

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

Date: **4 September 2012**

By: **Interim Director of Corporate Resources**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/12 – 30/06/12)**

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

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 1;**
 - 2. Identify any new or emerging risks for consideration for inclusion in the internal audit plan.**
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1. Financial Implications

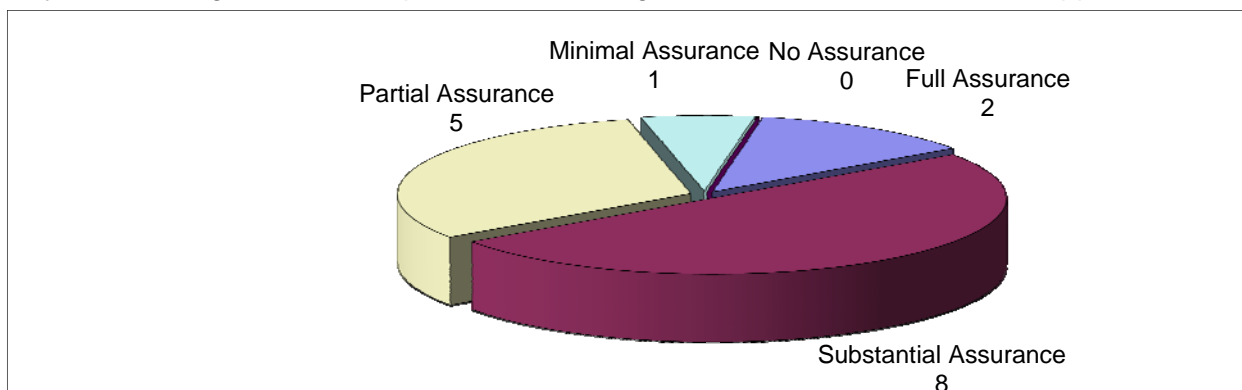
1.1 There are no direct financial implications arising from the recommendations in this report.

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 2012-13. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit, Best Value and Community Services Scrutiny Committee (1 June 2012) and Cabinet (3 July 2012). It is updated each year. An annual internal audit report, which gives Members and Chief Officers an opinion on the efficiency and effectiveness of the Council’s internal control environment, is prepared each year, usually in June. This progress report covers work completed between 1 April 2012 and 30 June 2012.

3. Summary and Key Audit Findings

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

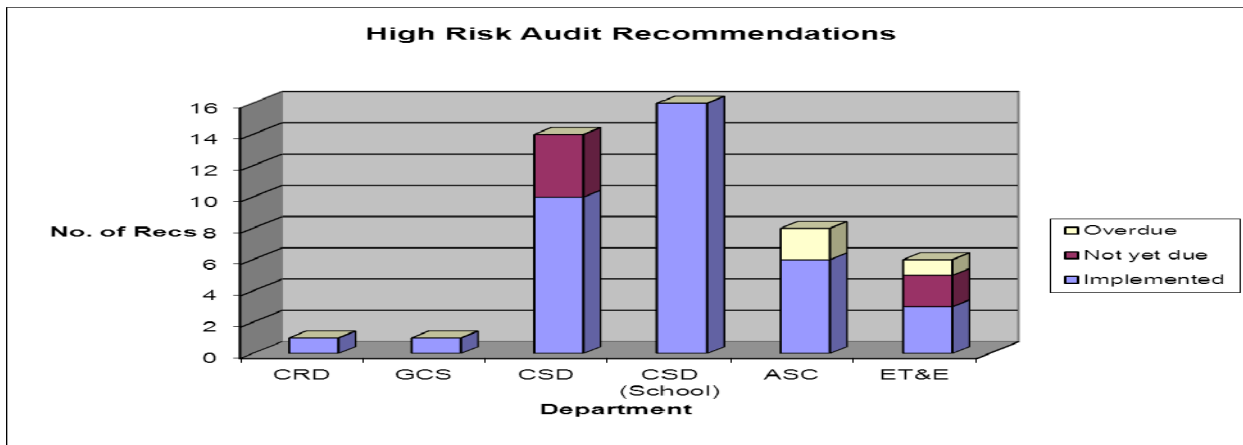


3.2 Overall, of the 16 formal audits completed, 2 resulted in full assurance, 8 resulted in a ‘substantial assurance’ opinion, 5 received ‘partial assurance’ and there was one review where only minimal assurance could be given (SPOCC Interface Investigation).

