

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **1 June 2012**

By: **Interim Director of Corporate Resources**

Title of report: **Internal Audit Services: Annual Report and Opinion**

Purpose of report: **To give an opinion on the County Council's control environment for the year from 1 April 2011 to 31 March 2012**

RECOMMENDATIONS

Members are recommended to:

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

(b) consider whether there are any significant control issues that should be included in the Council's annual governance statement for 2011/12.

(c) consider whether the Council's system for internal audit has proved effective during 2011/12.

1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2011/12 Internal Audit Plan and was funded from the agreed Audit and Performance Division budget.

2. Supporting Information

2.1 The purpose of this report is to give an opinion on the adequacy of the East Sussex County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2011 to 31 March 2012 in accordance with the Internal Audit Strategy for 2011/12.

3. Internal control and the role of Internal Audit

3.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2011. The latter states that authorities must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices.

3.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

3.3 During 2011, an Internal Audit Service Review was completed and reported to Chief Officer Management Team and Audit, Best Value and Community Services Scrutiny Committee. Amongst the recommendations agreed as part of the review, was the introduction of the following mission statement as the basis for the future delivery of internal audit services at ESCC:

'Internal audit is an independent assurance function which conducts reviews and provides advice, support and challenge to the organisation on risk, governance and internal control matters. In achieving this, the service aims to:

- Deliver a high quality, cost effective service in line with best practice and professional standards;*
- Work constructively with management to support new developments and major change programmes;*

- *Be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls;*
- *Be flexible and responsive to the needs of the organisation in all its work.'*

4. Audit Opinion and key issues

4.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. ***On the basis of the audit work completed, it is the Head of Internal Audit's opinion that East Sussex County Council has in place a satisfactory system of internal control (comprising corporate governance, risk management and internal control arrangements) which provides substantial assurance regarding the efficient and effective achievement of its objectives.***

4.2 The opinion, and the evidence that underpins it, is further explained in the full Internal Audit Services Annual Report and Opinion which forms Annexe A of this report. The report highlights key audit activity in the following areas:

- Completed audits where an opinion below 'partial assurance' has been given;
- Progress on implementation of high risk recommendations;
- Fundamental accounting systems;
- Schools;
- Anti Fraud and Corruption.

4.3 A summary of the major findings from audit reviews completed during quarter 4 of 2011/12 is included in Annexe B (major findings from previous quarters have already been reported).

5. Performance and the effectiveness of the Council's system of internal audit

5.1 The Accounts and Audit Regulations 2011 require the Council to carry out an annual review of the effectiveness of its system of internal audit. No further guidance on this process has been provided but the information set out in section 6 of Annexe A should provide a sound basis for making this assessment.

5.2 This report will be presented to Cabinet on 3 July 2012.

ANDREW TRAVERS, INTERIM DIRECTOR OF CORPORATE RESOURCES

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Background documents
Strategic Audit Plan 2011-12
Internal Audit Progress Reports 2011/12

ANNEXE A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2011/2012**



1. Internal control and the role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2011. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter and Terms of Reference, which can be found elsewhere in these papers as an appendix C to the Internal Audit Strategy.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

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

2. Delivery of the Internal Audit Plan

2.1 In accordance with the 2011/12 annual audit plan, approved by the Director of Corporate Resources and endorsed by the Audit and Best Value Scrutiny Committee, a programme of audits, based on an assessment of risk, was carried out, covering all Council departments. In accordance with best practice, the programme of audit activity was reviewed during the year and revised to reflect changes in risk and priority to enable us to provide an adequate level of assurance to the County Council.

2.2 All adjustments to the audit plan were agreed with the relevant departments and the Director of Corporate Resources. The actual internal audit coverage across departments compared to the audit plan has been summarised in Appendix A.

2.3 As well as progress reports made during the year to both COMT and Audit, Best Value and Community Services Scrutiny Committee, separate reports have been produced for each departmental management team which include an opinion on that department's internal control environment.

3. Audit Opinion

3.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. ***On the basis of the audit work completed, it is the Head of Internal Audit's opinion that East Sussex County Council has in place a satisfactory system of internal control (comprising corporate governance, risk management and internal control arrangements) which provides substantial assurance regarding the efficient and effective achievement of its objectives.*** Audit testing has confirmed that the majority of key controls are working in practice, with some specific exceptions. Where improvements to control or compliance are required, we are satisfied that appropriate action has been agreed by the relevant managers within reasonable timescales.

