

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

Date: **2 June 2010**

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 2009 to 31 March 2010**

RECOMMENDATIONS: Members are recommended to-

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

(b) consider whether there are any significant control issues that should be included in the Council's Annual Governance Statement for 2009/10; and

(c) consider whether the Council's system for internal audit has proved effective during 2009/10.

1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2009/10 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 2009 to 31 March 2010 in accordance with the Internal Audit Strategy for 2009/10.

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, it is internal audit's opinion that East Sussex County 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:

- Fundamental Accounting Systems;
- Establishment Financial Administration;
- Putting People First;
- Introduction to Employment;
- ICT Audit Issues;
- Home to School Transport;
- Procurement / Contracts;
- Financial Management Standard in Schools;
- Anti Fraud and Corruption.

4.3 A summary of the major findings from audit reviews completed during quarter 4 of 2009/10 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. No further guidance on this process has been provided but the information set out in section 5 of Annexe A should provide a sound basis for making this assessment.

5.2 In addition, the County Council achieved its target of a score of 3 out of 4 ("performing well") under the new Use of Resources assessment for 2009 against the following key lines of enquiry (KLOEs), to which the Internal Audit Service makes a strong contribution:

- KLOE 2.3 - does the organisation promote and demonstrate the principles and values of good governance?
- KLOE 2.4 - does the organisation manage its risks and maintain a sound system of internal control?

5.3 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 6 July 2010.

SEAN NOLAN

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Background Documents

Strategic Audit Plan 2009-10

Internal Audit Progress Reports 2009/10

Annexe A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2009/2010**



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 The internal audit service is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as processes for internal management review which can also provide assurance and these are set out in the Council's Local Code of Corporate Governance and its Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 In accordance with the 2009/10 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. The actual internal audit coverage across departments compared to the audit plan has been summarised in Appendix A. Whilst overall, the number of audit days delivered has exceeded the original audit plan, delivery of planned reviews has been impacted on by an increase in investigation activity during the year, which was significantly higher, in terms of audit days, than that spent in previous years. This is commented on in more detail later in this report.

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, it is internal audit's opinion that East Sussex County Council has in place a satisfactory framework of internal control which provides a reasonable assurance regarding the efficient and effective achievement of its objectives.*** Audit testing has confirmed that the majority of key controls are working in practice, with some specific exceptions. Where improvements to control or compliance are required we are satisfied that appropriate action has been agreed by the relevant managers within reasonable timescales.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2009/10 in line with the approved risk based audit plan;
- Follow up of actions from previous year's 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.

4.2 No limitations have been placed on the scope of internal audit during 2009/10.

5. Key Issues Raised During 2009/10

5.1 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.

5.2 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 50 reviews completed in 2009/10 with standard audit opinions, 7 received 'full assurance', 25 received 'substantial assurance', 16 received 'partial assurance' and 2 were given 'minimal assurance'. It is pleasing to report that no reviews finalised in the year were given an audit opinion of 'no assurance'. A full listing of completed audits and opinions is included at Appendix D along with an explanation of each of the assurance levels.

Fundamental Accounting Systems

5.3 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' and the increase in feeder systems to SAP.

5.4 In the case of Carepay, the 2008/09 review, finalised in quarter 1, found that insufficient progress had been made by management in addressing control weaknesses identified in the previous audit report, particularly with regard to system access and segregation of duty controls, and therefore only 'minimal assurance' could be given that an effective control environment was in place. Internal audit has, as a result, been working closely with officers in Children's Services and ICT Services to ensure that these weaknesses are properly addressed as a matter of urgency. In some cases, this has meant putting in place compensating manual controls, where implementation of a planned systems upgrade has been delayed. It is therefore pleasing to report that the results of our most recent review of Carepay (covering 2009/10) have shown a significant improvement in internal control with 'substantial assurance' now being provided.

5.5 With regard to the remaining fundamental accounting system reviews where 'partial assurance' was given, these primarily related to the 2008/09 year with our most recent reviews, covering 2009/10, showing an overall improvement in internal controls. Many of these 2009/10 reports were however in the process of being finalised with the client at the time of writing this report and have therefore not be reported on in detail here.

5.6 In addition to the various fundamental accounting system reviews, internal audit also undertook activity to help provide further assurance over the SAP control environment, primarily in response to control weaknesses identified in previous years relating to user administration. Our work during 2009/10 included performing additional substantive testing of SAP transactions to confirm that no evidence existed of inappropriate user activity and also engaging external SAP specialists to interrogate the system in order to identify opportunities for strengthening individual user access permissions. This latter piece of work will be taken forward as part of a SAP User Authorisation Review included within the 2010/11 Internal Audit Plan.

Establishment Financial Administration

5.7 During 2009/10 internal audit undertook three separate reviews of financial administration at County Council establishments, covering areas such as control of imprest accounts (Children's Services), income collection and banking and cash handling controls (Children's Services and Chief Executive's). It is disappointing that in all three reviews, only 'partial assurance' could be given over the control environment. In many cases, evidence was found of a lack of compliance with County Council Financial Regulations and Standard Financial Procedures, particularly in relation to control over imprest controls, including proper receipting and authorisation of expenditure, and security of cash. In all cases, we have worked closely with the finance teams from the departments concerned to ensure the issues raised are treated as a priority. All recommendations arising from the reviews have been agreed with management and these will be subject to follow up by internal audit during 2010/11.

Putting People First

5.8 During the year, Internal Audit supported and advised ASC as part of the PPF programme, particularly in relation to risk and control issues associated with new systems and working practices.

5.9 Using an approach similar to that successfully adopted in support of SAP implementation, we identified, based on a risk assessment and consultation with programme management, a number of specific focus areas where our resources could be most effectively used. In summary, these were:

- The Personal Budget Pilot;
- The Resource Allocation System;
- The Self Directed Support Pathway;
- Risk Management Arrangements;
- Workforce and Training.

5.10 Whilst internal audit work on these areas will continue in 2010/11, many of the new systems were due to go live on 1 April 2010. As a result, a number of reports were issued to management during the final quarter of the year providing an opinion of the current position. Overall, we have concluded that the PPF Programme, including the implementation of new systems and processes, is being progressed effectively. However, it is important to note that piloting of new systems and processes has been limited and further development will be required in order to manage the risk of dealing with larger volumes of clients from more diverse client groups. In addition we have yet to review proposed systems and controls over budget management which is a key risk area. Internal audit will continue to monitor this and work with management to ensure key risk and control issues are addressed moving forward.

Introduction to Employment

5.11 As part of a corporate review of arrangements for ensuring that all new staff (and existing staff who are new to a post) are subject to appropriate induction, support and supervision, internal audit found an inadequate level of compliance with established policies and procedures across departments.

5.12 In particular, we found a number of instances where staff had not been subject to probationary reviews, adequate appointment support or proper supervision, that documentation relating to appointment support was not adequately maintained and that high levels of sickness absence had not been properly considered by management when assessing an employee's suitability for permanent employment.

5.13 In response to these findings, internal audit agreed a series of recommendations with colleagues in Personnel and Training designed to raise awareness and improve compliance amongst managers. Outcomes have included taking some issues forward via the Human Resources Management Board and the development of revised policies and procedures relating to this area. During the latter part of 2009/10, we were able to confirm implementation of all recommendations made in the original report.

