

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

Date: **27 September 2016**

By: **Chief Operating Officer, Business Services Department**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/4/16 – 30/6/16)**

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.**

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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 in any of the audits carried out during Quarter 1;**
  - 2. Identify any new or emerging risks for consideration for inclusion in the internal audit plan.**
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### 1. Background

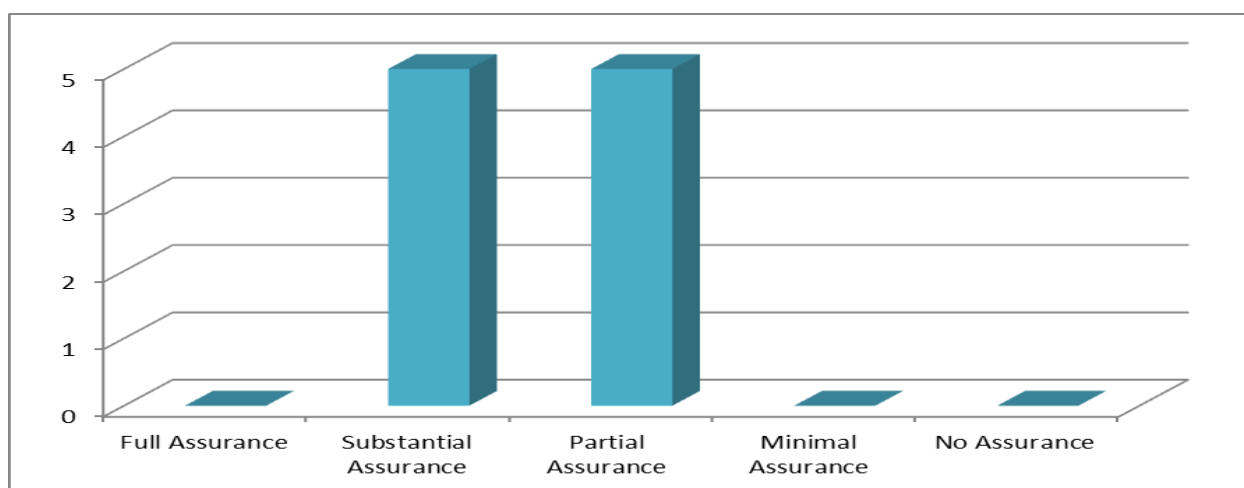
1.1 This progress report covers work completed between 1 April 2016 and 30 June 2016.

### 2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2016-17. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit, Best Value and Community Services Scrutiny Committee on 15 July 2016.

### 3. Conclusion and Reasons for Recommendation

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, 5 received 'substantial assurance' (1 of which was a school) and 5 received 'partial assurance' (1 of which was a school). There were no 'minimal' or 'no assurance' opinions. Of the partial assurance opinions given, it is disappointing to have to report that in two cases (Pension Fund Processes and Systems and Direct Payments), there has been insufficient improvement in control since our previous reviews of these areas.

3.3 Although 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 The 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. This is something which will continue to be monitored and reported on by Internal Audit throughout the year.

3.5 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. A schedule of all audits where future follow up reviews are planned is provided at the end of Appendix A, which will continue to be updated on an ongoing basis. In addition, arrangements are in place to monitor implementation of all individual high risk recommendations. At the time of writing this report, one high risk recommendation due, relating to a school, remained outstanding beyond the agreed implementation date. A revised implementation date for this has been agreed and this will be monitored to confirm it is actioned accordingly.

3.6 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 but would also welcome input from the Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.

3.7 Progress against agreed performance targets (focussing on quality / customer satisfaction, compliance with professional standards, and cost / coverage) can be found in Appendix C. All targets, with the exception of one amber score relating to client manager customer satisfaction, have been assessed as on target (green).

KEVIN FOSTER,  
Chief Operating Officer

Contact Officer: Russell Banks, Head of Assurance  
Tel No. 01273 481447  
Email: [russell.banks@eastsussex.gov.uk](mailto:russell.banks@eastsussex.gov.uk)

BACKGROUND DOCUMENTS:  
Internal Audit Strategy and Annual Plan 2016-17

## Summary of Key Audit Findings

### **Pensions Fund Processes and System**

The review of the East Sussex Pension Fund Processes and Systems is an annual review examining controls over the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (including contributions from other admitted bodies). This review formed part of the 2015/16 annual audit plan and was finalised during the first quarter of this financial year.