4. Basis of Opinion

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

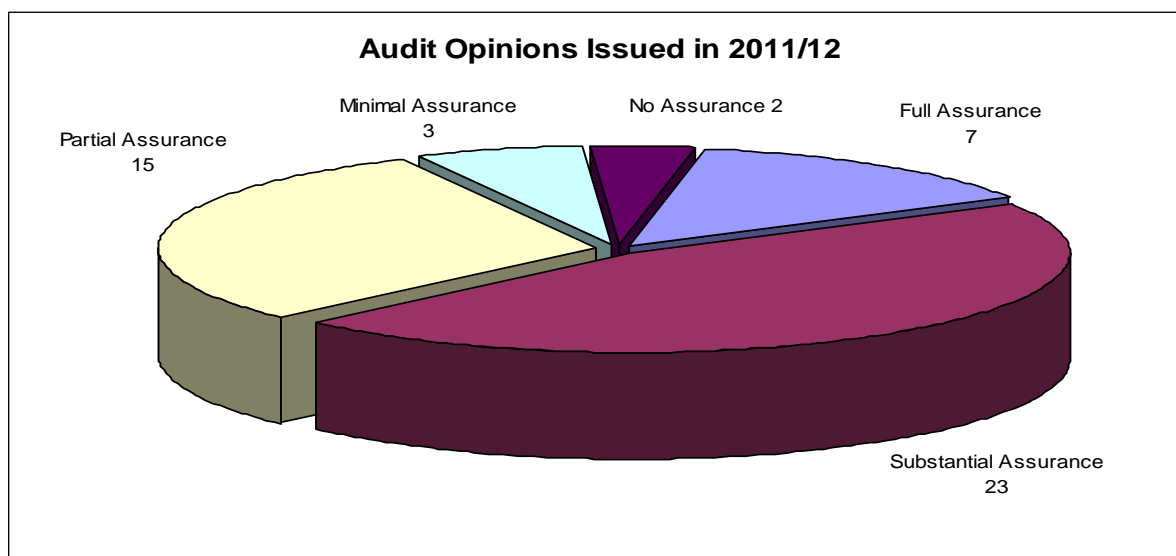
- All audit work completed during 2011/12, planned and unplanned;
- Follow up of actions from previous year's audits;
- Management's response to the findings and recommendations;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of internal audit during 2011/12.

5. Key Issues Raised During 2011/12

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues should also be taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graph provides summary of the outcomes from all audits finalised during 2011/12 with standard audit opinions:

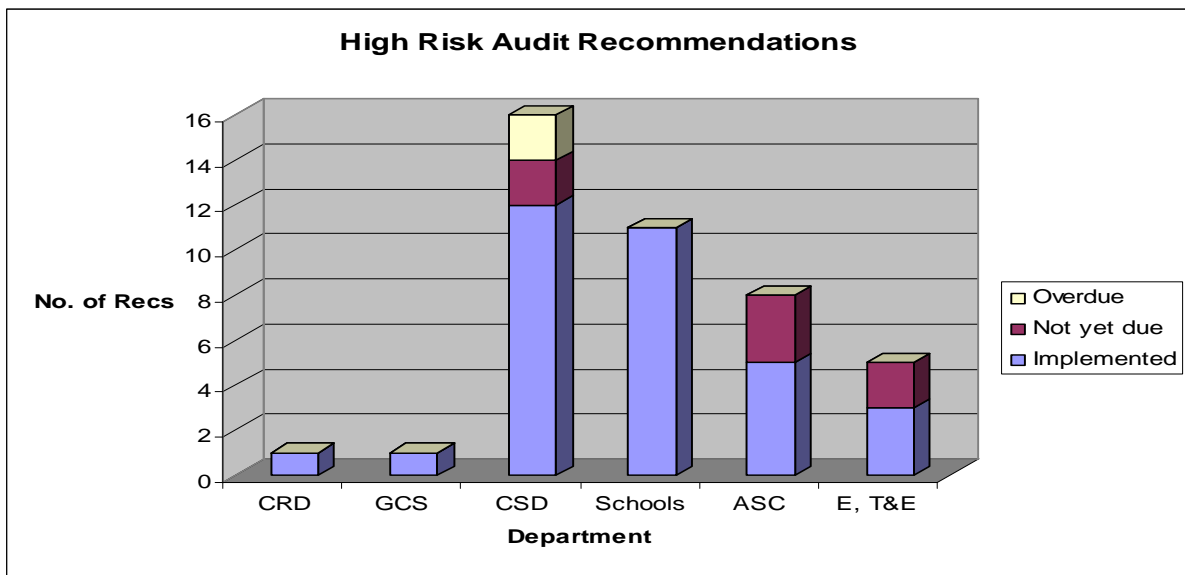


5.3 A full listing of completed audits and opinions for the year is included at Appendix C, along with an explanation of each of the assurance levels. Details of all those audits where either minimal assurance or no assurance could be provided over the control environment are set out in the following paragraphs:

