

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

Date: **1 September 2010**

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

Title of report: **Internal Audit Progress Report – Quarter 1 (1 April 2010 – 30 June 2010)**

Purpose of report: **To provide Members with a summary of the key audit findings, progress on delivery of the Audit Plan and the performance of the internal audit service during Quarter 1**

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**RECOMMENDATION: Members are recommended to consider and agree any action that should be taken in response to the issues raised as a result of the audits carried out during Quarter 1**

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## **1. Financial Appraisal**

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

## **2. Supporting Information**

2.1 The current annual plan for internal audit is contained within the Audit & Performance Division's Internal Audit Strategy and Annual Plan 2010-11. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (2 June 2010) and Cabinet (5 July 2010). It is updated each year.

2.2 An annual internal audit report, which gives Members and Chief Officers an opinion on the efficiency and effectiveness of the Council's internal control environment, is prepared each year, usually in June. This progress report covers work completed between 1 April 2010 and 30 June 2010.

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

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

3.2 Overall, of the 19 formal audits completed, 1 resulted in a 'full assurance' audit opinion, 7 with 'substantial assurance', 4 with 'partial assurance' and 1 where 'no assurance' could be given (Spray Watersports Centre). The remaining six formal audits were schools, five of which successfully passed their Financial Management Standard in Schools assessment.

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

- Spray Watersports Centre;
- Network Security Follow Up;
- Third Party Access to Data;

- Supporting People (SPOCC);
- Trapeze.

3.4 In addition the individual audit reports, annual reports and opinions were produced and presented during the quarter for the County Council as a whole and separately for each department. In each case the opinion was satisfactory. Internal Audit also contributed to the preparation of the Council's Annual Governance Statement for 2009/10.

#### **4 Performance against targets**

4.1 During quarter 1 of 2010/11 we delivered 515.1 productive audit days, equating to 25% of the plan days, above our 90% target for the year. We have completed 26.8% of our planned audit assignments which have been delivered in 90.9% of the budgeted time available, well within our target. Performance against both of our effectiveness targets is strong with 96.9% of recommendations being accepted and customer satisfaction running at 89.7%. Both Cabinet and Audit and Best Value Scrutiny Committee, as part of their approval of the Annual Report and Opinion concluded that the Council's system of internal audit was effective.

#### **5. Priorities for Quarter 2**

5.1 Priorities for the period 1 July 2010 – 30 September 2010 include:

- Commencement of the 2010/11 programme of fundamental accounting system reviews;
- Value of money review training for all Internal Audit staff.

SEAN NOLAN,  
Deputy Chief Executive and Director of Corporate Resources

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

#### **BACKGROUND DOCUMENTS**

Internal Audit Strategy and Annual Plan 2010-11

## Appendix A

### Summary of key audit findings

#### **Accounts Payable 2009/10 (Corporate)**

The Accounts Payable system is administered through SAP and is one of the Council's fundamental accounting systems. As such, the system is subject to annual Internal Audit review, covering the key controls in the procure to pay process.

Overall, we found that the controls used to manage the Procurement and Accounts Payable modules of SAP have continued to improve. Key controls are in place, ensuring that the right vendor is paid the correct amount by the due date.

It is therefore pleasing to report that, from the audit work completed, Internal Audit is able to provide **full assurance** that there is a sound system of controls in place.

#### **Accounts Receivable 2009/10 (Corporate)**

The Accounts Payable system is administered through SAP and is one of the Council's fundamental accounting systems. As such, the system is subject to annual Internal Audit review.

The review found that although key controls in the system continue to be effective in ensuring that debts are being raised and income is being received and recorded, compliance with AR policy and procedures has not always been consistent across departments. These areas of non compliance were however, considered to be minor in nature and were isolated incidents relating to local processes used by specific departments.

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

#### **HR/Payroll 2009/10 (Corporate)**

The HR/Payroll system is administered through SAP and is one of the Council's fundamental accounting systems. As such, the HR/Payroll system is subject to annual Internal Audit review covering the following control objectives:

- All employees on the payroll are valid and are employed by ESCC;
- Payments are only made for hours worked or allowable expenses;
- Payroll costs and statutory or material voluntary deductions are properly calculated and in accordance with approved pay rates or staff contracts;
- Payments to staff and other collecting bodies are correct;
- Payroll costs are properly accounted for in the main accounting system;
- All overpayments are identified and arrangements are put in place to recover them;
- Adequate segregation of duties is in place;
- Upgrades to PAYE tax tables and grade pay rate updates are properly controlled.