ICT Audit Issues

5.14 During the year, the ICT audit review of Network Security and follow up reviews of Software Management and Internet Monitoring were completed, and in each case audit opinions of 'partial assurance' were given as to the adequacy of the control environment. In respect of the two follow up reviews, whilst progress had been made since the original audits (both of which assessed controls to be 'weak'), in implementing agreed recommendations, progress was not sufficient to warrant a substantial assurance over the control environment. Incremental action has since been taken by ICT Services to implement remaining key recommendations that should address the main risks identified. These actions will be formally reviewed by internal audit in 2010/11 to confirm that they are in place and proving effective.

5.15 The review of Network Security found a number of areas where internal controls required strengthening, particularly in relation to penetration testing arrangements, intrusion detection and monitoring and ICT developers' password controls. All recommendations arising from the review were agreed with the Assistant Director, ICT Services and a follow up review to confirm implementation is in the process of being finalised at the time of writing this report.

5.17 For Software Management, we found that whilst software licences were reconciled for Microsoft (MS) products which form the bulk of the licenses held, similar controls had not yet been put in place for non MS products. Subsequent liaison with ICT Services has however confirmed that a software management system has now been implemented that monitors all proprietary software, not only MS products. Remedial action has been taken, focussing initially on the more commonly used and costly products, with the intention to continue this monitoring on a regular basis, extending it to also include the remaining, less common and less expensive software. This will be examined as part of a follow-up review during 2010/11.

5.18 In the case of Internet Monitoring Arrangements, the follow up review found that controls continue to require improvement by allowing departmental E-Business Managers direct access to the internet monitoring software 'Websense'. This would provide improved monitoring on issues such as attempted access to blocked sites and use of non work related sites. Management has subsequently informed internal audit that E-Business Managers have now been given appropriate access to 'Websense', and appropriate training has been conducted. Again, internal audit will review this exercise as part of the follow-up review in 2010/11.

5.19 The Assistant Director ICT Services and internal audit are working together to improve ongoing monitoring of the implementation of ICT related audit recommendations, and this has initially focussed on developing new action tracking arrangements which have now been incorporated into quarterly liaison meetings between internal audit and ICT Services.

Home to School Transport (HTST) Budget Management

5.20 Previous internal audit reviews of HTST budget management, in 2006/07 and 2007/08, found internal controls to be 'weak' (using our old style audit opinions). This subsequent review sought to re-assess internal controls and to confirm implementation of previous audit recommendations. Overall, we have been able to provide 'partial assurance' that an effective system of internal control is in place, with improvements still required in identifying initiatives to manage demand and the cost of demand on the HTST service and to ensure that, where a likely deficit is identified, early action is taken to address this.

5.21 Our review did however find that progress is being made on improving HTST budget management, particularly in terms of budget setting, monitoring and reporting. In March 2010, Transport and Environment Department and Children's Services Department presented a report to the Audit and Best Value Scrutiny Committee which included a clear action plan for improving HTST budget management. As part of our 2010/11 Internal Audit Plan, we will be undertaking a review of progress in implementing this action plan, which incorporates previous audit recommendations.

Procurement / Contracts

5.22 A Corporate review of Procurement / Letting of Contracts found that, whilst procurement procedures operated by departmental contract teams were generally robust, a range of compliance issues were identified in relation to a contract let via a third party agent on behalf of the County Council. A range of recommendations have been agreed to address the control weaknesses identified, including a review of the use of third parties as part of any procurement process. This is an area which will also be subject to a full systems review by internal audit as part of the 2010/11 audit plan.

5.23 In addition to the above, internal audit also conducted an extensive investigation into the procurement and contract management arrangements relating to a company commissioned by Children's Services Department. Our investigation found that despite substantial payments to the company over several years, Contract Standing Orders and Financial Regulations had not been complied with, and contractor performance had not been properly monitored or managed. As well as producing a formal report setting out the findings from our investigation, which has resulted in disciplinary action against one member of staff, we also agreed a number of recommendations with the department addressing the control weaknesses found. Confirmation was provided during 2009/10 that these have now been implemented.

Financial Management Standard in Schools (FMSiS)

5.24 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). During the year a total of 52 primary and 3 special school external assessments have been completed, of which 53 schools were found to comply with the Financial Management Standard and will receive accreditation in due course from the DCSF.

5.25 The remaining 2 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. As part of this, internal audit will be working closely with Children's Services Finance to provide the individual schools with all the necessary guidance and support to enable them to successfully achieve the standard.

5.26 As at the 31st March 2010, the target date for all schools to meet the Standard, a total of 151 primary/special and 24 secondary schools across the county have successfully achieved the standard.

5.27 There remain three secondary schools yet to meet the standard despite an original target date of 31 March 2007. Two of the schools have been delayed in submitting their self assessments and in one case this has resulted in a full audit of financial controls at the school during April/May 2010. In the other case, we are continuing to liaise with the school to ensure their submission is received as a matter of urgency in order for our assessment to be completed early in 2010/11. The third secondary school not yet meeting the Standard has been subject to a full audit by internal audit during 2009/10, following a suspension of their accreditation earlier in the year. This review resulted in a range of recommendations which have been agreed with the Headteacher and immediate action has been taken to ensure prompt implementation. The school will therefore be re-assessed against the Standard during 2010/11.

5.28 In respect of the 14 primary schools yet to meet the Standard, we are continuing to work closely with both Children's Services Finance colleagues and the schools to help them achieve FMSiS. The exceptions to this are one school that is currently in special measures and cannot be assessed until the special measures classification has been removed and one school that is subject to a notice of concern issued by Children's Services. A list of all schools assessed during 2009/10 and those outstanding at year end is included within Appendix D to this report.

Anti Fraud and Corruption

5.29 During 2009/10, we logged 30 potential issues under the Council's Anti-Fraud and Corruption Strategy, either via the Council's confidential reporting hotline, our programme of internal audit work or notifications from departments. We subsequently conducted 15 investigations, with the balance either being referred to other organisations for investigation or for local management action. All of the investigation work conducted by internal audit during the year related to internal breach of policy issues with no cases requiring referral to the police for a criminal investigation. The outcomes of internal audit investigations included resignations, dismissals and other disciplinary action. Only one case involved a confirmed financial loss to the County Council and this was for a very small sum which was recovered from the individual concerned.

5.30 Whilst the volume of investigations conducted by internal audit last year was roughly comparable with 2008/09, the amount of time taken on this type of work has been considerably higher, primarily as a result of three particularly complex investigations. Overall, our investigations during the year fell into a small number of broad categories, namely, conflicts of interest issues, contracts/procurement, cash and claims and inappropriate use of ICT equipment. Our findings from this work are used to identify any internal control weaknesses and these are reported to management along with appropriate recommendations from improvement. The findings from investigations are also used to inform future internal audit plans.

5.31 Internal Audit has continued work throughout the year to support and co-ordinate the conclusion of the Council's response to the NFI 2008/09, which has identified a total of 2,786 filtered data matches. The exercise has to date identified a number of potential overpayments amounting to £140,983 in total. These have occurred primarily in relation to pension payments and duplicate creditor payments as summarised below:

- Pension Payments – 7 cases, relating to payments continuing after the death of the pensioner, totalling £23,365, and 12 cases, totalling £101,143, relating to pensioners undertaking subsequent employment and not advising the pension scheme;
- Creditor Payments – 4 duplicate payments totalling £16,475.

