

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

Date: **24 June 2013**

By: **Acting Chief Finance Officer**

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 2012 to 31 March 2013**

**RECOMMENDATIONS: The Committee is recommended to**

- 1. Note the internal audit service's opinion on the Council's control environment;**
- 2. Consider whether there are any significant control issues that should be included in the Council's annual governance statement for 2012/13; and**
- 3. Consider whether the Council's system for internal audit has proved effective during 2012/13.**

**1. Financial Appraisal**

1.1 The work referred to in this report was carried out as part of the 2012/13 Internal Audit Plan and was funded from the agreed service budget.

**2. Supporting Information**

2.1 The purpose of this report is to give an opinion on the adequacy of 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 2012 to 31 March 2013 in accordance with the Internal Audit Strategy and Annual Audit Plan for 2012/13.

**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.

**4. Audit Opinion and key issues**

4.1 ***No assurance can ever be absolute; however based on the internal audit work completed, the Head of Assurance (as the Council's Head of Internal Audit) can provide reasonable assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2012 to 31 March 2013.***

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 2012/13 is included in Annexe B (major findings from previous quarters have already been reported).

4.4 Members will note that a number of the school audits conducted during the year identified poor internal control arrangements. Each of these schools was selected for audit on the basis of risk, in conjunction with Children's Services (CSD) colleagues, so may not represent a true reflection on the overall control environment in schools. We will however be extending our coverage in 2013/14 to assess this and will be ensuring that formal follow up reviews are conducted where weak controls are identified. In the meantime, all findings from our work will continue to be shared with CSD and any common themes communicated directly to all school governors via periodic internal control bulletins.

## **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 and 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 23 July 2013.

MO HEMSLEY  
Acting Chief Finance Officer

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Background Documents  
Strategic Audit Plan 2012-13  
Internal Audit Progress Reports 2012/13

**ANNEXE A**

**INTERNAL AUDIT SERVICES  
ANNUAL REPORT AND OPINION  
2012/2013**



## **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 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 2012/13 annual audit plan 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 Chief Finance Officer and progress reports have been made throughout the year to Corporate Management Team and Audit, Best Value and Community Services Scrutiny Committee.

## **3. Audit Opinion**

3.1 ***No assurance can ever be absolute; however based on the internal audit work completed, the Head of Assurance (as the Council's Head of Internal Audit) can provide reasonable assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2012 to 31 March 2013.*** Audit testing has confirmed that the majority of key controls examined 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 2012/13, planned and unplanned;
- Follow up of actions from previous year's audits;
- Management's response to the findings and recommendations;

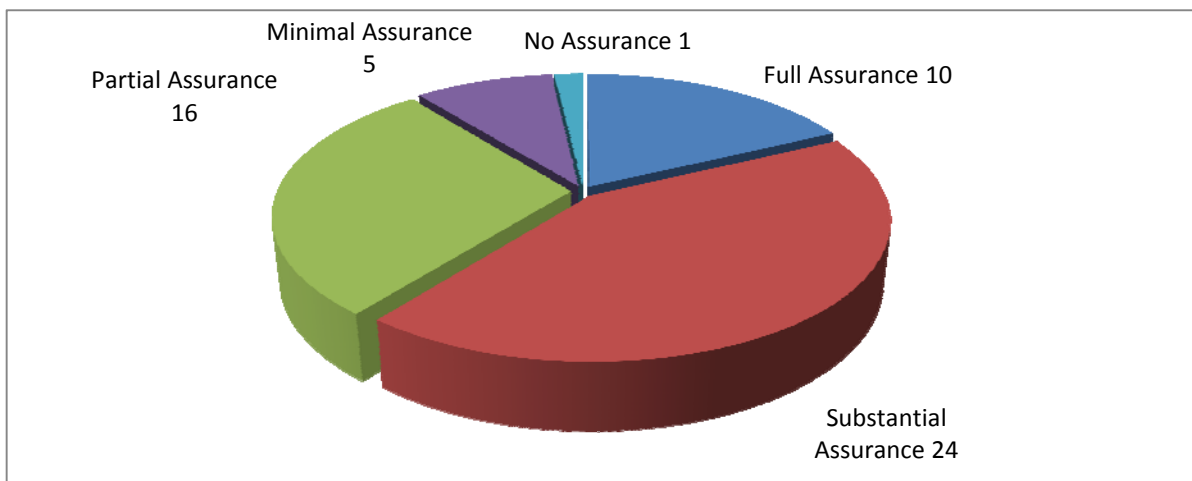
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of internal audit during 2012/13.

