Report to:	**Audit, Best Value and Community Services Scrutiny Committee**
Date:	**5 September 2014**
By:	**Chief Operating Officer**
Title of report:	**Internal Audit Progress Report – Quarter 1 (01/4/14 – 30/06/14)**
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 1.**

RECOMMENDATIONS: The Committee is recommended:

1. **to consider and agree any action that should be taken in response to the issues raised in any of the audits carried out during Quarter 1;**

2. **to identify any new or emerging risks for consideration for inclusion in the internal audit plan.**

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

2.   Supporting Information
2.1   The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2014-15.   This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit, Best Value and Community Services Scrutiny Committee (10 June 2014) and Cabinet (01 July 2014).   This progress report covers work completed between 1 April 2014 and 30 June 2014.

3.   Summary and Key Audit Findings
3.1   Key audit findings from final reports issued during Quarter 1 are summarised in Appendix A.
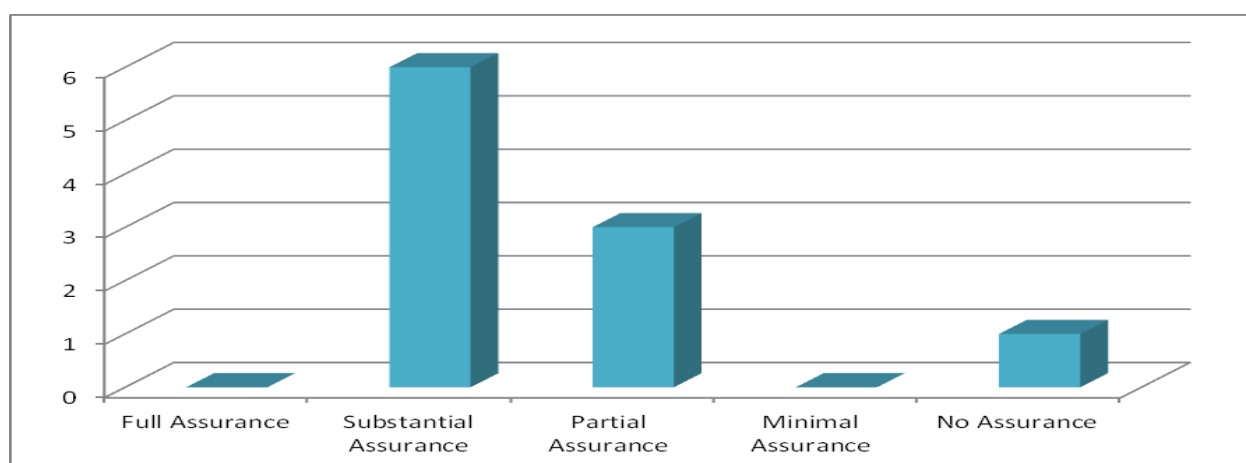
3.2   Overall, of the 10 formal audits completed, six received a 'substantial assurance' opinion (one of which was a school), three received 'partial assurance' (all of which were schools) and one school audit received 'no' assurance.

3.3   Whilst the same range of internal audit opinions are issued for all audit assignments, it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Head of Assurance continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control**.

3.4   This overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to recommendations raised and the level of progress in subsequent implementation.

3.5   During the quarter, the service has been engaged in a number of investigations which, coupled with staff vacancies, has meant that it has not been able to complete as much planned work as expected. Whilst provision has been made for unplanned work of this kind and a recruitment process is currently underway, the overall resource position will continue to be monitored closely to ensure that the audit plan will be delivered as expected by the end of the year.

3.6   Formal follow up reviews continue to be carried out for all audits where either 'minimal' or 'no assurance' opinions have been given and for all higher risk areas receiving 'partial' assurance. In addition, arrangements are in place to monitor implementation of all individual high risk recommendations and at the time of writing this report, all recommendations due had been implemented.

3.7   Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.

4   Performance against targets

4.1   Progress against agreed performance targets (focussing on quality / customer satisfaction, compliance with professional standards, and cost / coverage) can be found in Appendix C. The majority of targets have been assessed as on target (Green), with the exception of delivery of 90% of the annual audit plan by 31 March 2015. This was commented on above and is currently rated as Amber.

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BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2014-15

Summary of Key Audit Findings

E-Tendering / E-Auction

E-Tendering is the process of managing a tender electronically and during 2013, the County Council procured a web based system, 'In-Tend' for this purpose. The system enables the Council and suppliers to complete most key tender activities via the Internet, providing administrative benefits and helping to ensure competitive pricing.

The main purpose of this audit was to provide assurance over the controls for administering and controlling the system, including security over inappropriate access and alteration.

