

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

Date: **4 March 2011**

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

Title of report: **Internal Audit Progress Report – Quarter 3 (1 October 2010 – 31 December 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 3**

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## **RECOMMENDATION:**

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

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### **1. Financial Appraisal**

There are no direct financial implications arising from the recommendations in this report. However, the cessation of the Financial Management Standards in Schools (FMSiS) programme by central government will mean a loss of income of c £44,000 in a full year and compensating reductions in costs will need to be made to accommodate this in addition to savings required as part of Reconciling Policy and Resources (RPR).

### **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 October 2010 and 31 December 2010.

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

3.1 Key audit findings from final reports issued during Quarter 3 are summarised in Appendix A.

3.2 Overall, of the 20 formal audits completed, 3 resulted in a 'full assurance' audit opinion, 7 with 'substantial assurance', 4 with 'partial assurance' and 1 with 'minimal assurance' (Hillcrest School). The remaining five formal audits were schools, all of whom successfully passed their Financial Management Standard in Schools external assessments.

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 and, so far this year, no issues of concern have been identified through this process. In addition to this, formal follow up reviews are 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'. Members' attention is particularly drawn to our work on:



### Summary of key audit findings

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

The review of the General Ledger (which is part of the programme of Fundamental Accounting System reviews) has been undertaken in accordance with the annual Internal Audit Plan for 2010/11.

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

- All direct journal inputs to the General Ledger are complete, accurate and properly authorised;
- Transactions posted from feeder systems into control accounts are complete and accurate;
- Unrecognised accounts and suspense balances are reviewed and cleared on a timely basis;
- Adequate bank reconciliation procedures are in place;
- Presentation of ESCC accounts complies with International Accounting Standards.

Overall, the General Ledger continues to be well controlled by regular review and reporting. Audit recommendations that were agreed in the 2009/10 audit report have all been successfully implemented and we are therefore able to provide **substantial assurance** over the system of controls.

The main issue arising from the review related to improving the arrangements for checking SAP account balances to bank account balances on a daily basis. All recommendations made have been agreed with management and implemented with immediate effect.

#### **Pension Fund Investments (Corporate Resources)**

The review of the Council's Pension Fund Investment system (which is part of the programme of Fundamental Accounting System reviews) has been undertaken in accordance with the annual Internal Audit Plan for 2010/11 and the Pension Fund Audit Strategy.

From the audit work completed during the review, which covered the following key control objectives, we have been able to provide **full assurance** that there is a sound system of controls in place:

- all pension fund investments are completely, accurately and correctly recorded in the general ledger;
- pension fund and fund manager performance is monitored, with appropriate action taken in the event of under performance;
- short term investments, including cash, held by ESCC on behalf of the fund are accurately apportioned, with all income from interest and dividends received promptly and completely; and
- all risks to the availability, integrity and security of data are adequately managed.

The single recommendation arising from the last review had been fully implemented and no new recommendations have been made.

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

The fundamental accounting systems review of Pension Processes and Systems has been undertaken in accordance with the Annual Internal Audit Plan for 2010/11 and the Pension Fund Audit Strategy.

East Sussex County Council (ESCC) has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex.

SERCO administer the pension service on behalf of ESCC. The main services provided by SERCO include maintenance of scheme member records, calculation and payment of retirement benefits and premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the East Sussex Pension Fund Actuaries, Hymans Robertson. The system used by SERCO to record pension payments and contributions and to calculate pension entitlements is 'AXISe'.

The overall objectives of this review were to ensure that all income due to the Pension Fund from pension contributions is complete and accurate, all entitlements are calculated and paid correctly and that the accounts of the pension fund are stated accurately.

It is pleasing to report that, based on the audit work completed, we have been able to provide **full assurance** that there is a sound system of controls in place. All the recommendations made in the report for 2009/10 have been implemented and only a small number of additional, low risk recommendations have been made.

## **Procurement of Energy Supplies (Corporate Resources)**

The review of the Procurement of Energy Supplies has been undertaken in accordance with the annual Internal Audit Plan for 2010/11.

The scope of the audit was to review the Council's arrangements for payment of energy and water supplies, to ensure that utility company invoices are settled efficiently and effectively and only after confirmation that the services have been received.