## 5. Key Issues Raised During 2012/13

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, should 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 chart provides summary of the outcomes from all audits finalised during 2012/13 with standard audit opinions:



5.3 A full listing of completed audits and opinions for the year is included at Appendix B, 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:

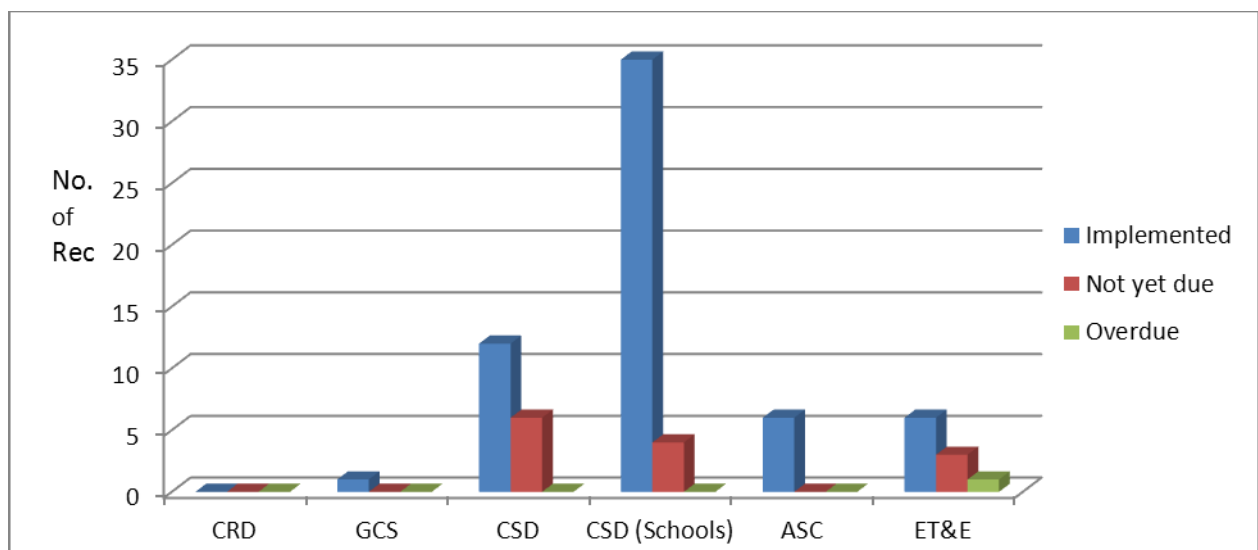
- **SPOCC (Supporting People System) Interface Investigation** (Minimal Assurance) - following an incident where a high value duplicate payment was almost exported from SPOCC into SAP, a review of the controls over the SPOCC/SAP interface was undertaken. The review identified a number of potentially serious control weaknesses within in the SPOCC system, particularly in relation to system configuration, validation and reconciliation controls. All recommendations arising from the review were agreed with management and we have subsequently received confirmation through our action tracking process that all high risk recommendations have now been implemented.

- Section 75 Pooled Budgets (Minimal Assurance)** - This review examined the pooled budget arrangement between ESCC, East Sussex Downs and Weald Primary Care Trust (PCT) and Hastings and Rother PCT to deliver the Integrated Good Start Service, the Children's Integrated Therapy Service and Services of Emotional Health and Wellbeing. Utilising the latest CIPFA best practice requirements for managing pooled budgets we found clear barriers which prevented ESCC, as the host partner, from ensuring that the pooled budget achieved its objectives. This was primarily as a result of the lack of financial information being communicated to ESCC from organisations providing services, principally, East Sussex Healthcare Trust (ESHT). Whilst management had escalated and challenged this issue through the leaders of ESCC and NHS Services, the pooled budget arrangement came to an end on 31 March 2013, with the abolition of the PCT.

