

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

Date: **23 November 2015**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 2 (01/7/15 – 30/9/15)**

Purpose of report: **To provide Members with a summary of the key audit findings, progress on delivery of the audit plan and the performance of the internal audit service during Quarter 2.**

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

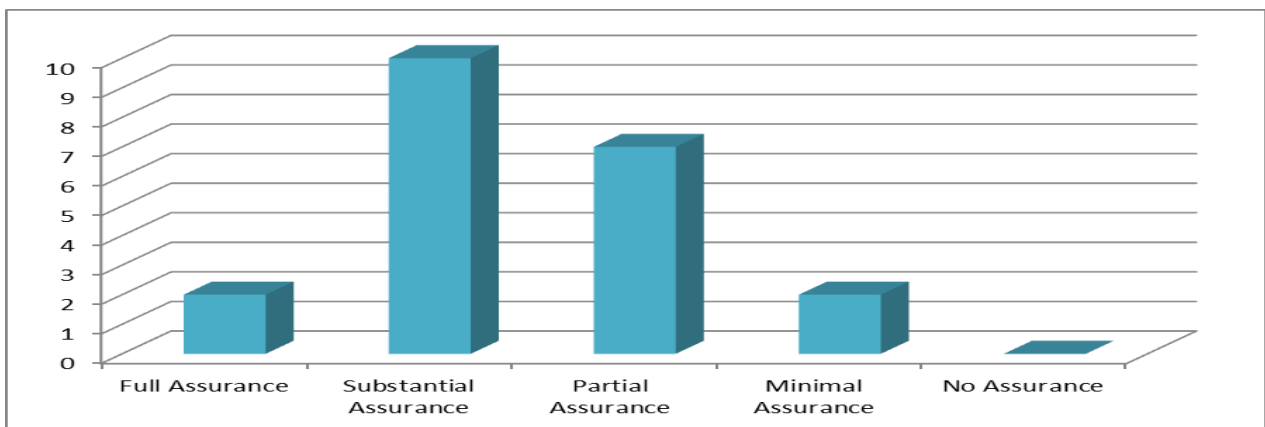
1.1 This progress report covers work completed between 1 July 2015 and 30 September 2015.

2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2015-16. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit, Best Value and Community Services Scrutiny Committee on 17 July 2015.

3. Conclusion and Reasons for Recommendation

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



3.2 Overall, of the 21 formal audits completed, 2 received 'full assurance' opinions, 10 received 'substantial assurance' (8 of which were schools), 7 received 'partial assurance' (all of which were schools) and 2 (including 1 school) received 'minimal assurance'. This includes those school audits completed by Mazars which were not part of the original audit plan (see 3.5 below). In all instances of partial and minimal assurance (including Public Health Local Service Agreements), we have obtained a commitment from management to address the required actions as a priority and will be undertaking further follow-ups in due course to ensure that this takes place.

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 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.

3.5 As explained in previous progress reports, work has been taking place to strengthen financial governance in schools, particularly through a new training programme for governors, headteachers and school business managers and the delivery of a wider programme of school audits. This additional audit work, delivered in conjunction with Mazars Public Sector Internal Audit Limited, is intended to assess financial governance in a much larger sample of schools, not just those deemed to be higher risk, as well as gauging the effectiveness of the new training programme. Details of the schools audits completed so far have been summarised within Appendix A.

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. At the time of writing this report, one high risk recommendation due remained outstanding beyond the agreed implementation date. A revised implementation date has been agreed with management. Details are in Appendix B.

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

3.8 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 have been assessed as on target (Green).

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BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2015-16

Summary of Key Audit Findings

Public Health Local Service Agreements

PHLSA's are in place with GP practices and pharmacies to provide a range of services, including smoking cessation and NHS health checks, with payments of approximately £1.1m being made to GPs and £300,000 to pharmacies during the 2014/15 financial year.

