

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

Date: **9 November 2011**

By: **Director of Corporate Resources**

Title of report: **Internal Audit Progress Report – Quarter 2 (1 July 2011 – 30 September 2011)**

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 2**

RECOMMENDATIONS: (1) 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 2; and

(2) Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

1. Financial Appraisal

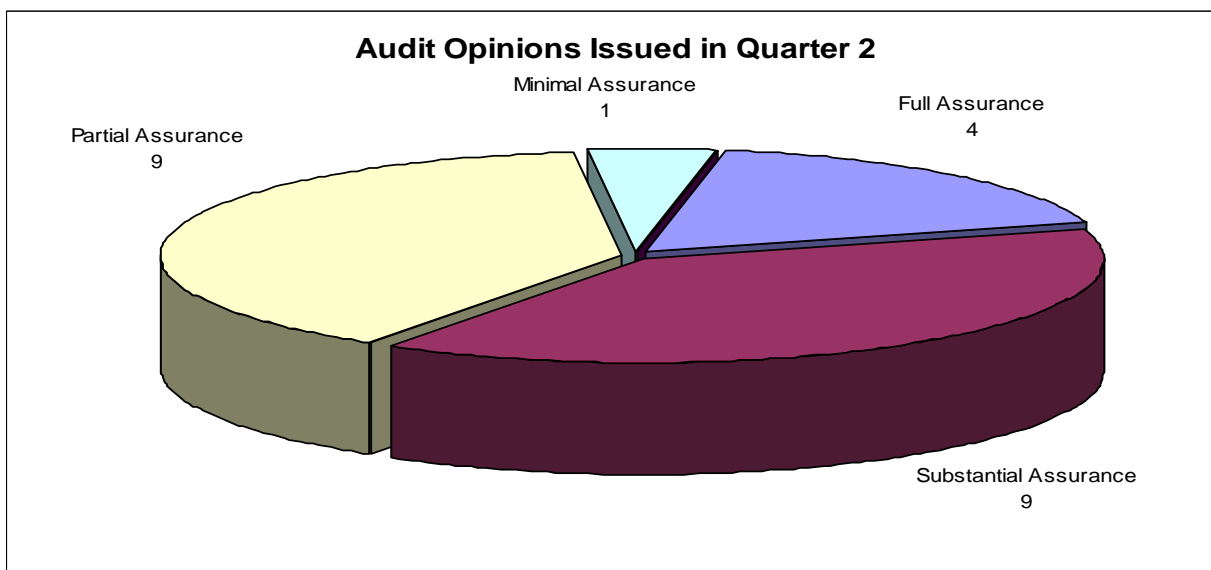
1.1 There are no direct financial implications arising from the recommendations in this report.

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 2011-12. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit and Best Value Scrutiny Committee (1 June 2011) and Cabinet (5 July 2011). It is updated each year. This progress report covers work completed between 1 July 2011 and 30 September 2011.