3.3 In all instances where high risk (3 star) recommendations have been issued, implementation by management is monitored by internal audit through an action tracking process. In addition to this,

formal follow up reviews will be undertaken in relation to all fundamental accounting systems, all audits with either 'minimal' or 'no assurance' and a number of the audits with 'partial assurance'.

3.4 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 relating to those high risk recommendations issued in the 12 months to 30 June 2012 is shown in the following graph:



3.5 Of the 3 recommendations where implementation is overdue, in one case the recommendation has now been implemented, and in the remaining two cases implementation of the recommendation is imminent. We will continue to monitor progress and escalate with management where we believe this exposes the Council to any unacceptable risk. Further details are provided in Appendix B.

3.6 Member's attention is also drawn to our work on: Concessionary Fares (p10); Galaxy (p11/12); ContrOCC / Abacus (p 6); Youth Offending Team (p7/8).

3.7 In addition to the individual audit reports, annual reports and opinions were produced and presented during the quarter for the County Council as a whole and separately for each department. In each case the opinion was satisfactory. Internal audit also contributed to the preparation of the Council's Annual Governance Statement for 2011/12.

3.8 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 this Committee.

4 Performance against targets

4.1 As agreed as part of the recent service review, a revised set of performance measures for Internal Audit have been developed for 2012/13 focussing on: quality / customer satisfaction; compliance with professional standards; and cost / coverage. All targets are currently assessed as on target (Green) apart from post audit questionnaire responses that are currently running at 88% just below target. Full details of performance indicators in shown in Appendix C.

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Local Member: All

BACKGROUND DOCUMENTS - Internal Audit Strategy and Annual Plan 2012-13

Summary of key audit findings

Pension Fund Governance & Strategy (Corporate Resources Directorate)

This report is part of the agreed Audit Strategy for the East Sussex Pension Fund (the Fund) and draws on all the audits carried out as part of that strategy during the year. East Sussex County Council has a statutory responsibility to administer and manage the Fund on behalf of a range of public bodies.

The key control objectives of this audit were:

- There is a statement of objectives for the Fund which is linked to measurable targets and performance indicators.
- There are comprehensive risk management arrangements in place for the Pension Fund.
- The investment strategy is appropriate and strategy decisions are implemented correctly and in a timely manner.
- Management information systems provide assurance that Fund assets are invested in accordance with the investment strategy
- Adequate reporting and monitoring arrangements are in place to monitor the performance of external advisors and service providers.
- The Fund assets are sufficient to meet its obligations and liabilities.
- All accounting records and statements are in accordance with the prevailing accounting standards and good practice.
- The Fund is administered in accordance with best practice and legislative requirements.
- The Fund Administrators communicate effectively and promptly with all stakeholders.

On the basis of the internal audit work completed we provided a **full assurance** opinion on the framework of control. A number of recommendations were made to further improve controls and these have been agreed by management.

County Hall Cash Security (Corporate Resources Directorate)

During quarter 1, Internal Audit undertook an exercise to review the security of cash held at County Hall Main Reception. This unplanned review identified a number of opportunities to improve security and control, all of which were agreed with facilities management staff and all but one had been implemented by June 2012.

SAP Generic Controls (Corporate Resources Directorate)

The Council has implemented SAP as its key system for financial management, budgeting and reporting functions, as well as payments to employees, suppliers and billing of revenue. Many of the ICT controls within the SAP environment are common to a number of the individual SAP component applications (e.g. Accounts Payable (AP), Accounts Receivable (AR), Procurement and HR/Payroll).

Key controls in the following areas were reviewed:

- Access Controls
- Data Input
- Data Processing and Interface Controls
- Output Controls
- Management Trails
- Backup and Recovery
- System Enhancements and Development
- Support Arrangements

Based on the audit work completed an overall opinion of **substantial assurance** was provided over the control environment. Three medium risk recommendations for improvement in access controls,

incident reporting and application / interface controls have been agreed with ICT Services Management:

Oracle Database Controls (Corporate Resources Directorate)

The Oracle Database, also known as an object relational database management system (RDBMS), is the primary data storage repository of the Council's Oracle based business systems which include:

- The Social Services Client System (OLM Carefirst);
- Financial Services Enterprise Management System (SAP);
- The Transport and Environment Department Infrastructure Asset Management System (Bentley EXOR); and
- The Transport and Environment Department Property Gazetteer System (Aligned Assets – Symphony Suite).

