

Report to: **Audit, Best Value and Community Services Scrutiny Committee**  
Date: **6 November 2012**  
By: **Interim Director of Corporate Resources**  
Title of report: **Internal Audit Progress Report – Quarter 2 (01/07/12 – 30/09/12)**  
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**

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

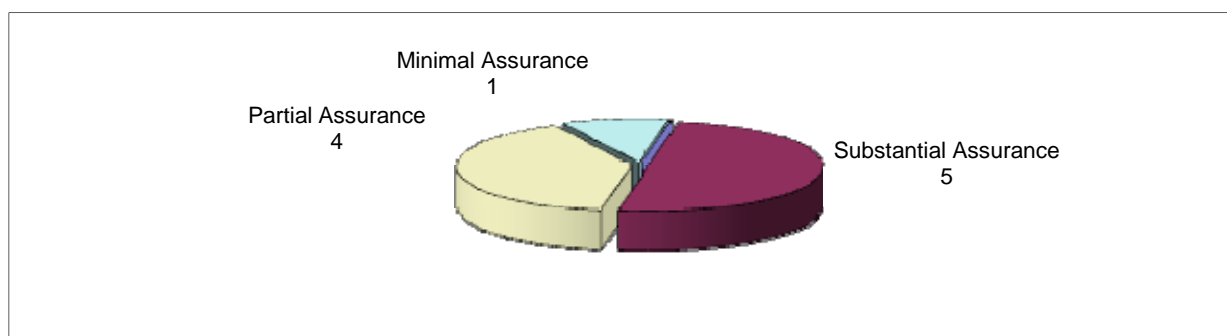
1.1 There are no direct financial implications arising from the recommendations in this report.

**2. Supporting Information**

2.1 The current annual plan for internal audit is contained within the 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). This progress report covers work completed between 1 July 2012 and 30 September 2012.

**3. Summary and Key Audit Findings**

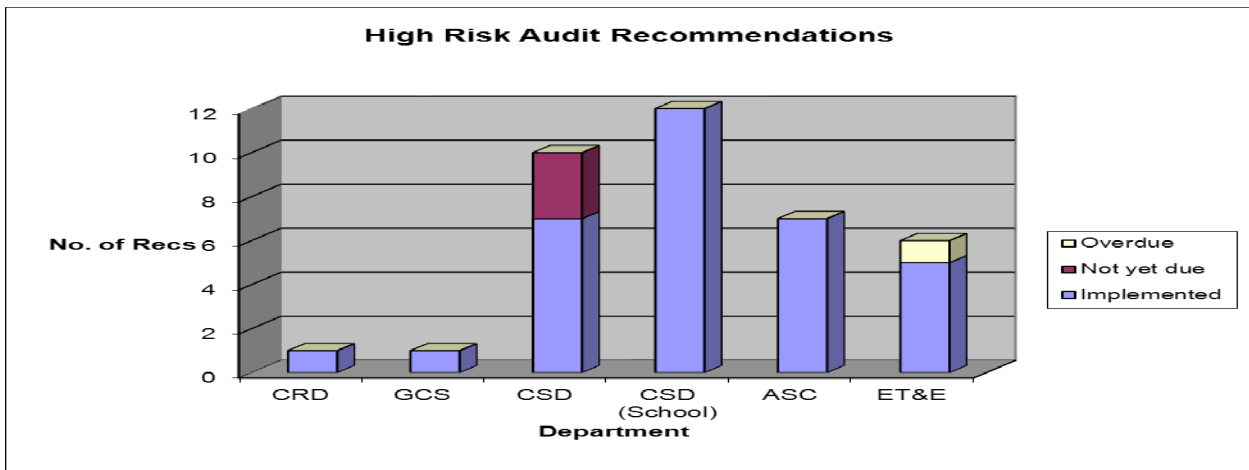
3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.



3.2 Overall, of the 11 formal audits completed, 5 resulted in a 'substantial assurance' opinion, 4 received 'partial assurance' and there was 1 review where only minimal assurance could be given (Hurst Green School).