From the audit work completed during the review, covering both payroll and personnel controls, we were able to provide **substantial assurance** that there is a sound system of controls in place.

This is an improvement on the previous year with the majority of audit recommendations made in last year's report successfully implemented. In addition to the small number of recommendations which remain outstanding, some additional recommendations have been made to help further improve the overall control environment.

The issues identified mainly relate to compliance with the system of internal control as opposed to weaknesses within the system of internal control itself and in all cases the recommendations made have been agreed with management and incorporated within a formal action plan.

### **Third Party Access to Data (Corporate)**

The review of Controls over Third Party Access to ESCC Data has been undertaken in accordance with the annual Internal Audit plan for 2009/10.

Our review found that although areas of good practice were identified and confirmed and there was clear evidence of improvements being made as a result of the recent "Data in Transit" project, control weaknesses were identified in a number of areas. For this reason, on the basis of the audit work completed during this review, Internal Audit was able to provide **partial assurance** that there is a sound system of controls in place across the whole organisation.

The following areas of improvement were identified, some of which have already been addressed through the Data in Transit Working Group and following the recent appointment of a new Corporate Information Governance Manager:

- The need to clarify over overall ownership of Information Governance within ESCC. It should be noted that since the conclusion of the review, the Deputy Chief Executive and Director of Corporate Resources has assumed this role;
- Ensuring that consistent practices and controls are in place across the organisation;
- The need to ensure that in all cases, formal contracts or Information Sharing Agreements are in place between ESCC and the third party organisations to whom ESCC data is supplied. Where such agreements are in place, these need to be signed and clarification obtained as to where and how they should be retained;
- Improving staff take up of training in relation to data protection and where necessary, information security;
- Development of documented procedures for granting access to third party organisations, including the requirement for staff to first confirm that a proper contract or Information Sharing Agreement is in place.

All recommendations arising from the review have been agreed with management as part of a formal action plan which will be subject to a follow up review either later this year or early in 2011/12.

### **Treasury Management – Money Transfer System (Corporate Resources)**

The review of controls over the Money Transfer System (Bankline) has been undertaken in accordance with the annual Internal Audit plan for 2009/10.

The Bankline System has been introduced to allow the Treasury Management Team to move money electronically, having logged into Bankline via a web browser. The primary objectives of the audit were to ensure that:

- Appropriate access controls are in place;
- Training is adequate and appropriate to ensure a sufficient number of users are trained, for business continuity purposes;
- System logs and audit trails exist and are reviewed in order to detect and prevent fraud;
- The system is properly tested before go-live;
- Alternative arrangements have been identified, documented and tested in the event that the Bankline system is not available;
- Contractual liabilities are appropriate, between ESCC and NatWest, in the event of system malfunction or negligence.

From the audit work completed during this review, we were able to provide **substantial assurance** that there is a sound system of controls in place. Some opportunities to further strengthen control were identified in the following areas:

- The need to properly document procedures, including the roles and responsibilities of specific privileged users;
- Improving training records;
- Controlling use of potential insecure web browsers;
- Clarifying some legal liability issues with Natwest Bank.

All recommendations made have been agreed with management and incorporated within a formal action plan.

### **SAP Data Archiving (Corporate Resources)**

The review of the SAP Data Archiving project was undertaken in accordance with the annual Internal Audit plan for 2009/10.

This review sought to evaluate the adequacy of the arrangements made to address the risks to the Council associated with the migration of data from SAP to the new archiving solution.

The objective of the review was to ensure that data can be recovered easily and efficiently whilst remaining secure, that it continues to be deleted in accordance with the existing retention schedules, that access permissions remain consistent with those in SAP itself and that the project is being managed in accordance with the Council's Project Management Standards.

The project is ongoing with regard to the conduct of user authorisation testing (UAT) and the subsequent implementation of the full solution, however, to date, we have been able to provide **substantial assurance** that:

- arrangements for the migration of data are efficient and secure;
- appropriate data retention and destruction periods are in place, and;
- the project is being managed in accordance with the Council's standards.

Our work in this area is continuing as part of the 2010/11 Audit Plan, particularly in relation to user authorisation testing arrangements, and this will be reported on as part of future progress reports.

### **Network Security Follow-up (Corporate Resources)**

Internal Audit carried out a review of Network Security in June 2009, which resulted in an audit opinion of partial assurance. This follow up audit was undertaken as part of the 2009/10 Audit Plan and sought to assess the extent to which the previously agreed recommendations had been implemented by management.