From the audit work completed during, we have been able to provide **substantial assurance** that there is a sound system of controls in place. A number of recommendations have however been made to help further improve controls, primarily relating to:

- Improving processes to ensure that the Energy Management Team Database is accurate and kept up to date;
- Reducing the duplication of entry into the financial systems by payment clerks, of data already entered into the Energy Management Database by Energy Management Team staff;
- Taking action in an effort to reduce the number of inaccuracies in suppliers' invoices.

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

## Network Penetration Testing (Corporate Resources)

The review of controls with respect to Network Penetration Testing has been undertaken in accordance with the annual Internal Audit Plan for 2010/11.

Penetration (Pen) testing needs to be carried out periodically on Internet-facing systems in order to confirm that these systems are not vulnerable to attack by computer hackers. Pen testing identifies security vulnerabilities based on their severity if exploited. These vulnerabilities should then be fixed in a controlled and timely manner based on their severity.

The review examined the following control objectives:

- The chosen pen testing provider is accredited and can demonstrate that it uses appropriately trained staff and appropriate software tools in order to carry out pen tests in line with expectations;
- The scope of pen testing is properly defined and agreed in advance between ESCC and the pen testing provider;
- There are appropriate controls in place to minimise the risk of unauthorised pen tester access to ESCC data, and appropriate contractual redress is in place where unauthorised access is obtained;
- Controls exist to ensure that vulnerabilities identified through pen testing are fixed in a controlled and timely manner, depending on their classification of severity;
- There is appropriate periodic commercial evaluation of pen testing provision, in order to ensure that ESCC continues to use a pen testing provider that provides appropriate value for money;
- Defined policies and procedures ensure that:
  - All new web-facing applications are properly pen tested before “go-live”;
  - The risk of security weaknesses being introduced as a result of changes to systems in between periodic pen testing, is minimal.

It is pleasing to report that, based on the audit work completed, we have been able to provide **full assurance** that there is a sound system of controls in place.

Two minor recommendations were made to further improve the control environment relating to ensuring proper consultation over pen testing provider terms and conditions and improving pen testing awareness amongst relevant staff. Both recommendations have been agreed with management.

## Third Party Access to Data – Follow Up (Corporate Resources)

A review of Third Party Access to ESCC data was completed in June 2010, during which we were only able to provide partial assurance that there was a sound system of controls in place.

A follow up review was therefore undertaken during quarter 3 to assess the extent to which our previous recommendations had been implemented and the control environment improved. As a result of this follow up work, we are now able to provide **substantial assurance** over the adequacy of internal controls.

Overall, particular progress has been made on:

- ensuring that the Council's mandatory data security clauses have been incorporated into contracts with third party organisations;
- production of a draft corporate Information Security Policy (ISP), updated to reflect the need for proportionate, risk based checking of compliance with data handling and information security requirements;
- improving the storage and retention of signed contracts and information sharing agreements.

Some recommendations to further improve the control environment have been made, particularly in relation to ensuring that third party access to ESCC data is only granted after it has been confirmed that the third party has agreed to the Council's data security requirements. All recommendations made have been agreed with management and incorporated within a formal action plan.

### **Agency Staff Contract (Corporate)**

A review of the processes in place to manage the employment of agency workers by East Sussex County Council (ESCC) has been completed as part of the annual Internal Audit Plan for 2010/11.

In April 2009, ESCC entered into a contract with a service provider (Comensura), who acts as a 'one stop shop' for all temporary agency staff needs within ESCC. Managers across ESCC now contact Comensura, who use a network of agencies with whom they have competitive payment rates, in order to provide the manager with a list of possible candidates for temporary vacancies. The recruitment of agency staff and the management of assignments are controlled using a system called "Comensura.net".

The purpose of the audit was to review and evaluate the adequacy of internal controls in the systems used to procure agency staff, and to ensure that the system is meeting its stated objectives. The scope included an examination of new systems being used under the contract, contract management arrangements and contractor performance.

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

Overall, we found that the contract with Comensura has saved money for ESCC by reducing the rate of agency pay when compared to rates agreed directly with agencies. We have verified that savings of £246,749 have been made by ESCC for the first year of the contract.