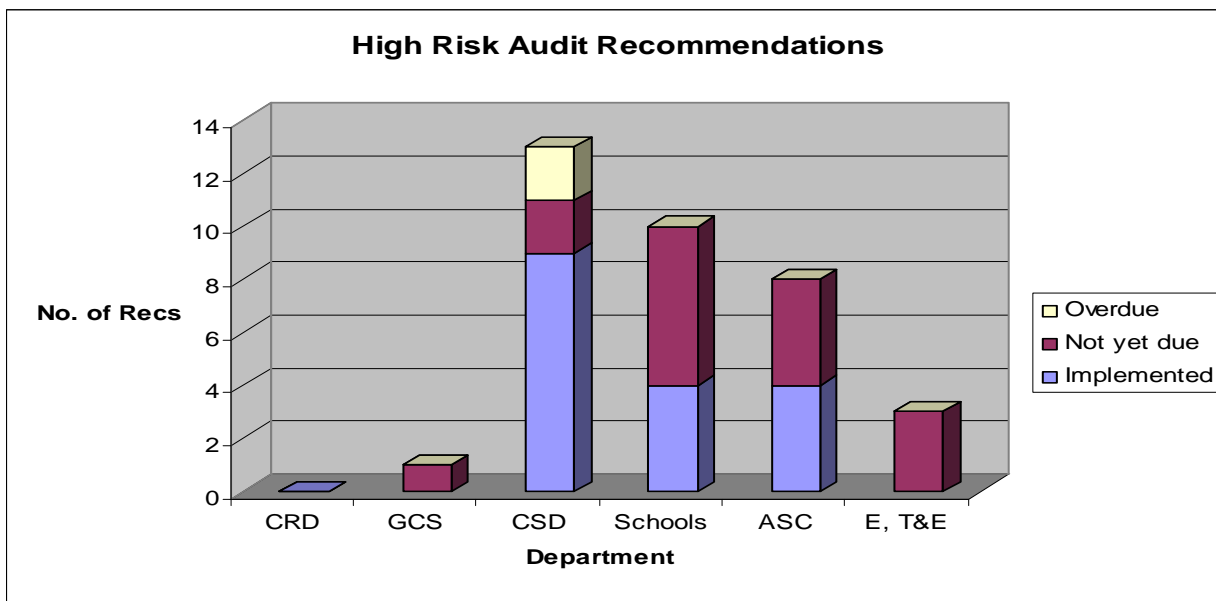
3. Summary and Key Audit Findings

3.1 The following graph provides a snapshot of all the audit opinions issued during quarter 2, with a summary of each review also provided within Appendix A.



3.2 Of these reviews, only 'Blue Badge Investigation Arrangements' was given an opinion below partial assurance. Whilst this review has identified the need for improvement, it has also recognised that any arrangements for the investigation of blue badge misuse need to be proportionate to the risks, having regard for the potentially significant investment of time required in conducting a thorough investigation. This is therefore something for management to determine based on the resources available.

3.3 In all instances where high risk (3 star) recommendations have been issued, implementation is monitored through an action tracking 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'. The current position with regard to the implementation of high risk recommendations issued so far this year is:



3.4 Details of the two overdue recommendations have been provided within Appendix B. In both cases, we are continuing to liaise with the department to ensure the necessary action is taken promptly or, where full implementation is not yet possible, compensating controls are put in place.

3.5 Members will recall that flexibility was built into the audit plan to allow resources to be directed to new and emerging risks during the year. We continue to liaise with departments to identify these but would also welcome input from Audit and Best Value Scrutiny Committee.

4. Internal Audit Performance

4.1 In response to feedback received from stakeholders as part of the current service review, we have taken the opportunity to streamline the key performance measures for internal audit, with more focus on qualitative measures. A summary of current measures is provided within Appendix C.

4.2 So far this year, the feedback received from clients via customer satisfaction questionnaires completed at the conclusion of each review shows that 89.5% of clients rate all aspects of the service as satisfactory or above, and of the recommendations issued, 99.2% have been accepted by management. As at the half way point in the year, 46.2% of the agreed audit plan has been delivered.

5. Priorities for Quarter 3

5.1 **Priorities for the period 1 October 2011– 31 December 2011 include:**

- Finalisation of the Internal Audit Service Review;
- Continuing to explore income generation opportunities with regard to new academies;
- Audits of the number of the County Council's key financial systems.

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Appendix A

Summary of key audit findings

SAP User Authorisations (Corporate Resources Directorate)

Previous internal audit reviews in the area of SAP user authorisations have highlighted a number of control weaknesses, resulting in only 'weak' or 'partial' audit opinions, although overall, the direction of travel is positive with the control environment continuing to improve.

However, due to the serious nature of the risks involved, it is imperative that the Council does not become complacent and continues to be proactive in managing these. As part of this review, we have followed-up all the key, high risk findings arising from our previous reports to ensure that appropriate control measures have been implemented as agreed. In 2009, we also commissioned Deloitte to review aspects of the information security controls in respect of SAP. A number of findings were identified from this work and we have followed-up those that were considered higher risk.