Whilst Public Health transferred to the Council in April 2013, Public Health Local Service Agreement (PHLSA) specifications, known as Locally Enhanced Services at that time (LES), did not transfer from NHS England until April 2014. NHS England held LES contracts which were elements of the General Medical Services/General Pharmaceutical services contract, i.e. contracts between the NHS and general practitioners (GPs)/pharmacies; because they were the only body entitled to enter into this type of contractual arrangement.

On transfer to the Council, the terms and conditions of the contracts were retained for one year to allow review and for them to be moved over to a contractual format that local authorities could hold.

This area was included within the audit plan as management had expressed concerns over the existing systems for making payments, where arrangements were understood to be resource intensive and open to error. Whilst it was management's intention to implement new ways of working to strengthen payment controls, it was agreed that internal audit would evaluate the existing arrangements in order for the findings from our review to be utilised by management to help secure the necessary improvements.

Overall, our work confirmed that current controls were not sufficiently robust to ensure that all payments in respect of PHLSAs are valid and accurate, and as a result we were only able to provide an opinion of **minimal assurance**. As highlighted by management, we found that inadequate systems were in place for verifying the services delivered, with excessive reliance being placed on the providers to present complete and accurate information.

A number of recommendations for improvement were made and agreed with management who, as explained above, were keen to understand the areas of weakness in order to take corrective action. It is understood that this work has already commenced and will be subject to a further follow-up review by internal audit to provide assurance that sufficient progress has been made.

Cultural Compliance Review – Joint Community Rehabilitation (JCR)

The Joint Community Rehabilitation service provides support and assistance to clients in order to promote independence and reablement and thereby reduce the need for longer term and more costly medical care. The service operates from three locations across the County.

This audit of cultural compliance within the Joint Community Rehabilitation service was undertaken to provide assurance that the service is delivered effectively and in compliance with appropriate Council policies and procedures. This is part of a wider review across different teams within the Council, looking specifically at the following areas:

- Service delivery and good practice;
- Budget management;
- Expenditure;
- Income;
- Staff management, and;
- Asset and inventory management.

Overall, we were able to provide an audit opinion of **substantial assurance**. We found that, generally, the service complies with Council policies. However, some areas for improvement were identified, as summarised below, and recommendations to improve controls were agreed with management:

- The need for all staff to complete a declaration in the register of business interests and for managers to establish appropriate safeguards where positive declarations are made;
- Ensuring ICT Services are informed when a member of staff leaves so that the appropriate action can be taken to remove access.

Once similar reviews of other teams across all Council departments have been completed, a consolidated report will be produced highlighting any common themes or areas of weaknesses for Corporate Management Team (CMT) consideration.

Treasury Management

This review of Treasury Management was carried out in order to test controls employed to ensure there is effective management of risk to ESCC financial assets (cash). In addition to testing of transactions between the period of October 2014 to September 2015, the review sought to confirm implementation of audit recommendations arising from our previous audit.

Based on this work, we have been able to provide **full assurance** over the control environment with only a small number of low risk recommendations being made.

Shared Care Information System (SCIS)

The Shared Care Information System (SCIS) Programme will change the way all records (or cases) in Adult's (ASC) and Children's (CSD) Services are created and monitored. The Council is implementing LAS (Liquidlogic Adults System) and LCS (Liquidlogic Children's System) to replace CareFirst as the client information and case management system. The current social care finance system for ASC, Controcc, will be incorporated for both systems to provide care and finance information in one place.

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

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

A summary of our work can be found below, all of which has been reported to the SCIS Programme Board:

- **Business Process Re-engineering** – our work in this area has involved us working with the programme team to identify those processes that have a financial impact and to assess the adequacy of control within these to ensure related risks are appropriately managed. Whilst we have been able to do this to a limited extent, our work is having to continue in this area due to ASC processes being subject to further recent revision and amendment, which has subsequently delayed the go-live date of the LAS system to December 2015 (LCS is scheduled to go-live in the new year). In addition, the changes made have augmented the reliance on manual, non-automated controls which increases the risk of error (and can

mean that opportunities for potential efficiencies are reduced). It is therefore essential that manual controls are applied robustly and consistently.

