleasing to report that no reviews completed in the quarter resulted in 'minimal' or 'no assurance' audit opinions.  In all instances where high risk (3 star) recommendations have been issued, implementation by management is monitored by Internal Audit through an action tracking process.  In addition to this, formal follow up reviews will be undertaken in relation to all fundamental accounting systems along with a number of the audits where a 'partial assurance' audit opinion has been given.  Chief Officers attention is particularly drawn to our work on:

- Fundamental Accounting Systems – as part of the annual programme of fundamental accounting system reviews, Internal Audit completed a total of seven such reviews during the quarter. These audits of Accounts Receivable, HR/Payroll, Pension Fund Processes and Systems, Pension Fund External Control Assurance, Abacus Income, Abacus Expenditure and

Trapeze, are significant pieces of work for the team, all of which is directly relied upon by the County Council's external auditors, PKF. The review of the Carepay system has been completed to draft report stage and we are awaiting the client response. This will therefore be reported on during in quarter 2.

- Annual Reports and Opinions – these were produced and presented during the quarter for the County Council as a whole and individually for each department. In each case the opinion was satisfactory. The Internal Audit Service also contributed to the preparation of the Council's Annual Governance Statement for 2008/09.

## 4    Performance against targets

4.1    During quarter 1 of 2009/10 we delivered 556.8 productive audit days, equating to 25.5% of the plan days. We have completed 29% of our planned audit assignments which have been delivered in 93.5% of the budgeted time available, well within our target. Performance against both of our effectiveness targets is strong with 99.5% of recommendations being accepted and customer satisfaction running at 87.9%. Both Cabinet and Audit and Best Value Scrutiny Committee, as part of their approval of the Annual Report and Opinion concluded that the Council's system of internal audit was effective.

## 5.    Priorities for Quarter 2

5.1    Priorities for the period 1 July 2009 – 30 September 2009 include:

- Putting People First – continuing our work supporting this major initiative, in particular to beginning reviewing new systems and processes being developed by Adult Social Care;
- Financial Management Standards in Schools (FMSiS) – continuing the programme of primary school assessments and preparing to begin the re-assessment of a number of secondary schools across the County;

SEAN NOLAN,
Deputy Chief Executive and Director of Corporate Resources

Contact Officers:      Duncan Savage              Tel No. 01273 482330
                       Russell Banks          Tel No. 01273 481447

BACKGROUND DOCUMENTS
Internal Audit Strategy and Annual Plan 2009-10

**Appendix A**

**Summary of key audit findings**

**Accounts Receivable (AR) (Corporate)**

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

- All chargeable services provided and goods despatched are identified and billed at the correct amounts;
- All income due is invoiced and correctly recorded;
- Credit control and debt recovery processes are adequate;
- Credit notes and refunds are valid and are properly authorised;
- Write off of uncollectible debt is properly authorised;
- There is adequate segregation of duties in the invoicing and receipting functions;
- Transactions posted from feeder systems are complete and accurate.

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

The AR System continues to be well-controlled. Monitoring of the system was carried out effectively throughout 2008/09, and this is particularly worthy of mention considering the significant time and effort devoted to SAP upgrade. Departmental staff are generally complying with AR policy and procedure and the findings of the audit and interviews with staff show a clear understanding of policy requirements. Key changes to the SAP system affecting AR processing (i.e. SAP upgrade and the rate of VAT) were implemented without the need to alter established procedures.

However some minor weaknesses were found in areas of accuracy of material code lists and some delays in debt collection.

Recommendations have been agreed with management and incorporated within a formal action plan.

**Human Resources (HR)/Payroll (Corporate)**

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

- All employees on the payroll are valid and are employed by the Council; Payroll costs are calculated correctly and in accordance with approved pay rates and staff contracts;
- Payments are made only for hours worked or allowable expenses;
- Payments to staff and other collecting bodies are correct;
- All deductions are calculated properly;
- All overpayments are identified and recovered, and underpayments are made good;
- All upgrades to standing data are made correctly and in good time (rates of pay/tax/NI etc);
- Appropriate cover is in place in the event of key staff absence;
- Transfers posted from feeder systems are complete and accurate;

- Termination payments are transparent and meet the requirements of Her Majesty's Revenue and Customs (HMRC).