Overall, we found effective controls to be in place, with an opinion of **substantial assurance** provided over the control environment. Our work was able to confirm that the system ensures only authorised personnel have access, clear audit trails are in place and tenders are secure from inappropriate access and alteration.

One recommendation, relating to preventing tenders from being closed early, has been agreed with management.

Thrive

THRIVE is a three year programme to improve the system of support for vulnerable children and young people in East Sussex, running from 2012 – 2015. The long-term aim of the programme is to ensure that we have a financially sustainable children's safeguarding system which acts in a proportionate, timely and effective way to reduce children and young people's needs.

As part of the phased development of THRIVE, Internal Audit has been providing support, advice and assurance that new systems and working practices are introduced in a controlled manner.

The scope of this most recent audit was to ensure that any changes and implications as a result of THRIVE are being effectively managed through the budgetary control process, and to ensure that the financial reporting arrangements are robust.

Based on the work carried out, we have been able to provide **substantial assurance** that appropriate systems are in place to enable the financial implications associated with THRIVE to be properly managed and then reported.

In particular:
● Systems accurately record financial data for all clients and this enables the THRIVE accountant to accurately calculate the reduction in spending on children's social care since the start of the programme;
● Controls are in place to ensure the above systems provide complete and accurate financial forecasts that are routinely checked against pre-agreed and approved budgets;
● The impact of THRIVE budget decisions on the overall Children's Services budget is being managed to ensure ongoing affordability;
● Medium term financial plans are being developed that consider the affordability of children's social care and the likely change in demand for services.

Only three low risk recommendations were made as a result of our work, all of which have been agreed with management.

Telecoms and Voice Over Internet Protocol (VOIP)

Voice communication using VOIP rather than the traditional PSTN (Public Switched Telephone Network) phone line enables the business phone network to be overlaid on the existing data network infrastructure and uses the internet backbone for communicating on the phone for national and international calls; with the advantage of cost savings being achieved. Furthermore, there are a number of valuable features and benefits in relation to call management which include voice conferencing, call routing, mobility and teleworking, auto attendant services and more efficient use of bandwidth.

The Telephony and VOIP implementation project is a part of the wide area Next Generation Network (NGN) Public Sector Network (PSN) delivering voice, as well as data and multimedia services, to the authorities in the County. In January 2014, the Council's VOIP telephony network was replaced with a managed and hosted service called 'LINK Voice' provided by a third party contractor.

The review, conducted by specialist ICT auditors from Mazars, sought to provide assurance over the following areas of the project and system:

- Project Management;
- Implementation Plan/Timeline;
- Acceptance Testing & Sign-Off;
- Production Environment;
- Go Live;
- Documentation and Training;
- System Management;
- System Security;
- Call Restrictions;
- Resilience, Disaster Recovery and Maintenance;
- System Monitoring and Reporting.

Based on the work carried, **substantial assurance** was provided over the control environment. The main areas for improvement, all of which have been agreed with management and none of which are deemed to be of a high risk nature, related to:

- Obtaining contractor assurance to ensure disaster recovery arrangements have been successfully tested and contractor infrastructures have been properly assessed for security vulnerabilities;
- Evaluating the new system reporting capabilities to confirm that they meet the requirements and expectations of the Council;
- Ensuring the completion of a post implementation review and lessons learnt exercise;
- Conducting a formal client/end user satisfaction survey amongst staff relating to the new service.

Fleet Management - Follow Up

Following an investigation within the Fleet Management Team of Communities, Economy and Transport, an internal control report was produced which identified a number of weaknesses in the service and its activities. These weaknesses related primarily to general management oversight, use of procurement cards (P-cards), and control and use of vehicles.

A follow up to this has now been completed as part of the approved 2014/15 internal audit plan, the main purpose of which has been to provide assurance that all recommendations previously made have been adequately implemented.

Our work has established that the Fleet Management Team has achieved significant progress with implementing the agreed actions, with eleven of the original sixteen recommendations implemented in full. Three recommendations were found to have been in the process of being implemented and have therefore been restated, or where appropriate, updated within our follow up report.

The remaining two recommendations are no longer relevant due to changes in the way services are now delivered. We have, therefore, been able to provide **substantial assurance** that the control environment has been sufficiently strengthened within this service.

Lease Car Scheme – Follow Up

The Lease Car Scheme audit has been undertaken with the objective of following up the progress made against recommendations from our previous review in this area which resulted in an opinion of partial assurance.