In order to provide the Programme Board with assurance over the revised processes, including off-system controls, we have scheduled further reviews with key personnel. However, the time available to provide this assurance is limited due to the Board's imminent go-live decision.

- **Data Quality and Migration** - our work in this area has found data quality and migration arrangements to be sound. As reported previously, we did make some recommendations relating to the need to update data migration policy/strategy and to implement reconciliation controls, and we are now able to confirm that these have been adequately addressed by the programme.
- **User Acceptance Testing (UAT)** – the amendments to processes and the postponed LAS go-live date (referred to above) has resulted in an additional round of UAT. At the time of writing this report, this testing (UAT5) had not commenced. We had previously recommended that test scripts are developed and followed for any future UAT, having so far not been produced, in order to ensure that all issues identified through testing are recorded and subsequently addressed. More formal script-based testing has since been developed. However, there is still a need for test scripts to be reviewed and approved prior to being used to ensure they are adequate. We have therefore recommended that this is completed prior to UAT5.

We have also highlighted to the Board the risk, given the delay in finalising processes, that:

- the next round of UAT may commence before these processes are agreed and LAS configuration is completed, meaning that testing may not give the required level of assurance that the system is fit-for-purpose, and /or;
- UAT may need to be delayed which could potentially have an impact on the revised go-live date in December.

Our work on the above areas and in relation to system security and administration, and system interfaces and reconciliation is continuing in order to enable us to provide assurance to the Programme Board prior to their go-live decision.

New Highways Contract

The Highways Contract Re-Procurement Project (HCRP) commenced in 2012 following completion of the Highways Transformation Project. The HCRP will commission new contract arrangements to replace the existing contract and will be managed through an Executive Client led contract, whereby strategy, asset management and contract, commercial and performance management is retained within the Council.

The new contract duration will be for seven years and the estimated value of the contract is £43.5m per annum, based on the value of services proposed for inclusion.

Our audit was undertaken to provide some preliminary assurance over the planned contractual arrangements in relation to the new contract, focussing on the proposed governance, contract, performance and payment mechanisms.

The audit was conducted as a high level review pending the implementation of more formal and detailed arrangements for service provision, governance and contract management once the contract has been let and the new provider is known. Further, more detailed internal audit work will take place closer to this time.

Based on our work, we were able to conclude that the proposed governance, contract management and performance arrangements are sound. Consequently, we were able to provide an opinion of **full assurance**. Clearly, further development of all the areas reviewed as part of this audit will be necessary with the mobilisation of the new contractor, when detailed processes and procedures will need to be established.

Social Care Assessment and Planning Team (Sorrel Drive)

This review of the Social Care Assessment and Planning Team based at Sorrel Drive, Eastbourne, sought to assess the adequacy of internal controls in the following areas:

- All key activities undertaken within the team are conducted in accordance with ESCC policies and procedures and comply with basic internal controls;
- All expenditure, including petty cash and P-card transactions, is appropriate, and is accounted for and reconciled correctly;
- All Council assets and data are adequately protected;
- Adequate budget management is in place.

While opportunities to strengthen the current control environment were identified, none of these were of a high risk nature and therefore, based on the testing undertaken, we were able to provide an opinion of **substantial assurance** over the control environment.

All recommendations for improvement were agreed with management, all of which are due to be implemented by the end of October 2015.

Individual School Audits

School audit work in quarter 2 has been expanded to include:

- Continuation of audits of a sample of higher risk schools and follow-ups of previous school audits 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.