Two key issues have, however, been identified concerning duplicate claims for agency staff and excessive hours being worked by agency staff, exposing ESCC to both financial and legal liability risks. In both cases, these weaknesses relate to management practices and would therefore have existed prior to the commencement of the Comensura contract.

The quality of the checks being performed by ESCC timesheet authorisers was found to be inconsistent, resulting in our sample testing identifying overpayments of £6,500. Whilst this money has been recovered in full, improvements in control are required to avoid future repetition.

Personnel and Training has taken immediate action to help improve compliance with expected control across all departments, with many of our recommendations already implemented at the time of our report. With regard to potential duplicate payments, further analysis is currently underway by Personnel and Training to assess the extent to which other historic overpayments may have occurred. A formal follow up of our recommendations will be undertaken as part of the 2011/12 Audit Plan.

### **Portable Devices (Corporate)**

The review of Portable Devices has been undertaken in accordance with the annual Internal Audit Plan for 2010/11 and sought to examine the effectiveness of both technical controls (software) and behavioural controls (policies & procedures, training etc.) associated with the use of portable devices. For the purposes of this audit, portable devices consist of hardware such as USB memory sticks, mobile phones (including “smartphones”), tablet PCs, laptops, Personal Digital Assistants (PDAs), CDs and DVDs.

Effective control needs to be in place over portable devices in order to maintain the security of the corporate network and the Council’s data, and for good records management. The scope of the review covered technical and behavioural controls governing the use of portable devices, incident management and reporting arrangements and awareness training for staff.

Based on the audit work undertaken Internal Audit has been able to provide **substantial assurance** that there is a sound system of controls in place. Our review found that progress is being made to improve internal controls, particularly relating to:

- the rollout of encryption on the majority of the Council’s laptop computers;
- the reduction in the number of users with ‘local administration rights’ (privileged access rights);
- introduction of new policies and guidance, including the “Data in Transit Policy”, “Data in Transit Guidance”, “Personal Use of Council Equipment Policy” and “Software Licence Policy”;
- the planned introduction of an online information governance training course for new starters.

Some recommendations have, however, been made to further strengthen controls and all of these have been agreed within management. Our recommendations included ensuring that every effort is made to encrypt all outstanding laptop computers, to continue to reduce the number of users with privileged rights on County Council computers and to improve incident reporting and management arrangements.

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

The review of the Direct Payments System has been completed as part of the agreed Annual Audit Plan for 2010/2011. The Direct Payments Scheme was first introduced by ESCC in April 1997, with the Council now paying direct payments to 981 service users, at a total cost of approximately £9.7 million per annum.

The main purpose of the review has been to provide an opinion on the effectiveness of the controls within ESCC's direct payment system, including ensuring that direct payments are being managed effectively, accounted for correctly and, within the flexibilities of the scheme, used for the purposes intended. Our audit focussed on the following specific areas of internal control:

- The approval process - to ensure direct payments are only paid to service users who are eligible to receive direct payments and who have been properly assessed (including financial assessments);
- Contract management arrangements - to ensure that signed contracts are in place for all service users and that the amounts actually paid agree to the amounts specified in the contract;
- Monitoring and control arrangements - to ensure that payments to service users are monitored effectively and that the money is used for intended purposes only, and;
- Payments system - to ensure that all payments are made in a controlled manner and within pre-agreed limits.

From the audit work completed during the review, we have been able to provide **partial assurance** that there is a sound system of controls in place. Areas where internal controls needed to be strengthened are as follows:

- Improving the financial monitoring of service user activity;
- Increasing the liaison and co-ordination between finance staff and front line practitioners to ensure that all available information is utilised to ensure direct payment money is being used correctly and that service users are receiving the appropriate level of support;
- Ensuring that effective monitoring of surplus funds on direct payment budgets is undertaken;
- Ensuring that all direct payment contracts are signed by service users;
- Implementing proper processes and procedures for staff covering the transfer of existing direct payments service users from their current care packages to new Self Directed Support plans.