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.

Whilst the review found that, generally, an effective system of internal control exists, testing revealed a number of examples where established procedures were not being complied with within departments. These included a number of instances where appropriate authorisation had not been correctly obtained for variations to pay and amendments, and where the policy on honoraria and merit payments had not been followed. In addition, one recommendation from the previous audit report, relating to a weakness in segregation of duties, was still outstanding due to the SAP change freeze in 2008.

A range of recommendations have been agreed with management and incorporated within a comprehensive management action plan. These will be followed up in Qtr 4 as part of the 2009/10 HR/Payroll audit.

**Pension Fund Processes and Systems (Corporate Resources Directorate)**

This review (which is part of the programme of Fundamental Accounting System reviews) 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 review the key controls in relation to the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (incl. contributions from other admitted bodies). In addition, a complementary piece of work has been incorporated to ensure that expected ICT controls are in place.

From the audit work, completed during this review, we are able to provide **partial assurance** that there is a sound system of controls in place. The need for improvements in internal control was identified in the following areas:

- Periodic issuing of Life Certificates to pensioners as recommended in the previous year's audit. It is understood that work is now underway on this;
- The need to improve segregation of duties controls over pension system access;
- Improving the reconciliation of Annual Returns from Admitted Bodies and ensuring that receipt of these returns is effectively monitored;
- Introducing effective management over the implementation of operating system patches;
- Testing of SAP interfaces where system changes are made and the storage of SAP interface files.

Recommendations have been made to address all of these weaknesses and these have been incorporated within an agreed management action plan which will be followed up as part of the 2009/10 review.

**Pension Fund External Control Assurance (Corporate Resources Directorate)**

This review (which is part of the programme of Fundamental Accounting System reviews) 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 that:

- The Council has identified and received all sources of external control assurance for the pension fund and such information is reviewed formally;
- The various sources of information regarding fund manager and custodian internal control provide the Council with adequate assurance and that, where this is not the case, appropriate action is taken.

The review found that the key sources of assurance available have been obtained and reviewed, although there remains a need to obtain corporate governance reports from most fund managers. Whilst useful, these governance reports are not the prime source of assurance and therefore the delay in their receipt is not considered a significant risk. External sources of assurance in relation to the smaller private equity organisations are more limited, however, this is improving and these organisations only represent a small proportion of the overall fund.

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

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

**ICT Business Continuity Follow Up (Corporate Resources Directorate)**

In accordance with the Internal Audit plan for 2008/09, Internal Audit reviewed the adequacy of the Business Continuity and Disaster Recovery (DR) arrangements from an ICT perspective.

Internal Audit's activities included:

- Evaluation of the Technical Recovery Plans (TRPs);
- Identification of issues arising from the "test" recovery of the systems;
- Review of the User Testing performed on the recovered applications.

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

The main areas for further improvement included:

- The need to ensure appropriate disaster recovery licences are in place for the Remedy and CareStore systems, without which these applications could not be properly recovered and tested;
- Ensuring that the Local Incident Logging Application data are properly backed up to the correct file format. Where this is not addressed there is a risk that recovered data would not be up to date;
- Improving the timescale within which users can log into the DR desktop machines in order to ensure prompt action in the event of a disaster;

- Increasing the disc capacity of the recovery servers to accommodate all recovered applications and associated data.  This is important in order to ensure that is sufficient space to accommodate not only the applications and associated data, but also the recovery process itself.

A formal action plan incorporating all of the internal audit recommendations has been agreed with management to resolve these issues.

**Review of ESCC Network Security (Corporate Resources Directorate)**

As part of the Internal Audit Plan for 2008/09, Internal Audit conducted a review of the adequacy of technical and physical security controls and procedures to protect the ESCC network from internal and external attack.