The purpose of the wider sample of school audit work 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 currently being delivered to governors, headteachers and school business managers. A summary of the results of opinions arising from this work is set out in the following table:

Higher Risk and Follow Up Audits (Delivered in house)	Opinion
St Richard's Catholic College Follow-up	Substantial Assurance
The Bishop Bell CE School Follow-up	Substantial Assurance
Denton Primary School and Nursery Follow-up	Substantial Assurance
Castledown Primary School and Nursery	Minimal Assurance
Randomly Selected Audits (Delivered by Mazars)	
St Andrews CE Infant School	Substantial Assurance
Rocks Park Primary School	Substantial Assurance
St Phillip's Catholic Primary School	Substantial Assurance
Bonnors CE Primary School	Substantial Assurance
Laughton Community Primary School	Substantial Assurance
All Saints CE Primary School, Bexhill	Partial Assurance
Chantry Community Primary School	Partial Assurance

Higher Risk and Follow Up Audits (Delivered in house)	Opinion
Hamsey Community Primary School	Partial Assurance
St Mary Magdalene Catholic Primary School, Bexhill	Partial Assurance
Little Horsted CE Primary School	Partial Assurance
Nutley CE Primary School	Partial Assurance
Salehurst CE Primary School	Partial Assurance

In all cases, recommendations arising from our work have been formally agreed with school management, with copies of all audit reports sent directly to all members of each school's governing body. This is in addition to the 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. Common issues arising from our recent work include the need for schools to:

- maintain contract registers;
- always raise purchase orders prior to the goods or services being received;
- ensure decisions and approvals are explicitly recorded in the minutes of the Governing Body;
- confirm the employment status of self-employed people to ensure schools are not liable for additional payments to HMRC;
- strengthen income controls;
- retain sufficient evidence of reconciliations and approvals;
- ensure declarations of interests are managed effectively.

Staff Mileage Claims – Internal Control Report

Following two recent investigations involving irregularities in staff claims for business mileage, both of which have been previously reported, we have now produced a further internal control report for management highlighting the key issues and areas of control weakness in order to help avoid future repetition.

In both of the above cases, there had been a failure in management control leading to financial loss to the Council. Actions to address the issues identified have been agreed, mainly in relation to the need to remind staff and managers of their responsibilities in submitting and approving claims for travel and expenses respectively, and to ensure they are familiar with and understand the relevant Council policies in these areas.

Investigations

Internal Audit have recently supported Personnel and Training (PAT) as part of an investigation into a member of staff who was suspected of having undertaking private, self-employed, work whilst be absent from their County Council employment through sickness. The individual concerned resigned from the County Council during the course of this investigation and in advance of any disciplinary action being taken.

Fraud Awareness

As part of our ongoing programme to further strengthen the Council's arrangements for preventing and detecting fraud and corruption, we have recently begun the roll-out of formal fraud awareness training to targeted teams and staff across the Authority more generally. This includes training to front-line staff in areas where there is a higher risk of fraud to help them be more alert to the associated risks.

Feedback obtained from attendees has demonstrated that these have been well-received and served to increase fraud awareness amongst staff. We will continue to provide training in this area and will use our Council-wide fraud risk assessment (a work-in-progress) to further inform our targeted approach.

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):

- General Ledger;
- Social Care Assessment and Planning Team – Sorrell Drive;
- High Weald Area of Outstanding Natural Beauty;
- Department for Transport Capital Block Funding Grant Claim;
- Broadband Annual Return to BDUK.

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

High Risk Recommendations Overdue

East Sussex Pension Fund Processes and Systems

We reported in our Quarter 1 progress report that one recommendation arising from this review had only been partially implemented. This related to the need to process a number of outstanding pension administration tasks that had not been actioned from as far back as 2011 and that were not allocated to any individual member of staff (which could potentially result in employees' full pensionable service not being considered in future benefit calculations). This action is still not fully complete and we have been informed that this is due to recruitment difficulties. There is, however, a commitment to resolve the remaining tasks by 20 November 2015.

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 2015, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	G	95%
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 (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	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.	G	45.2%.

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	No matters were raised following the last review of internal audit function by KPMG.