With the exception of one low risk recommendation, all recommendations made in our report have been agreed with management and incorporated within a formal action plan which we will be following up during 2011/12. It should also be noted that immediate action has been taken by management to address a number of the key recommendations and that officers involved in the operation of the system are already working to develop new processes and procedures, as well as improving compliance with the existing control framework.

### **Claims for Additional Hours (Adult Social Care)**

Following concerns over the timesheet activity of a Care Worker within Adult Social Care (specifically in relation to excessive hours and overlapping claims), and a subsequent investigation led by ASC and PAT, we conducted a review of arrangements for claiming additional hours within ASC more generally. This review was agreed with departmental management on the basis that our preliminary enquiries into the above case identified weaknesses and inconsistencies in the way in which claim forms were processed and authorised.



ASC operates a number of establishments, some of which provide day-care facilities and others which provide residential care. Staff may be employed solely on a permanent contract, but others may also provide additional hours either in the same role or in a second different role, e.g. Cook and Night Care Officer. Some staff also work in more than one establishment. An individual may therefore claim hours on several timesheets each month for a number of establishments.

The scope of this audit review was to establish and assess whether:

- the policies and guidance governing the completion and authorisation of timesheets are adequate;
- the policies and guidance are being complied with; and
- satisfactory controls exist to ensure that payments are made for hours worked, at the correct rate.

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

Our review identified clear weaknesses in the process for individuals claiming pay for additional hours worked in ASC, including:

- Policies and procedures were not found to be sufficiently detailed and understood by staff;
- Effective validity checks were not being carried out between establishment rotas and timesheets and staff rotas were found to lack accuracy/clarity;
- No overview is performed between timesheets submitted by individuals who work in more than one role and/or at more than one establishment, thereby increasing the risk of hours being incorrectly claimed;
- Inadequate arrangements are in place to ensure compliance with the requirements of the Working Time Regulations 1998, particularly where staff work at more than one establishment.

A comprehensive management action plan has been agreed with Personnel and Training and ASC, covering a range of recommendations to improve the control environment. This will be subject to a follow up review during 2011/12.

Finally, with regard to Care Worker referred to above, a separate investigation into the specific concerns was conducted and this established that an overpayment had occurred, primarily as a result of weaknesses within the systems operated and a lack of due diligence from the employee concerned. Full recovery of the overpaid sum has now been agreed and the individual concerned has been subject to formal standard setting.

### **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 providing advice and support relating to the implementation of Self Directed Support (where the individual has greater choice and control over the support they receive).

Our current work, all of which we are planning to complete within the final quarter of 2010/11, includes testing of compliance with key controls associated with the Self-Directed Support pathway, PPF programme management arrangements and updates to the Resource Allocation System (RAS), as well as ensuring that appropriate budgetary control and finance systems are in place to support the Self Direct Support system. Assurance will also be sought that appropriate systems are being developed and implemented that can track payments and contributions over time and support the production of personal budget statements.

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

During quarter 3, Internal audit completed the 2009/10 grant claim audit for Hailsham Community College, a specialist sports college in the County. The college received an unqualified opinion indicating that the statements of expenditure were fairly stated.

### **Spray Watersports Centre - Follow Up (Children's Services)**

Internal Audit carried out a review of Spray Watersports Centre in July 2010. A number of significant control weaknesses were identified as part of this work resulting in us providing 'no assurance' as to the adequacy of the control environment. This follow-up review has therefore been undertaken to assess the implementation of our previous recommendations and the extent to which internal control has improved.

From the audit work completed we are now able to provide **partial assurance** that there is a sound system of controls in place. Many of the original control weaknesses have been addressed, including those relating to the requirements of the Adventurous Activities Licensing Authority, although there remain a number of areas where further improvement is still required.

The main reasons for this opinion are that membership records remain poor; leading to a risk that membership income may be incomplete. Whilst it is acknowledged that most income is received at the beginning of the year and that a full annual cycle has not occurred since the last audit, records are still not being completed correctly. In addition, the centre has no policy on membership fees for periods of less than a year.

As part of the review we have also recommended that management arrangements for the centre are reviewed. At present, operational and financial responsibilities are split, not just between individuals, but between divisions in Children's Services Department. Line management responsibility resides with Learning and School Effectiveness, whilst budgetary control responsibility lies with Contracts Management, part of the Resources Division. In these circumstances, there is a risk that effective operational and financial decision making may be compromised.