Overall, sufficient progress has been made to enable us to provide an updated opinion of **substantial assurance** over the control environment. Whilst this is the case, there remain a number of areas where action is still required, including:

- Clarifying key roles and responsibilities for the lease car scheme;
- Ensuring appropriate segregations of duty are in place, particularly in relation to approval processes;
- Ensuring all excess contributions are recovered from employees; and,
- Strengthening the arrangements for ensuring driver development training takes place in a timely manner for all necessary users.

All recommendations arising from this follow up have been agreed with management, with immediate action taken in many cases.

Social Care Information System (SCIS) Programme

The main purpose of this work, agreed with the SCIS Project Board, is to provide an opinion on whether the risks associated with five key aspects of the SCIS system implementation, are being properly managed. The main focus areas are:

- Business process re-engineering across CSD, ASC and finance;
- Data quality and migration;
- Testing arrangements;
- System security and administration;
- System interfaces and reconciliation.

Much of the audit work remains dependent upon the programme progress and in particular, the procurement process, which is likely to be concluded during the summer. It is understood that implementation of the new system will start in earnest in September 2014.

Preliminary audit work has been undertaken in order to gain an understanding of the risk issues, to assess whether business process review outcomes will adversely impact on the control environment and to review the adequacy of data cleansing activity.

Advice has also been given to the project team regarding the sourcing of deceased client data, overarching service provider agreements, individual service agreements for care clients and the set-up of the ContrOCC system portal.

To date, there have been no issues of concern which require reporting to the Project Board. Once implementation begins in earnest, it is anticipated that assurance reports will be provided to the Board at regular intervals.

Special Educational Needs and Disability (SEND)

With the planned introduction of personal budgets and improvements in commissioning for children with special educational needs and disability, the purpose of our activity in this area has been to ensure that robust supporting systems and processes are developed and that the control environment associated with these changes will ensure compliance with government policy.

Our work so far has focussed on developing a better understanding of the risk issues and developing the scope of our future activity, due to commence over the summer. This will be agreed with the SEND Operational Group and is expected to include:

- An examination of personal budgets which have been part of a pilot and the intended roll out of self-directed support within SEND;
- Commissioning arrangements for services where the service user asks the Council to source their services;
- The local offer;
- The arrangements in place to review each case as the child grows up.

The outcomes from this work will be reported on later in 2014.

Chyngton Primary School ICT Services

During the quarter, a review was carried out associated with ICT related services being provided by Chyngton School to other ESCC schools. In particular, the exercise sought to provide assurance that risks to both the school and the County Council, relating to the service, had been properly identified and, where appropriate, mitigated. Specific risk areas included:

- Governance;
- Health & Safety;
- Insurance;
- Finance;
- Legal;
- ICT/data protection;
- HR/payroll;
- Procurement;
- Income.

The subsequent report provided a total of 23 recommendations for improvement, the most significant of which were:

- Introducing a formal business plan and clarifying the objectives of the business and the benefits to Chyngton School of providing ICT services to other schools;
- Ensuring that school governors are provided with sufficient information to enable them to fully understand the service's financial position, including potential redundancy liabilities;
- Strengthening financial management to ensure there is sufficient clarity over the service's costs and pricing policy to avoid financial loss;
- Ensuring that records of risk assessments carried out before taking on works are retained to enable potential future claims for personal injury to be defended;
- Implementing written protocols governing the standard or method of works to be carried out;

- Improving basic financial controls associated with the service's operation, especially over staffing records and the receipt and recording of income.

All actions from this exercise have been agreed with the school and these will be subject to a follow up review later in 2014/15. In addition, a full financial audit of the school has also been undertaken and this will be reported on in due course.

Individual School Audits

During the quarter, we have continued to conduct visits to schools in the County, with the individual schools selected through the Schools Risk Review Group (made up of representatives from Internal Audit, Personnel and Training, Finance and the Standards and Learning Effectiveness Service) on the basis of risk. In all cases, recommendations arising from our work have been formally agreed with school management, with copies of all audit reports now sent directly to all members of each school's governing body. We also prepare a summary of the report for the relevant local Member where the audit opinion is below partial assurance. This is in addition to the quarterly bulletins we provide to governors which highlight common themes and issues arising from our work which we recommend they seek assurance on within their own schools.

The following school audits have been completed in the quarter.