The Carefirst, Exor and Symphony system Oracle databases are hosted at the ESCC data centre and the SAP Oracle Database is hosted by Serco at their Birmingham Data centre.

Key controls in the following areas were reviewed:

- Governance, accountability, roles and responsibilities
- Risk and configuration management
- Logical security (Benchmarking the use of controls to the best practice standards and alerts)
- Database management indexing and archiving procedures.

The scope of the audit was limited due to the fact that some contracts did not have 3rd party audit access rights included and this has contributed to the provision of a **partial assurance** opinion. Three medium risk recommendations have been agreed with ICT Services Management to address the access issue along with improvements to monitoring of database KPIs and patch management.

Public Sector Network (Corporate Resources Directorate)

The Council is engaged jointly with Brighton and Hove City Council in a project to deliver a Public Sector Network. This requires the procurement and provision of a variety of services, including Local Area Network and telephony, to a number of Public Sector stakeholders ("The Consortium").

Internal audit has conducted an initial review and provided advice to the project team in relation to:

- Governance and risk management arrangements;
- Stakeholder involvement and responsibilities;
- Compliance with procurement framework requirements;
- On-going supplier management, and;
- Management arrangements for the different security accreditation requirements within the Consortium.

To date, some specific recommendations on risk management arrangements for the project and the need to ensure full representation of all stakeholder bodies within the project governance framework have been made. These recommendations have all been accepted by the Project Assurance Board. Our work on this project will continue throughout the coming year with further updates to be provided.

Purchasing Cards (Corporate Resources Directorate)

Since June 2010, ESCC have operated a purchasing (debit) card scheme, whereby approved staff use a P-Card to purchase goods and services, rather than a conventional purchase order and invoice,

or by using petty cash. By May 2012 the number of active card holders had risen to 212 and monthly transaction levels to £115,000.

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

- Cards are only issued to appropriately authorised staff.
- All expenditure incurred is accurately recorded, VAT is correctly accounted for and receipts are acquired accordingly.
- Purchasing cards are used only for goods and services wholly, exclusively and necessarily for the use of the Council, and for the best value attainable.
- P-Card policy is robust and is communicated to all cardholders and reviewers.
- Cardholders and card reviewers fulfil their responsibilities in accordance with up to date card policy and guidance.
- The resources expended in the administration processes governing cards are efficient and proportionate.
- There are proper controls in place for embedded card schemes to prevent anyone other than nominated staff from placing orders.

No major weaknesses were identified and the majority of transactions tested were found to have been completed and reviewed satisfactorily leading to an overall opinion of **substantial assurance**. A small number of medium and low risk recommendations were made to improve controls over reviewing of transactions, training and VAT compliance. All recommendations have been agreed with management and are due to be implemented before the end of August 2012.

Integrated Community Equipment Services (ICES) (Adult Social Care)

The ICES was established in East Sussex in September 2004 and a Section 75 Pooled Budget agreement commenced for the service in April 2007. Since this time, joint eligibility criteria have been in place across health and social care within adult services.

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

- Adequate controls exist over the ICES ordering process;
- Adequate controls exist in the ICES payment process, including the goods receipting;
- The Pooled Budget arrangement is managed effectively and the aims of the agreement are achieved;
- Accurate, appropriate and timely management information is available for budget and performance monitoring and is regularly reviewed.

Overall, no major weaknesses were identified within the ICES system with an opinion of **substantial assurance** therefore being provided over the control environment. Adequate arrangements are in place to monitor the pooled budget and where variations are identified, these are raised with the ICES Commissioning Board as they occur.

Some opportunities to further strengthen controls were identified, primarily in relation to improving the management of user access to the provider ordering system. All recommendations have been agreed with management.

Resource Allocation System (RAS) (Adult Social Care)

The main purpose of the audit was to give an opinion on whether the RAS is accurate, fit for purpose and has been properly tested. Assurance was also sought that adequate controls are in place to ensure that the RAS is fully integrated into the ASC IT infrastructure.