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. The main weaknesses identified during the review are:

- The network had not yet been subject to internal network penetration testing which may result in vulnerabilities to internal attack going undetected;
- Intrusion detection and network monitoring has not yet been introduced to any significant extent;
- An Incident Response strategy is not yet in place;
- The passwords of network devices are not in compliance with the corporate standard;
- Password resetting processes require strengthening;
- Although an insurance cover requirement, risk assessments had not always been carried out on ICT equipment and some network equipment had not been included in the council's overall ICT insurance cover;
- A lack of formal agreements being in place with all partner organisations covering access rights to ESCC's network equipment for support purposes.

Some of the above weaknesses, if exploited by a determined and knowledgeable hacker, could lead to a serious breach of security with the potential to impact on County Council service delivery, as well as financial and reputational damage.

A number of recommendations to address the above weaknesses have been agreed with management and incorporated within a formal action plan.  This will be subject to a formal follow up review either later in the year or during 2010/11.

**Follow Up Review of the SAP Transport Process (Corporate Resources Directorate)**

Internal Audit carried out a review of the SAP Transport process and published a final report in May 2008, with an audit opinion of 'weak'.  Since then, the SAP Upgrade Programme has been completed and a new SAP Transport process was introduced in December 2008.

It is pleasing to note that considerable improvements have been introduced since the original review and Internal Audit is now able to provide **substantial assurance** that there is a sound system of controls in place.

Some areas where identified where their remains an opportunity for further improvement and these include:

- Ensuring that evidence of testing is always retained and forwarded to ICT Corporate Systems Team, along with all relevant e-mail correspondence;
- Ensuring that procedure documents are up to date and accurate;
- Improving the recording and minuting of meetings at which transport decisions are reviewed and authorised (Change Advisory Board).

Recommendations to address the above have been agreed with management and incorporated within a formal action plan.

**Follow Up Review of the ICT Software Management (Corporate Resources Directorate)**

Internal Audit carried out a review of Software Management during 2007/08 and, due to the control weaknesses, identified a 'weak' audit opinion was given. This follow-up review has been undertaken to assess the implementation of the original recommendations contained within the management action plan and to re-assess the control environment.

Based on the work carried out as part of the follow up, Internal Audit is now able to provide **partial assurance** that there is a sound system of controls in place. The main reason for this opinion is that, whilst progress has been made in completing a reconciliation of software licenses for the Microsoft Enterprise Agreement since the original report, there has not been a similar reconciliation of software licenses for non Microsoft products. At the time of the review, the new Software Management System was in the process of being implemented and configured and it is anticipated that, when complete, this would resolve any outstanding weaknesses. Recommendations arising from the review have been agreed with management and incorporated within a formal action plan.

**Electronic Document Records Management (EDRM) (Corporate Resources Directorate)**

Internal Audit has been providing ongoing advice and support to a project to introduce EDRM to the Council. The objectives of this audit activity have been to ensure that:

- The EDRM project is managed in accordance with the corporate standard;
- Document access permissions are set correctly;
- There is a formal, documented workflow for each of the key processes;
- Support arrangements have been defined and agreed in-house and with the software suppliers;
- Relevant legal requirements such as Legal Admissibility and Data Protection have been considered and are reflected in the design and operation of the EDRM project.

The extent of Internal Audit activity in this area has been dictated by the progress of the project and this has been subject to delays, with both pilot exercises not progressing beyond some limited scanning of a small number of records. Whilst a report has been produced for management summarising the audit activity to date, no further work will be undertaken until such time that the project progresses.

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

The ICT Audit Plan for 2009/10 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 1, this has included:

<u>E-Recruitment</u>

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.