5.32 In all cases, action is being taken to recover the amounts involved. Internal audit is also in the process of reviewing the circumstances leading up to these overpayments, and the associated internal controls, to help avoid future re-occurrence.

5.33 As well as the investigation work referred to above, we continue to be proactive in the identification of potential fraud and corruption activity across the Authority and in raising awareness amongst staff of the importance of reporting concerns. During 2009/10, all school's based staff received the 'Don't Turn a Blind Eye' leaflet with their payslips and standards of behaviour sessions were provided at all departmental induction/welcome days.

5.34 Overall, it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity. However, work will continue to ensure there is sufficient awareness of and compliance with the Council's key policies across all departments.

6. Internal Audit Performance

6.1 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.

6.2 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.

6.3 Performance against agreed targets is set out in Appendix B. In total the IAS has delivered 2,203 direct days or 99.9% of the total revised audit plan and 101% of the original planned days. This represents a continued improvement in productivity across the team. Actual vs. planned time on completed jobs once again exceeds target with overall delivery of assignments within budgeted time. Whilst the number of completed audits is 7.5% below our 90% target, this represents 29 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 2010/11. At the time of issuing this annual report, a total of 7 of these work in progress reviews had been finalised. The internal audit service continues to participate in the CIPFA benchmarking club and the latest information indicates that the Council has an appropriate level of audit coverage based on its level of revenue spend and that the direct cost per day of the internal audit service is close to the average of comparable authorities. Actual data for 2009/10 and 2010/11 plans will shortly be submitted and are expected to confirm this position and the impact of the 2008/09 restructuring.

6.4 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.

6.5 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 2008/09 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.

6.6 Finally, the Council achieved its target of a score of 3 out of 4 ("performing well") under the new Use of Resources assessment for 2009 against the following key lines of enquiry (KLOEs), to which the Internal Audit Service makes a strong contribution:

- KLOE 2.3 - does the organisation promote and demonstrate the principles and values of good governance?
- KLOE 2.4 - does the organisation manage its risks and maintain a sound system of internal control?

6.7 Action is being taken to address the one area for development relating to Internal Audit identified by PKF as part of the assessment, primarily through proposals to strengthen action tracking of 3 star recommendations and no / minimal assurance audit reports, although given the assessment for 2010 will commence earlier, in January - March 2010, there is limited opportunity to demonstrate improvement.

6.8 Whilst it remains management's responsibility for managing its business risks and operating a sound system of internal control, the above 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 2009/10:

Service	2008/09 Actual Days	2009/10 Original Plan Days	2009/10 Revised Plan Days	2009/10 Actual Days	2009/10 % Plan Days Delivered
<u>ESCC:</u>					
<i>Corporate Body</i>	571.2	495.0	528.8	521.3	
<i>Computer Audit</i>	255.3	175.0	191.0	220.9	
<i>Children's Services</i>	669.2	489.0	714.5	718.0	
<i>Adult Social Care</i>	408.3	293.0	291.5	302.7	
<i>Transport & Environment</i>	247.0	195.0	154.0	139.3	
<i>Chief Executives</i>	162.4	173.0	193.5	171.6	
<i>Contingency¹</i>	-	250.0	4.0	-	
<i>Sub total – ESCC</i>	2,313.4	2,070.0	2,077.3	2,073.8	99.8%
<i>External contracts²</i>	114.5	112.0	129.0	129.2	100.2%
Total audit days	2,427.9	2,182.0	2,206.3	2,203.0	99.9%

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

² The actual days delivered on external contracts includes additional contracted days delivered during the year (brought forward from 2008/09) 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 09/10</i>	<i>Actual 08/09</i>
<i>Economy and efficiency</i>			
<i>Planned days delivered (%)</i>	90	99.9%	102.4%
<i>Planned audits completed = final reports issued (%)</i>	90	82.5%	82.9%
<i>Actual v Plan time on completed audits (%)</i>	105	98.2%	101.9%

<i>Effectiveness</i>			
<i>External audit reliance on internal audit</i>	<i>Achieved</i>	<i>Achieved</i>	<i>Achieved</i>
<i>CPA score maintained</i>	3/4	3/4 ³	4/4
<i>Recommendations accepted (%)</i>	90	99.3%	96.3%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	80	89.0%	88.1%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 09/10</i>	<i>Reports issued for every quarter during 08/09</i>

³ New Use of Resources Assessment

ESCC INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

1. RESPONSIBILITIES AND OBJECTIVES

1.1 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 organisations 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.

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.

2. STATUTORY ROLE

2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003 (as amended in 2006), which state in respect of Internal Audit that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- supply the body with such information and explanation as the body considers necessary for that purpose.”

2.2 The statutory role is recognised and endorsed within the Council’s Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

3. INDEPENDENCE AND ACCOUNTABILITY

3.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities.

3.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in his own name and without fear of favour to, all officers and Members and particularly those charged with governance.

3.3 Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

4. INTERNAL AUDIT SCOPE

4.1 The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and Management risk assessment (as set out within County Council risk registers). Extensive consultation also takes place with key stakeholders.

5. REPORTING LINES AND RELATIONSHIPS

5.1 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.

5.2 The Chief Internal Auditor reports directly to the Deputy Chief Executive and Director of Corporate Resources. The County Council also has an Audit and Best Value Scrutiny Committee to whom internal audit report on a quarterly basis. These reports cover results of internal audit activity and details of internal audit performance, including progress on delivering the Audit Plan. In addition, internal audit provides an annual report and opinion to Chief Officers and Members on the adequacy of the Council's control environment.

6. INTERNAL AUDIT STANDARDS

6.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2003 (as amended in 2006) makes it clear that 'the Standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

2006. The CIPFA Standards have been adopted by East Sussex County Council Internal Audit.

7. INTERNAL AUDIT RESOURCES

7.1 It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

7.2 The Chief Internal Auditor is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Internal Audit Service maintains an annually updated Training and Development Plan, which sets out an ongoing development programme for Internal Audit staff.

7.3 The Chief Internal Auditor is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby they concluded that resources were insufficient, they must formally report this to the Deputy Chief Executive and Director of Corporate Resources and, if the position is not resolved, to the Audit and Best Value Scrutiny Committee.