- **Nursery Income (No Assurance)** – this review examined income controls across all five of the Council's nurseries, where total income in excess of £900,000 is received per annum. The audit identified serious control weaknesses in relation to income policies and charging, income collection systems, cash handling and banking and debt management. Further details were provided within our Quarter 1 Progress Report and confirmation has been received from Children's Services Department that all but one of the high risk actions have now been implemented. Details of the remaining recommendation is provided below. A formal follow up review will be undertaken during 2012/13.
- **Recruitment and Selection in Schools (No Assurance)** – this was a themed review examining controls across a sample of schools for ensuring staff recruitment is undertaken effectively and in accordance with Council policies. A number of control weaknesses were identified which were found to have exposed schools to the risk of challenge, particularly where they may be unable to demonstrate fairness and transparency in the recruitment process. Full details of our findings have been set out within our Quarter 1 Progress Report, with a range of recommendations having been agreed with management within Children's Services. Issues relating to the Council's powers to influence schools in such circumstances have been commented on later in this report.
- **Procurement and Contract Management in Schools (Minimal Assurance)** – as above, this was a themed review covering a sample of Council schools, examining the adequacy of guidance available to them on procurement and contract management and the level of compliance with this. The audit established that there was a low level of awareness, and therefore compliance, amongst school staff of Contract Standing Orders and associated guidance, resulting in poor procurement and contract management practices. Further details have been set out within our Quarter 3 Progress Report, with the main recommendations relating to raising awareness within schools and providing further guidance for staff.
- **Development of Traded Services (Minimal Assurance)** – following the introduction of the Department of Health's White Paper in 2010, traded services arrangements were implemented to cover a number of different services to schools. This review examined the management and administrative arrangements associated with the delivery and charging for these services, with particular weaknesses identified in relation to ensuring management had a clear understanding of the legal framework associated with these trading activities and ensuring that costs and charges for services were accurately calculated. Management within Children's Services responded positively to the report recommendations, with immediate action being taken in many cases. Further audit work in this area will be undertaken within 2012/13. Further details of the review are set out within Annexe B attached to this report.

- **Blue Badge Investigation Arrangements (Minimal Assurance)** – 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. Whilst we found that current arrangements were insufficient, with an absence of established policies and procedures, we also highlighted the need for any new arrangements to be proportionate to the risks involved, having regard to the potential significant investment of time required in conducting thorough investigations. Further details of the review are set out within our Quarter 2 Progress Report. A follow up review will be undertaken in 2012/13 which will include an examination as to the adequacy of the new policies and procedures.

5.4 As well as conducting formal follow up reviews in all cases where an audit opinion of either ‘minimal’ or ‘no assurance’ has been given, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. The position on these as at 31 March 2012 is shown in the following graph:



5.5 The position with regard to the two recommendations overdue at year end is set out below. In both cases, we will continue to monitor progress and escalate with management where we believe this exposes the Council to any unacceptable risk:

- **Nursery Income** – as part of the review it was agreed that a new nurseries charging policy would be introduced and reviewed annually. Children’s Services have confirmed that this is an area now subject to a restructure with new charges due to be implemented from the beginning of the new academic year in September 2012. Whilst this increases the risk of inconsistent charging across the Council run nurseries during the intervening period, implementation of new charges at the start of a new year may be more appropriate.

- Procurement and Contract Management in Schools – a recommendation was made as part of this review to remind schools of the correct procedures for managing potential conflicts of interest involving school governors. Whilst the formal reminder via the Virtual School Bag will not be published until May 2012, more general advice relating to this issue was given to schools as part of a recent Bursars Forum.

5.6 As at 31 March 2012, a total of 8 reviews remained in progress. In all cases, the fieldwork had been completed with draft reports in the process of being produced. At this stage, we are not aware of any material control weaknesses arising from this remaining work.

Fundamental Accounting Systems

5.7 Each year a significant proportion of internal audit time is spent reviewing the Council's fundamental accounting systems, with this work being directly relied upon by our external auditors, PKF, for annual accounts purposes. As a result, the Council has benefitted from a lower level of external audit fees. In addition to the main corporate financial systems, this programme also incorporates a number of departmental systems, due to the high value of transactions processed through them during the year.

5.8 It is pleasing to report that of those completed during 2011/12, all but one review (Exor System) resulted in either full or substantial assurance being provided over the control environment.

Schools

5.9 A number of internal audit reviews have been undertaken over the past two years which have highlighted weaknesses in the control environment within many of the Council's schools. During 2011/12, this has included the themed reviews of Recruitment and Selection and Procurement and Contract Management referred to above, as well as the provision of only 'partial assurance' opinions for a number of individual schools.

5.10 As a result of this, a project has been set up by Children's Services, supported by Internal Audit, to examine the role and relationship between the Council and our schools. The purpose of this work is to ensure that all the relevant risks and liabilities are properly understood in light of the greater independence available to schools and, where necessary, the extent of Council powers to influence and enforce improvements in governance and control.

5.11 This work is ongoing and is due to be reported on during 2012/13, with the findings likely to be important in terms of influencing future internal audit activity within schools.