The RAS is a calculator that determines how much money is allocated to a personal budget, based on points scored provided from information obtained during the assessment process. It has been developed following the Green Paper "Shaping the Future of Care Together" which suggests that care and support needs are calculated in the same way throughout England.

The purpose of the RAS is to distribute resources to individuals in a fair and equitable way and it attempts to do this by applying a weighting (points) to a number of questions about the person's needs. An allocation of funds is then given per point.

The key control objectives of this audit were:

- Adequate contractual arrangements are in place between ESCC and FACE Recording & Measurement Systems who have been engaged to develop the RAS on behalf of ESCC.
- The RAS models are fit for purpose and calculate accurate values of support packages.
- All RAS models are tested continuously and updated with all learning, risks and issues identified.
- Updated documentation and procedures are available, including comprehensive procedure notes.

Based on the audit work completed we were able to provide **substantial assurance** over the framework of control. We made one recommendation regarding the signing of a contract with the RAS supplier, FACE, which is yet to be finalised although the Council has been working with the supplier since 2008/09. Management anticipate the contract will now be signed by end of August 2012.

ContrOCC / Abacus (Adult Social Care)

ContrOCC / Abacus is a fundamental accounting system and this review is relied upon by the external auditors in forming an opinion on the County Council's accounts.

ContrOCC is used to record contractual obligations and control payments to independent sector suppliers of day care, home care, residential and nursing care services. In addition, Abacus is still used for a number of payment and income streams (e.g. transport payments).

Clients in receipt of home care, day care, residential and nursing care services, depending on their Financial Assessment, are required to contribute towards the cost of services. For clients paying standard weekly contributions by direct debit, invoices are raised through SAP via an interface with ContrOCC. Until recently, invoices for day-care/homecare, supported accommodation, standard weekly contributions (giro), gross residential and property were raised through a manual billing process. ContrOCC billing for these areas went live in February 2012.

Between April and January 2012, £9.9m payments were made through Abacus and £109.5m through ContrOCC. For the same period, £3.07m of income was received through Abacus, £19.5m through ContrOCC and £19.3m through the manual billing process.

Abacus was due to be de-commissioned at the end of 2010/11, but was still used in 2011/12. The majority of payments have now been migrated to ContrOCC, and an exercise is underway to transfer the remainder.

The following control objectives were covered as part of the review:

- All payments made are accurate, timely, legitimate and properly authorised
- Adequate interface controls exist between the source systems (ContrOCC / Abacus) and SAP
- Access to the system is secure and data held is protected against loss or damage.
- All services provided are accurately invoiced on a timely basis
- The financial assessment process is robust and results in an accurate and timely assessment of a client's ability to contribute towards services provided
- Credit notes/invoice amendments / write-offs are properly authorised

The audit opinion has reduced since 2010/11 to **partial assurance** primarily as a result of deterioration in the control environment following the transition from Abacus to ContrOCC. Management are aware of these issues and are liaising with Oxford Computer Consultants (the providers of ContrOCC) to improve them. The main areas where improvements are required cover: reconciliations between ContrOCC and SAP; storage of processed invoices; testing of systems upgrades prior to implementation in a live environment and; monitoring of users with systems admin rights within ContrOCC. A management action plan covering these areas has been agreed with management.

SPOCC Interface Investigation (Adult Social Care)

SPOCC is the Supporting People IT system used by Adult Social Care. Payments are made two weeks in arrears and two weeks in advance every 28 days to approximately 45 providers for c£900,000.

Following an incident where a duplicate payment was exported from SPOCC into SAP, but which was subsequently rejected, Adult Social Care requested an audit review of the controls over the SPOCC/SAP interface.

It is our opinion that the duplicate file transfer on 3rd April 2012 occurred as a result of the failure to 'finalise' the correct payment file and also the failure to undertake proper verification in accordance with established procedures. This resulted in the payment file for the previous period, being the most recently 'finalised' file, being processed a second time.