8. FRAUD AND CORRUPTION

8.1 Managing the risk of fraud and corruption is the responsibility of Chief Officers not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

8.2 Internal Audit should also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the control environment.

Councillor David Tutt
Chairman of the Audit and Best Value Scrutiny Committee

Sean Nolan
Deputy Chief Executive and Director of Corporate Resources

Duncan Savage
Assistant Director – Audit and Performance

APPENDIX D

Summary of Opinions for Internal Audit Reports Issued During 2009/10

Full Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Impact of Recession	Corporate
Pension Fund Governance and Strategy 2009/10	Corporate Resources
General Ledger 2009/10	Corporate Resources
Pension Fund Investments 2009/10	Corporate Resources
Pension Processes and Systems 2009/10	Corporate Resources
Youth Website	Children's Services
High Weald AONB	Transport & Environment

Substantial Assurance:

Audit Title	Department
Accounts Receivable	Corporate
Risk Management Arrangements	Corporate
Partnership Governance	Corporate
Pension Fund External Control Assurance 2008/09	Corporate Resources
Building Maintenance Follow Up	Corporate Resources
Insurance	Corporate Resources
ICT Business Continuity Follow Up	Corporate Resources
SAP Transport Process Follow Up	Corporate Resources
Treasury Management 2009/10	Corporate Resources
National Indicators and Local Area Agreement	Chief Executive's
E-Recruitment	Chief Executive's
OpenGalaxy3	Chief Executive's
Bexhill Pathfinder	Children's Services
Children's Trusts	Children's Services
Primary Capital Programme	Children's Services
CONTROCC	Adult Social Care
Client Monies Service	Adult Social Care
Home Care Rostering System	Adult Social Care
De-Commissioning of CareStore	Adult Social Care
Putting People First – Self Directed Support Pathway	Adult Social Care
Putting People First – Risk Management	Adult Social Care
Putting People First – Workforce and Training	Adult Social Care
South Downs Joint Committee Risk Management	Transport & Environment
Landfill Allowance Tax Scheme	Transport & Environment

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Partial Assurance:

Audit Title	Department
HR/Payroll 2008/09	Corporate
Introduction to Employment	Corporate
Business Continuity / Disaster Recovery Follow Up	Corporate
Procurement / Letting of Contracts	Corporate
Pension Fund Processes and Systems 2008/09	Corporate Resources
ESCC Network Security	Corporate Resources
ICT Software Management Follow Up	Corporate Resources
Internet Monitoring Follow Up	Corporate Resources
Establishment Income Collection and Banking	Chief Executive's
Imprest Account Review	Children's Services
Abacus Income 2008/09	Adult Social Care
Abacus Expenditure 2008/09	Adult Social Care
Downlands Project	Adult Social Care
Putting People First – Resource Allocation System	Adult Social Care
Passenger Transport – Trapeze 2008/09	Transport & Environment
Home to School Transport Budget Management	Transport & Environment / Children's Services

Minimal Assurance:

Audit Title	Department
Carepay 2008/09	Children's Services
Children's Home Financial Management	Children's Services

No Assurance:

None

Other Audit Activity Completed During 2009/10 (including direct support for projects and new system initiatives, grant audits and FMSiS external assessments):

Audit Title	Department
National Fraud Initiative	Corporate
SAP Substantive Testing	Corporate Resources
Electronic Document Records Management	Corporate Resources
Local Area Agreement Grant Claim	Chief Executive's
School Sports Grant Claims	Children's Services
Financial Management Standard in Schools	Children's Services
Community Interest Companies	Children's Services
ContactPoint	Children's Services

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Audit Title	Department
Support People Grant Claim	Adult Social Care
Adult Social Care Business Transformation	Adult Social Care
Putting People First	Adult Social Care
Agewell Project Assurance Statement	Adult Social Care
Integrated Waste Management Services Contract	Transport & Environment
Trapeze/SAP Interface (Public Transport)	Transport & Environment

Investigation Activity Completed During 2009/10:

Title	Department
Conflict of Interest	Corporate Resources
Contractor Procurement, Payment and Monitoring Arrangements	Children's Services
Youth Development Service	Children's Services
Children's Home Financial Management	Children's Services
School Financial Management	Children's Services
Inappropriate Internal Activity	Children's Services
Staff Mileage	Adult Social Care
Procurement of Consultants	Transport & Environment
Conflict of Interest	Transport & Environment

Schools Assessed During 2009/10 as Meeting the Financial Management Standard in Schools:

Primary Schools

Alfriston School
 Blackboys CofE Primary School
 Brede Primary School
 Broad Oak Community Primary School
 Chantry Community Primary School
 Chiddingly Primary School
 Cradle Hill Community Primary School
 Crowhurst CofE Primary School
 Danehill Cof E Primary School
 Etchingham CofE Primary School
 Firlie CofE Primary School
 Five Ashes CofE Primary School
 Forest Row CofE Primary School
 Frant CofE Primary School
 Frays School
 Grovelands Community School
 Hankham Primary School
 Harlands Primary School
 Hellingly Community Primary School
 Herstmonceux CofE Primary School
 Holy Cross CofE Primary School
 Hurst Green CofE Primary School

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Icklesham CofE Primary School
Laughton Community Primary School
Marshlands Primary School
Maynards Green Community Primary School
Mountfield & Whatlington CofE Primary School
Northiam CofE Primary School
Park Mead Primary School
Pevensey & Westham CofE Primary School
Plumpton Primary School
Punnetts Town Community Primary School
Redlake Community Primary School
Rocks Park Primary School
Rotherfield Primary School
Rye Community Primary School
Sidley Community Primary School
Southdown Junior School
Southover CofE Primary School
St Leonards CofE Primary School
St Mary Magdalen Catholic Primary School
St Mary the Virgin CofE Primary, Hartfield
St Michaels CofE Primary School, Playden
St Pancras Catholic Primary School
St Peters CofE Primary School, Chailey
St Thomas CofE Primary, Winchelsea
Stone Cross School
West Rise Community Infant School
West St Leonards Community Primary School
White House Primary School

Special Schools

Grove Park School
Hazel Court School
Saxon Mount School

Remaining Schools Not Yet Meeting the Financial Management Standard in Schools:

Secondary Schools

Hillcrest
Helenswood
St Richards

Primary Schools

All Saints & St Richards
Mark Cross
Oakwood
Parkland Junior
Pells
Ringmer
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St Marys Catholic
St Pauls
St Peter & St Paul
Stafford Junior
Ticehurst & Flimwell
Wallands
Western Road

Internal Audit Assurance Levels:

Full Assurance: There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.

Substantial Assurance: Whilst there is a sound system of control, there are a small number of weaknesses which put some of the system/service objectives at risk and/or there is evidence of non-compliance with some controls. Opportunities to strengthen controls still exist.

Partial Assurance: Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.

Minimal Assurance: Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve will lead to an increased risk of loss or damage to the Authority.

No Assurance: Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the system or service objectives. A high number of key risks remain unidentified and/or unmanaged.

Annexe B

Summary of major findings during quarter 4 (reports issued 1 January – 31 March 2010)

Impact of Recession (Corporate)

The review of the Impact of the Recession on East Sussex County Council has been undertaken in accordance with the annual Internal Audit plan for 2009/10.

The recession has the potential to have a significant effect on the Council, both directly to our own financial standing and in terms of the Council's wider community responsibilities.

This review has sought to evaluate the adequacy of the arrangements made to address the key risks to the Council associated with the recession. Given the obvious reputational risks associated with the Council not being seen to assist the residents, communities and businesses of East Sussex in these difficult times, we have also reviewed the adequacy of the recession action plan which was agreed by Cabinet in January 2009, and assessed the monitoring arrangements and progress made towards achieving this.

From the audit work completed during this review, we are able to provide **full assurance** that there is a sound system of controls in place. This opinion is based on evidence that action is being taken to ensure that:

- Arrangements are adequate to address the potential shortfall in ESCC income due to the recession;
- Arrangements are adequate to address the potential increase in ESCC expenditure due to the recession;
- ESCC has the resources and organisational resilience to handle increases in demand for services (and hence increased expenditure), as a result of the recession;
- ESCC's systems of internal control are sufficiently robust to respond to increases in fraud and irregularity;
- Robust arrangements are in place to ensure the successful delivery of the recession action plan, including the monitoring and reporting of progress.