It is understood that in the future, the County Council and the three East Sussex Clinical Commissioning Groups (CCGs) will be seeking to undertake "aligned" commissioning, in which joint commissioning policies are agreed and then implemented separately through respective commissioning processes. The new arrangements are currently being developed and will subject to review by internal audit during 2013/14. Management have also committed to ensuring that any lessons learned from the experiences of the pooled budget will be incorporated into these future commissioning arrangements.

5.4 All of the remaining reviews where we have issued opinions below the level of 'partial assurance' relate to schools and these are commented on in Section 5.10 below.

5.5 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 2013 is shown in the following graph:



5.6 With regard to the one recommendation overdue at year end, implementation is dependent on an external software supplier amending the database of concessionary fares card holders to make it more secure. It is understood that the recommendation is now due to be fully implemented early in 2013/14. In the meantime, management have agreed to implement a series of measures to mitigate the potential risks.

5.7 At the time of producing this report, a total of 10 reviews remained in progress, all of which will be completed during the first quarter of 2013/14. The finalisation of these reports will result in 100% completion of the 12/13 Internal Audit plan.

### **Fundamental Accounting Systems**

5.8 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 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.

5.9 It is pleasing to report that of those completed during 2012/13, all of these resulted in either full or substantial assurance being provided over the control environment.

### **Schools**

5.10 Throughout the year, we have completed a programme of assurance work in schools in accordance with our agreed 'Schools Internal Audit Strategy'. Whilst all County Council schools are required to submit annual self- assessments against the national 'Schools Financial Value Standard' to Children's Services Department (CSD), a number of individual schools were also subject to a separate internal audit during the year. These were selected on the basis of risk, in consultation with CSD and a summary of the results of this work is set out within the following table:

<b>School</b>	<b>Opinion</b>
Mark Cross CEP School	Partial Assurance
Marshlands Primary School	Partial Assurance
Hurst Green CEP School	Minimal Assurance
Park Mead Primary School	Minimal Assurance
Northiam CEP School	No Assurance
Uplands Community Technology College	Substantial Assurance
Uckfield Community Technology College	Minimal Assurance

5.11 In all cases, the findings from our work are reported to the Headteacher, governing body and Children's Services Department in the form a formal report and agreed management action plan. Where the audit opinion is below 'partial assurance', these schools will be subject to a follow up review during 2013/14.

5.12 Where the results of individual school audits identify common areas of control weakness, we will summarise these, along with the necessary actions for improvement, within periodic bulletins issued directly to all school governors in the County.

5.13 Our other assurance work in relation to schools includes themed reviews, focussing on specific areas of risk. For 2012/13, this included a review of 'Use of Vehicles' in schools which resulted in an opinion of partial assurance.

### **Anti Fraud and Corruption**

5.14 During 2012/13, we logged 18 allegations and potential issues under the Council's Anti-Fraud and Corruption Strategy. These were identified via the Council's confidential reporting hotline, our programme of internal audit work or notifications from departments. A total of 11 investigations were subsequently conducted, with the balance being referred to local management or being assessed as requiring no action. The following provides a summary of the investigation activity undertaken by internal audit:

- One case, involving a pensions fraud committed by a member of public, has resulted in a criminal conviction. Recovery proceedings are also underway for an amount of £6,286;
- Five internal cases have resulted in disciplinary action and/or standing setting. Two of these were also reported to the police but no criminal charge was made;
- In four instances there was insufficient evidence to take any further action; and,
- One investigation remains in progress.

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

5.16 As part of the Audit Commission's National Fraud Initiative (NFI) 2010, the Internal Audit have co-ordinated the production and submission of data on behalf of the Council, covering a range of areas, including payroll, pensions, creditors, residential care clients and residents parking permits. A number of overpayments were identified through the exercise, particularly in relation to ESCC pensioners, two of which related to the continued payment of pensions following the death of a pensioner. In both of these cases criminal convictions have been obtained (including the case referred to above) and arrangements put in place to ensure financial recovery.