From the audit work completed during the follow up review, we were able to provide **partial assurance** that there is a sound system of controls in place. Whilst our review established that some recommendations had been fully actioned, a number remained work in progress or had only been partially implemented at the time of the follow up review, despite being beyond the original target dates.

The recommendations which remained outstanding at the time of the follow up related to improving control over the detection of unauthorised devices and enhancing internal penetration testing arrangements. In relation to both unimplemented recommendations and those which are work in progress, a commitment to full implementation was received from ICT Services and an updated action plan has been agreed with revised target dates. Since finalising the follow up report, two of the eight outstanding recommendations have satisfactorily resolved.

Progress on implementing the remaining recommendations will be monitored as part of new action tracking arrangements which have now been incorporated into quarterly liaison meetings between Internal Audit and ICT Services.

### **Abacus Payments (Adult Social Care)**

Abacus is used to process payments due to independent sector providers of community care services, the data from which is passed through an electronic interface to the Council's main accounting system SAP for payments to be made. Due to the high value of payments processed through the system, Abacus is one of the Council's fundamental accounting systems and as such, is subject to an annual audit review.

The focus of this review was to ensure that adequate and effective controls are in place in relation to payments to providers via the Abacus system, including controls over payment authorisation and the data transfer to SAP. This was an interim review concentrating on the key controls as identified in previous audits and agreed with external auditors and included a follow up of our work in 2008/09.

From the audit work completed, we were able to provide **substantial assurance** that there is a sound system of controls in place. Our review confirmed that payments made to providers are in accordance with fee levels agreed and accurately reflect care services actually received.

A number of recommendations to improve existing controls were made and these were mainly of an ICT nature and included the need to modify and restrict current user access permissions within the system. All recommendations have been agreed with management.

It is understood that during 2010/11 the payments module within Abacus will be replaced by the Controcc System, which is at present used only to manage provider contracts at the point services are procured. Controcc will be reviewed as part of the 2010/11 audit plan.

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

As well as generating payment data to pay for services procured from independent sector providers, the Abacus system is also used to determine client contributions due for Domiciliary and Residential care services, based on actual service delivery. As with Abacus Payments, an automated interface exists to transfer the financial data into the Council's core accounting system; SAP. Data within Abacus is also used to recover Residential Nursing Care Contributions (RNCC) from Primary Care Trusts.

The purpose of this review was to provide an opinion on the effectiveness of controls within Abacus to ensure the collection of income due for all chargeable services provided and also to follow up on the recommendations agreed in the previous year's audit report.

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

The main issue identified as part of the audit was the substantial increase in the level of referral workload since the end of December 2009, primarily as a result of the inclusion of the Telecare Service within the assessment process. This led to an increase in the number of outstanding cases which had not yet been invoiced. In the case of Domiciliary Care, where clients cannot be charged retrospectively, this increased the risk that the Council is not maximising its income. In response to our findings, additional visiting officers have been engaged in order to clear the backlog and management information has been improved to enable more effective monitoring in the future.

A small number of recommendations, incorporated within a formal action plan, have been agreed with management.

### **Supporting People (SPOCC) (Adult Social Care)**

SPOCC is the name of the computer system used to administer the Supporting People Programme grant. Its purpose is to control contractual relationships with a range of service providers and to record and manage the eligible clients who use their services. The system also manages the four weekly payment process. An interface has been developed to transfer payment information from SPOCC into SAP in order to facilitate these payments which are usually in the region of £950,000 per month. SPOCC is one of the Council's fundamental accounting systems and as such, is subject to an annual audit review.

The overall objective of this interim review was to test the adequacy of controls within the system and to assess the implementation of recommendations made in the previous audit covering 2008/09.

From the audit work completed as part of this review we were able to provide **partial assurance** that there is a sound system of controls in place. This opinion is partly based on a number of recommendations made in the 2008/09 audit remaining partially outstanding as well as the following areas for further improvement:

- The need to ensure that contracts with providers for new services are signed prior to the commencement of services and before any payments had been made;
- Ensuring that contract variations are always raised as required and are signed prior to the effective date of the changes;
- Improving control over user access to security settings to ensure staff are not able to make unauthorised amendments (no instances of inappropriate activity were identified as part of the review);
- Ensuring that audit logs of changes to security settings is subject to proper review by management;
- Improving control over the introduction of system changes and upgrades.

All recommendations made have been agreed with management and incorporated within a formal action plan. All key (high risk) recommendations will be subject to action tracking by Internal Audit to ensure satisfactory implementation.