Overall we found that progress has been made against many of the key recommendations made in previous reviews. However, there are still important recommendations that have not yet been implemented which will help ensure SAP access rights are properly controlled in order to prevent financial loss and unauthorised access to ESCC data. This has resulted in an audit opinion of **partial assurance**. The details of these are as follows:

- Separation of Duty Conflicts – although conflicts have previously been identified as part of the Deloitte review, only limited action has been taken to ensure that these have been properly mitigated, increasing the potential risk of financial irregularity where individual users have full control over a function or process.
- Departmental Monitoring – there is not currently a coordinated approach to the departmental monitoring of SAP users and cost centre approvers. Whilst there is some ad-hoc monitoring by departments, this is not sufficient to ensure that only valid users exist in the system.
- SAP Audit Logging - SAP audit logging of high-risk tables, transactions and privileged profiles is turned to off. Where logging in these areas is not active and reviewed, unauthorised access attempts or changes to tables within SAP may go undetected.

All recommendations arising from our review have been agreed with management and have either already been implemented or are due to be completed before the end of 2011.

Pension Fund Governance and Strategy (Corporate Resources Directorate)

The main purpose of the review, which is conducted annually by internal audit, has been to assess the adequacy of East Sussex Pension Fund management and governance arrangements.

This work forms part of our Pension Fund Internal Audit Strategy, which was developed based on a risk assessment and in accordance with national best practice guidance.

It is pleasing to report that our opinion over the control environment remains unchanged from last year in that we are still able to provide **full assurance** over the system of control. No recommendations have arisen from our work.

Pension Fund Investments (Corporate Resources Directorate)

This audit of Pension Fund Investments was undertaken in accordance with the Pension Fund Internal Audit Strategy, covering the following key control objectives:

- 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 only finding from our review related to the need for system documentation to be updated to reflect changes arising from the introduction of separate bank account and general ledger for the Pension Fund. Management have taken immediate action to address this issue and it is understood that implementation is already complete. Overall, we have been able to provide **substantial assurance** over the control environment.

Treasury Management (Corporate Resources Directorate)

The main purpose of the review was to provide an opinion on the effectiveness of key controls in the Treasury Management system. Audit testing was carried out on transactions from the current financial year and the implementation of recommendations made in the previous year's audit report was also followed up.

Controls in relation to Treasury Management have historically been considered to be robust and this remains the case with **full assurance** being provided over the control environment. Only one recommendation was made and this was implemented by management with immediate effect.

Microsoft SQL Database Server (Corporate Resources Directorate)

Microsoft SQL Server is a relational database server, with the primary function to store and retrieve data as requested by other software applications, be it those on the same computer or those running on another computer across a network (including the Internet).

As the Council places significant reliance on the use of information technology to meet its operational and statutory obligations, it is essential that the SQL Server control environment applies appropriate governance and security configuration settings to safeguard data from being compromised by lack of system confidentiality, integrity and availability.

This review, conducted by specialist ICT auditors from Deloitte, resulted in an audit opinion of **partial assurance** over the control environment, with opportunities for improvement identified in relation to:

- Ensuring that appropriate scans of the servers are run on a periodic basis and that all necessary action is taken where errors or warnings are identified;
- Improving the database security monitoring arrangements;
- Development of a Microsoft SQL security standard which is subject to period review and evaluation.

The three recommendations arising from the review have all be agreed with ICT Services and, where considered necessary, will be subject to follow up during 2012/13.

Redeployment (Corporate)

Redeployment provides an opportunity to minimise redundancy costs, and to safeguard the County Council's investment in staff and retain valuable skills, experience and competencies within the organisation. It is the formal process involving the transfer of an employee from his/her current job to an alternative post within the County Council. This process is managed locally with assistance from the Advisory Team within Personnel & Training (PAT).