Anti Fraud and Corruption

5.12 During 2011/12, we logged 22 potential issues under the Council's Anti-Fraud and Corruption Strategy, via the Council's confidential reporting hotline, our programme of internal audit work or notifications from departments. A total of 12 investigations were subsequently conducted, with the balance being referred to local management for action. The following provides a summary of the investigation activity for the year:

- Five cases were reported to the police, of which three resulted in convictions and two are ongoing. Of these three completed cases, one related to the theft of money from a service user by a member of staff, one was a theft of cash from a Council building and the final case related to the falsification of records in order to over-claim Direct Payments;
- In the three cases where convictions were obtained, recovery proceedings are underway for a combined amount of £29,500;
- No evidence of fraud or irregularity was found in four cases;
- Five investigations were in progress when writing this report.

5.13 Our findings from all investigation activity are used to identify any internal control weaknesses and these are reported to management along with appropriate recommendations for improvement. The findings from investigations are also used to inform future internal audit plans.

5.14 As part of the Audit Commission's National Fraud Initiative (NFI) 2010, Internal Audit co-ordinated the production and submission of data on behalf of the Council, covering payroll, pensions, creditors, insurance, blue badges, residential care clients and residents parking permits. A number of overpayments were identified through the exercise. These related to:

- 14 cases of overpayments to ESCC pensioners, totalling £21,692. Five of these (totalling £6,129) are being pursued through legal action, eight (totalling £15,183) have either been repaid or else are being repaid in instalments, and it is understood that one (£380) is to be written off. Two of these cases relate to the continued payment of pensions following the death of a pensioner and are therefore being pursued in conjunction with the police.
- A number of instances where residents of private care homes (according to ESCC records) also appeared in Registrar/Department of Work and Pensions records as being deceased. A joint investigation between Adult Social Care and Internal Audit was carried out in order to establish the facts behind these cases, to identify and recover any overpayments and to establish whether any fraud had been committed against the Council. In all cases, any overpaid sums had been recovered from the homes, mainly through an adjustment to future contractual payments, so ESCC did not incur any financial loss. Whilst the review did not identify any evidence of fraud, it was found that this issue has arisen as a result of poor administrative practices within the homes and a lack of awareness amongst staff at the homes of the correct procedures for notifying the Council when a service user dies. The results of this work were reported to Adult Social Care and a separate internal control report has been issued making recommendations to help limit future recurrence.

5.15 As well as the investigation work referred to above, we continue to be proactive in the identification of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. This has included delivering standards of behaviour sessions at departmental induction/welcome days and internally publicising proven cases of fraud and corruption. Having previously developed a joint working protocol with Personnel and Training, we are currently in the process of developing a similar document with Adult Social Care colleagues, covering safeguarding and other types of financial abuse involving service users.

5.16 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risks of fraud. During 2012/13, we will be reviewing our anti fraud and corruption arrangements, having regard for the latest national guidance as set out within 'Fighting Fraud Locally – The Local Government Fraud Strategy'. This work is likely to involve further awareness raising activities, as well as an increase in proactive anti fraud and corruption initiatives.

6. Internal Audit Performance

6.1 The Accounts and Audit Regulations 2011 require the Council to carry out an annual review of the effectiveness of its internal audit and the following paragraphs provide a sound basis for carrying out such an assessment.

6.2 Each year, internal audit self assesses against the Code of Practice for Internal Audit in Local Government in the UK. Overall, the service continues to maintain a high level of compliance with both this and the CIPFA 'Statement on the Role of the Head of Internal Audit', with further improvements achieved each year.

6.3 Performance against agreed targets is set out in Appendix B. As agreed as part of the Internal Audit Service Review, these indicators will be amended for 2012/13 to ensure a greater focus on qualitative measures.

6.4 In terms of the current indicators, the IAS has delivered 1,811 direct days or 103% of the total audit plan for 2011/12, with the number of completed audits also exceeding our 90% target.

6.5 During the 2011/12, internal audit quality was assessed through both our traditional post audit questionnaires (90.1% success rate) and through the extensive stakeholder consultation as part of the Internal Audit Service Review. This consultation revealed a high degree of satisfaction among stakeholders, who highlighted the responsiveness and engagement of internal audit to be particularly valued, especially where this relates to major change programmes and projects. A range of actions to help further improve the service and build business resilience were identified as part of the review and through our ongoing self assessment work. These actions are incorporated within the IAS Business Plan with implementation monitored and reported on a quarterly basis.

6.6 The IAS continues to participate in the CIPFA Benchmarking Club and the latest information indicates that the Council has an appropriate level of audit coverage based on its level of revenue spend and that the direct cost per day of the internal audit service is close to the average of comparable authorities.