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

Internal Audit has continued to provide advice and support to Adult Social Care's (ASC) development and implementation of the PPF project.

During the quarter, we carried out work to ensure that appropriate systems were developed and introduced to enable ASC to deliver Self Directed Support (where the individual has greater choice and control over the support they receive) to all new mental health clients from July 2010.

The scope of this work was to ensure that:

- A Self Directed Support mental health care system had been developed and tested;
- A robust Resource Allocation System (RAS) for clients who fall into the mental health category had been developed and tested;
- All relevant mental health social care staff had been trained in Self Directed Support prior to the introduction of the new systems.

Our work found that appropriate systems are in place in order for Self Directed Support to be made available to mental health clients. However, the extent of our opinion at this stage has been limited due to the small client number used by ASC to test the system. We will re-visit this area later in the year and re-evaluate our work against a larger client base as the system develops. As a result of our initial piece of work three recommendations were made and agreed by management. Future focus areas for internal audit include carrying out assurance work on the monitoring arrangements relating to the Self-Directed Support pathway, the PPF programme management arrangements, the impact of PPF on ASC's budget monitoring process and updates to the Resource Allocation System (RAS).

### **CentraStage (Children's Services)**

CentraStage is a system which allows individual groups within ESCC to access schools' workstations and servers remotely for support purposes. This audit reviewed the effectiveness of controls around the use of CentraStage, covering the following control objectives:



- The system is secure and the risk of unauthorised access is minimised;
- Use of CentraStage is properly controlled to minimise the risk of unauthorised access by legitimate users of the system;
- Audit trails and other associated controls help ensure that appropriate action can be taken in the event that misuse of the system is detected.

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

Opportunities to further strengthen the control environment were identified in relation to:

- Clarification over future arrangements for ongoing, periodic, penetration testing;
- Finalisation of the draft 'Remote Support Policy for Schools', ensuring that this is subject to proper consultation with schools;
- Ensuring that all system users agree to an appropriate 'Acceptable Usage Policy';

All recommendations arising from the review have been agreed with management.

### **Spray (Children's Services)**

Spray Watersports Centre is part of the Council's portfolio of joint use facilities and provides tuition and supervised sessions in sailing, windsurfing, power boating and other similar activities. Income is received from courses and from membership subscriptions amounting to a total of £119,973 in 2009/10.

As part of an unplanned exercise, Internal Audit undertook a review of arrangements at the establishment covering the areas of receipting and recording income, banking, cash handling, health and safety, payroll processes and adequacy of inventory records.

During the course of our work, we identified a number of significant control weaknesses at the centre. In particular, recommendations made by the Adventurous Activities Licensing Authority, following an inspection, had not been implemented, leading to a risk that the centre's licence could be revoked.

Income procedures were found to be poor, leading to a high risk of financial loss, without being detected or challenged, as a result of human error, theft or fraud. Due to this lack of control and inadequate record keeping, we have been unable to provide assurance that all income due has been collected and banked or that no fraudulent activity has occurred.

The process to record hours worked and generate and approve payroll claims was also found to be weak, increasing the risk that payments could be made for hours not worked.

From the audit work completed during this review, we are able to provide **no assurance** that there is a sound system of controls in place. A total of thirty recommendations were made, all of which have been agreed with management as part of a formal action. It has also been agreed with Children's Services that the recommendations arising from the review will be used to ensure appropriate internal controls exist at other similar establishments across the County.

A formal follow up review will be undertaken by Internal Audit during quarter 3 of 2010/11.

## **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 financial management standards laid down by the Department for Education.

The FMSiS assessment process has been in place since 2007 and we have now started work on the second round of three year assessments. As part of this work we have taken the opportunity to extend our audit testing to provide an increased coverage of systems operating within schools. The results of our extended testing are reported to schools as part of our FMSiS accreditation process.

During the quarter, external assessments were completed for six schools (three secondaries and three primaries) as part of a rolling three year programme for all schools to achieve the standard.

Of these, five schools passed their assessments and will receive accreditation in due course. The one primary school that failed its assessment has been provided with detailed recommendations by Internal Audit which, when implemented, will enable it to meet the required standard.

Internal Audit continues to work with Children's Services Finance to support the 14 schools that have not yet met the standard to ensure they address the weaknesses identified and prepare for a re-assessment.