School	Opinion	Key Findings
Western Road CP School	No Assurance	We found the control environment at the school to be unacceptably weak across all areas of financial governance and administration. As a result of on-going disciplinary proceedings and police investigations, specific details from our work cannot be provided at this stage. Further information will, however, be provided as soon as we are able to do so.
Robertsbridge Community College	Substantial Assurance	We found a generally sound control environment with some areas where controls could be further strengthened, including in relation to: • Enhancing budget monitoring reports; • Ensuring official orders are raised for purchases; • Ensuring contracts are formally approved by the Full Governing Body as required by the College's scheme of delegation.
Hurst Green CE Primary School	Partial Assurance	Following a previous review in 2012, when an audit opinion of minimal assurance was provided, a further review was undertaken to assess the extent of any improvement. Overall, we found improvements had been made but there were still a range of areas of control weakness requiring attention. These included the need to: • Clarify certain aspects of the school's scheme of delegation; • Formally approve the school's local financial procedures; • Enhance the budget monitoring process; • Improve elements of the purchasing process, specifically in relation to ensuring official orders are raised for purchases, that payments are approved

School	Opinion	Key Findings
		in accordance with Financial Regulations and that there is an adequate separation of duties; • Ensure formal lettings agreements are in place and rent is collected promptly; • Improve separation of duties within the payroll process; • Complete annual inventory checks.
Parkland Junior School	Partial Assurance	This was a follow-up to a previous audit in 2011, when an audit opinion of partial assurance was provided. Whilst some improvements had been made, we were again only able to provide partial assurance over the control framework. This was based on a combination of new recommendations being made and it being found that almost half of the previous recommendations had still not been implemented, resulting in gaps in the control process. Improvements required included: • the need for the Governing Body to formally approve the annual budget; • making sure minutes of sub-committee meetings are presented to the Full Governing Body to improve its oversight of school decisions and activities; • ensuring un-reconciled items on the bank reconciliation are investigated and actioned promptly; • ensuring official orders are raised for purchases; • approving contracts in accordance with the school's scheme of delegation; • ensuring contractors have adequate and current public liability insurance prior to work commencing.
Seaford Primary School	Partial Assurance	Areas for improvement included: • the need for the Governing Body to approve the scheme of delegation; • ensuring there is an appropriate separation of duties in the payroll process between staff entering data and staff checking the input; • the need to approve contracts in accordance with the school's scheme of delegation; • implementing a process of independent checking that the reconciliation of budget monitoring reports and bank reconciliations is being undertaken; • the need to strengthen the certification of payments process.

Investigations

Gifts and Hospitality

During March 2014, an anonymous letter was received alleging inappropriate conduct by a number of Council staff, specifically relating to the acceptance of gifts and hospitality from County Council contractors.

In response to this, an investigation was undertaken by Internal Audit, focussing primarily on an examination of e-mail records, to establish whether any of the individuals concerned had engaged in correspondence associated with the acceptance of inappropriate gifts, hospitality or other benefits from contractors. In all cases, discussions or interviews were subsequently held with each individual to follow up on any issues arising.

Based on the work described above, we did not identify any evidence to support the specific allegations made. We did, however, identify the need to improve awareness amongst staff and our contractors of the Council's policies and procedures associated with the offering and accepting of gifts and hospitality. Details of all control improvements identified during the course of our investigations will be set out within an internal control report which is currently being finalised.

Other Disciplinary Investigations

In addition to the case referred to above, two other internal investigations were completed by Internal Audit during the quarter, both of which have resulted in the dismissal of members of staff. As a result of the potential for an appeals process, further details of both cases will not be reported on until later in the year.

Additional Audit Reviews

Through discussions with management, the following reviews have been added to the audit plan during the course of the year on the basis of risk (see 3.7 above):

- Lease Cars;
- Chyngton Primary School ICT Services;
- Annual Governance Statement;
- Bus Services Operators Grant.

To date, no audits have been deferred from this year's audit plan.

Appendix B

High risk recommendations where implementation is overdue / unconfirmed

Action has been taken against all of the high risk recommendations due to be implemented, with the majority of these now fully in place.

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Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance
Client Satisfaction					
Chief Officer/DMT	Consultation / Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through Chief Officer consultations in February / March 2014, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	G	100%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	G	Confirmed through ongoing liaison throughout the year and 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 as part of quarterly reporting.
Cost/Coverage					
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	Opportunities to improve benchmarking being explored. Last results available are for 2012, these show: 1. £316 against average of £325 2. £559 against average of £1,004
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	G	On-going via attendance at County Chief Auditors Network, Home Counties Audit Group and Sussex Audit Group.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of audit plan completed.	A	21.3%. This is mainly due to a large proportion of time spent on investigation activity in the period. A number of reviews were also close to completion at the end of the quarter.

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance
Professional Standards					
Compliance with professional standards	Self-Assessment against new Public Sector Internal Audit Standards	Annual	Completed and implementation of any actions arising.	G	Self-assessment completed, improvement plan in place and being actioned.
External Audit Reliance	Fundamental Accounting Systems Internal Audit Activity	Annual	Reliance confirmed	G	Confirmed as part of BDO Annual Governance Report.