6.7 Internal audit continues to work closely with the Council's external auditors, PKF, who reviewed our work on material financial systems as part of the audit of the 2010/11 accounts and have confirmed in their Annual Governance Report that they were able to place reliance on it in forming their opinion. This reliance is reflected in the low level of external audit fees that the Council pays.

6.8 The Audit, Best Value and Community Services Scrutiny Committee assesses its own effectiveness on a biennial basis against best practice guidance issued by CIPFA.

Appendix A

Actual Days delivered against the plan

The following table summarises the internal audit coverage across all County Council departments during 2011/12:

Service	2011/12 Plan Days	2011/12 Actual Days	2011/12 % Plan Days
<u>ESCC:</u>			
<i>Corporate Resources</i>	400	486.4	
<i>Computer Audit</i>	108	128.2	
<i>Children's Services</i>	387	482.9	
<i>Adult Social Care</i>	242	259.8	
<i>Economy, Transport & Environment</i>	205	218.5	
<i>Governance & Community Services</i>	117	96.9	
<i>Contingency</i>	200	-	
<i>Sub total – ESCC</i>	1,659	1,672.7	100.8%
<i>External contracts¹</i>	102	138.1	135.4%
Total audit days	1,761	1,810.8	102.8%

¹ The actual days delivered on external contracts includes additional non contract days paid for by external customers.

Internal Audit Performance Indicators

<i>Performance Indicator</i>	<i>Target</i>	<i>Actual 11/12</i>
<i>Economy and efficiency</i>		
<i>Planned days delivered (%)</i>	>90	102.8%
<i>Planned audits completed = final reports issued (%)</i>	>90	90.8%
<i>Actual v Plan time on completed audits (%)</i>	<105	99.7%

<i>Effectiveness</i>		
<i>External audit reliance on internal audit</i>	<i>Achieved</i>	<i>Achieved</i>
<i>Recommendations accepted (%)</i>	>90	99.6%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	>85	90.1%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 11/12</i>

Summary of Opinions for Internal Audit Reports Issued During 2011/12

Full Assurance:

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

Audit Title	Department
Redeployment	(G&CS/Corporate)
Accounts Payable	(Corporate)
Pension Fund Governance and Strategy	(Corporate Resources)
Pension Fund External Control Assurance	(Corporate Resources)
Treasury Management	(Corporate Resources)
Pension Fund Processes and Systems	(Corporate Resources)
Agewell	(Adult Social Care)

Substantial Assurance:

Audit Title	Department
Strategic Risk Management	(Corporate)
CRB Checking of Contractors	(Corporate)
Use of Consultants Follow Up	(Corporate)
General Ledger	(Corporate)
Procurement (FAS)	(Corporate)
Accounts Receivable	(Corporate)
HR/Payroll	(Corporate)
Pension Fund – New General Ledger	(Corporate Resources)
Pension Fund Investments	(Corporate Resources)
Wireless Network Infrastructure	(Corporate Resources)
Putting People First Budgetary Control	(Adult Social Care)
Direct Payments	(Adult Social Care)
Arrangements for Claiming Hours in ASC Establishments Follow Up	(Adult Social Care)
Real Time Telephone Monitoring	(Adult Social Care)
IWMSC Recycling Data Flows	(E, T&E)
HR/Payroll in Schools	(Children's Services)
Spray Watersports Centre	(Children's Services)
Carepay	(Children's Services)
Children's Homes	(Children's Services)
Children Index	(Children's Services)
Stafford Junior School	(Children's Services)
Ticehurst and Flimwell CE School	(Children's Services)
Helenswood School Follow Up	(Children's Services)

Partial Assurance:

Audit Title	Department
Wide Area Network	(Corporate Resources)
SAP User Authorisations	(Corporate Resources)
Microsoft SQL Database Server	(Corporate Resources)
Procurement of Construction – Framework	(Corporate Resources)

Appendix C

Audit Title	Department
Agreements	
Putting People First Self Directed Support	(Adult Social Care)
Traveller Sites – Review of Income Controls	(E, T&E)
EXOR System	(E, T&E)
Rose Cottage Follow Up	(Children's Services)
Seaford Primary School	(Children's Services)
Pells CE Primary School	(Children's Services)
Ringmer Primary School	(Children's Services)
Mark Cross CE Primary School	(Children's Services)
St Marys Catholic Primary School	(Children's Services)
Parkland Junior School	(Children's Services)
Exceat Canoe Barn	(Children's Services)

Minimal Assurance:

Audit Title	Department
Blue Badge Investigation Arrangements	(Adult Social Care)
Development of Traded Services	(Children's Services)
Procurement and Contract Management in Schools	(Children's Services)

No Assurance:

Audit Title	Department
Nursery Income	(Children's Services)
Recruitment and Selection in Schools	(Children's Services)