No recommendations were made as part of our review.

Procurement – Letting of Contracts (Corporate)

A review of the system for Letting of Contracts across the Authority has been undertaken in accordance with the annual Internal Audit plan for 2009/10, covering the following key control objectives:

- Contracting procedures are open, transparent, and resilient to external challenge;
- Contracts are let in accordance with procedures laid down in Contract Standing Orders (CSO's) and Financial Regulations, and with regard to best practice guidance;
- Contracts are let with regard to the Council's mandatory and standard terms and conditions;
- Contracts are let in a manner that will achieve sustainable goods, services and works for the Council and its stakeholders.

This was a corporate review involving testing of a number of contracts let across all departments of the County Council, with a particular focus on those let outside of departmental contract teams.

From the audit work completed during the review and based on the sample of contracts tested, we were able to provide substantial assurance that there is a sound system of controls in place over the procurement and letting of contracts by departmental contract teams. However, we have identified a range of compliance issues with a contract let by a third party agent on behalf of the Council. These findings, together with the other findings from our review, have resulted in the overall opinion being **partial assurance**. The specific weaknesses identified in the contract let by the third party related to:

- A lack of adequate control over the delivery, opening and recording of tenders;
- The third party agent had not been provided with a copy of the County Council's Contract Standing Orders;
- Sufficient evidence was not maintained to demonstrate that the decision making process was based on all of the published contract award criteria;
- The decision not to invite tenders from all persons who had indicated a wish to tender had not been authorised at the correct level.

In response to these findings, we have agreed with the Corporate Procurement Manager that (1) reminders relating to the use of third parties to conduct tendering and contracting will be issued to the Procurement Steering Group (PSG) in April 2010, and (2) the extent and justification of third party usage in the procurement process will be reviewed. In addition, some separate actions are being taken forward by the officers responsible for the contract in question.

In terms of contracts let by County Council staff, in general we found acceptable levels of compliance with policies and procedures. Contracting procedures were found, in the main, to be open and transparent, and there was adequate compliance with ESCC's Contract Standing Orders. Improvements for the future were identified in relation to ensuring:

- Option appraisals are undertaken before procurement exercises; and,
- ESCC mandatory and standard conditions are included in all contracts.

All recommendations arising from the review have been agreed with management and incorporated within a formal action plan. In response to the issue of third party contracts, Internal Audit will be conducting a specific review of this area as part of the 2010/11 audit plan.

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 2009/10 and the Pension Fund Audit Strategy.

In 2008/09, the contributions received from employees and employers totalled £100.3m. For the same period, a further £8.0m was received from transfers in. Pension benefit payable (pensions and lump sums) totalled £80.1m and £5.0m was paid in respect of transfers out and refund of contributions.

As at 31 March 2009, the Pension Fund had 52,551 members of whom 21,550 were contributors, 13,644 were pensioners and 17,357 were deferred members.

The objectives of this 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

It is pleasing to report that the recommendations made in the previous review for 2008/09, which resulted in a 'partial assurance' audit opinion, have been implemented and that the control environment has been improved over the past year. As a result, based on the audit work completed during this review, we are now able to provide **full assurance** that there is a sound system of controls in place.

A small number of minor recommendations to improve controls further have been made and these have all been agreed with management.

Treasury Management (Corporate Resources Directorate)

The review of the Treasury Management System (which is part of the programme of Fundamental Accounting System reviews) was undertaken in accordance with the annual Internal Audit plan for 2009/10.

The key control objectives reviewed as part of this audit were:

- All Treasury Management transactions are authorised properly, in accordance with ESCC's Treasury Management policy, with advice from approved advisers;
- All Treasury Management transactions are recorded promptly and accurately in the accounts (including reconciliations and cashflow calculations), and supporting documentation is retained for all transactions;
- Treasury Management transactions are only made with approved organizations, to the stipulated limits, and performance is monitored effectively;
- Monies are transferred only in accordance with approved policy, and there is satisfactory internal control within the money transfer systems.

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 overall control environment in relation to Treasury Management remains strong, and it is in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, and other recently published best practice. However, some recommendations have been made to further improve controls. These related primarily to ensuring that:

- The names and grades of staff authorised to sign off Treasury Management transactions are formally recorded;
- There is full segregation of duties between the daily dealing process and CHAPS payment authorisation;
- The list of employees authorised to deal with NatWest is promptly updated to reflect staff changes.

All recommendations have been agreed with management and incorporated within a formal action plan which will be followed up as part of the 2010/11 Treasury Management Review.

Pension Fund External Control Assurance (Corporate Resources Directorate)

The review of the East Sussex Pension Fund – External Control Assurance system has been undertaken in accordance with the annual Internal Audit plan for 2009/10 and the Pension Fund Audit Strategy.

This review sought to provide assurance that appropriate arrangements are in place for reviewing external control assurance documentation provided by external pension fund managers and custodians. The review also assessed whether these arrangements were working satisfactorily, and whether they identified all issues of concern, major risks and control weaknesses.

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.

The fund manager and global custodian assurance reports received and reviewed as part of this audit showed no significant control issues directly impacting on the East Sussex Pension Fund.

Some recommendations to further improve internal controls were made in relation to the following:

- Ensuring that governance reports from all fund managers are obtained;
- Establishing a formal routine to obtain and review assurance reports from Serco and a new fund manager.

All recommendations were agreed with management.

Internet Monitoring Follow Up (Corporate Resources Directorate)

A previous review of Internet Monitoring arrangements during 2008/09 resulted in an audit opinion of 'weak' and as a result, this follow up review was undertaken in accordance with the annual Internal Audit plan for 2009/10.

The key control objectives reviewed as part of this audit were to ensure that:

- The control reports produced by the system are accurate, appropriate, complete and timely, and are in accordance with the Corporate Internet Access and Usage Policy;
- Processes and procedures ensure that inappropriate or illegal Internet activity (or attempted activity) is identified promptly and appropriate action is taken by line managers;
- The system for designating sites "blocked" is in accordance with the Corporate Internet Access and Usage Policy, and is working satisfactorily.

From the audit work completed and the testing carried out as part of this review, Internal Audit is able to provide **partial assurance** that there is a sound system of controls in place.

The main reason for this opinion was the lack of progress in implementing the majority of recommendations arising from the original review and these have therefore been repeated (with modifications as appropriate).

Internal audit is pleased to report that since this follow-up report, management has confirmed the implementation of a number of the key recommendations of the report, and this further improves the control environment. These specific actions relate to departmental E-Business Teams being provided with the facility to use the Internet monitoring software and interface, 'Websense Web Security', together with appropriate training, in order to assist with the Internet monitoring process. As a result of this facility now being available to them, Internet monitoring is now considered to be much more robust in relation to:

- Identifying and reviewing attempted access to blocked websites;
- Reviewing which websites are the most frequently accessed and at what times of day, in order to assist with the corporate decision making process as to which non-work related websites should have their access restricted;
- Enabling E-Business Managers to review the Websense Internet filtering categories on an annual basis, in order to assess whether the categories of website that are blocked and allowed continue to reflect the best operational needs of ESCC.

All recommendations arising from this follow up review, including those repeated from the previous audit, have been agreed with management as part of a formal action plan. Implementation will be monitoring by Internal Audit and followed up during 2010/11.