Whilst our review found that the key controls over areas such as the calculation of employee / employer contributions and pensioner payments were in place, a number of weaknesses in the administration of the Fund, undertaken by the Pensions Administration Team, meant that we were still only able to provide an opinion of **partial assurance**, unchanged from that issued in our previous audit of this system.

At the time of the audit, we found that the Pensions Administration Team had not undertaken appropriate action to address known issues associated with backlogs in work and key activities. It is understood that staff shortages and loss of expertise within the service have impacted the ability of the Administration Team to cope with workloads but we been informed that this is now being addressed by management. Workloads are currently mismatched against available resources and improvements need to be made in the routine monitoring of certain tasks.

Particular areas identified requiring further improvement were:

- Undertaking a reconciliation between SAP and the pensions system (Altair) to confirm the accuracy of personal data and in particular, home address information, to ensure annual benefit statements are only sent to the correct addresses;
- Resolving all previous instances where information had been sent to incorrect recipients, including directly contacting all members of the scheme affected by previous errors;
- Ensuring annual benefits statements are issued in a timely manner and in accordance with the guidance issued by the pension regulator;
- Taking urgent action to deal with specific backlogs and outstanding tasks relating to pension lump sum payments, transfer in quotes, combining of pension benefits and other pension choices.

All of the recommendations arising from the review have been agreed with management as part of a formal action plan for improvement and it is our understanding that, in a number of cases, immediate action is being taken to address the weaknesses identified. A full follow up review to confirm the progress made will be undertaken as part our 2016/17 audit plan.

### **ContrOCC System**

A review of the ContrOCC system has been completed as part of the agreed annual audit plan for 2015/16. The ContrOCC system is used to record contractual obligations and control payments to independent sector suppliers of day care, home care, residential and nursing care services. Clients in receipt of these services are required to contribute towards the cost of services received, based on the results of a financial assessment.

Between January and December 2015, average net monthly payments to providers were £10.4m. In the same period, the average net monthly billings were £809,000 (excluding services billed for directly by providers).

Based on the testing carried out as part of our review, we have been able to provide an audit opinion of **substantial assurance** over the control environment within the ContrOCC system. In summary, we found that providers are being paid accurately for services provided and clients are being financially assessed correctly to determine whether they can afford to contribute towards the cost of their care. In addition, we found that many of the issues highlighted in our previous audit in this area had been addressed.

Some further opportunities to strengthen the control environment were, however, identified and these include:

- Ensuring that where the system is subject to a technical upgrade, appropriate evidence of robust testing is maintained in the form of complete user acceptance test scripts;
- Maintaining a register of providers who have repeatedly failed to inform the Council of the death of a client and utilising this to help avoid future repetition. This was an action raised in our last review which has remained outstanding.

A formal action plan incorporating all the recommendations arising from our review, none of which are considered high risk, has been agreed with management.

### **Direct Payments**

A review of the Direct Payments (DP) system was completed as part of the 2015/16 annual plan with the overall objective of ensuring that:

- the assessment process (both care and financial) for clients in receipt of DPs is appropriate and fit for purpose;
- all payments have been properly accounted for and, within the flexibilities of the scheme, used for the purposes intended;
- monitoring processes are robust and proportionate, having regards to the risk and pressure on resources.

DPs are payments made to individuals to meet some or all of their eligible health care and support needs, with all clients offered the option of a DP at either assessment or review stages. DPs are established through an Individual Service Agreement which outlines the weekly amount paid by ESCC and the amount that the client must contribute towards the cost of their care and support. Those choosing to receive the payment have the option to manage their account or may choose to have the account managed by ESCC or an external service provider.

In 2014/15, approximately £20 million was paid out in DPs, across 2,225 clients.