The overall objective of our review was to ensure that an adequate redeployment policy is in place which is applied consistently across departments. It is pleasing to report that, based on the work carried out, we have been able to provide **full assurance** as to the adequacy of the control environment. The following controls were found to be in place:

- Comprehensive policies are in place that provide managers with a clear, step by step approach to redeployment. These policies complement other County Council policies relating to managing change, for example the Restructure and Redundancy Policy;
- These policies enable the County Council to meet its legal obligations as an employer in respect of redundancy, expiry of fixed term contracts , disability and lack of capability due to ill health;
- Controls are in place to ensure that departments clear all their vacancies with PAT prior to advertising them externally so that all employees facing redundancy have an opportunity of prior consideration;
- An accurate and complete register is maintained by PAT, containing details of vacant posts together with information on the key skills, abilities, qualifications and experience of employees at risk of redundancy. Matching exercises are conducted on a regular and ongoing basis;
- Details of potentially suitable vacancies are made available to those at risk of redundancy on a weekly basis and job searches are regularly undertaken by PAT to identify suitable vacancies and to match them to staff at risk of redundancy;
- Details of all vacant posts, together with employees at risk of redundancy are regularly reported to an appropriate level of management;
- Adequate controls are in place to ensure that, within reason, only competent staff in terms of skills, qualifications, abilities and experience are matched against the posts to which they are redeployed;
- Appropriate HR support is available to recruiting managers in order to facilitate redeployment;
- Adequate controls are in place to ensure that all staff successfully redeployed, together with their managers, are supported by PAT and that employee suitability is monitored over time;
- Adherence to redundancy and redeployment protocols by departments is regularly monitored by PAT and recruiting departments are challenged when non-compliance is identified.

No recommendations for improvement were made.

Use of Consultants – Follow Up (Corporate)

Internal Audit carried out a review of the use of external consultants in July 2008. Due to the control weaknesses highlighted and the weak audit opinion given, a follow-up review was undertaken in August 2010 to assess progress on the implementation of the original recommendations contained within the management action plan. Whilst substantial

assurance was subsequently provided, further improvements were still required, so it was agreed with management that a further follow up review would be conducted to assess both progress and the implementation of the recently updated Consultant Toolkit.

From the audit work completed during this review we have again been able to provide **substantial assurance** that there is a sound system of controls in place. Remaining areas for improvement included:

- Continuing to improve the coding of consultancy expenditure within SAP;
- Ensuring that appropriate number of quotations is obtained for services over £5,000.

All four recommendations arising from the review were agreed with management.

CRB Checking of Contractors (Corporate)

In February 2011, the Coalition Government published the findings of its review into the Vetting and Barring Scheme (VBS), including a number of measures intended to make the processes and procedures more proportionate to the perceived risks. This includes a large reduction in the number of positions requiring checks, to just those working most closely and regularly with children and vulnerable adults.

The overall objective of this review was to confirm that adequate arrangements are in place to ensure that members of contractors' staff, and agency staff, who are undertaking regulated and controlled activity at ESCC establishments have been subject to CRB checking prior to gaining access to the establishment.

From the audit work completed, we have been able to provide **substantial assurance** that there is a sound system of controls in place. We did, however, identify some areas where opportunities exist to further strengthen arrangements and these include:

- Improving awareness and compliance with established policies, guidance and practices and where local procedures are developed, for example within schools, these are subject to appropriate approval;
- Ensuring that both the agency staff service provider (Comensura) and the employment agencies themselves are clear on the requirements for when ESCC should be notified of positive disclosures, even where these may not appear to represent a safeguarding risk;
- Ensuring that where schools have their own local contracts, these are updated to reflect the requirements of the latest guidance and that there is sufficient awareness amongst staff. These include the requirement to retain lists of contractors' CRB cleared staff.

A range of recommendations have been agreed with management, many of which relate to updating the guidance available and improving awareness.

Direct Payments System (Adult Social Care)

The County Council is currently paying direct payments to 1,020 service users at a total cost of approximately £10 million per annum. Of this total, around 500 service users have chosen to have their direct payments managed by external companies.

Internal audit carried out a review of the direct payment system in July 2010. Due to the control weaknesses identified and the weak audit opinion given, this follow-up review was undertaken to assess the implementation of our original recommendations.