Carepay 2009/10 (Children's Services)

This review of the Carepay System (which is part of the programme of Fundamental Accounting System reviews) was undertaken in accordance with the annual Internal Audit Plan for 2009/10. The review followed up on the findings from the 2008/09 review and addressed the following control objectives

- access to the system is secure and in compliance with the Council's corporate standard;
- robust and secure system backup and recovery arrangements are in place;
- payments are made at the correct levels and are received by foster/adoptive parents in time;
- controls on the termination/amendment of allowances are robust, minimising the level of overpayments; and
- overpayments are identified and recovered in a timely manner.

From the audit work completed during this review, which has confirmed a significant improvement to the control environment compared with last year, we are able to provide **substantial assurance** that there is a sound system of controls in place.

Of the 29 recommendations made in 2008/09, 22 have been implemented in full, one partially implemented and one superseded. The remaining five recommendations are dependent on the introduction of CarePay 6 and, although this is not yet in place, we have confirmed that adequate compensatory controls have been put in place and that these are working effectively.

Overall, the direction of travel on this system is clearly positive with most of the weaknesses identified in the previous two years now addressed.

A small number of additional recommendations have also been made to further strengthen the control environment. These are however minor in nature and have all been agreed with management and incorporated within a formal action plan.

Bexhill Pathfinder (Building Schools for the Future) (Children's Services)

The new design and construction of Bexhill High School is part of the Building Schools for the Future programme "One School Pathfinder" scheme supported by Central Government. This review of project governance arrangements included the provision of assurance in relation to:

- Financial management;
- Risk management;
- Progress monitoring and change management;
- Roles and responsibilities;
- Project/programme reporting;
- Communication arrangements.

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

A number of audit findings from this review covered controls expected to be in place for any major project and have therefore, where appropriate, been identified as lessons learned for future project work. Other findings were specific issues for the Bexhill Pathfinder project and were reported to management during the course of the review for immediate action.

Overall, governance arrangements were found to be operating effectively, with a clear hierarchy established, including agreed roles and responsibilities.

A number of recommendations have been made arising from the review, all of which have been agreed with management. These include improving contract letting procedures, including retention of records, particularly in relation to external consultants and ensuring that, whilst provision for specific risks has been made, sufficient residual contingency provisions are available for a project of this size.

Children's Trust (Children's Services)

The functions of a Children's Trust are underpinned by the duties in Section 10 (1) and (5) of the Children Act 2004 on local authorities and their 'relevant partners' to co-operate in the making of arrangements to improve well-being for local children. Well-being is defined as the five Every Child Matters outcomes: that all children should be healthy, stay safe, enjoy and achieve, make a positive contribution and enjoy economic well-being.

The term 'Children's Trust' applies to the whole system of children's services, covering the work of partner agencies at every level, from the development of the overall strategy to the delivery of front-line services. Local authorities, through their Directors of Children's Services, lead the Children's Trusts, but work closely with other local agencies with a legal duty to be part of the Trust, including Strategic Health Authorities, Primary Care Trusts, Police Authorities etc. Children's Trusts are not separate organisations in their own right, as each partner retains its own responsibilities while working together to join up services.

The Audit Commission concluded in its local government national report published in October 2008 (Are We There Yet? Improving Governance and Resource Management and Children's Trusts) that Children's Trusts need to develop substantially if they are to bring the intended benefits. One of the recommendations made in the report was that local councils and other local agencies should use the self-assessment questions included in the report to help to improve the way they work. The self-assessment should be used to assess governance and accountability arrangements, as well as the way resources are managed.

The approach taken during this audit was to evaluate East Sussex Children's Trust arrangements using the Audit Commission's self-assessment tool, published within their national report 'Are We There Yet? - Improving Governance and Resource Management and Children's Trusts'.

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. This opinion has been based on the following areas of good practice:

- Self-analysis has been undertaken as part of the Commissioning Support Programme to identify areas for improvement in respect to the key commissioning function of Children's Trusts;
- Adequate governance arrangements are in place;
- A Children and Young People's Plan is in place with the focus on improving outcomes and a review of progress to date was carried out during 2009.

Some recommendations for further improvement have been made, including the need to develop effective risk management arrangements and ensuring that there is adequate evaluation and reporting in relation to overall performance. All recommendations have been agreed with management and incorporated within a formal action plan.

Community Interest Companies (Children's Services)

During 2009, a review was undertaken by Internal Audit in relation to a community interest company providing extended schools activity in the County. Specifically concerns were raised regarding an outstanding debt to ESCC when the company had ceased trading, although preliminary work also revealed potential risks associated with grant funding provided via the County Council.

In agreement Children's Services, Internal Audit undertook an exercise to examine the circumstances surrounding the use of the company, working closely with staff from Children's Services. The purpose of this review was to establish the chain of events leading up to the company ceasing trading and, more importantly, to help identify how risks to the County Council could be better mitigated in the future.

Our investigation identified a number of opportunities to improve the process for awarding and managing grant funding to third party providers, particularly in relation to assessing the adequacy of financial information within business plans submitted by providers and subsequent monitoring of delivery.

The findings from our review were reported during quarter 4, which included a range of recommendations, all of which have been agreed with management as part of a formal action plan.

Contact Point (Children's Services)

ContactPoint is an online directory of all children in England. It is intended that the directory will "go live" in 2010 and will be used by professionals who work with children and young people. It will provide them with a quick way to find out who else is working with the same child, making it easier to deliver more coordinated support.

As part of the ContactPoint accreditation requirements, Internal Audit carried out a "desktop review" of the Organisational and System Accreditation conditions that ESCC is required to meet.

Based on the work undertaken, we were able to provide appropriate assurance to management in support of the County Council self certifying that it meets the ContactPoint accreditation requirements.

Primary Capital Programme (PCP) (Children's Services)

The overall objective of this review was to assess the adequacy and effectiveness of governance, performance monitoring and risk management arrangements for the PCP and also in relation to a sample of key projects funded by the PCP grant.

The key control objectives of this audit were to ensure that:

- Adequate and effective programme management and governance arrangements are in place that ensures the PCP (including the individual projects which comprise it) is monitored, controlled and reported effectively through regular management accounting processes;
- 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 projects are identified through the project management process and reported to all stakeholders in good time.
- All Statutory requirements from the DCSF or other are fully complied with

The review found that both the PCP and the projects within it are being effectively managed, monitored and controlled and therefore, based on the audit work completed, Internal Audit was able to provide **substantial assurance** that there is a sound system of controls in place. Overall, governance arrangements were found to be robust, including clarity of roles and responsibilities, leadership and decision making.

Some recommendations were however made to further improve these arrangements which related primarily to ensuring that the Children's Services provide the CRD Capital Projects Team with fully prepared briefs, to enable them to effectively commission project inception studies, and to ensure that consultant cost reports provide complete and up to date financial information, including actual costs to date.

An action plan, incorporating all internal audit recommendations, has been agreed with management.

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

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

During the final quarter of 2009/10 external assessments were carried out at 15 primary schools as part of the three year programme for all schools to achieve the standard by 2010.

In total, 14 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. This will include the school which failed its assessment during quarter 4.

As at the end of 2009/10, out of a total of 192 schools, 176 (92%) have been assessed by Internal Audit as meeting the Standard since the assessment process began in 2006/07. Work will continue in 2010 to complete the assessment of the remaining 8% of schools. Additionally, work will also begin during 2010/11 on the re-assessment of schools whose three year accreditations have now expired.