Overall, based on the audit work undertaken, we have provided an opinion of **partial assurance** over the control environment, which has remained unchanged from our previous review of this area in 2014. The main areas where improvement in control is required relate to ensuring that:

- third party managed account providers regularly monitor inactive DP accounts in accordance with the service specification, to prevent excessive balances from being held and ensuring funds are returned promptly where agreements have ceased;
- action is taken promptly by third party managed account providers to recover unpaid client contributions;
- DP accounts are properly monitored to identify all instances where the balances on accounts exceed the 12 week limit, and where this is the case, action is taken to recover funds that are surplus to requirements;

- roles and responsibilities between Adult Social Care and Business Operations, including those relating to the liaison with third party service suppliers, are clarified to ensure all key activities are undertaken effectively. This is particularly important with regard to the frequency of reviews of spend against support plans to ensure care payments are made correctly, any potentially inappropriate use of funds is identified promptly and all client contributions are received;
- For all clients using the new pre-paid cards, a reconciliation is undertaken to ensure that all historic bank account balances have been transferred completely and accurately, taking appropriate corrective action where this is found not to have happened;
- The four outstanding actions from our previous audit of this system are implemented promptly and fully.

It is understood that resourcing has been a factor impacting on many of the weaknesses highlighted above and that work has been undertaken, and is ongoing, to review and document processes in order to identify and implement service improvements and efficiencies. In addition, we recognise that the introduction of pre-paid card accounts in 2014 has given greater visibility to some of the issues identified in this report and which are likely to have been present since the introduction of DPs but have only now become apparent.

All of the recommendations arising from our report have been agreed with management as part of a formal action plan, the majority of which are due to be implemented in the first half of 2016. A formal follow up review by Internal Audit will be carried out later in the year to confirm that this is the case and the control environment has improved sufficiently.

### **Adult Social Care Procurement**

The review of ASC Procurement has been completed as part of the agreed annual audit plan for 2015/16 and forms part of our work supporting the East Sussex Better Together (ESBT) programme. Specifically, this review of procurement by the Contracts and Purchasing Unit (CPU) is a precursor to our future work in that it will serve to provide an understanding of the procurement process and inform our review of commissioning, an area which is currently undergoing significant reform.

The CPU provides advice and support to operational managers and staff in ASC on contract and commissioning arrangements. The Unit manages a diverse range of contracts across all service areas of the department and is responsible for the management of the independent sector market and relationships with contracted care providers.

This audit consisted of a high level review of procurement activity, covering the following control objectives:

- Governance arrangements ensure that procurement activity delivers value for money and outcomes in accordance with ASC service requirements;
- Robust contract arrangements are in place to ensure that expected outcomes are delivered and include adequate provision for contract management;
- Pricing mechanisms are sufficiently well designed to maximise value for money;
- Financial planning arrangements provide a sound basis for managing the budget.

Overall, based on the work carried out, we have been able to provide **substantial assurance** over the control environment, with key controls found to be in place in most areas. Some areas for further improvement were, however, identified, primarily in relation to the following:

- Clarifying the respective roles of the Procurement and Commissioning functions to ensure all key activities are carried out effectively and to help avoid duplication. The potential lack of clarity between the work of these two functions is likely to have contributed to some of the other areas for improvement identified during our review;

- Strengthening risk management arrangements;
- Reviewing and updating key performance indicators;
- Considering the introduction of pricing incentives;
- Introducing the use of benchmarking to help drive service improvement.

All recommendations made have been incorporated into a formal action plan agreed in full with management.

### **Property Works Pre-Contract Checks**

The review of insurance and other pre-contract checks for property works was completed as a result of known instances where property works have commenced and, on one occasion finished, before formal contracts had been put in place. This included works beginning without the necessary pre-contract checks, including contractors' insurance, having been executed.

Robust contract arrangements should be in place to protect ESCC from inadequate workmanship or contractors failing to complete works. In addition, it is important that adequate checks are carried-out on contractors to confirm that they have adequate public liability and, where appropriate, professional indemnity insurance. It is also important to ensure that values of ESCC buildings, increased as a result of building works, are correctly reflected in ESCC's own insurance cover.

This audit consisted of a review of a sample of property related works and found that controls over insurance and other pre-contract checks were not operating effectively. It was, however, clear that many of the weaknesses found had already been identified by management which had begun to take steps to address them, including holding joint workshops between Property and Procurement Teams to clarify respective roles and responsibilities. Consequently, we have been able to provide an opinion of **partial assurance**. The remaining areas where improvement in control is required relate to ensuring that:

- The respective roles and responsibilities between the Property and Procurement Teams are properly understood and defined, especially in light of recent restructures and ongoing integration between ESCC and Surrey County Council;
- Contracts are executed prior to works commencing to enhance the Council's ability to ensure that works are completed on time, to budget and to the required specification;
- The financial soundness of contractors is properly checked in accordance with ESCC Procurement Standing Orders;
- All contractors have appropriate public liability insurance prior to works commencing and that periodic insurance checks are carried out on contractors with which we have term contracts;
- The ESCC Insurance Team is notified when capital works are completed so that their records can be updated and the correct reinstatement value reflected in the Council's insurance policy.