**National Fraud Initiative (Corporate)**

Internal Audit continues to support and co-ordinate the Council's response to the Audit Commission's National Fraud Initiative 2008/09, which identified a total of 2,786 filtered data matches. During this quarter our work has continued to focus on co-ordinating management's response to these data matches, together with the investigation of any concerns arising. This process is continuing during 2009/10 with Audit Commission monitoring progress on a regular basis. To date, 1,639 of the matches have been investigated, and these have resulted in the discovery of 3 duplicated payments to creditors, totalling £15,531. Action is being taken to recovery all monies owed.

**Corporate Governance – Introduction to Employment Review (Corporate)**

This audit of introduction to employment arrangements was undertaken as part of Corporate Governance work within the annual Internal Audit plan for 2008/09. The scope of the review was to assess the adequacy of induction arrangements and compliance with the Supported Introduction to Employment Policy (including the Appointment Support Procedure), in order to ensure that all new employees to the County Council are subject to appropriate induction, management and supervision.

The review sought to examine the adequacy and effectiveness of existing guidance, policies and procedures and to assess the extent to which these were being followed by managers across the Authority. In order to achieve this, a sample of 50 employees was selected across all five County Council departments (covering both employees new to the Authority and existing employees starting in a new post) and their introduction to employment arrangements assessed through a combination of:

- interviews with the staff concerned;
- interviews with line managers;
- examination of personnel files and local supervision records.

From the audit work completed Internal Audit is able to provide **partial assurance** that there is a sound system of controls in place. The main reason for this opinion is that, despite the County Council having in place relatively robust policies and procedures covering supported introduction to employment, there is an inadequate level of compliance with these among line managers across departments, in particular:

- A small number of new employees of the Council had not been subject to Probationary Review (10%);

- A number of employees transferred to new posts had not been subject to a proper Appointment Support procedure (35%);
- A high proportion of new and transferred employees had not been subject to regular supervision meetings during their first year in post (46%);
- A high proportion of Probationary Review/Appointment Support documentation was not held on employees' personnel files (70%);
- Employees for whom Probationary Review /Appointment Support meetings were significantly delayed or missed (50%);
- Evidence of high levels of sickness absence in the probationary period not being properly considered by management as part of assessing an employee's suitability for permanent employment.

A number of recommendations have been made to help raise awareness and improve compliance amongst managers. These have all been agreed with Personnel and Training and included within a comprehensive management action plan. Some of these issues will be raised through the corporate Human Resources Management Board, all members of which have also received a copy of the full audit report.

**The New National Indicators (NIs) and Local Area Agreement (LAA) (Chief Executive's)**

A single set of 198 national indicators (NIs) was announced by the Department for Communities and Local Government in October 2007. Subsequent amendments have reduced the total to 188.

These replace all other existing sets of indicators, including Best Value Performance Indicators (BVPIs) and Performance Assessment Framework (PAF) indicators.

The current LAA has been in place since April 2008 and it comes to an end in March 2011. It is based entirely on 33 NIs, plus 10 mandatory indicators to be reported to the Department for Children, Schools and Families (DCSF).

A performance reward grant is available and is based on the achievement of all 33 NIs, with each NI generating the same share of the reward. This does not include the mandatory DCSF targets and no reward will be received if average performance is below a minimum level. The total potential East Sussex LAA reward grant is £3,216,483 with a 28% capital element.

The main objective of this review was to report on the effectiveness of the controls within the new NI system and also on the governance, financial and performance management arrangements for the LAA. This was achieved by selecting, in consultation with the Corporate Policy and Performance Team (CPPT) and departmental performance managers, specific NIs that have been classed as 'high risk' and/or are proving to be problematic to calculate and interpret during this year of review.

From the audit work completed during this review, Internal Audit is able to provide **substantial assurance** that there is a sound system of controls in place. Overall LAA governance arrangements were found to be robust and effective performance management arrangements are in place for collating LAA performance information, for reporting this information and for monitoring on a continuous basis

Opportunities for further improvement were identified in the following areas:

- Minor updates are required to the East Sussex Strategic Partnership (ESSP) constitution to reflect accurately the structure and requirements of the new LAA and also the new Sustainable Community Strategy;
- There is a need to update the guidance for data quality and the agreement of data sharing protocols between ESCC and all LAA partners should be considered;
- There is a need to seek further clarification from a number of government departments such as the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Communities and Local Government (CLG), to establish the specific requirements for accurately calculating a number of NIs, and controls around data submission from the Council's contractors should be strengthened.