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 these formal follow up reviews, 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 September 2012 is shown in the following graph:



3.5 For the one recommendation where implementation is overdue, a revised deadline for implementation has been agreed with management. In the meantime, a series of measures have been implemented in order to mitigate the potential risks. We will continue to monitor progress and escalate with management where we believe non implementation exposes the Council to any unacceptable risk. Further details are provided in Appendix B.

3.6 Members' attention is also drawn to our work on: Use of Vehicles in Schools, 'Thrive' Social Care Transformation, Music Service and Blue Badge Investigation Arrangements.

3.7 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 Members.

### 3 Performance against targets

3.1 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. So far this year, all targets are currently assessed as on target (Green). Full details of performance indicators in shown in Appendix C.

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Background Documents  
Internal Audit Strategy and Annual Plan 2012-13

## **Summary of key audit findings**

### **Data Centre Review (Corporate Resources Directorate)**

This review was undertaken as part of the agreed ICT audit plan for 2012/13 and examined the physical and logical security of the County Council's main Data Centre. The scope of the audit included physical and logical access control, environmental controls, prevention of perils (e.g. fire/flood), program change controls, backup and recovery and disaster recovery.

Based on the testing carried out, we have been able to provide **substantial assurance** over the control environment, with only two recommendations for improvement identified, neither of which are considered to be high risk. Both recommendations have been agreed with management in ICT Services.

### **Windows Server (Corporate Resources Directorate)**

Servers host various systems and applications in use at the County and it is therefore critical that a secure and robust control environment exists to ensure that confidentiality, integrity and availability is maintained over the hosted application/system/database.

This review examined the adequacy and effectiveness of controls over the server hosting the Carefirst system, covering:

- Server Installation Settings;
- Security and Audit Policy Settings;
- User Accounts and Passwords;
- Rights and Privileges;
- Remote Access Settings;
- Security Updates and Patches;
- Backup, Restore and Recovery Arrangements.

Based on the testing undertaken, we have been able to provide **substantial assurance** over the control environment, with only a small number of medium and low risk recommendations being made. These included strengthening controls over Administrator account access, password lockouts and activity logging.

All recommendations have been agreed with management within ICT Services as part of a formal action plan.

### **Carbon Reduction Commitment (Corporate Resources Directorate)**

The CRC Energy Efficiency Scheme was established, originally as the Carbon Reduction Commitment Scheme, by the Department for Energy and Climate Change (DECC) in 2007 as part of a government drive to reduce the Country's carbon footprint.

As part of the scheme, it was originally intended that large organisations, whose carbon dioxide (CO<sub>2</sub>) emissions were in excess of a pre-determined level would have to report on their actual usage and estimate future usage in order to purchase carbon credits for the year to come.

Apart from the cost of the credits, an additional incentive to reduce carbon emissions will be provided by the publication of a league table that shows the relative performances of the participating organisations in reducing carbon emissions. To provide assurance that organisations are reporting correctly, the DECC would audit a sample of the returns against the evidence pack compiled to support each organisation's submitted return. Inaccurate or late submissions would attract financial penalties.

The scheme has now changed so that carbon credits are purchased after the end of the year to which they relate and the purchase is now, in effect, a tax on carbon emissions. The reporting requirements, the league table and the infrastructure to administer the scheme remain in place. The cost to the County Council of purchasing the carbon credits for 2011/12 was £434,104.

The purpose of this audit was to provide assurance to management that the systems and controls for the CRC Energy Efficiency Scheme are adequate and are operating effectively, with particular regard to the production of complete, accurate and timely information, compliance with CRC scheme requirements and trading of carbon allowances.

Based on the audit work undertaken we have been able to provide **substantial assurance** over the operation of the scheme within the County Council, with only two lower risk recommendations being made, both of which have been agreed with management.

### **Pre-Employment Verification Arrangements (Governance and Community Services)**

The main purpose of this audit has been to provide an opinion on whether satisfactory checks are being carried out prior to a new employee commencing their employment at the County Council. In particular, to ensure that they are eligible to work in the UK, that they have the necessary qualifications required to carry out their role and that they have provided adequate references.