During of the course of an ongoing investigation at one of the County Council's secondary schools, a number of significant internal control weaknesses were identified, including breaches of Contract Standing Orders, Financial Regulations and the School's Scheme of Delegation. As a result of this, the school's FMSiS accreditation was suspended and a full review of financial practices at the school undertaken by Internal Audit.

This review was completed during quarter 4, in conjunction with Children's Services Finance, and a detailed report was produced for the school which included a range of recommendations for addressing the control weaknesses identified. All recommendations made have been agreed with the Headteacher and incorporated within a comprehensive action plan. A further visit and follow up work will be undertaken in due course in order to confirm implementation of these recommendations and re-assess the school against the Financial Management Standard. Should a sufficient improvement in the control environment be confirmed, consideration will be given to re-instating the FMSiS accreditation.

Home Care Rostering System (Adult Social Care)

The StaffPlan Roster (SPR) system is a rostering system for staff providing Home Care services and has been introduced in order to replace the existing CareTime system used within Adult Social Care.

The primary objective of the review was to examine the robustness of ICT controls that ensure that new system supports the delivery of Home Care rostering as intended. The review covered a range of ICT control objectives relating to system security, backup and recovery, change control, system support and interface controls.

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 following areas of improvement were however identified and recommendations made accordingly:

- The need to formalise future system administration arrangements, including roles and responsibilities and development of documented procedures;
- Strengthening further the Data Centre's physical security controls;
- Ensuring that agreements with the software supplier contain appropriate security clauses, particularly in relation to system access for support purposes.

All recommendations to improve controls have been agreed with management and incorporated within a formal action plan.

De-commissioning of CareStore (Adult Social Care)

CareStore is an Electronic Document & Records Management system (EDRMS) which integrates with the CareFirst system. It was originally proposed that the data within CareStore would be migrated to Sharepoint, a multi-functional social care information system which can be accessed by care professionals outside of the County Council.

However, as an interim solution, management has subsequently decided to store these records in an electronic file repository which will be accessed through a portal called eCaseFile. Once all of these records, including the residual “hard copy” records, have been transferred to the repository, CareStore itself will be decommissioned.

The primary objectives of this review were to ensure that throughout the transfer process all records remained available either in one system or the other at any one time, that the records were transferred without corruption or modification, and that the systems were backed up adequately, in order to ensure that in the event of systems failure, no records would be lost or otherwise rendered unavailable.

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

We are satisfied that data has been, and continues to be, accurately transferred between the two systems. We have also established that the new system is backed-up in accordance with corporate standards, controls over access are robust and that concerns over the legal admissibility of the records have been addressed satisfactorily.

The project team has still to develop an appropriate strategy to migrate the data to Sharepoint, the long-term corporate solution for data storage. Recommendations to this effect have been agreed with management and incorporated within a formal action plan.

ContrOCC (Adult Social Care)

ContrOCC is a contract management system used by ASC to raise Individual Service Agreements in support of care packages agreed by operational managers, following the client funding approval process.

Data in ContrOCC is used to generate payments to providers. The payments are made from SAP and an interface has been put in place to allow data from ContrOCC to pass into SAP in order for the payments to be made.

Internal Audit provided advice and assurance in support of the new SAP interface going live. This work consisted of ensuring that:

- Documented User Acceptance Testing (UAT) testing had been completed and that all issues had been resolved prior to go-live;
- There is an agreed documented process for the operation of the interface, including appropriate segregation of duties and error correction arrangements;
- Password controls that protect access to ContrOCC are in line with those used for SAP.

Internal Audit identified no issues that would have prevented the interface from going live.

Putting People First (PPF) (Adult Social Care)

As part of the phased introduction of the PPF Programme, Internal Audit has been providing ongoing support, advice and assurance in relation to the development of new systems and working practices.

The agreed focus areas for this work included the Personal Budget (PB) Pilot, the Resource Allocation System (RAS), Self Directed Support (SDS) Pathway, Risk Management, Workforce and Training and the development of associated systems and processes. In each case, the scope of our work was to ensure that adequate controls were in place to enable the Council to routinely offer personal budgets to new service users from 1st April 2010.

During the final quarter of 2009/10 the following work was completed:

Personal Budget (PB) Pilot

The scope of this review was to provide assurance to management that the PB Pilot had been used to inform the development of self-directed support in East Sussex and to highlight any issues, specific to the PB Pilot, which may have had an impact on implementing the SDS care pathway by April 2010.

We found that the PB pilot was a useful exercise to inform the SDS process and that it helped clarify the criteria of 'acceptable expenditure' and the principles of how personal budgets can be spent by service users, especially the clarification of payments made to family members living at the same home.

All issues identified during the pilot were resolved in full and all points of learning were incorporated into the process of developing the SDS system.

RAS

The RAS is a calculator that determines how much money is allocated to a personal budget, based on points scored provided from information obtained during the assessment process.

The scope of this audit was to ensure that the Council's RAS is accurate, fit for purpose and that it had been properly tested. Assurance was also sought that the RAS was being fully integrated into the departmental IT infrastructure.

An audit opinion of **partial assurance** was given and the main reasons for this were that:

- At the time of our review, the RAS was still being developed and updated with key points of learning;
- It had not yet been integrated electronically into the ASC IT infrastructure;
- Existing spreadsheet based models had been tested on a limited sample of service users (25 in total) and the testing sample only included older people living at home and working age adults and not clients with learning disabilities;
- The RAS still needed to be developed to include clients that fall into the mental health category;
- Operational guidance was still being developed in some areas and further clarification and input was still required from other ASC teams to complete the user guidance for RAS operators.

A number of recommendations were made and agreed with ASC in order to address the above issues and ensure that the RAS arrangements are improved as a matter of urgency. Internal Audit will monitor progress as part of continuing support for the PPF Programme.

SDS Pathway

The SDS care pathway is the re-design of the previous care management system and consists of a range of tools and processes that defines the new procedure for individuals coming into contact with ASC from 1st April 2010.

From the audit work completed during this review, we were able to provide **substantial assurance** that an adequate and fit for purpose SDS process had been developed.

However, in the absence of a mental health RAS (as explained above), further work is required by ASC in order to ensure that a fully developed SDS process is in place for mental health clients by the proposed date of July 2010.

Risk Management

Substantial assurance was given that adequate arrangements were in place to identify, evaluate and manage the risks to the PPF programme and to report those risks routinely to the PPF Board in monthly highlight reports and by risk and issue summary sheets.

Testing also concluded that comprehensive controls were in place, within the SDS system, to help mitigate potential risks to individual service users, carers, staff and providers of adult social care.

Workforce and Training

The scope of this audit was to ensure that:

- All roles, responsibilities and new operational team structures that clearly define the functions and numbers of staff required for each team, as well as geographical locations, are in place to deliver SDS in East Sussex;
- The key individuals required to deliver SDS have received the required training to help ensure the SDS process can be implemented by April 2010.

No major areas of concern or significant weakness were found and **substantial assurance** was given that the programme's workforce and training arrangements were adequate to enable ASC to implement the SDS care pathway by April 2010.

Our review confirmed the workforce will only be restructured during 2010/11, once the SDS Pathway has been fully implemented, all the required roles and responsibilities have been identified and the work options for delivering brokerage have been fully assessed.