Where recommendations have been made, these have all been agreed with management and incorporated within a management action plan.

**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 12 primary schools as part of the three year programme for all schools to achieve the standard by 2010.

All 12 of these schools passed their assessments and will receive accreditation in due course from the DCSF, which will last for three years, when the process will need to be revisited.

Internal Audit continues to work with Children's Services Finance to support the schools that have not met the standard to ensure they address the weaknesses identified and prepare for a re-assessment.

As at the end of the quarter, a total of 135 schools (70%) have been assessed by Internal Audit as meeting the Standard since the assessment process began in 2006/07. Work will continue throughout the year to complete the assessment of the remaining 30% of schools.

Additionally, Internal Audit activity during the quarter has included providing awareness training jointly with Children's Services, for school Governors and Bursars.

**Supporting People Grant Claim (Adult Social Care)**

Internal Audit has completed the 2008/09 grant claim audit in respect of the Supporting People Programme. The Programme Grant expenditure amounted to £11.2m.

On the basis of the work undertaken, assurance was given that the statements of expenditure were fairly stated and in accordance with the terms and conditions set out in the grant determination arrangements.

**Abacus – Income (Adult Social Care)**

The Abacus Income System (which is part of the programme of Fundamental Accounting System reviews) is used for producing invoices in circumstances where Adult Social Care is directly responsible for recovery of financial contributions from clients for a range of services provided.

Budgeted income for the 2008/09 Financial Year was £25.8 million in respect of client contributions for Independent Sector Service Provision and £20 million for Residential and Nursing Care for the Elderly Alone. Additionally a further £4 million was due for Residential Nursing Care Contributions from Health partners.

The audit recognised that, during 2008/9, the system was undergoing some development work to move from a manual to automatic interface with SAP and the scope of the audit work therefore reflected the system changes.

Overall the audit set out to ensure that:

- Expected ICT controls were in place;
- All chargeable services were clearly defined and approved at the appropriate level;
- Client invoices were correctly raised;
- Arrangements for the write-off of bad debts were appropriate;
- Budget monitoring arrangements were adequate.

Prior to the introduction of the automated interface to SAP, controls should have been in place to ensure that the manual entry of prime data was verified for completeness and accuracy at the point of input and that these data were reconciled against the resultant SAP output. No such controls were found to be in place covering the independent checking of the data input. Testing was however undertaken, as part of the audit to assess the completeness and accuracy of transactions, and this did not reveal any evidence of errors during the period under review. Billing data held within the two systems were also accurately reconciled.

Internal Audit provided an overall opinion of **partial assurance** and made a number of recommendations to improve controls which were agreed with management and incorporated within a formal action plan. This will be subject to a follow up as part of the 2009/10 Abacus Income Review.

**Abacus – Expenditure (Adult Social Care)**

In 2008/09, approximately £96 million was due to be spent on independent sector care provision, covering gross expenditure of £70 million for residential and nursing care services and £26 million for domiciliary care.

This review (which is part of the programme of Fundamental Accounting System reviews) was undertaken to assess the integrity of Abacus as a feeder system to SAP and give assurance that only authorised payments to providers are processed and the amounts confirmed as payable are transferred accurately and completely to SAP from where payments are actually made.

An overall opinion of **partial assurance** was given, with one key control weakness identified relating to the domiciliary care payment process. The review found that some duplicate entries appeared on prime records generated by the system and, as these data are used as the basis for generating payment requests to SAP, there is a risk that duplicate payments could be made. Whilst manual checking controls had been implemented to detect possible duplication, the system control weakness remained.

Internal Audit made a number of recommendations to improve controls, all of which were agreed with management and included in a comprehensive action plan. These will be subject to a follow up review as part of the 2009/10 Abacus Expenditure Review.