A comprehensive action plan has been agreed with management covering all remaining recommendations and this will be followed up by Internal Audit during the first half of 2011/12.

Finally, as part of the above review, enquiries were made about the controls at the Seven Sisters Canoe Centre at Exceat. A 'Delegation of the Financial Powers and Duties for Seven Sisters Canoe Centre' is currently at draft stage, which is heavily based on the Spray Watersports procedures document. It is understood that this will be implemented shortly. A separate visit to Exceat will be undertaken in quarter 1 of 2011/12 in order to evaluate the systems and controls in place.

### **Hillcrest School (Children's Services)**

The audit of Hillcrest School was undertaken to review the financial management at the school following its non achievement of the Financial Management Standard in Schools (FMSiS) in April 2008 on a range of issues, including, budget planning, procurement and local financial procedures.

In our previous audit, we reported that 5 out of the 18 standards that comprise FMSiS were not being achieved. Whilst a formal FMSiS assessment was not undertaken as part of this subsequent audit, our findings were still assessed against the requirements of FMSiS.

Based on the work undertaken, we found that the school was now only meeting 4 out of the 18 FMSiS standards and we were therefore only able to provide **minimal assurance** that there is a sound system of financial controls. Our key findings related to weaknesses in areas such as budget management and the accuracy and promptness of financial reporting.

It is acknowledged that the school have undertaken a significant amount of work to address a substantial deficit position, which it is planning to resolve by the 31st August 2011. We have made a range of audit recommendations in the review, all of which have been agreed with the school and a follow up review will be undertaken during quarter 4 to assess implementation.

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

During quarter 3, Internal Audit continued to carry out external assessments to ensure that schools are meeting the financial management standards laid down by the Department for Education (DfE) as part of the Financial Management Standard in Schools (FMSiS). This resulted in five schools (two secondaries and three primaries) all successfully meeting the standard.

However, on the 15th November 2010, the Department for Education (DfE) announced that FMSiS is no longer a mandatory requirement for schools in its current format and that a simplified version would be introduced in the Summer of 2011.

In accordance with DfE guidance, Internal Audit has contacted our schools that had commenced or were due to undertake the FMSiS process before 31st March 2011 in order to ascertain whether or not they wished to proceed.

Of these schools

- Ten wish to proceed with the FMSiS process.
- Twenty five do not wish to continue with the process in its current format.
- Three schools are still making a decision on this matter.

In order to ensure that an appropriate level of audit coverage and assurance is in place for our schools in the absence of FMSiS or a confirmed replacement, we are currently developing an interim school's audit strategy. This is likely to include a range of activities, including programmed audit visits to schools, selected and prioritised on a risk basis.

### **Contractor Procurement, Payment and Monitoring Arrangements (Children's Services Department)**

During 2009, internal audit carried out an investigation relating to concerns over the financial management and stability of two organisations with whom the County Council was trading. The nature of the concerns were that both organisations were in serious financial difficulty and that, as key service providers to the Children's Services Department, this could expose the County Council to both financial and service delivery risks.

As a result of our investigation, a total of 15 recommendations were made to improve internal control. These related primarily to ensuring that managers within the Children's Services Department (CSD) followed the correct procurement and contract management processes when awarding external contracts.

It is pleasing to report that our high level follow up of these recommendations during quarter 3 of 2010/11 has confirmed that in all cases, appropriate action has been taken by management. The main outcome from these has been the development of a Procurement Guidance Note that was issued to all Children's Services Senior Managers and Heads of Service in February 2010, reminding them of their procurement and contract management responsibilities and the need to comply with Contract Standing Orders.

### **Highways Maintenance (Transport and Environment)**

The review of the management arrangements relating to the East Sussex County Council (ESCC) Highways Maintenance Contract with May Gurney (MG) has been completed as part of the agreed annual Internal Audit Plan for 2010/11.

The contract for highways maintenance between ESCC and MG has a value of approximately £20m per annum and is currently in its fifth year of a seven year contract. There is an option to extend the contract for another three years at the end of the seven year period.