In terms of training, we confirmed that the majority of operational staff and ASC managers have attended training courses on the SDS pathway, the use of client assessments, support planning and the use of the personal budget tools. It was our opinion that this was adequate to support the rollout of the SDS pathway during April 2010.

Overall, it was our opinion that the PPF Programme, including the implementation of new systems and processes, is being progressed effectively. However, it is important to note that piloting of new systems and processes has been limited and further development will be required in order to manage the risk of dealing with larger volumes of clients from more diverse client groups. In addition, we have yet to review proposed systems and controls over budget management which is a key risk area.

Investigations

Children's Home Financial Management Investigation (Children's Services)

During 2010, Internal Audit was informed of a significant cash deficit on the imprest account at one of the County Council's children's homes. In response to this, and in light of previous instances of financial irregularity at the establishment, Internal Audit agreed to undertake a full review of all financial and administrative activity. The scope of the review included assessing compliance with Council Financial Regulations and Standard Financial Procedures and any other operational policies.

The Internal Audit review identified a range of internal control weaknesses and examples of non compliance, some of which required urgent action to address. As a result, only **minimal assurance** could be provided that the establishment had in place a sound system of control.

Specific findings included:

- The employment of a member of staff in advance of the completion of all necessary pre-employment checks;
- Weaknesses in the process for completing, processing and authorising staff claims for hours worked and mileage;
- A lack of control over the establishment imprest account including un-receipted expenditure, late submission of returns (resulting in the bank account being significant overdrawn), pre-signing of cheques and the use of multiple cheques to circumvent controls on financial limits.

A comprehensive action plan has been agreed with management incorporating the recommendations arising from this review which will be subject to follow up during 2010/11. Management have also been reminded that, whilst the findings and recommendations from this audit were specific to one particular establishment, they should also be taken into account when ensuring appropriate financial procedures exist and are being complied with at other similar establishments across the County.

School Financial Management Investigation (Children's Services)

During 2009, Internal Audit received an allegation relating to the possible theft of software from a County Council school. As a result of this, and previous instances of theft from the same school, an investigation was undertaken which included an examination of cash handling and security arrangements.

This investigation could not substantiate the allegation of software theft although one item of low value software could not be accounted for at the time of the visit.

Internal control improvements were identified in relation to cash handling procedures, physical security and improved inventory records.

All recommendations made have been agreed with the Headteacher and incorporated in a formal action plan.

Inappropriate Internet Activity Investigation (Children's Services)

Following an allegation that a member of staff at one of the County Council's primary schools had used a school laptop to access inappropriate material via the Internet, Internal Audit undertook a formal investigation in conjunction with Children's Services and Personnel and Training.

This investigation involved seizing the equipment concerned under controlled conditions and engaging external IT forensic specialists to examine the equipment to a standard which could be utilised in a criminal court should this be required.

Whilst the examination of the laptop revealed evidence of inappropriate material being accessed, no evidence of illegal activity was found. As a result, the member of staff involved was subject to disciplinary action. All of the inappropriate images were wiped from the computer concerned and this was returned to the school.

Summary of Anti Fraud and Corruption Activity 2009/10

A substantial amount of anti fraud and corruption work has taken place during 2009/10, including an increase in investigation activity by internal audit amounting to 292 days. This is considerably higher than that spent in previous years, with 139 days used during 2008/09.

Despite this increase, it is important to emphasise that not all of this work relates specifically to fraud and corruption, with much of it focussing on internal financial irregularity and breaches of County Council policies and procedures. The additional time during 2009/10 has occurred primarily as a result of three particularly complex investigations involving a large number of audit days.

In all cases, where internal control weaknesses have been identified as part of the investigation, these have been reported to management along with appropriate recommendations for improvement. The findings from these investigations are also used to inform future internal audit plans.

National Fraud Initiative (NFI)

Internal Audit has undertaken work throughout the year to support and co-ordinate the conclusion of the Council's response to the NFI 2008/09, which has identified a total of 2,786 filtered data matches. Only eleven of these data matches were still under investigation at year end, of which ten relate to pension payments and one relates to an employee who has been employed by two local authorities. The exercise has to date identified a number of potential overpayments amounting to £140,983 in total. These have occurred primarily in relation to pension payments and duplicate creditor payments as summarised below:

- Pension Payments – 7 cases, relating to payments continuing after the death of the pensioner, totalling £23,365, and 12 cases, totalling £101,143, relating to pensioners undertaking subsequent employment and not advising the pension scheme;
- Creditor Payments – 4 duplicate payments totalling £16,475.

In all cases, action is being taken to recover the amounts involved. Internal audit is also in the process of reviewing the circumstances leading up to these overpayments, and the associated internal controls, to help avoid future re-occurrence. Only eleven data matches were still under investigation at year end, of which ten relate to pension payments and one relates to an employee who has been employed by two local authorities.

Finally, Internal Audit is making preparations for the co-ordination of the Audit Commission's National Fraud Initiative (NFI) 2010/11. The data requirements are similar to those for previous years, and the data is to be submitted to the Audit Commission in October 2010.

Awareness

Building on the work undertaken during 2008/09, we have continued to work with departments across this Authority to raise awareness amongst staff of Anti Fraud and Corruption arrangements and the importance of raising concerns via the Confidential Reporting ('Whistleblowing') Policy. This has included the production of a leaflet issued to all school based staff with their payslips, similar to that issued during 2008/09 for all other staff, entitled 'Don't Turn a Blind Eye – Tackling Fraud, Corruption and Other Wrongdoing'.

In addition, internal audit staff now deliver presentations at all departmental induction sessions/welcome days (with the exception of Governance and Community Services, who deliver sessions internally), covering the importance of standards of behaviour and the Code of Conduct for Employees. Where appropriate, these sessions utilise the lessons learned from past investigations.

Confidential Reporting Hotline

One of the responsibilities of internal audit is to maintain the County Council Confidential Reporting Hotline and process all allegations received via this route. This involves undertaking an assessment of each allegation and determining an appropriate course of action in response. Whilst a substantial number of calls were received during 2009/10, the majority of these were found to relate to the activities of other local authorities, primarily housing benefit cases for district and borough councils. In such cases, we ensure that all relevant information is passed on to the appropriate organisation for further investigation.

Where allegations are found to relate to the County Council, we will determine, in consultation with service departments, Personnel and Training and the Monitoring Officer where appropriate, the necessary course of action. Where further action is required, in the majority of cases, this will involve either an investigation by internal audit or management (possibly in conjunction with internal audit). Where callers provide contact details, we ensure that appropriate liaison takes place with the individuals concerned, especially where further information is required in order to progress an investigation.

Training and Investigation Procedures

During 2009, two members of the IAS successfully completed the CIPFA Certificate in Investigative Practices (CCIP) professional qualification and a further two auditors are due to undertake this training during 2010. As part of this ongoing commitment to further strengthen our investigative practices, a full review of all of our investigation procedures within our Quality Manual has been undertaken which is due to be finalised in the early part of 2010/11.

These new procedures will then be supplemented further with additional training for all members of the team, particularly with regard to evidence handling and interviewing techniques. Wherever possible, this training will be undertaken in conjunction with Personnel and Training colleagues with whom we work closely on many of our investigations.