Other Audit Activity Completed During 2011/12 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
National Fraud Initiative (NFI)	(Corporate)
On-Line Collection of Cash Receivable – Health Check	(Corporate Resources)
Property Rent Reviews	(Corporate Resources)
New Fixed Assets Database	(Corporate Resources)
On-Line Collection of Income	(Corporate Resources)
Integrated Community Equipment Service	(Adult Social Care)
Self Directed Support/Lean Working	(Adult Social Care)
Controcc Interface Development	(Adult Social Care)
English Heritage Grant Certification	(E, T&E)
Passenger Transport - Freedom Tickets	(E, T&E)
Highways Maintenance Contract Extension	(E, T&E)
Joint Waste Collection Model	(E, T&E)
6 th Form Funding (Heathfield Community College)	(Children's Services)

Investigation Activity Completed During 2011/12:

Title	Department
Theft of Service User Money	(Adult Social Care)
Private Care Homes	(Adult Social Care)
Direct Payments	(Adult Social Care)
Theft of Cash	(Children's Services)
School Conflict of Interest	(Children's Services)

Note: This only includes the investigation activity which has been fully completed and where cases have been proven. For example, it is not considered appropriate to include cases where we have investigated allegations against a member of staff that proved unfounded.

Internal Audit Assurance Levels:

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

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

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

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

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

ANNEXE B

Summary of major findings during quarter 4 (reports issued 1 January – 31 March 2012)

Accounts Payable / Procurement (Corporate)

The Accounts Payable (AP) 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.

Whilst our review covered the complete procure to pay process, including the use of new Purchasing Cards within the County Council, there is a clear distinction between procurement and accounts payable functions and therefore, we have issued a separate audit opinion for each area. Specifically, we were able to provide **substantial assurance** over the controls within the procurement process and **full assurance** over the accounts payable system.

Whilst a number of recommendations to further strengthen controls have been raised and agreed with management, the majority of these are of a low risk nature.

HR / Payroll (Corporate)

HR/Payroll is one of the County Council's fundamental accounting systems and has been subject to a key control review during 2011/12, covering the following control objectives:

- All employees on the payroll are valid and are employed by ESCC;
- Payments are made only for hours worked or allowable expenses;
- Gross payroll costs and material deductions have been properly calculated and in accordance with approved pay rates;
- Payroll costs have been properly accounted for in the main accounting system;
- Segregation of duties was in place between those making payments and those creating and amending payroll records;
- All job offers were subject to completion of satisfactory pre-employment checks prior to being employed by the Council.

Based on the audit work undertaken, including a follow up of previous audit recommendations, we have been able to provide **substantial assurance** that there is a sound system of controls in place.

The only recommendations arising from the review related to improving compliance in a small number of areas, including the prompt cancellation of network accounts when staff leave the County Council. All of these recommendations have been agreed with management as part of a formal action plan.

Property Rent Reviews (Corporate Resources Directorate)

During quarter 4, an unplanned review was undertaken of the rent review process for County Council properties. Detailed testing was undertaken in relation to sample of properties across the Authority to ensure that rent reviews were completed on a timely basis and where appropriate, increased charges made.

Our review identified a number of compliance issues across the range of properties tested, some of which resulted in a small loss of income to the County Council. Weaknesses were identified in relation to working practices within both CRD Property and service departments, with the quality of management information also considered to be a contributing factor.

Recommendations made as part of the audit included the need to undertake a review of all current leases to ensure rental agreements are properly recorded and that all invoices are raised correctly. Whilst management have agreed to action this recommendation with immediate effect, all other recommendations are due to be incorporated within the current service review of the County Council's property function.

New Fixed Assets Database (Corporate Resources Directorate)

During the year the County Council purchased a new fixed asset database and asset management system. The Authority's fixed assets had a closing net value of over £903million in 2010-11, and historically, substantial manual intervention has been required to prepare these figures for the final accounts, particularly in light of the requirements of International Financial Reporting Standards.

Our review focussed on providing assurance that all data had been completely and accurately transferred across from the old system and that the new system will result in materially correct balances and capital charges in the financial statements. The key controls around the implementation, transition arrangements and system security/access controls were also reviewed.

Overall, no significant issues of concern were identified which would prevent the system from going live.

Wireless Network Infrastructure (Corporate Resources Directorate)

As a result of proposals to extend the current Wi-Fi arrangements within the Council Chamber to other areas of County Hall, a specialist internal audit was undertaken on the Wireless Local Area Network (WLAN) infrastructure at County Hall. The review covered the following areas:

- Governance of Wi-Fi infrastructure risks, usage and strategy;
- The extent to which delivery of the Wi-Fi network infrastructure meets service level agreements and system specification requirements;
- Wi-Fi infrastructure device security and administration, e.g. Encryption standards and change controls;
- The extent to which the Wi-Fi production and support environment has established clearly defined security, performance and topology documents, and;
- Intrusion detection and rogue wireless Access Points.