The review also examined the effectiveness of the contract management arrangements with A4E, the external company engaged to provide specialist support to service users wishing to use direct payments to employ care staff.

From the audit work completed as part of the follow up, we have been able to provide **substantial assurance** over the adequacy of the control environment.

Overall, we found that 15 out of 18 agreed recommendations have now been implemented and much progress has been made by all involved in the operation of the system to develop new processes and procedures and ensure compliance with the existing control framework.

Of the three recommendations that remain, one relates to changing the format of monthly management reports to save time in checking payment records and this will be investigated in more detail by ASC as part of the Lean process. The remaining two recommendations relate to improvements that can only be addressed once a new version of the IT system, Controcc, is installed.

A small number of additional recommendations to help further improve control in other areas have been made and agreed with ASC management.

Arrangements for Claiming Hours in Adult Social Care Establishments – Follow Up Review (Adult Social Care)

Following concerns regarding the number of hours claimed by a care worker in 2010, internal audit completed a review of the overall arrangements for claiming hours worked at ASC establishments. This identified a number of significant weaknesses in the process, with an audit opinion of only partial assurance being provided. A follow-up review has therefore been undertaken to assess the implementation of the agreed recommendations.

It is pleasing to report that, based on the audit work completed during this follow-up, we have now been able to provide **substantial assurance** that there is a sound system of controls in place.

A number of improvements have been made since our last review, particularly in relation to clearer operational instructions being communicated to staff, amendments to the format of timesheets to improve the validation process and increased scrutiny of claims by management.

The opportunity has been taken to provide some additional recommendations to further improve this process and all of these have been agreed with Adult Social Care and Personnel and Training.

Age Well (Adult Social Care)

In December 2010, a new business case in relation to the Age Well programme was developed, with the objectives of meeting commissioning requirements for current and future demand and achieving equitable access across the county for those needing special residential care services. The new approach would increase partnership working with the independent sector for the identified Age Well sites.

The business case included the decision to sell the land held for the original Age Well programme, but with a set of conditions attached to this. The key conditions included that:

- The land can only be developed to house the provision of care services;

- East Sussex County Council (ESCC) has access to care services based on published rates, for the new land developments.

The main purpose of our review was to provide an opinion on the adequacy and robustness of controls in place for the current phase of the Age Well programme.

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

We found that the potential risks around the sale of the land related to the current phase of the Age Well programme have been considered and appropriate mitigating controls have been put into place.

The key documents required to market the properties have been created and reviewed by relevant and experienced officers, including within ESCC Legal Services and Property Teams. The documents include a lease, care contract and confidentiality agreement (for parties requiring access to East Sussex County Council information).

We will continue to monitor the Age Well project and provide future internal audit input, advice and guidance as appropriate.

Blue Badge Investigation Arrangements (Adult Social Care)

This review has been completed as part of our ongoing anti fraud and corruption activity, with the purpose of evaluating the adequacy of arrangements governing the receipt of, and investigation into, allegations of badge misuse.

There are a number of risks associated with blue badge misuse for local authorities, including, loss of parking revenue, contravention of equalities legislation, reputational damage and, for London authorities, significant financial loss of congestion charge revenue. As part of the review, we have identified the need for any arrangements for the investigation of blue badge misuse to be proportionate to these risks, having regard for the potentially significant investment of time required in conducting a thorough investigation.

Overall, we found that insufficient arrangements are in place to handle, assess, and where necessary, investigate blue badge misuse. The current arrangements were found to be ad hoc with no supporting policy or established processes in place. As a result, we were only able to provide **minimal assurance** that the County Council is responding appropriately where allegations of misuse arise.

A range of recommendations have been agreed with Adult Social Care and we will continue to work with the department to share with them our knowledge and expertise in this area. A follow up review will also take place during 2012/13.

Rose Cottage – Follow Up Review (Children’s Services)

In recent years, a numbers of serious issues have occurred at this children’s home requiring internal audit involvement. These have included claim form irregularities, petty cash misuse, theft and irregularities over building works.