## **Trapeze (Transport and Environment)**

The Trapeze System is used to administer payments in relation to Home School Transport, Parental Mileage and Public Transport (contracted bus services). Data from Trapeze is passed through an electronic interface to the Council's main accounting system SAP for payments to be made. Due to the high value of payments processed through the system, Trapeze is one of the Council's fundamental accounting systems and as such, is subject to an annual audit review.

The control objectives for this review included:

- Access to the Trapeze payment process is secure and in compliance with the Council's corporate standard;
- Process manuals have been completed, revised and updated;
- All transactions made are accurate, timely, legitimate and accounted for correctly in accordance with Financial Regulations and Standard Financial Procedures;
- Adequate reconciliation of input and output data between Trapeze and SAP is undertaken regularly and is recorded;
- Adequate controls are in place to ensure that there is relevant and reliable ICT support for the Trapeze system.

From the audit work completed during this review, we were able to provide **partial assurance** that there is a sound system of controls in place. Whilst the review found that all of the expected authorisation and reconciliation controls for a payments system that interfaces with SAP were in place, further improvements were required in relation to access controls, system administration and monitoring of user activity.

A comprehensive action plan, incorporating all recommendations arising from the review, has been agreed with management and it is understood that some of the issues raised were in fact addressed during the fieldwork stage of the audit. A full follow up review will be undertaken later during 2010/11.

## **Investigations**

### **Term Contract Procurement (CRD Property)**

Following an anonymous allegation via the County Council's Confidential Reporting Hotline that the tendering process for a term contract was handled inappropriately by County Council staff, Internal Audit conducted a review to assess the extent to which the allegation could be corroborated.

Our investigation found no evidence of any wrongdoing in the procurement process or that any of the companies involved had been treated preferentially or unfairly. Some areas were however identified where there was scope for improvement in relation to procedures and compliance with procurement regulations. Appropriate recommendations were made to address these issues, all of which were agreed with management as part of a formal action plan.

### **Audits Remaining from 2009/10**

Listed below are details of those reviews from the 2009/10 Audit Plan which have yet to be finalised. In all cases, the reviews are in the process of being finalised, with the findings summarised as part of the quarter 2 progress report:

- Use of Consultants Follow Up Review
- Corporate Governance – Expenses
- Schools Themed Review – Code of Conduct
- Schools Themed Review – ICT Governance
- Looked After Children – Budget Management
- Information Governance and Security

## Appendix B

### Internal Audit Performance Indicators

Performance Indicator	Target	Actual Performance			
		At 30/6	At 30/9	At 31/12	At 31/03
<b>Economy &amp; Efficiency</b>					
Planned days delivered (%)	90	25%			
Planned audits completed = final reports issued (%)	90	26.8% <sup>1</sup>			
Actual v Plan time on completed audits (%)	105	90.9% <sup>2</sup>			
<b>Effectiveness</b>					
External Audit reliance on internal audit	Achieved	Achieved			
Maintain a CPA score of at least 3 / 4 for internal control.	3/4	TBC			
Recommendations accepted (%)	90	96.9%			
Customer feedback forms scoring 3 out of 5 or higher (%)	85	89.7%			
Reports to Chief Officers and Members	Quarterly	Quarterly reports issued.			

<sup>1</sup> Excludes FMSiS Assessments

<sup>2</sup> Excludes FMSiS Assessments

**Appendix C**  
**Analysis of actual days delivered against the annual internal audit plan**

<b>Service</b>	<b>Plan Days</b>	<b>Amend - ments</b>	<b>Revised Plan</b>	<b>Actual Q1</b>	<b>Actual Q2</b>	<b>Actual Q3</b>	<b>Actual to date</b>	<b>% plan delivered</b>
East Sussex County Council:								
Corporate Body	462.0	26.5	488.5	104.2			104.2	
Computer Audit	160.0	11.0	171.0	46.9			46.9	
Children's Services	430.0	92.0	522.0	189.1			189.1	
Adult Social Care	289.0	11.0	300.0	50.8			50.8	
Transport & Environment	199.0	2.0	201.0	28.3			28.3	
Governance & Community Services	152.0	11.0	163.0	61.3			61.3	
Contingency <sup>3</sup>	250.0	-153.5	96.5	-			-	
Sub total – internal customers	1942.0	0.0	1942.0	480.6			480.6	25.0%
External customers	112.0	8.0	120.0	34.5			34.5	28.8%
Total audit days	2054.0	8.0	2062.0	515.1			515.1	25.0%

<sup>3</sup> Contingency days delivered include completion of audits carried forward from 2009/10 and unplanned work e.g. investigations, and are included in the total for the department to which the work related.