5.17 The latest round of the NFI is now underway, with Internal Audit once again co-ordinating the production and submission of data on behalf of the Council. The results of this have recently been made available to ESCC and subsequent matches are currently being investigated by managers across the Council. The outcomes from this will be reported throughout 2013/14.

5.18 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.

5.19 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 2013/14, we will be reviewing the adequacy and effectiveness of our anti-fraud and corruption arrangements, with the support of a new Counter Fraud Specialist, to be appointed on a one year fixed term basis.

## **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 On an on-going basis, 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 this, with further improvements achieved each year. With effect from April 2013, the Code of Practice has been replaced by new Public Sector Internal Audit Standards which require a full and independent external assessment of the service at least every five years. We expect our first such review to be undertaken during 2013/14.

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

6.4 Overall, the client satisfaction levels remain high, demonstrated through both the results of our post audit questionnaires and the consultation with key stakeholders throughout the year.

6.5 Internal Audit participate in the CIPFA Benchmarking Club for internal audit and the latest information indicates that the Council continues to have an appropriate level of audit coverage when compared with other County Council's and that our cost comparators remain below the benchmark average for all authorities. As at 31 March, 86.5% of the 2012/13 audit plan had been completed. Whilst this is slightly below the target of 90%, all outstanding reviews were nearing completion at year end with all reports due to be finalised early in quarter 1 of 2013/14.

6.6 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 2011/12 accounts and have confirmed in their Annual Audit Letter that they were able to place reliance on it in forming their opinion. Furthermore, within their Audit Plan for 2012/13, PKF have explained that, taking into account the south east uplift and relative gross spend of the Council, ESCC 'has the lowest county council relative fee in England' and that this fee 'reflects the good cooperation with, and coverage of, the work undertaken by internal audit'.

6.7 Corporate Management Team and the Audit, Best Value and Community Services Scrutiny Committee continue to receive performance information on the IAS throughout the year as part of quarterly internal audit progress reports.

## Appendix A

### Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
<b>Client Satisfaction</b>					
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. Updated through Chief Officer consultations in April 2013. Improvement actions built into business plan
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	G	92.1%
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 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.	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. No longer applicable – a new measure to be determined for 2013/14.
<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	G	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.	G	Ongoing via attendance at CCAN, HCCIAG and SAG.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of Audit Plan Completed.	R	86.5%

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
<b>Professional Standards</b>					
Peer Review / External Assessment	Inspection, Assessment and Report	Every 3 Years	Completed and implementation of any actions arising.	N/A	Planned for 13/14 against new PSIAS
External Audit Reliance	Fundamental Accounting Systems Internal Audit Activity	Annual	Reliance confirmed.	G	Confirmed as part of Annual Governance Report

## Summary of Opinions for Internal Audit Reports Issued During 2012/13

### **Full Assurance:**

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

<b>Audit Title</b>	<b>Department</b>
Treasury Management	CRD
General Ledger	CRD
Pension Fund Investments	CRD
Pension Fund External Control Assurance	CRD
Pension Fund Governance and Strategy	CRD
Contracting and Procurement – British Telecom Global	CRD
Accounts Payable	CRD
ASC Income Controls	ASC
e-Sussex Local Broadband Plan – Project Governance	ET&E
High Weald AONB	ET&E

### **Substantial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Data Centre Review	CRD
Windows Server	CRD
Public Sector Wide Area Network – The Link	CRD
Procurement	CRD
Security of Mobile Devices	CRD
SAP Generic Controls	CRD
Carbon Reduction Commitment	CRD
Accounts Receivable	CRD
Purchasing Cards	CRD
Pension Fund Processes and Systems	CRD
Agency Contract – Follow Up Review	G&CS
Uplands Community College	CSD
THRIVE Financial Management – Follow Up	CSD
Schools Online Payment Systems	CSD
CSD Income Controls	CSD
Self-Directed Support	ASC
Integrated Community Equipment Service	ASC
Resource Allocation System	ASC
Economic Intervention Fund	ET&E
Pre-Employment Verification Checks	ET&E
ET&E Income Controls	ET&E
Trapeze ICT Controls	ET&E
EXOR IT Application Review	ET&E
Sussex Safer Road Partnership	ET&E