As a result of these issues, we carried out a review of finance related practices operating at Rose Cottage, publishing our final report in March 2010, within which we could only provide minimal assurance over the control environment. This follow up review has therefore been undertaken to assess the implementation of these previous recommendations.

Although we have identified improvements in control at the home, these have only been sufficient to enable us to provide **partial assurance** that a sound system of control is in place. Whilst many of the original control weaknesses have been addressed, there remain a number of areas where further improvement is still required, notably in relation to the operation of the petty cash account, where there are still significant weaknesses. These include:

- the late submission of imprest returns to CSD Finance;
- occasions where the account has gone overdrawn;
- a lack of independent checking in relation to the end of month cash in hand balance;
- a failure to always complete and sign petty cash vouchers;
- instances of receipts not being obtained for imprest expenditure; and,
- errors occurring upon the handover of cash between shift staff.

Other areas where controls need to be strengthened include:

- Maintenance of inventory records, especially in light of missing items being identified;
- Clarity of information on staff rotas and visitor records.

Implementation of thirteen of the original thirty-seven recommendations agreed during the previous internal audit reviews has been inadequate and similar recommendations have been made to clarify the actions needed to address these. Although the majority are not considered to be high risk, it is important that they are implemented as soon as possible, given the previous control weaknesses at the home.

Management have agreed to action all of the recommendations arising from the review, with the majority to be implemented by the end of September 2011. Given the audit opinion of partial assurance, a further follow-up review will be completed either later this year or early in 2012/13.

Spray (Children's Services)

In December 2010, a follow-up audit was carried out at Spray Watersports Centre following an audit opinion of no assurance having been given in July of that year. The audit opinion following this second visit improved to partial assurance, although a number of controls were still not operating satisfactorily. A second follow up review has therefore been undertaken covering the same control objectives, namely:

- the centre retains its licences to operate;
- the centre is operated within budget;
- all income due is identified, received and banked intact;
- all expenditure is in accordance with Financial Regulations;
- salary costs are kept within budget and all salary payments are correct; and
- assets are adequately safeguarded.

This review has found that most of the recommendations made following previous visits to the centre have now been satisfactorily implemented and that there has been a marked improvement in control.

A small number of issues were identified as part of this follow-up, which have resulted in some new recommendations being made. The most significant of these relates to the lack of an independent reconciliation between income received and banked.

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

Exceat Canoe Barn (Children's Services)

Following a range of serious control weaknesses being previously identified by internal audit at the Spray Watersports Centre, it was agreed with Children's Services Department that we would undertake a review of internal controls at the Exceat Canoe Barn, which provides tuition for groups from various organisations in this county and abroad. The review covered the same control objectives as those for our work at Spray Watersports Centre, as set out above.

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. Whilst we found that the majority of controls were in place, improvements in the reconciliation of income were required in order to provide assurance that all income due is received and accounted for correctly.

All recommendations made have been agreed with management as part of a formal action plan for improvement.

Schools Audit Activity (Children's Services)

Following the announcement by the Department for Education in 2010 that the Financial Management Standard in Schools (FMSiS) was no longer a mandatory requirement, our work during the first half of 2011/12 has focussed on working with those schools that wished to continue with the assessment having already started the process, and also on undertaking a separate programme of schools audits. These audits form part of our overall Internal Audit Strategy for Schools and we have initially focussed on those schools that had not achieved FMSiS since its implementation.

In relation to FMSiS reviews, there were two schools still to be completed at the beginning of the financial year, one of which has now passed the standard. We are awaiting further information from the remaining school before a decision can be made as to whether or not the standard has been met.

Audits of the eight schools that did not complete FMSiS have been undertaken, with six of these now fully completed. Of these six, **two** have received an audit opinion of **substantial assurance**, with the remaining **four** receiving **partial assurance**.

Although there is no requirement for an external assessment as part of the new Financial Value Standard in Schools, it is likely that, as part of our school reviews, we will check whether the school's self-assessment is in line with our own judgement and to inform the governing body of any major discrepancies.