As part of this investigation, we have identified a number of potentially serious control weaknesses within in the SPOCC system and associated with the interface to SAP and have therefore only been able to provide **minimal** assurance over the control environment. We have made a number of recommendations for improvements to the configuration of the SPOCC system, validation and reconciliation procedures and guidance to staff and these need to be addressed urgently to ensure controls are in place to prevent duplicate or erroneous payments in the future. A management action plan was agreed and all the recommendations were due to be implemented by the end of May. However, as noted in paragraph 3.5 of the main report, implementation of two of these recommendations is dependent upon reconfiguration of the system by the software providers, and they have now committed to providing the solution later in July 2012. Management will then test it, and incorporate it into the live environment by the end of August 2012. A number of lower risk recommendations are in the process of being implemented.

Youth Offending Team (Children's Services)

The main purpose of the audit was to assess whether adequate and robust financial systems and controls are in place and to seek assurance that sensitive data is adequately protected. This follows notification of two recent incidents. One involved the theft of petty cash from the Hastings office, which has been the subject of a separate investigation, and the second involved an allegation of mileage claims being inflated by a volunteer working for a third party organisation. The review did not cover the actual provision of 'Youth Offending' services.

The review covered the following control objectives:

- Budgetary monitoring and control is adequate, effective and timely.
- Adequate arrangements are made to safeguard the security of cash, and equipment.
- Appropriate security arrangements are in place to protect sensitive information.
- Payments to staff or, where appropriate, to volunteers are only made for hours actually worked / expenses actually incurred and all additional hours are properly authorised.
- Appropriate checks are carried out before staff or volunteers are assigned to cases.
- Contractual arrangements with third party agencies are robust and adequately monitored and controlled.

Based on the audit work undertaken we were able to provide **partial assurance** over the control framework. The key areas for improvement related to:

- Client information is stored in the Youth Offending Information System (YOIS) database and we found these database access controls to be weak.
- Sensitive client information is being saved in unprotected spreadsheets in team network folders and that network access controls are inadequate to prevent unauthorised access to the data.
- During the calendar year 2011, payments of £117,000 were made to a voluntary organisation commissioned to provide youth offending services. The service has not been able to supply any supporting documentation to confirm the accuracy of these payments. In addition, 2 of the 3

service level agreements could not be located and we were therefore unable to confirm that the terms and conditions of payment had been met. The contract has reached its end date since the audit was conducted.

All recommendations arising from the review have been agreed with management as part of a formal action plan which will be subject to follow up at a future date.

Schools On-Line Payment System (Children's Services)

There is a range of competing online payment systems on the market, the majority of which offer similar functionality, allowing parents to make payments for a variety of items including school meals, uniform and trips. One of these, ParentPay, is already being used as part of the school meals contract with Chartwells, and consideration is now being given to allowing schools within this contract to use ParentPay for other types of income, at no additional cost, subject to adequate controls being in place.

The following control objectives were covered:

- Adequate arrangements are put in place to ensure that schools implement robust on-line income collection systems.
- All income collected via online income systems is accurately, promptly and completely recorded.
- Systems are adequately secured and controlled to prevent data loss, falsification of records or misuse.

Whilst we have been able to provide **substantial** assurance over controls associated with the use of online payment facilities, we have identified some weaknesses in the systems in operation and these are reported below.

- Prior to beginning this work, it was clear that some schools had already implemented online payment systems without consulting the Director of Corporate Resources, as required within ESCC Financial Regulations for Schools and Colleges.
- Apart from the schools using ParentPay as part of the formal school meals contract with Chartwells, no other schools had a signed written contract with their online payments provider, covering the terms and conditions and obligations of both parties.
- Very few schools had tested the payment facilities prior to their implementation.
- Few schools had considered the need to tailor user's access dependant on their roles and responsibilities, increasing the risk of error or data manipulation.
- Reconciliations of payments received from parents to entries on schools' bank accounts are not always taking place.
- The guidance developed by Children's Services on the procurement and implementation of online payment systems and issued in November 2011 needs to be revised to reflect the audit findings.

A comprehensive action plan has been agreed with Children's Services Management and will involve guidance to schools being revised and re-publicised.

Sixth Form Funding (Children's Services)

In September 2010, the Young People's Learning Agency (YPLA) issued guidance for local authorities on gaining assurance over the funding paid in respect of local authority maintained schools with sixth forms from 1st April 2010.