**Downlands Project (Adult Social Care)**

A £6.4 million scheme to provide residency and services at the Downlands Court site was agreed by the Department of Health (DoH) in summer 2007. The DoH also confirmed a financial contribution of half of the capital cost. The remaining capital requirement is funded by ESCC through the capital programme and a business partner, Saxon Weald Homes Ltd.

Downlands Court will provide 41 self-contained flats located in Peacehaven for people aged over 60 who need extra support to continue living independently.

The project is nearing the end of the construction phase with the accommodation due to be ready for occupation in August 2009.

The main audit objective was to review Downlands project management and governance arrangements, including roles, responsibilities and accountabilities, risk management, financial management, monitoring and reporting.

Overall an audit opinion of **partial assurance** was given with a number of recommendations being made and agreed with management. These included:

- the need to follow more closely the Council's Project Management Toolkit;
- strengthening risk management,
- clarifying roles and responsibilities;
- improving financial monitoring and reporting in conjunction with the external partner.

Due to the progress of the project and the importance of enabling management to respond promptly to the issues arising from the review, all findings and recommendations were immediately reported to management upon discovery. These were also set out within a formal action plan which was incorporated within the final report.

**Business Transformation (Adult Social Care)**

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

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

- Mobile Financial Assessments (Atlas IT System) – the system for collecting and recording client data locally and transferring them into the main assessment module of Abacus;
- Interactive Resource Monitoring (IRM) system – this module will provide management access to reports relating to financial and personnel data.

Development of both of the above systems is on-going and ICT audit support and testing will continue until they go-live.

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

The PPF project framework continues to be developed and implemented by Adult Social Care (ASC). 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 continued to liaise with programme management as the project plans were developed and are now awaiting details of new system designs in order to review proposals and provide assurance and guidance in relation to the internal control environment.

**South Downs Joint Committee (SDJC) – Risk Management (Transport and Environment)**

The South Downs Joint Committee (SDJC) was established on 1st June 2005 after the merger of the Sussex Downs Conservation Board and East Hampshire Area of Outstanding Natural Beauty (AONB) Joint Advisory Committee. The Committee is part of an interim arrangement enabling the business objectives of South Downs AONB to be met in advance of becoming a National Park.

The ESCC role within the SDJC organisation framework includes:

- A provider of 10% of the budget for the operations of the SDJC;
- Use and support of ESCC databases to record and advise on financial transactions and periodic reporting;
- Part of the Director of the Corporate Resources Directorate (CRD) in his capacity as Treasurer includes providing an annual governance statement giving assurance on the effectiveness of internal controls across the organisation.

The objective of this 2008/09 audit was to give an opinion on whether risk evaluation is undertaken effectively, periodic risk reporting is accurate and appropriately controlled, and that the overall approach to risk management is based on a sound methodology. The audit focussed on the degree to which risk management/awareness is embedded within the organisation. The audit work also helped to provide evidence in support of the annual governance statement.

The audit found that, while risk management still needs to be embedded further into the business culture of SDJC, there were positive indications that appropriate action was being taken to strengthen the identification and control of risks.

While no major concerns were identified, and an opinion of **substantial assurance** was given, a number of recommendations were made to improve further the quality of the risk management system. These were incorporated with an agreed management action plan.

**High Weald Area of Outstanding Natural Beauty – Joint Advisory Committee (JAC) (Transport and Environment)**

The Audit Commission advised ESCC that all AONBs are constituted as Joint Committees and are therefore subject to the Audit Commission Act 1998 and auditable. A separate Annual Return is therefore required, with this being the third year where such a return has been completed.

No separate accounting records are kept by the JAC and, as a result, the Annual Return was prepared from the records maintained by ESCC.

The internal audit review evaluated the High Weald AONB's compliance with County Council financial processes and procedures and included limited testing of financial transactions. The review did not identify any significant internal control weaknesses, although there are a number of issues, which are not of a material nature, which have been reported to management. On the basis of the work carried out by Internal Audit an opinion of **full assurance** was given. Additionally, the relevant sections of the Annual Return were completed and signed off and submitted to the appointed external auditors.