If proper checks are not carried out to verify identity and eligibility to work in the UK prior to the new employee commencing employment, there is a risk that the Council could be liable to a civil penalty from the UK Border Agency, of up to £10,000 per illegal worker. Pre-employment verification is also seen as an important control in the prevention of fraud and corruption.

Based on the testing carried out as part of the review, we have been able to provide **substantial assurance** over the control environment. Overall, key controls are in place for ensuring Criminal Records Bureau checks are undertaken, and evidence of references and qualifications are obtained. Some opportunities to further strengthen controls were identified relating to:

- ensuring compliance with UK Border Agency requirements to properly photocopy passports;
- fully completing pre-employment checklists to help ensure appropriate verification takes place in all instances;
- considering whether to undertake independent validation of professional qualifications for certain key or higher risk roles.

All recommendations have been agreed with management from Personnel and Training and incorporated within a formal action plan.

### **Schools Themed Review – Use of Vehicles (Children’s Services)**

The purpose of this audit was to review and evaluate the guidance provided by ESCC in relation to the use and maintenance of school vehicles and to ascertain compliance with this. The review assessed compliance with DVLA and HMRC requirements, the adequacy of insurance arrangements, vehicle acquisition and disposal, and controls relating to the private use of vehicles.

A sample of six schools (primary, special and secondary) was selected and reviewed to ascertain and evaluate the controls in their use and management of vehicles.

Based on the testing carried out, we have been able to provide **partial assurance** over the system of control. Whilst we found that appropriate guidance on the procurement, use and maintenance of school vehicles has been developed and is available to all schools via the Czone, improvements were required in a number of areas, including:

- the need for local school policies governing the use of vehicles and associated responsibilities of staff;
- establishing formal agreements covering the use of school vehicles by other organisations;
- the need for schools to establish robust arrangements for ensuring continued compliance with vehicle licensing requirements, especially where vehicles are used by other organisations;
- strengthening arrangements within schools for ensuring that the appropriate insurance is in place and that all drivers continue to hold the correct driving permit for the class of vehicle and journey used.

All recommendations arising from the review have been agreed with Children’s Services management, with support from Economy, Transport and Environment, and a follow up review will be undertaken at a future date to confirm implementation.

## **Internal Audit Strategy for Schools**

During the quarter, we have revisited our internal audit strategy for schools. This has included the development of a two staged school audit programme to initially focus on governance and key financial controls, with the potential for more detailed work following this where required. The revised programme will streamline the audit process and allow us to focus limited resources on the highest risk areas and schools.

We also propose to further progress the work carried out earlier in the year by Children's Services in relation to the Council's roles and responsibilities in schools, with the intention of reviewing the risks identified and assessing the mitigating actions put in place.

Finally, we will be working closely with Children's Services to enhance the advice and support to school governors, helping them to provide an appropriate level of scrutiny and challenge within the schools for which they are responsible.

## **THRIVE Social Care Transformation Programme (Children's Services)**

THRIVE is a major transformation programme intended to change the way children's services are provided across the County, both within and external to ESCC. THRIVE will focus on improving services, including early help and prevention services, to achieve better outcomes for children and families, reducing their need for costly, high-end services further down the line.

The County Council has set aside £9.7million to implement the THRIVE programme over the next three years. This funding will be used to meet the rising costs of social care services in the short term, while investing in new ways of working that should bring costs down and improve outcomes for children in the medium term.

As part of the THRIVE programme, Internal Audit is providing support, advice and assurance that new systems and working practices are being introduced in a controlled manner.

This review examined the progress made by the programme to date, in particular the current programme management and governance arrangements. The key control objectives were to ensure that:

- The programme governance arrangements are robust and the different strands of the programme are co-ordinated effectively and efficiently;
- Funding to implement the scheme is managed effectively, including the drawdown of the THRIVE investment reserve, and that controls are in place to effectively budget, monitor and report the financial impact and progress of the programme;
- Effective arrangements for risk identification, evaluation, mitigation, monitoring and reporting are in place;
- The proposed milestones and timetables for implementing the programmes' outcomes are achievable and are being monitored at the appropriate level.