Traveller Sites – Review of Income Controls (Economy, Transport and Environment)

The Council maintains a number of traveller sites across County where it acts as a landlord to private individuals, collecting rent together with contributions toward the cost of utilities. A large proportion of this income is in cash and therefore, the main purpose of the audit was to ensure that all income due is collected and banked promptly and efficiently. In 2010/11 total income in respect of rents and other services was £84,904 of which £14,658 was cash.

Based on the work undertaken, we have been able to provide **partial assurance** over the adequacy of the control environment. Whilst internal control has improved since our previous review in 2009, weaknesses still exist in relation to:

- The lack of documented procedures over the income collection process, the development of which will generate improvements in the system of control and subsequent compliance;
- The quality of records is insufficient to enable us to confirm that all income due has been received;
- Inconsistency over income and expenditure levels for utilities between the different sites;
- Inadequate arrangements for the management of debt, resulting in the potential for unauthorised write offs of debt;
- Inadequate reconciliation between income collection and subsequent bankings.

All recommendations arising from the review have been agreed with management and in all cases, these are due to implemented by the end of October 2011. A follow up review will be undertaken as part of the next year's audit plan.

Passenger Transport – Freedom Tickets (Economy, Transport and Environment)

Our work focussed on the proposed interface controls between Trapeze and SAP for Freedom Tickets, in preparation for Economy, Transport and Environment (E,T&E) management review and sign-off. Freedom Tickets are weekly tickets that give unlimited bus travel for under 16s on the majority of bus services in East Sussex.

The scope of the audit was to review the controls, specific to Freedom Ticket transactions, over data input into Trapeze, the transfer of files across the interface and the resultant data posting into SAP. The purpose of the review was to inform management of significant risks that could result in an ineffective or unreliable system and therefore impact on their go-live decision.

Although it is not possible to provide complete assurance that all controls are in place and operating effectively in relation to the payment of Freedom Tickets, from the work we have completed to date, we have not identified any significant issues that would prevent the “go-live” of the transfer of Freedom Ticket data across the interface. Minor issues identified during our work have been resolved through the implementation of controls and ongoing updating of procedures.

Highways Maintenance Contract Extension (Economy, Transport and Environment)

Whilst it was originally planned that the existing highways contract with May Gurney would be re-tendered prior to September 2012, it became apparent that re-procuring a new contract was not the only option available to ESCC and proposals were therefore developed for a revised Service Delivery Model. In considering the options, the Project Board determined that the revised model offered a significant opportunity to make service improvements and savings, but without the need to incur re-procurement costs. A third party opinion was sought from consultants with insight into market intelligence who concluded that the Business Case represented the most economically advantageous option available to ESCC.

The project is now progressing and a Project Delivery Group meet on a monthly basis to discuss progress made against each stream, scheduled tasks, risks and opportunities and key decisions. Since July this year, internal audit have attended the group, providing advice and challenge where appropriate. We are currently considering the key risks faced by the project and will soon be in a position to develop a plan of work which will allow us to provide assurance in relation to key elements of the project. Specific focus areas are likely to include:

- Project management and governance arrangements
- Risk and opportunity management
- Change management
- Asset management
- New business processes
- Contingency arrangements
- Performance monitoring
- ICT arrangements, including provider support

As the project progresses, we will provide regular updates on our work in these specific areas.

Recycling Data Flows (Economy, Transport and Environment)

The Integrated Waste Management Services Contract includes the disposal of recyclable material. ESCC and Brighton & Hove City Council (B&HCC) pay the contractor a monthly sum based on forecasted tonnages of recyclable waste and there is an annual reconciliation at the year end where an adjustment is made to recover any under or over payment. If the contractor sells recyclable material to a third party, the contract requires them to share 50% of the net proceeds with the councils.

Outside of the contract, ESCC are obliged to pay recycling credits to Waste Collection Authorities (WCAs) under The Environmental Protection Act 1990. Recycling credit payments were originally made to the 5 WCAs in recognition that they were incurring costs and ESCC were making savings in disposal costs. From 1 April 2010, ESCC entered into a Waste Recycling Cost Sharing Agreement (WRCSA) with the 5 WCAs. This replaced the former arrangements and was made to incentivise the WCAs to increase levels of recycling.