**Integrated Waste Management Services Contract (IWMSC) - Advice and Support (Transport and Environment)**

Internal Audit has continued to provide assurance and support to the IWMSC through attendance at the Audit Working Group. During the quarter some assurance work was also undertaken in relation to the Newhaven Energy Recovery Facility (ERF) Lease cost spreadsheet model.

**Passenger Transport - Trapeze Payments (Transport and Environment)**

Trapeze is a SAP feeder system that is used to manage the entire procurement to pay process in respect of Home to School Transport (HTST), Public Transport and Parental Mileage. For 2008/9, the HTST module was operational but the Public Transport and Parental Mileage modules were still under development. The audit therefore focussed on the HTST module where the value of transactions was in excess of £6m.

The main objectives of the audit (which is part of the programme of Fundamental Accounting System reviews) were to ensure that there were robust controls in place in respect of access to the system and payments made from it. This included evaluating ICT controls and accounting and reporting arrangements.

An audit opinion of **partial assurance** was given with control weaknesses identified in relation to user access control and the reporting/monitoring of system activity. Both of these areas are, however, expected to improve significantly in the first quarter of 2009/10 with the handover of ICT administration processes to T&E E-Business Management and the implementation of Trapeze "Tracker", an in-built mechanism assisting activity reporting.

Recommendations were also made relating to data audit trails in Trapeze, particularly in the adjustment of contracts and for one off transactions/payments. All of the recommendations were agreed with management and included in an action plan which will be subject to a follow up review which the audit is repeated in 2009/10.

**Internal Audit Performance Indicators**

| Performance Indicator | Target | Actual Performance | | | |
|---|---|---|---|---|---|
| | | **At 30/6** | **At 30/9** | **At 31/12** | **At 31/03** |
| **Economy & Efficiency** | | | | | |
| Planned days delivered (%) | 90 | 25.5% | | | |
| Planned audits completed = final reports issued (%) | 90 | 29.0%[1] | | | |
| Actual v Plan time on completed audits (%) | 105 | 93.5%[2] | | | |
| **Effectiveness** | | | | | |
| External Audit reliance on internal audit | Achieved | Expected from PKF September 2009. | | | |
| Maintain a CPA score of at least 3 / 4 for internal control. | 3/4 | Results of 2009 Use of Resources Assessment expected in Quarter 3. | | | |
| Recommendations accepted (%) | 90 | 99.5% | | | |
| Customer feedback forms scoring 3 out of 5 or higher (%) | 80 | 87.9% | | | |
| Reports to Chief Officers and Members | Quarterly | Quarterly reports issued. | | | |

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[1] Excludes FMSiS Assessments
[2] Excludes FMSiS Assessments

**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 | 495.0 | 27.5 | 522.5 | 142.9 | | | | |
| Computer Audit | 175.0 | 21.0 | 196.0 | 47.4 | | | | |
| Children's Services | 489.0 | 47.5 | 536.5 | 144.4 | | | | |
| Adult Social Care | 293.0 | 27.5 | 320.5 | 79.5 | | | | |
| Transport & Environment | 195.0 | 37.0 | 232.0 | 50.6 | | | | |
| Chief Executive's | 173.0 | 8.5 | 181.5 | 59.4 | | | | |
| Contingency[3] | 250.0 | -169.0 | 81.0 | - | | | | |
| Sub total – internal customers | 2070.0 | 0.0 | 2070.0 | 524.2 | | | | 25.3% |
| | | | | | | | | |
| External customers | 112.0 | 2.0 | 114.0 | 32.6 | | | | 28.6% |
| | | | | | | | | |
| Total audit days | 2182.0 | 2.0 | 2184.0 | 556.8 | | | | 25.5% |

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[3] Contingency days delivered include completion of audits carried forward from 2008/09 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.