Whilst it is not a mandatory requirement to adhere to this guidance, the YPLA and Skills Funding Agency (SFA) Joint Audit Code of Practice says that local authorities will give assurance through their Chief Financial Officer's (CFO) annual grant return to the YPLA over funds paid to them by the SFA and YPLA, i.e. the CFO will be required to certify that the funding provided is an accurate reflection of each school's circumstances. This covers the periods 1 April 2011 to 31 July 2011, and 1 August 2011 to 31 March 2012. The grant return for both of these periods is required to be submitted to the YPLA by 30 April 2012.

ESCC currently has seven secondary schools with sixth forms. Following on from our pilot review of Heathfield Community College last year, in 2011/12 we reviewed Beacon, Uplands and Hailsham Community Colleges

On the basis of the limited work we have carried out, we have not found any evidence that indicates that the funds provided by the SFA and the YPLA to the local authority have not, in all material respects, been used for the purposes intended by those funding bodies and in accordance with their terms and conditions of funding. A number of minor anomalies identified from the samples tested have been notified to the YPLA and its successor body the Education Funding Agency (EFA). The YPLA advised that it would not make any changes to the funding received as a result and we are awaiting a response from the EFA.

Exor Application review (Economy, Transport and Environment)

The Exor application is the corporate highways management system used by the services in the Economy, Transport and Environment Department (ETE) at East Sussex County Council for the administration, processing and management of highways construction, repairs, engineering and maintenance service provisions to the Council. Currently, the main contractor with the Council is May Gurney Limited who receives work orders totalling approximately £15m per year, through Exor.

Key controls in the following areas were reviewed:

- Access Controls
- Data Input
- Data Processing and Interface Controls
- Output Controls
- Management Trails
- Backup and Recovery
- System Enhancements and Development
- Support Arrangements

Based on the audit work completed an overall opinion of **substantial assurance** was provided over the control environment. Recommendations for improvement were made in regard to access controls, monitoring and reporting of access violations, user account creation and monitoring and have been agreed with ETE and ICT Services Management.

Sussex Safer Road Partnership (SSRP) (Economy, Transport and Environment)

The Sussex Safer Road Partnership (SSRP) is a local government initiative which evolved out of the Sussex Camera Partnership in 2007 following government changes to the funding. The core activity of the SSRP is to reduce road casualties across Sussex.

The Partnership is funded by three local highway authorities (West and East Sussex County Council, and Brighton and Hove City Council) and Sussex Police who have invested surplus funds, obtained from providing speed awareness courses. Other members of the partnership are West and East Sussex Fire and Rescue Services, and the Highways Agency.

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

- Partnership governance arrangements are robust and in line with best practice and legislative requirements;
- Adequate reporting and performance monitoring arrangements are in place that enables informed decision-making;
- Funding contributions are fairly calculated and properly communicated and received to ensure the objectives of the SSRP are met, and funds are spent in accordance with agreed objectives;
- Budget management is adequate and effective;
- Adequate links exist with other local safety initiatives to help ensure effective partnership working and to avoid duplication of effort.

Based on the audit work undertaken, we were able to provide **substantial assurance** over the control framework, with only a small number of recommendations for improvement being made. These relate primarily to strengthening risk management arrangements and ensuring that all committees/groups have formal terms of reference. All recommendations have been agreed with management and are due to be implemented before the end of July 2012.

Concessionary Fares Scheme (Economy, Transport and Environment)

The responsibility for administering the concessionary fare scheme passed to ESCC on 1 April 2011. This was therefore the first audit of the system. As well as reimbursements for journeys starting in East Sussex, ESCC also pays reimbursements in respect of West Sussex County Council, which it then recharges. An administration fee is also charged for providing this service. The overall budget for the concessionary fare scheme is £7.091m. The expected out-turn for 2011/12 is £7.424m, which, with the central government grant of £5.88m, will result in a net cost to ESCC of £1.544m

ESCC has engaged The Martlet Consultancy Ltd (MCL), a company specialising in concessionary fare administration, to liaise with bus operators and to make the calculations that determine the amounts due to be reimbursed to each bus operator.