The main purpose of the audit has been to review the management of the Highways Maintenance contract, covering the following control objectives:

- Adequate risk management arrangements are in place;
- MG's performance is adequately monitored;
- Orders are raised for all highway maintenance works in accordance with Financial Regulations;
- All payments made are accurate and approved in accordance with Financial Regulations;
- Adequate controls exist over the variation process in line with Contract Standing Orders;
- Adequate financial budget monitoring arrangements are in place.

In addition, recommendations arising from the Highways Maintenance Contract Management audit of 2008/09 were also followed-up to ensure they have been appropriately implemented.

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. Some recommendations have however been made to help further improve the control environment, primarily in relation to:

- Carrying out comprehensive checking at the beginning of each financial year to ensure the correct payment rates are uploaded into the relevant systems used;
- Ensuring that all works variations are subject to appropriate authorisation via Project Manager Instructions;
- Improving control over the use of emergency orders, in particular, establishing clear criteria for determining which works fall into this category and therefore attract the additional charge.

All recommendations made as part of the audit have been agreed with management, all with implementation dates prior to the end of this financial year.

### **South Downs Joint Committee (Transport and Environment)**

On the 31st March 2009, the Department of Environment, Food and Rural Affairs (DEFRA) confirmed the establishment of the South Downs National Park and the creation of a South Downs National Park Authority. South Downs Joint Committee (SDJC) will therefore be superseded from 1st April 2011. SDJC will continue as an organisation up to 31st March 2011 but strategic responsibilities will be transferred earlier to the National Park or other Local Authority partners on the 4th January 2011.

ESCC Internal Audit provides annual assurance on the effectiveness of SDJC controls on behalf of the Director of Corporate Resources, as Treasurer to the Committee. This year the focus of our work has been on SDJC winding-up arrangements and, in particular, reviewing whether risks associated with the closure of the business have been adequately considered and issues appropriately addressed by SDJC officers in a formal transition plan.

We are completing our work in two phases:

- Phase 1 - Assessing whether the transition plan covers all the business activities of the organisation and that arrangements are in place to manage each aspect of the transition; and,
- Phase 2 - Assessing the progress being made and that closure of the business will be successfully achieved.

Phase 1 of this is now complete and we have been able to provide **substantial assurance** that an adequate SDJC transition plan has been developed.

Our review found that the SDJC transition plan adequately covers all key business activities undertaken by the organisation and records target dates to help control the transition process. A framework for monitoring progress against the transition plan has also been appropriately documented. Key tasks on the transition plan have been assigned to an officer or organisation; however this had yet to be fully communicated to external partners.

Further work is required to develop some elements of the plan so that potential risks are reduced, particularly those relating to the transition of services to East Sussex County Council and the closedown of financial systems.

More planning is still to be completed on the transfer of records and data to other relevant organisations upon closure of SDJC. Specifically, a classification of SDJC information is required so that data/documentation is appropriately transferred and the period of retention is understood.

We have created a management action plan to help SDJC prepare for the closedown. All twelve recommendations in the action plan were agreed by management. So far, good progress has been made on these recommendations which we will be following-up as part of phase 2 in January 2011.

### **Home to School Transport (Transport and Environment/Children's Services)**

The review of the Home to School Transport (HTST) system has been completed as part of the annual Internal Audit Plan for 2010/11.

The main purpose of this audit was to review and evaluate the adequacy of internal controls in the systems used to procure HTST, pay for these services and manage the HTST budget. The implementation of audit recommendations made in the 2009/10 HTST Budget Management audit were also reviewed. This had an audit opinion of "Partial Assurance".

In March 2010, T&E and CSD reported to the Audit and Best Value Scrutiny Committee on a range of actions intended to improve the efficiency and effectiveness of the HTST service. As previously agreed, the scope of this audit included a review of progress against these actions.

It was also agreed with T&E management that this audit would be combined with the annual fundamental accounting system audit of the Trapeze System. Trapeze (known within T&E as Trapeze PASS) comprises a number of data processing modules, with financial transactions transferred into SAP system for payment.