**Partial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Oracle Database Controls	CRD
Galaxy Library System	G&CS
G&CS Income Controls	G&CS
Schools Themed Review – Vehicle Use in Schools	CSD
THRIVE Social Care Transformation Programme	CSD
East Sussex Music Service	CSD
Adoption Allowances	CSD
Youth Offending Team	CSD
Services to Schools Follow Up	CSD
Mark Cross CE Primary School	CSD
Marshlands Primary School	CSD
Contracting and Procurement – Peacehaven Schools	CSD
Controcc / Abacus	ASC
Blue Badge Investigation Arrangements – Follow Up	ASC
Concessionary Fares Scheme	ET&E
EXOR	ET&E

**Minimal Assurance:**

<b>Audit Title</b>	<b>Department</b>
Hurst Green Primary School	CSD
Section 75 Pooled Budgets	CSD
Park Mead Primary School	CSD
Uckfield Community Technology College	CSD
SPOCC Interface Investigation	ASC

**No Assurance:**

<b>Audit Title</b>	<b>Department</b>
Northiam CE Primary School	CSD

**Other Audit Activity Completed During 2012/13 (including direct support for projects and new system initiatives and grant audits):**

<b>Audit Title</b>	<b>Department</b>
County Hall Cash Security	CRD
Transfer of Public Health	G&CS
Families with Multiple Problems	CSD
Sixth Form Funding	CSD
Contracts Review	ASC
Discretionary East Sussex Support Scheme	ASC
Social Care Information System	ASC/CSD

<b>Audit Title</b>	<b>Department</b>
Parking Enforcement KPI's	ET&E
South Downs Joint Committee	ET&E
Fleet Management	ET&E

**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

The Accounts Payable (AP) system is administered through SAP and is one of the Council's fundamental accounting systems. As such, it is subject to annual internal audit review, covering the following key control objectives:

- Only authorised staff can commit the organisation to expenditure by approving orders for goods and services;
- Invoices are processed only when goods have been received in the correct amount, and at the correct price;
- All expenditure incurred is accurately recorded;
- All payments are made only in the respect of approved invoices for the correct amounts;
- There is adequate segregation of duties for the creation and maintenance of vendor master records, ordering, invoice receipt and payment functions.

Whilst our review covered the complete procure to pay process, there is a 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.

#### Pension Fund Processes and Systems

The review of Pension Fund Processes and Systems (which is part of the programme of fundamental accounting system reviews) was undertaken in accordance with the Annual Internal Audit Plan and the Pension Fund Audit Strategy.

From the audit work completed during the review, which covered a range of key control objectives covering both pension payments and contributions, we have been able to provide **substantial assurance** that there is a sound system of controls in place.

Only three recommendations were made to improve controls. These covered arrangements for the calculation of contributions for employees on pay protection and the timeliness of reconciliations between SAP and admitted bodies' returns.

Management agreed to implement all of the recommendations by the end of March 2013.

### **Families with Multiple Problems Programme**

As part of the governments Families with Multiple Problems programme, ESCC is working with 340 families, funded by more than £900,000 from government grants, dealing with complex and multiple problems. The work is overseen by a multi-agency partnership, including the County Council, Sussex Police, the NHS, probation and local housing authorities.

To date, internal audit work in this area has included:

- Providing advice and support to Children's Services (CSD) in developing appropriate mechanisms for inviting, assessing and approving applications from organisations that deliver enhanced support to families with multiple problems;
- Assisting CSD in liaising with the Department of Communities and Local Government (CLG) to clarify the monitoring data that local authorities will be required to collect. This is essential to enable the programme to be monitored and evaluated on a national level.

Work is now underway to confirm that robust controls are in place to ensure that all data to be reported to the CLG in July 2013, in support of the grant application, is complete, accurate and is supported by appropriate documentation.

### **Contracting and Procurement – Peacehaven Schools**

In September 2001, the Council entered into a 25-year PFI Project with Peacehaven Schools Ltd, covering the construction of a new secondary school and the replacement/refurbishment of four primary schools. Since then, the facilities maintenance provider has been responsible for operating and maintaining the premises.