The purpose of the audit was to provide assurance to management that the systems and controls are adequate and operating effectively, focussing on the following control objectives:

- the Concessionary Travel Scheme is administered in accordance with at least minimum statutory requirements;
- payments are only made to bus operators who provide genuine and accurate claims for reimbursement;
- adequate reporting and performance monitoring arrangements are in place to monitor contractor (MCL) performance;
- travel concession passes are only issued to people who meet the criteria set out in the legislation for the statutory minimum concession or any additional discretionary criteria agreed by the Council;
- there are robust mechanisms in place to prevent and detect the abuse of the travel concession scheme;
- budget management is adequate and effective; and
- a risk management model is in place and structured to identify and manage key risks associated with the concessionary travel scheme.

Overall, we have been able to provide **partial assurance** over the control environment. The key areas for improvement related to:

- Access controls for the Faredeal system (the database of card holders), particularly for staff within Libraries. Control over privileged access to the system also required strengthening;
- Management and monitoring of the contract with MCL Ltd and clarifying roles and responsibilities between ESCC and the contractor;
- Arrangements for validating the accuracy of invoices prior to payment;
- Ensuring that a full and complete audit trail of applications forms is maintained in order to support all concessionary passes awarded.

This is a new service provided by ESCC and many of the weaknesses identified relate to the relative infancy of ESCC responsibility. All recommendations arising from the review have been agreed with management as part of a formal action plan which will be subject to follow up at a future date.

Parking Enforcement Contract KPI's (Economy, Transport and Environment)

A new parking enforcement contract started in September 2011. Within the terms of the contract is a performance-related adjustment set at a maximum of +/-£10,000 per month, dependent upon the contractor reaching all of the Key Performance Indicators (KPI's) as set out within the contract.

Economy, Transport and Environment asked for advice from Internal Audit regarding the measurement of these KPI's.

We reviewed the relevant contract documents and met with relevant staff to discuss the targets and methods of evaluating and evidencing the contractor's performance against them.

As a result of our work, we were able to provide advice and guidance, including suggested improvements regarding the clarity of KPI descriptions and the checks which should be carried out to verify the contractor's performance against them.

High Weald AONB (Economy, Transport and Environment)

The High Weald AONB is constituted as a Joint Committee and is required to be audited under the Audit Commission Act 1998. Each year, an Annual Return for Small Bodies is completed as required by the Audit Commission. To support the completion of the annual return a review of the effectiveness of internal controls relating to the financial system, including the use of East Sussex County Council's main SAP accounting system, and risk management was conducted and we were able to provide a **full** assurance opinion without the need to make any formal recommendations for improvements.

South Downs Joint Committee (Economy, Transport and Environment)

Although the South Downs Joint Committee ceased to operate at the end of 2010/11 with the creation of the South Downs National Park Authority, the process to finalise its financial affairs continued into 2011/12. As a result an Annual return for Small Bodies was completed as required by the Audit Commission, and a short piece of audit work was carried out to verify the internal controls in place. No issues of concern were identified.

Agency Contract – Follow Up Review (Governance and Community Services)

Internal Audit concluded a review of the agency staff contract and the use of Comensura in January 2011. The audit opinion was partial assurance so a follow up review was agreed as part of the 2011/12 audit plan. The audit opinion was the result of weaknesses in the following areas:

- Risk management and monitoring arrangements;
- Extent of use of the Comensura system;
- Payment for actual hours worked.

The main purpose of this review was to see how far previous recommendations have been implemented. The audit scope was widened to consider the impact of the Agency Worker Regulations and additional testing was completed in this area.

Based on the work completed as part of this review we are now able to provide **substantial** assurance over the control framework, with the majority of the original recommendations implemented by management. Sample testing also confirmed compliance with the new Agency Worker Regulations.

A small number of lower risk regulations remain work in progress, with all due to be implemented by the end of May 2012.

Galaxy Library System Access Controls (Governance & Community Services)

Galaxy is the ESCC library management system. It is used to control the movement of books and materials, and to record the receipt of income in respect of fines and hire of materials. It is also used to order books and other materials, to record the receipt of those books and materials, and to subsequently pass the invoices for payment. In addition, Galaxy is also used by Bibliographic Services for procurement and distribution of stocks. There are 140 users with access to the Galaxy system. Total fees and charges arising from library activities during 2011/12 were c£377,000.