The review found that, overall, the governance arrangements of THRIVE were found to be robust, including clarity of roles and responsibilities, leadership, accountability and decision making. However, opportunities to further strengthen these arrangements for future stages of the programme were identified, particularly in relation to the following areas:

- financial management arrangements, whereby at the time of the audit, complete and accurate spending plans and budget profiles were not available for the programme, along with appropriate mechanisms for calculating and forecasting the financial implications of new processes as they are introduced. It is however important to note that a new THRIVE Programme Accountant has recently been appointed who will be responsible for addressing these issues. It is understood that this work is already underway;
- the existing governance structure needs to be reviewed to ensure that it will still be fit for purpose to manage the new development phase of the programme. This is because many of the original aims and objectives of the Review and Development Groups are due to be completed by September 2012, and the new purposes of these groups have not yet been defined or agreed.

Based on the audit work undertaken we have been able to provide **partial assurance** over the programme control environment. All the recommendations arising from our work have been agreed with Children's Services management and will be subject to ongoing monitoring as part of continuing work supporting the programme throughout the remainder of its duration.

### **East Sussex Music Service (Children's Services)**

This review of the East Sussex Music Education Hub has been completed as part of the agreed annual audit plan for 2012/13, in order to provide an opinion on whether the partnership and governance arrangements of the East Sussex Music Education Hub are robust.

A key component of the Henley Review of Music Education (February 2011) was that schools, local authority music services, Arts Council England client organisations and other recognised delivery organisations should work together to create Music Education Hubs in each local authority area. The Hubs receive ring-fenced central government funding to deliver music education in each area following an open, advertised bidding process.

The East Sussex Music Education Hub was launched in October 2011. The East Sussex Music Service is a partner in the Hub and East Sussex County Council (ESCC) is currently the nominated lead organisation, responsible for the bidding and receipt of funds.

During June 2012, ESCC was formally offered a grant of up to £1,856,292 towards the costs of delivering the East Sussex Music Education Hub between 2012 and 2015.

Overall we found that the East Sussex Music Education Hub (the hub) has in place the necessary controls to meet the specific payment conditions for the grant, as required by the Arts Council England. Controls are also in place that will enable the Arts Council to monitor and assess the hub's activity and check how effectively the funding is being used.

The main reason for the audit opinion of **partial assurance** is that the partnership's governance arrangements need to improve. There is no partnership agreement in place that clarifies the roles and responsibilities of the key delivery partners, including in relation to leadership, accountability and decision-making.

Furthermore, we could find no evidence that the key requirements of the ESCC Guidelines on Partnerships have been followed and there is no established framework of risk management within the partnership.

All of the recommendations arising from the review have been agreed with management and in all cases, they have confirmed immediate implementation.

### **Hurst Green Primary School (Children's Services)**

The main purpose of this audit was to review governance and financial management arrangements at the school, including financial planning, budget monitoring, reconciliation, financial control, purchasing, contracts, income, payroll, assets and security.

A number of key weaknesses were identified during the audit that, when combined, significantly affect the control environment, some of which were identified during our previous visit to the school in 2010. As a result of these findings, we have only been able to provide **minimal assurance** over the framework of control. Particular areas for improvement included:

- Budget monitoring arrangements, including the use of commitment accounting;
- Reconciliations between FMS and SAP;
- Use of official orders for goods, works and services at the time of ordering;
- Invoice approval arrangements and goods receipting;
- Segregation of duties in payroll processing;
- Retention of school payroll records;
- Maintenance of a school asset register.

All recommendations arising from the review have been agreed with the school, with the majority due to be implemented by September 2012. It is also understood that the Chair of the school Resources Committee is becoming more involved in reviewing school finances, at the same time ensuring that key issues are communicated to the Governing Body. A further follow up review will be undertaken by Internal Audit as part of next year's audit plan to ensure appropriate improvements have been made.