The main purpose of this audit was to give an opinion on whether services are delivered in accordance with the contract, that all payments are valid and accurate, and that all changes are adequately controlled.

Whilst we found that services are generally being delivered in accordance with the original contract, we have only been able to provide **partial assurance** over the control environment. This is principally as a result of current governance and performance management arrangements not being sufficiently robust. We also found an absence of controls for ensuring on-going service improvement and for enabling the Council to ensure value for money is being obtained and delivered.

A range of recommendations to address the above issues has been agreed with management as part of a formal action plan. Work is now underway on implementation and this will be subject to follow up by Internal Audit during the course of 2013/14.

### **Services to Schools – Follow-Up**

In 2011/12, we carried out a review of the adequacy of controls and procedures governing the arrangements for trading with schools and academies. 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.

The Council currently offers over 60 services to schools and academies grouped into three key areas – Running, Governing and Learning. In the year 2012/13, income from services to maintained schools and academies amounted to £7,192,611.

Our previous review identified control weaknesses in the areas of costing's analysis and price setting. In the absence of having robust methodologies in place for assessing costs and setting prices, there is a risk that some services may be trading at a loss or, making a profit from trading with maintained schools which would represent a breach of current legislation.

Whilst some activity and improvement has been undertaken to address the previous actions, a robust and transparent methodology for assessing costs and setting prices has still not been established and implemented.

The Services to Schools team are now in the process of consulting with all service heads as part of a wider discussion about future service delivery options for schools. This activity is expected to lead to greater consistency and compliance with legislation across services. It is also acknowledged that the ability to cost services to schools effectively is dependent on some restructuring of the Children's Services budget. This is something that Business Services Department (BSD) will be taking the lead on in consultation with Children's Services Senior Management Team and budget managers.

In recognition of this on-going work and implementation of other audit recommendations, our audit opinion has improved to **partial assurance**. Further improvement continues to be required however, and this will be subject to internal audit follow up over the year ahead.

## School Audits

**Northiam CE Primary School (No Assurance)** – Our review of Northiam CE Primary School found that the control environment at the school was unacceptably weak and that the weaknesses covered all areas of financial governance and administration. We found that practices breached Financial Regulations and Contract Standing Orders for Schools, and also HM Revenue and Customs (HMRC) requirements. As a result, we were unable to provide any assurance over the control environment. Particular weaknesses included:

- ‘cash in hand’ payments to school staff;
- clear conflicts of interest in relation to senior school staff that had not been declared or reported to the Governing Body;
- poor expenditure processes (including inappropriate use of the school credit card);
- inadequate controls in relation to the receipt and recording of income;
- irregular recruitment practices and a lack of clarity over the school budget.

As a result of these findings, the decision was taken by the Director of Children’s Services to suspend the school’s delegated budget until such time that appropriate improvements were made. The internal audit recommendations were agreed with Children’s Services Department, in conjunction with the school, who immediately commenced a programme of improvement. This work will be subject to a formal follow up by Internal Audit during the coming year.

**Park Mead Primary School (Minimal Assurance)** – this review was completed at the request of the Executive Head who had specific concerns over financial management at the school. Based on the work undertaken, we were only able to provide an opinion of minimal assurance over the control framework. We found specific weaknesses in relation to the approval of payments for goods and services and payroll claims, where there was non-compliance with Financial Regulations for Schools and also inadequate separation of duties. Other weaknesses included the lack of declarations of interests by staff and governors, inadequate controls over the security of cash and the sharing of passwords for email accounts and the school’s financial management system.

**Uckfield Community Technology College (Minimal Assurance)** – a number of key control weaknesses at the college were identified, included the absence of a link between the College’s budget and its School Improvement Plan, and the need to improve the monitoring of budget share and school fund income. Expenditure processes lacked robust approval controls, increasing the risk of inappropriate or fraudulent payments. We also found that payments to one member of staff had been made without deductions for tax or national insurance, and that a payment had been made to another staff member for mileage costs not yet incurred, constituting a breach of HMRC legislation and financial regulations.

**Mark Cross CE Primary School** (Partial Assurance) – our work found an inadequate separation of duties in relation to payroll, lettings and the purchasing process. We also identified a number of weaknesses and non-compliance with Financial Regulations for Schools covering the approval of payments and income records not being retained.