Based on the work undertaken, an opinion of **substantial assurance** has been provided as to the adequacy of the control environment. A number of recommendations have however been made to help strengthen the control environment, particularly in the event of any expansion in the use of wireless technology. These include the development of a formal Wireless Local Area Network Policy, incorporating security standards and protocols, and the need to formalise wireless hardware support and maintenance arrangements.

All recommendations have been incorporated within an agreed management action.

On-line Collection of Income (Corporate Resources Directorate)

Whilst the County Council already has the facility in place for debit or credit card payments to be made via the internet for Registration Services, arrangements have been made to extend and enhance this solution across the Authority to allow internet payments for full or partial settlement of outstanding invoices.

The new on-line payments system is being developed in conjunction with WorldPay and Serco, with appropriate input and support from ICT Services. In agreement with management, an ICT audit health check has been undertaken by specialist auditors from Deloitte, covering the following areas:

- User Interface;
- Back-up and Recovery;
- System Maintenance;
- Back Office Access Controls;
- Input Validation;
- System Accounting;
- Interface Controls; and
- Security (PCC-DSS).

At the time the initial fieldwork was completed, a total of five medium risk recommendations were made and agreed with management, covering areas such as back up and restore arrangements, penetration testing and technical ICT network controls. However, at a subsequent follow up in December 2011, we have been able to confirm that in all cases, these recommendations had already been addressed or were in hand to be actioned prior to any subsequent 'go-live' decision.

Pension Fund External Control Assurance (Corporate Resources)

The review of Pension Fund External Assurance arrangements has been undertaken in accordance with the Pension Fund Audit Strategy and covered the following control objectives:

- The County Council has identified and receives all sources of external control assurance for the pension fund and such information is formally reviewed; and
- The various sources of information regarding fund manager and custodian internal control provide the County Council, as administering authority for the pension fund, with adequate assurance. Where they do not, appropriate action is taken.

Based on the audit work completed, we have been able to provide **full assurance** that there is a sound system of controls in place with only one low risk recommendation being made and agreed with management.

HR/Payroll in Schools (Children's Services)

Approximately 12,000 of the 18,000 staff on the ESCC payroll work in schools, and each school is responsible for ensuring that adequate controls exist to ensure that HR and payroll information submitted for processing by the local authority is correct and properly approved. This themed review of HR/Payroll in Schools therefore forms part of the fundamental accounting systems work relied upon by the County Council's external auditor.

Testing was undertaken at a sample of seven schools across the County (including primary and secondary schools), covering the following control objectives:

- all employees on the payroll are valid and are employed by ESCC schools;
- payments are made only for hours worked or allowable expenses;
- gross payroll costs and material deductions are properly calculated and in accordance with approved pay rates or staff contracts;
- payroll costs are properly accounted for in the schools' accounting systems; and
- segregation of duties is in place between those approving payments and those summarising and submitting payroll records to Serco.

Based on this work, we have been able to provide **substantial assurance** over the control environment. Opportunities were however identified to strengthen controls in relation to updating and amending school schemes of delegation to reflect current working practices, improving segregations of duty over payroll amendments and strengthening payroll reconciliation arrangements.

In the majority of cases, the audit recommendations involve Children's Service Finance or Personnel and Training updating guidance to schools and/or reminding them of the proper practices. In all instances these have been agreed with management and incorporated within a formal action plan.

Development of Traded Services (Children's Services)

Historically, schools have bought services such as ICT and Personnel from ESCC for several years through 'delegated funding'. However, the Department for Education's White Paper in 2010 meant that unless a statutory requirement existed for a service to be provided, or a particular service was considered absolutely essential, all future services to schools would need to be purchased through a traded service arrangement. This led to the creation within ESCC of eight new traded services in 2011/12.

The main purpose of this audit was to review the management arrangements and administrative processes associated with the delivery and charging of new discretionary services to schools, covering the following areas:

- Adequacy of marketing;
- Systems for charging, collecting and monitoring income;
- Ability to respond to fluctuations in service demand;
- Adequate pricing mechanisms exist for traded services;
- Security of ICT systems;
- Compliance with statutory requirements;
- Mechanisms for responding to schools that decide not to buy in order to save money.

It was clear from the review that a great deal of effort and organisation was required within a short period to ensure that new discretionary services were delivered to schools on time. However, these time pressures are believed to have contributed to a number of control weaknesses identified during the audit, in particular:

- An initial failure on the part of management to seek Legal advice on the new trading activities being introduced as a result of the Education White Paper. This advice has subsequently been sought, with the legal basis upon which services may be sold to schools now more clearly understood;
- Evidence was not always available to accurately identify and monitor the costs of providing services, with clear inconsistencies in approach found;
- Similarly, few services were able to provide adequate documentation to demonstrate how they arrived at the prices charged for services;

- Inadequate arrangements were in place for reconciling the income received from 'pay as you use' services with the actual services delivered.