All of the recommendations arising from the review have been agreed with management as part of a formal action plan for improvement and, as referred to above, management had already begun to take action to address them.

### **Information and ICT E-Safety Controls in Schools**

This review, undertaken by Mazars, looked at the effectiveness of information and ICT e-safety controls within a sample of schools, focussing specifically on:

- Operational security;
- Physical security;
- Records management;

- Computer systems;
- Information sharing, and;
- Websites.

Whilst areas of good practice were found during the review, a number of control weaknesses were identified which resulted in an audit opinion of **partial assurance**. Although this is not reflective of all the schools in the sample, there were opportunities for improvement, including the need for schools to:

- Formally define overall responsibility and accountability for information security;
- Establish policy and procedures in relation to freedom of information, breach or loss of personal data, data protection, management and use of CCTV, records management and data sharing with third parties;
- Maintain detailed records of keys and swipe cards and that, where key pad door locks are used, the codes are periodically changed;
- Restrict server rooms to authorised personnel only;
- Ensure spreadsheets and other systems holding personal data are appropriately password protected, that password parameters meet good practice and that user accounts are not shared, and;
- Maintain a register of software licences to ensure these are kept up-to-date and renewed in a timely manner to help prevent breaches in licence terms and conditions.

Each of the schools in the sample has received a separate report which outlines the findings applicable to them. In addition, all of the findings of the review are to be published on the Virtual Schools Bag so that all ESCC schools can benchmark themselves against these and take necessary action where applicable.

### **Music Service Income**

The East Sussex Music Service provides a number of services which include an instrumental teaching scheme in schools, Music Centre activities, a summer school and orchestral and chamber ensemble concerts. In the 2015/16 financial year, the Music Service received £1.2million in fees and charges.

The Music Service uses the system 'Ensemble', which is separate from SAP, the corporate accounting system, to raise and manage its invoices. This system is also used for pupil management and administration.

The main purpose of our audit was to examine arrangements for ensuring that cash and other income collected by the Music Service is accounted for and banked accurately, promptly and securely, and to gain assurance that the Council is correctly billing and receiving all revenues to which it is entitled.

As a result of our work in this area, we have been able to provide an opinion of **substantial assurance** over the key controls in place.

Areas of good practice found during the audit included:

- Invoices are raised regularly for the services provided and at the correct rates;
- Credit notes and refunds are made for appropriate reasons and evidence is retained to support them;
- Cash and cheques are banked on a regular basis, and;
- Reconciliations are taking place on a regular basis between Ensemble and SAP.

A small number of opportunities for improvement were identified, including the need to:

- Expand and/or update the financial procedures for the Music Service, and;
- Ensure that records of cash exchanging hands are always completed.

The recommendations arising from the review were agreed with management who are committed to implementing all the necessary improvements.

### Public Health Local Service Agreements – Follow-Up

A review of Public Health Local Service Agreements (PHLSA) was undertaken in 2015/16 which identified a number of significant control issues, resulting in an audit opinion of minimal assurance. Consequently, this follow-up review has been undertaken as part of the agreed audit plan for 2016/17, the main purpose which was to review the extent to which the agreed actions from the original report have been implemented.

Overall, it is pleasing to report that the majority of recommendations made in the previous review have been implemented, with a substantial improvement in internal control secured as a result. Only a small number of actions remain partially implemented or outstanding and these are considered to be low risk in nature. As a result of the follow-up work undertaken, we have been able to provide a revised opinion of **substantial assurance**. Actions and timescales to address the remaining or revised issues have been agreed in full with management.

### Individual School Audits

We are continuing our school work in two main areas:

- Audits in a sample of higher risks schools and follow-ups where poorer audit opinions have been given. This work is delivered by our own internal audit team, and;
- A wider programme of audits of randomly selected schools, delivered through Mazars Public Sector Internal Audit.

As reported previously, the purpose of this wider sample of schools is to assess financial governance in more schools, not just those deemed to be higher risk, and to gauge the effectiveness of a new training programme recently delivered to governors, headteachers and school business managers.