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

It is pleasing to report that the direction of travel in relation to the HTST service is positive. Management are continually seeking to improve the service and this is demonstrated through the improvements in budget management and the implementation of initiatives to enhance the efficiency and effectiveness of the service. The main findings arising from this review are as follows:

- Budget Management - a new budget forecasting model has been developed, resulting in significant improvement in budget management and enabling more informed decision-making. As at January 2011, the HTST budget is forecast to under-spend by £118,000, following overspends in many previous years.
- HTST Action Plan - appropriate action has been or is being taken to ensure that the actions previously reported to the ABVSC are implemented.

- Pilot Procurement - a pilot study was recently completed whereby the transport provision for a Further Education (FE) college was provided by a single operator. This resulted in significant annual cost savings and is therefore likely to be introduced for other schools from April 2011. This revised method of procurement also enables stricter compliance with CSO's and EU procurement regulations.
- Approved Operators – opportunities exist to strengthen arrangements for confirming the validity of operator licensing information and for checking the financial standing of operators, particularly those operators upon whom the Council places significant reliance.
- Quotes – procedures for the receipt, opening and recording of quotations from operators need to be improved.
- Operator Charges – improved, risk based monitoring is to be introduced in order to limit the risk of payments being made for journeys which have not occurred as a result of a pupil being absent.

All recommendations arising from this review have been agreed with management as part of a formal action plan.

## **Investigations**

### **School Building Society Account (Children's Services)**

During December 2010, we provided support to one of the County's secondary schools in investigating an unknown building society account which was found to have been registered to the school's address. As part of the support provided, we utilised the National Anti Fraud Network to obtain further details on the account and a full transaction history. Whilst it was not possible to establish the original source of the funds, we were, in conjunction with the School Business Manager, able to trace the signatories on the account and arrange for the remaining funds to be transferred to the School Fund Account. The building society account has also been closed.

### **Pensions Fraud (East Sussex Pension Fund)**

As part of the National Fraud Initiative 2008, a query arose relating to a current East Sussex pensioner who had also appeared on the register of deaths. Subsequent investigations confirmed that the individual concerned had died in 2008 and that the next of kin had failed to inform the County Council of the death or to close the bank account into which the pension had been paid.

The matter was reported to the Sussex Police and all relevant documentation passed over, along with a formal statement from a member of Internal Audit staff on behalf of the County Council. A suspect was subsequently arrested and a criminal prosecution is being pursued through the police and the Crown Prosecution Service.

In addition, Internal Audit has been liaising with Legal Services in order to seek civil recovery of the funds lost. Whilst this is ongoing, preliminary agreement has been obtained from the suspect to make full repayment. The terms of the recovery are currently subject to negotiation.

## 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%	47.1%	74.2%	
Planned audits completed = final reports issued (%) <sup>1</sup>	90	26.8%	40.8%	69.9%	
Actual v Plan time on completed audits (%) <sup>2</sup>	<105	90.9%	94.4%	98.8%	
<b>Effectiveness</b>					
External Audit reliance on Internal Audit	Achieved	Achieved			
Maintain a CAA score of at least 3 / 4 for internal control.	3/4	N/A – CAA has been discontinued			
Recommendations accepted (%)	90	96.9%	99.3%	99.1%	
Customer feedback forms scoring 3 out of 5 or higher (%)	85	89.7%	87.6%	88.6%	
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	1.5	463.5	104.2	89.9	171.6	365.7	
Computer Audit	160.0	-40.0	120.0	46.9	41.2	52.0	140.1	
Children's Services	430.0	185.1	615.1	189.1	94.7	129.3	413.1	
Adult Social Care	289.0	-4.5	284.5	50.8	78.4	88.1	217.3	
Transport & Environment	199.0	-37.0	162.0	28.3	54.1	47.0	129.4	
Governance & Community Services	152.0	39.0	191.0	61.3	72.2	40.9	174.4	
Contingency <sup>3</sup>	250.0	-144.13	105.9	-	-	-	-	
Sub total – internal customers	1942.0	0.0	1942.0	480.6	430.5	528.9	1440.0	74.2%
External customers	112.0	18.0	130.0	34.5	28.4	34.2	97.1	74.7%
Total audit days	2054.0	18.0	2072.0	515.1	458.9	563.1	1537.1	74.2%

<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.