## **Troubled Families Programme (Children's Services)**

The Government's Troubled Families Programme has estimated that there are 120,000 families nationally who need intensive support. Just over a thousand of these are thought to live in East Sussex.

During 2012, ESCC plans to work with 340 families, funded by more than £900,000 from Government grant, dealing with complex and multiple problems. The work will be overseen by a multi-agency partnership, including the County Council, Sussex Police, the NHS, probation and local housing authorities.

During the quarter we have provided advice and support to Children's Services in developing appropriate mechanisms for inviting, assessing and approving applications from organisations that provide enhanced support to troubled families with funding from the Troubled Families Grant.

We also assisted the department in liaising with the Department of Communities and Local Government (CLG) to confirm the required monitoring data that local authorities should collect on families going through the programme. This will enable the programme to be monitored and evaluated on a national level.

Further work in this area is anticipated later in the year to ensure that robust controls are in place to ensure that all data reported to the CLG in support of the grant application is correct, and is supported by appropriate documentation.

## **Blue Badge Investigation Arrangements – Follow Up (Adult Social Care)**

Internal Audit carried out a review of the adequacy of controls and procedures governing the receipt of, and investigation into, allegations of blue badge misuse as part of the annual audit plan for 2011/12. Due to the control issues highlighted and the minimal assurance audit opinion given at that time, a follow-up review has been undertaken to assess the implementation of the original recommendations.

Since the original review, a significant amount of work has been carried out to help ensure allegations of blue badge misuse are properly dealt with, with new policies and procedures now in place. However, whilst these improvements mean that the Authority is much better placed to respond to and deal with allegations of blue badge misuse, our testing found that they were not always being fully complied with by staff.

Additionally, although different options for dealing with allegations have been established within the new procedures, there remains a need for guidance in evaluating allegations to ensure a proportionate response is given, i.e. that the resources and time allocated to any investigation is appropriate.

Overall, we have been able to provide **partial assurance** over the control environment, with all recommendations for improvement agreed with management as part of a formal action plan.

## **Adult Social Care (ASC) Contracts Review (Adult Social Care)**

ASC are involved in the extensive commissioning of services with external providers that help meet the needs of service users efficiently and cost-effectively, with the gross value of services purchased through the ASC Contracts and Purchasing Unit (CPU) currently around £148million. Various contractual arrangements are in place for delivering the different types of services and multiple contractual arrangements may be in place with the same provider.

The first phase of this review conducted jointly with ASC was to clarify the different types of ASC services being provided by the independent sector and to identify all the external parties providing these services. As part of this, we also examined the specific monitoring, payment and contract management arrangements in place with each external provider.

Our initial work has identified a number of areas of risk on which future phases of work will focus to ensure that:

- over-arching contracts with providers are in place;
- there is adequate quality and performance monitoring of providers;
- providers charge the correct amounts.

This work is on-going, with the information compiled to date enabling us and ASC to prioritise specific areas for improvement within the Contracts and Purchasing Unit. It will also form the basis for future audit testing to form an opinion over the adequacy and effectiveness of the department's contract management arrangements with external service providers. Further updates on this work will therefore be provided within future progress reports.

### **Social Care Information System (SCIS) Programme (Adult Social Care / Children's Services)**

During the quarter, Internal Audit has continued to provide advice and support to the SCIS programme, including attendance at Project Board meetings, focussing initially on project governance arrangements. To date, these have been found to be robust with clear and transparent decision making.

Our work on the programme will continue throughout the year providing advice and assurance on key risk areas, including the implementation of new ICT systems and the development of the revised working practices.

### **Trapeze ICT Controls (Economy, Transport and Environment)**

The Trapeze application is used to maintain a database of clients who are eligible for the Council's Freedom ticket bus pass, to create and distribute passes to the eligible clients, and to raise contractor invoices for processing through an interface with the Council's SAP financial system. The interface between Trapeze and SAP processes approximately £13m of payments to the Council's contractors.