The main objective of this review was to assess the effectiveness of the controls that ensure that recycling income due to ESCC/B&HCC is received and recycling payments are made based on accurate information as agreed under contract.

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, with only a small number of recommendations made and agreed with management.

English Heritage Grant Certification (Economy, Transport and Environment)

English Heritage grants are awarded to Local Authorities to help them manage, protect and enhance their local historic environment.

In completing a piece of work to ensure that the conditions attached to the English Heritage's grant award to ESCC for the year had been complied with, we were able to confirm that the funding was spent on the purposes for which it was intended, and all stipulated conditions had been met.

Investigations

Theft of Service User Money (Adult Social Care)

In July 2011, we received a report of the potential theft of funds from a service user living at one of the County Council care homes. Specifically, it was alleged that a number of large withdrawals had been made from the service user's bank account during the period of May/June 2011, amounting to in excess of £3,000.

Preliminary investigations identified that a member of care staff at the home may have been responsible and this individual was immediately suspended from duty pending an investigation. An internal audit investigation then took place, in conjunction with Adult Social Care management, Personnel and Training and Sussex Police, to determine the circumstances surrounding the case.

Our investigation identified that the service user's bank card had been removed by a member of staff and used to withdraw a total of £3,730 from their account, none of which could be accounted for.

Working with Sussex Police, we were able to identify who we believe to be responsible for the theft of this cash and ensure that they were subject to criminal prosecution. The individual has been arrested and charged with 'theft by abuse of position' and is due to appear in court shortly for trial. In the meantime, we have supported to an internal disciplinary process which resulted in member of staff's dismissal for gross misconduct and are in the process of pursuing repayment of all the monies lost.

Work In Progress

The following reviews were work in progress at the end of quarter 2 and due to be reported during quarter 3:

- General Ledger;
- HR/Payroll;
- Carepay;
- Risk Management;
- Real Time Telephone Monitoring System;
- On-line Collection of Income;
- New Business Systems – Children's Index;
- Wide Area Network;
- Schools Themed Review – Procurement and Contract Management;
- Traded Services;
- Children's Homes;
- Integrated Community Equipment Service.

Appendix B

Overdue High Risk Recommendations

The table below provides details of all high risk recommendations that have fallen due but where management have not yet confirmed their implementation:

Dept	Audit Title	Date of Report	Recommendation	Due Date	Current Status
Children's Services	Nursery Income	June 2011	A review of potential systems for managing nursery income should be undertaken as a matter of urgency and a decision made on the most appropriate system available. This should involve an assessment of operational needs, internal controls and value for money. When a preferred system is determined, this should be evaluated in accordance with Financial Regulations (A7.2 and A7.3).	30.9.11	This review is currently underway but not yet complete. Risks are partially compensated by other recommendations from the audit which have already been implemented.
Children's Services	Nursery Income	June 2011	There is a need to review and standardise the income receipting process and formally document this within the Nursery Financial Procedures, as outlined in recommendation 10. (Children's Services have a Cash Handling Procedure document that would assist with this process).	31.8.11	This review is currently underway but not yet complete. Risks are partially compensated by other recommendations from the audit which have already been implemented.

Appendix C

Internal Audit Performance Indicators

Performance Indicator	Target	Actual Performance			
		At 30/6	At 30/9	At 31/12	At 31/03
Economy & Efficiency					
Planned days delivered (%)	90	25	47.1		
Planned audits completed = final reports issued (%)	90	15	46.2		
Actual v Plan time on completed audits (%)	105	89	97.4		
Effectiveness					
External Audit reliance on internal audit	<i>Achieved</i>	Achieved			
Recommendations accepted (%)	90	100	99.2		
Customer feedback forms scoring 3 out of 5 or higher (%)	85	88	89.5		
Reports to Chief Officers and Members	<i>Quarterly</i>	Quarterly reports issued.			