As a result of these findings, we have only been able to provide **minimal assurance** over the adequacy of the control environment. Children's Services management have however responded positively to the resulting recommendations, with action having been immediately taken in a number of areas. A formal follow up review will be undertaken as part of the 2012/13 audit plan.

Highways Maintenance Contract Extension (Economy, Transport & Environment)

In April 2011, the County Council agreed to extend the highways maintenance contract with May Gurney for another three years up until the 31 August 2015, with an improved service model to modernise the highways service. A transformation project is in progress to achieve this.

During quarter 4, we have continued our work in relation to the project, working with the Project Team to provide advice and challenge in relation to the following areas:

- Project management and governance arrangements, including risk management;
- Change management;
- Asset management;
- New business processes;
- Contingency arrangements;
- Performance monitoring.

Progress reports have been provided to the Project Board in January and March of this year, within which we have concluded that, based on the work undertaken, the project is progressing well and no significant areas of concern have been identified. This work will continue as the project progresses.

Joint Waste Collection Model (Economy, Transport & Environment)

Four of the five Waste Collection Authorities (WCAs) in East Sussex are currently undertaking a joint procurement project in order to appoint a contractor to collect waste on behalf of the whole partnership. The bids will be evaluated on both price and quality, with the 'price' element of the evaluation needing to include the likely financial impact of the contract on both the WCAs and ESCC (as the Waste Disposal Authority).

It was agreed by the Joint Procurement Project Team that ESCC would develop a model to calculate the financial impacts of the bidders' proposals in relation to how they intend to manage waste delivered into and out of the IWMS. The financial model would then form part of the tender evaluation process.

Internal audit were asked to provide an independent review of the model to confirm the accuracy of data when compared to the equivalent data within the current pricing model, and the correctness of formulae used. A similar review was also undertaken in relation to the 'Tonnage Input Model' and based on the testing carried out (subject to specific limitations), we did not identify any significant issues in either case that would prevent the use of the new models.

EXOR System (Economy, Transport & Environment)

EXOR is the corporate highways management system that administers the highways maintenance process. It is also one of the Council's fundamental accounting systems and is used to record the repairs made to the County's highways, highways construction and engineering works, and payments to the Council's highways maintenance contractor, May Gurney.

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

- All payments are made within the terms and conditions of the May Gurney contract;
- Orders are raised for all highway maintenance works in accordance with Financial Regulations;
- Adequate controls exist over the variation process in line with Contract Standing Orders;
- All payments made are accurate and approved in accordance with Financial Regulations.

Based on the audit work undertaken, we have been able to provide **partial assurance** over the control framework. Whilst the payment process and budget management arrangements were found to be operating effectively, opportunities to strengthen control were identified in relation to:

- Ensuring that all works variations are subject to proper authorisation;
- Ensuring that complete and accurate cost estimates, based on the most recent designs, are agreed at the time works are ordered;
- Developing the interface between EXOR and SAP further to enable more efficient and effective budgetary control.

All recommendations arising from the review have been agreed with management and will be subject to a formal follow up as part of the 2012/13 internal audit plan.

Self Directed Support / Lean Working (Adult Social Care)

Internal Audit has continued to provide advice and support to Adult Social Care (ASC) as part of the development and implementation of the Self Directed Support (SDS) system (where the individual has greater choice and control over the support they receive).

During this quarter, we carried out work to ensure that the SDS system continues to be revised, refined and updated with all learning as a result of Lean. Work was also completed to ensure all decisions made to update and change the SDS system, since our review completed during July 2011, were made in a controlled manner.

Our work is still ongoing to test compliance with the Self-Directed Support pathway key controls and the updates to the Resource Allocation System (RAS).

Controcc Interface Development (Adult Social Care)

The scope of this piece of audit work was to provide assurance over the controls and processes in place to ensure that client billing data is completely and accurately transferred from Controcc to the Accounts Receivable module of SAP, using the newly developed automated interface. Our work covered the following key controls:

- Adequate testing in line with corporate standards is completed by ASC and the CRD Contracts and Compliance team to ensure that the new interface operates as intended and that only valid and correct data transfers are made;
- Adequate reconciliation controls between Controcc and SAP exist.

From the audit work completed, no significant issues were identified which should prevent the proposed interface between Controcc and SAP being implemented. Some internal control improvements were identified and agreed with management as part of this work, primarily in relation to:

- Ensuring the prompt correction of errors arising through the interim manual billing process;
- Improving the layout of client invoices;
- Improving security over electronic interface files.

Work In Progress

The following reviews were work in progress at the year end and are due to be completed during the first quarter of 2012/13:

- Agency Staff Contract Follow Up;
- Road Safety Governance;
- Concessionary Fares;
- Section 75 Pooled Budgets;
- Sixth Form Funding;
- Schools On-Line Income;
- Hurst Green Primary School;
- Controcc.