**Marshlands Primary School** (Partial Assurance) – key audit findings in relation to this school included the absence of formally documented approval over the award of building/refurbishment works. This reduces accountability and the Governing Body’s ability to monitor the implementation of its decisions. In addition, there was no record of the school being registered for data protection meaning that it could be committing a criminal offence by processing personal data without registration.

**Uplands Community College** (Substantial Assurance) – our review of Uplands Community College found evidence of good financial management and a sound control environment with no significant findings. Some minor recommendations were made for improvement and agreed with school management.

### **THRIVE Social Care Transformation Programme**

The THRIVE programme was introduced by the Children’s Services Department (CSD) to fund initiatives in early intervention with the aim of achieving better outcomes for children and families, reducing their need for costly, high-end services. Accordingly, a budget of £9.7 million has been set to support these initiatives.

Earlier in the year, we undertook a review of the Programme, covering governance arrangements, financial management and funding, risk management and project planning and monitoring. We provided an audit opinion of partial assurance; mainly as a result of weaknesses identified in relation to financial management, where accurate spending plans, budget profiles and forecasts were not in place.

We have subsequently completed a formal follow-up to this review which has resulted in an updated audit opinion of **substantial assurance**.

Whilst clear improvements have been made since the last review, the follow up audit identified that savings generated by THRIVE activities were being incorrectly identified as overall CSD savings, through a reduction in specific service base budgets. As a result, we recommended that the base budget setting process be changed by removing THRIVE funding from the various CSD service budgets and that specific demand led overspends be authorised in advance as part of the overall THRIVE budget monitoring process. This is now being implemented by management, thereby enabling better accounting transparency for the THRIVE programme and providing a more robust financial control framework for the use of the THRIVE investment drawdown.

Our work supporting the programme continues and is currently focussing on:

- Confirming that updated governance arrangements are in place to effectively manage and control all new implementation phases of the programme;
- Verifying that specific implementation plans, linked to processes and aligned to individuals, are being developed;
- Ensuring that adequate workforce development controls are being established, including learning needs and staff training;
- Ensuring that adequate programme quality assurance controls are put in place to reduce overall risk, including those associated with safeguarding of children.

### **Discretionary East Sussex Support Scheme**

During quarter 4, we have continued to provide advice and support to Adult Social Care (ASC) as part of the implementation of the Discretionary East Sussex Support Scheme (DESSS). DESSS replaces the funds previously administered by the Department for Work and Pensions, through Job Centre Plus, for community care grants and crisis loans for living expenses.

The scheme assists East Sussex residents facing temporary financial hardships and supports people where there is a significant risk to a person's health and safety. It provides advice and support to eligible residents and acts as a referral service to existing support agencies throughout the County.

Through our work in this area, we have provided advice and support to help ensure that:

- adequate risk management arrangements are in place and that mitigating actions are monitored and updated;
- robust controls are being developed for the effective administration of the scheme;
- the eligibility criteria, qualifying circumstances and approval process of applicants are clearly defined and in accordance with the requirements of the Welfare Reform Act 2012.

The scheme was implemented in April 2013. Future internal audit work will be to review the processes in operation to ensure controls and procedures are being complied with.

### **Self-Directed Support**

Self-Directed Support (SDS) is the system ensuring individuals in receipt of care are at the centre of the care planning process, putting them in control of decisions about their support. It enables each individual to decide what they want to achieve and how to do this and is the mechanism through which personal budgets are delivered.

The overall scope of this audit was to review the updated SDS pathway and operational guidance documents to ensure all changes introduced to the system since our previous work in this area (as a result of the Lean Working initiative), were made in a controlled manner and had not weakened the system.

Our review found that the SDS processes, policies and associated guidance documents have been properly revised, refined and updated in line with Lean principles and with relevant learning since introducing the SDS pathway in 2010/11. Changes made as a result of Lean have been made in a controlled manner and have not weakened the key controls of the system.

Whilst we have been able to provide an opinion of **substantial assurance** over the control environment, we did find evidence of some non-compliance with SDS policy. These have been reported to management along with appropriate recommendations for improvement.