This review was undertaken by specialist ICT auditors from Deloitte and covered the following areas:

- Access Controls;
- Data Input;
- Data Processing;
- Output Controls;
- Interface Controls;
- Management Trails;
- Back-ups and Disaster Recovery;
- System Support and Change Control.

Overall, **substantial assurance** has been provided over the control environment, with some opportunities for further improvement identified in relation to the control over privileged access rights, data retention arrangements, aligning business continuity plans and ensuring that a proper service level agreement is in place for system support.

A formal action plan, incorporating all recommendations arising from the review has been agreed with ET&E management.

## **Investigations**

### **Pensions Fraud (Corporate Resources Directorate)**

During 2011, a fraud against the East Sussex Pension Fund was identified through the County Council's participation in the National Fraud Initiative data matching process. Specifically, it found that pension payments were continuing to be made from the Pension Fund for a pensioner who had passed away in 2009.

An Internal Audit investigation, in conjunction with Sussex Police, led to the identification, arrest and subsequent conviction of the person responsible for obtaining these payments of almost £3,000 to which they were not entitled.

The individual concerned was found guilty of offences contrary to the Fraud Act 2006 and sentenced to a six month suspended prison sentence and ordered to repay the full amount of all losses to the East Sussex Pension Fund. This money has subsequently been received in full.

### High risk recommendations where implementation is overdue

For the one recommendation where implementation is overdue, a revised deadline for implementation has been agreed with management. In the meantime, a series of measures have been implemented in order to mitigate the potential risks. We will continue to monitor progress and escalate with management where we believe non implementation exposes the Council to any unacceptable risk. Further details of the overdue recommendation and the proposed actions are provided below:

- Review of Concessionary Fares Scheme (Economy, Transport and Environment)
  - Access controls for the 'Faredeal' system (the database of card holders) required strengthening, particularly with regard to users within Libraries. Implementation of the original recommendation is however dependent on working with the software suppliers to make the application more secure and this is something management have agreed to do by 30 November 2012.

In the interim period, the Public Transport Team has agreed to implement a series of mitigation measures, including the following:

- monitoring any usage outside of normal hours;
- use of work rotas to identify system users;
- spot-checks of passes issued, against application forms received;
- ensuring that staff leavers are deleted from the system promptly.



## Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance @ Q2
<b>Client Satisfaction</b>					
Chief Officer/DMT	Consultation / Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	<b>G</b>	Confirmed as part of service review and audit planning process. Improvement actions built into business plan
Client Managers	Satisfaction Questionnaires <sup>1</sup>	Each Audit	>89%	<b>G</b>	100%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	<b>G</b>	Confirmed via approval of audit strategy and plan and on-going liaison.
ABV&CSSC	Chairs Briefing and Formal Meetings	Quarterly / Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	<b>G</b>	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.	<b>G</b>	Confirmed as part of service review and audit planning process. Also confirmed as part of quarterly liaison meetings with FRG

<sup>1</sup> The performance against this measure had been incorrectly calculated in Quarter 1. The Quarter 2 performance correctly shows the percentage of completed questionnaires which rated the service as satisfactory or above, against all categories.

Measure	Source of Information	Frequency	Specific Measure Indicator /	RAG Score	Actual Performance @ Q2
					members.
<b>Cost/Coverage</b>					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools	Annual	1. Cost per Audit Day; 2. Cost per £m Turnover; equal to or below all authority benchmark average	<b>G</b>	1. £303 against average of £309 2. £514 against average of £931
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	<b>G</b>	Ongoing via attendance at CCAN, HCCIAG and SAG.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of Audit Plan Completed.	<b>G</b>	48.0%
<b>Professional Standards</b>					
Peer Review / External Assessment	Inspection, Assessment and Report	Every 3 Years	Completed and implementation of any actions arising.	<b>N/A</b>	Planned for 13/14
External Audit Reliance	Fundamental Accounting Systems Internal Audit Activity	Annual	Reliance confirmed.	<b>G</b>	Confirmed as part of Annual Governance Report