The purpose of the audit was to provide assurance to management that the systems and controls are adequate and operating effectively, focussing on the following control objectives:

- Galaxy access controls ensure that materials are ordered only for use wholly and exclusively within ESCC libraries.
- Galaxy access controls ensure that payment for materials is made only after ensuring that
- Invoices are in accordance with orders, and that the materials have been received.
- All cash receipts in respect of library services and library fines can be identified to a specific individual through their system login.
- All write-offs and waivers of income can be identified to a specific individual through their system login.

Overall, we have been able to provide **partial assurance** over the control environment. The key areas for improvement related to:

- Only half of all available functions within Galaxy have been allocated to a specific user group. There are no restrictions in place to prevent users from accessing functions that have not been allocated to a user group. This includes the ability to waive fees and delete items.
- We found that a training user group had been created in the live Galaxy system. It is understood that training is normally carried out in the live system because of inadequacies with the data in the test system. This increases the risk of data being corrupted in the live system.
- The ability to make refunds or to credit a customer's account should be restricted to senior library staff. However we found that these functions could be used by some Library Assistants as well as users of the training user group.
- Password controls are not fully compliant with corporate standards.
- Passwords for generic user accounts are not being changed periodically.

All recommendations arising from the review have been agreed with management as part of a formal action which will be subject to follow up at a future date.

Work In Progress

The following reviews were work in progress at the end of quarter 1 and due to be reported during quarter 2:

- Hurst Green Primary School
- Section 75 Pooled Budgets
- SCD Social Care Transformation
- Troubled Families Programme
- Vehicle Use in Schools
- Local Broadband Plan.
- Highways Maintenance Transformation.
- Music Service
- Social Care Information System.
- Contracting and Procurement - A4E.
- Blue Badge Follow-Up.
- ASC Contracts
- Corporate Review of Income & Revenue Collection
- Capital Programme – Management & Maintenance

High risk recommendations where implementation is overdue

Of the 3 recommendations where implementation is overdue, in one case the recommendation has now been implemented, and in the remaining two cases implementation of the recommendation is imminent, but we will continue to monitor progress and escalate with management where we believe this exposes the Council to any unacceptable risk. Further details are provided in Appendix B.

- Review of EXOR System – as part of the review of the EXOR Highways Management System, it was agreed that the processes whereby an order for services may be varied would be reviewed, and that spot checks would be introduced by management to ensure compliance. At the agreed implementation date, whilst the processes had been reviewed, management were devising a solution whereby the Team Managers spot-check compliance using the new Highways Sharepoint site, and this was still in progress. Compliance checking has now been implemented.
- SPOCC Interface – SPOCC is the system used by Adult Social Care to make payments to service providers, and they asked internal audit to review the controls over the interface with the main SAP Accounting system following an error which almost resulted in the processing of a duplicate payment. Two recommendations related to the configuration of the SPOCC system so that a warning message is given and a reason is input, when the operator seeks to export a payment a second time. Implementation of these recommendations is dependent upon reconfiguration of the system by the software providers, and they have committed to providing the solution later in July 2012. Management will then test it, and incorporate it into the live environment by the end of August 2012.

Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance @ Q1
Client Satisfaction					
Chief Officer/DMT	Consultation/Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed as part of service review and audit planning process. Improvement actions built into business plan
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	A	88%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	G	Confirmed via approval of audit strategy and plan.
ABV&CSSC	Chairs Briefing and Formal Meetings	Quarterly / Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through annual review of effectiveness and feedback from committee.
FRG	Consultation	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed as part of service review and audit planning process. Improvement actions built into business plan. Quality also confirmed as part of quarterly liaison meetings with each FRG member.
Cost/Coverage					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools	Annual	Cost per Audit Day and Cost per £m Turnover equal to or below all authority benchmark average	G	Benchmarking results due in autumn.
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	G	Ongoing via attendance at CCAN,

					HCCIAG and SAG.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of Audit Plan Completed.	G	29.3% final reports issued
Professional Standards					
Peer Review / External Assessment	Inspection, Assessment and Report	Every 3 Years	Completed and implementation of any actions arising.	N/A	Planned for 13/14
External Audit Reliance	Fundamental Accounting Systems Internal Audit Activity	Annual	Reliance confirmed.	G	Expected as part of Annual Governance Report in September