In quarter 1, two school audits were completed as follows:

Higher Risk and Follow Up Audits (Delivered in House)	Location	Type	2016/17 Budget £'000	Opinion
Pevensey and Westham Church of England Primary School Follow-Up	Pevensey	Voluntary Controlled	1,448	Partial (previously minimal assurance)
Pells Church of England Primary School – Follow Up	Lewes	Voluntary Controlled	495	Substantial (previously minimal assurance)



## Investigations

### **Ocklynge School - Theft of Equipment**

Following a referral from Personnel and Training (PAT), an investigation was conducted into an allegation that a member of school staff, together with a contractor, had removed items of ICT equipment from the school without apparent authorisation. The school had notified Sussex Police who declined to investigate the incident due to uncertainties over ownership of the equipment concerned.

A fact finding visit was made to the school which involved:

- Conducting informal meetings with members of staff;
- Examining the arrangements for storage of ICT equipment;
- Examining record-keeping in relation to ICT equipment owned by the school;
- Reviewing and securing CCTV footage from the school.

Based on this work, it was established that there was insufficient evidence to be able to identify exactly what property was removed or to confirm formal ownership of all ICT equipment stored in the school. Consequently, it was not possible to conduct an effective investigation into the potential theft.

A memorandum was, however, sent to the school highlighting any findings relevant to the ongoing management investigation into the conduct of a member of school staff and also identifying areas of internal control improvement which could help avoid future repetition.

### 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 3.6 above):

- Broadband Annual Return to BDUK
- Schools Themed Review – Partnerships and Federations
- National Fraud Initiative Pension Investigations
- Homecare Processes
- Pensions Process Integration and Altair System Merge
- New On-line Claims System

Currently, no scheduled audits have been removed from the audit plan.

### **Audit Areas Scheduled for Future Follow Up**

<b>Audit Area</b>	<b>Original Audit Opinion</b>	<b>Date of Planned Follow Up</b>
Compliance with Procurement Standing Orders	Partial Assurance	2016/17
Contract Management	Partial Assurance	2016/17
Pension Process and Systems	Partial Assurance	2016/17
Direct Payments	Partial Assurance	2016/17
Property Pre-Contract Checks	Partial Assurance	2016/17
Management of Staff Transfers and Leavers	Partial Assurance	2016/17
Microsites	Minimal Assurance	2016/17
Information and ICT E-Safety Controls in Schools	Partial Assurance	2016/17

<b>Audit Area</b>	<b>Original Audit Opinion</b>	<b>Date of Planned Follow Up</b>
Special Educational Needs and Disabilities (SEND)	Partial Assurance	2016/17
Western Road County Primary School	No Assurance	2016/17
Shinewater Primary School	Minimal Assurance	2016/17
Northiam CEP School	No Assurance	2016/17
Castledown Primary School	Minimal Assurance	2016/17
Sacred Heart Catholic Primary School	Minimal Assurance	2016/17
Parkside Primary School	Minimal Assurance	2016/17

**High Risk Recommendations Overdue**

**Parkside Community Primary School**

One recommendation relating to the above school remains overdue regarding to the need for the school to maintain an up-to-date asset register and for this to be subject to a periodic, independent check. The school is committed to ensuring this happens and time has been set aside in Summer 2016 to implement this.

## Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance
<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 through Chief Officer consultations in February / March 2015, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	<b>A</b>	80%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	<b>G</b>	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.	<b>G</b>	Confirmed through annual review of effectiveness and feedback from committee as part of quarterly reporting.
<b>Cost/Coverage</b>					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools (to be reviewed for 2015/16)	Annual	1. Cost per Audit Day; 2. Cost per £m Turnover; equal to or below all authority benchmark average	<b>G</b>	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.	<b>G</b>	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.	<b>G</b>	24.4%

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance
<b>Professional Standards</b>					
Compliance with professional standards	Self-Assessment against new Public Sector Internal Audit Standards	Annual	Completed and implementation of any actions arising.	<b>G</b>	Self-assessment completed, improvement plan in place and being actioned.
External Audit Reliance	Fundamental Accounting Systems Internal Audit Activity	Annual	Reliance confirmed	<b>G</b>	No matters were raised following the last review of internal audit function by KPMG.