### **Fleet Management**

Following an investigation into the theft and improper use of County Council assets by a member of Economy, Transport and Environment staff, we have subsequently produced an internal control report setting out a range of control improvements within the service area concerned, Fleet Management. These have been summarised below:

- Strengthening physical security of the Fleet Management Office and establishing an inventory or other record of assets and equipment;
- Ensuring proper audit trails are maintained for all Purchasing Card (P-Card) transactions;
- Reducing number of staff holding P-Cards within the team and improving management oversight of P-Card purchases;
- Reviewing the business case of maintaining a pool of ESCC fleet vehicles ahead of alternative arrangements for staff business travel;
- Significantly improving the recording keeping associated with the use of County Council vehicles, particularly for the pool of ESCC fleet vehicles;
- Reviewing the business case for the provision of a dedicated standby service for fleet and lease car users, especially in light of alternative arrangements already in place;
- Strengthening management oversight over the Fleet Management Team and other teams operating in a similarly isolated environment.

All of the actions arising from the report have been agreed with the management within E,T&E and beyond and this will be subject to follow up by Internal Audit during the coming year.

### **EXOR**

EXOR is the system used to administer the highways management process which includes the controlling and recording of repairs work and payments to the highways contractor, May Gurney (MG).

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Our review examined the following key control objectives and sought to confirm the implementation of recommendations arising from the previous year's review of Exor:

- 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;
- Adequate financial budgetary monitoring arrangements are in place.

Our work found that, whilst progress has been made against certain recommendations, the majority of areas of weakness previously identified have not yet been addressed. As a result, we continue to be able to provide only **partial assurance** over the control environment.

The main areas for improvement include ensuring that in all cases:

- agreements to works packages by MG are obtained;
- cost estimates, based on the most recent detailed designs and costs agreed by ESCC and MG engineers, are used during the works ordering stage;
- Project Manager Instructions (PMI's) to confirm/authorise changes to works (and therefore costs) are issued;
- Sample checking of invoices is undertaken.

We also found there to be different practices between teams which need to be evaluated by management and policy issued accordingly. A lack of formal procedure documents for staff is increasing the risk of error arising from controls not being applied properly or consistently.

It is acknowledged that there have been significant changes over the last year, as a result of the Highways Transformation Project, to change the ways that services are delivered in East Sussex. It is anticipated by management that as a result of this on-going work, there will be an improvement in the overall control environment.

All recommendations arising from this review have been agreed with management as part of a formal action plan and this will be subject to future follow up by Internal Audit.



## Economic Intervention Fund

An internal audit review on the administration and management of specific funds within the Economic Intervention Fund (EIF), specifically the East Sussex Invest (ESI), East Sussex Invest 2 (ESI2) and the Rural Growth and Employment Fund (RuGEF) was undertaken to provide assurance on the overall effectiveness of controls.

The EIF is an economic development project of £6m which was agreed by the County Council as part of the capital programme for 2012/13 to 2015/16. The ESI and ESI2 have an allocation of £750K and £250K respectively, and are primarily to provide state aid compliant financial incentives to companies expressing an interest in relocating to East Sussex, for indigenous companies seeking to expand and for business start-ups that create new jobs.

The RuGEF has an allocation of £2.5M, and focuses on economic growth through the provision of assistance in the form of grants and loans for suitable developments and projects within rural communities in East Sussex.

Based on the audit work undertaken, we have been able to provide **substantial assurance** that adequate controls are in place in relation to the ESI and RuGEF funds. Each grant programme has clear aims and objectives, the grant administration process (including application and approval) is well controlled and there is adequate review and performance measures in place to ensure grants are used for the purposes for which they are intended.

Whilst we believe controls to be effective, we identified a small number of areas where these could be improved further. In all cases, our recommendations have been agreed with management, with all due to be implemented in the first quarter of 2013/14.

## 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 2013/14:

- Controcc
- HR/Payroll
- Nursery Income Follow-Up
- Looked After Children Funds
- Schools Funding Formula
- Code of Conduct in Schools
- SIMS Gateway
- Information Governance
- Contracting and Procurement - A4E

