

Report to: **Cabinet**

Date: **29 June 2004**

By: **Deputy Chief Executive and Director of Corporate Resources**

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 2003 to 31 March 2004**

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## **RECOMMENDATIONS**

**Cabinet is recommended to note the internal audit service's opinion on the Council's control environment.**

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### **1. Financial Appraisal**

1.1 The work referred to in this report was carried out as part of the 2003/04 Internal Audit Plan and was funded from the agreed Audit and Performance Division budget.

### **2. Supporting Information**

2.1 The purpose of this report is to give an opinion on the adequacy of the 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 2003 to 31 March 2004 in accordance with the Internal Audit Strategy for 2003/06. This report is part of the evidence that underpins the Corporate Assurance Statement published in the Council's Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2003.

2.2 This report and annual opinion have already been considered by the Audit and Best Value Scrutiny Committee at their meeting on 17 June 2004.

### **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 2003. 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 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council's Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

3.3 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.

3.4 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a

contribution to the proper, economic, efficient and effective use of resources. To carry out this role the Audit and Performance Divisions Internal Audit Service (IAS) aims to:

- satisfy legal requirements and professional standards;
- examine, evaluate and report objectively on the adequacy of arrangements to secure proper economic, efficient and effective use of resources;
- assist management with its responsibility for establishing and maintaining internal control systems and for ensuring that resources are properly applied, risks are appropriately managed and outcomes are achieved;
- investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy; and
- provide an annual opinion to Members and Officers on the adequacy of the Council's control environment, and regular reports on key audit findings.

#### **4. Delivery of the Internal Audit Plan**

4.1 In accordance with the 2003/04 annual audit plan, approved by the Director of Corporate Resources and endorsed by the Audit and Best Value Scrutiny Committee, a programme of audits, based on an assessment of risk, was carried out, covering all County Council departments. This programme was reviewed during the year and revised to reflect changes in risk and resources available to deliver the plan. The actual internal audit coverage across departments compared to the audit plan has been summarised in Appendix A.

4.2 As well as progress reports made during the year to both COMT and Audit and Best Value Scrutiny Committee, separate reports have been made to each departmental management team which include an opinion on that department's internal control system.

#### **5. Audit Opinion**

5.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. On the basis of the audit work completed, the Council has in place a satisfactory framework of internal control which provides a reasonable assurance regarding the efficient and effective achievement of its objectives.

The level of assurance given takes into account:

- All audit work completed during 2003/04
- Follow up of actions from previous years 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
- The extent to which resource constraints may limit the ability to meet the full audit needs of the County Council
- Any limitations that may have been placed on the scope of internal audit.

5.2 All audit reports produced have included a management action plan where recommendations have been made which will enhance the level of control, together with an opinion of the systems reviewed. Timescales for the implementation of recommendations have been agreed with the managers responsible for each area reviewed.

#### **6. Key Issues**

##### **Compliance with Council's core policy and guidance**

6.1 A number of audits and investigations carried out during the year have highlighted failures to comply with the Council's Financial Regulations, Contract Standing Orders and the Code of

Conduct for Employees. These examples of non-compliance are limited and do not compromise the Council's overall control environment. However such instances are a timely reminder of the protection that these core elements of the Council's governance framework afford to both the authority and its employees. As well as specific recommendations made in relation to each case, the following actions have been agreed to reinforce the culture of good governance within the Council:

- the Deputy Chief Executive and Director of Corporate Resources has written to all staff to remind them of the importance of compliance with core financial guidelines.
- Chief Officers have agreed to review the procedures in place within their departments to assure themselves that employees are aware of the Code of Conduct, its key principles and the protection that it offers to them as well as to the County Council, and robust processes are in place to ensure compliance through the maintenance of up to date registers of interest and hospitality.

### **Core Back Office Systems Solution (CBOSS)**

6.2 Internal audit has provided ongoing support, advice and challenge to this project, which will see significant changes in the Council's core systems, through both the procurement and implementation phases. This work can be summarised across the following main themes:

- **Strategic Risk Assessment** – in addition to the project team's risk management arrangements, internal audit have identified a number of current key risks which we believe are important in terms of ensuring a successful and well controlled CBOSS implementation.
- **Expected Control Matrices** – for a number of the main project streams, internal audit have produced a set of matrices covering the expected key control areas. These have been completed with actual controls in conjunction with the business process owners and formed the basis of our opinion in relation to the blueprint phase.
- **Blueprint Workshops** – our work in this area has focussed on reviewing the outputs from the numerous blueprinting workshops, attending a number of specific workshops ourselves and responding to project team audit queries arising from them.
- **Specific Internal Audit Focus Areas** – during the early stages of the project we identified a number of higher risk areas, in conjunction with the project team, upon which we would focus our efforts, over and above the work identified above. These include user access and authorisation, retention of records, data transfer and user testing.
- **Ongoing Project Liaison** – throughout all stages of the project internal audit have been proactive in working with and advising the project team. This ongoing liaison has included attendance at Stream Manager's meetings, day to day contact with business process owners and monthly liaison between the lead director, programme manager and external audit.

6.3 On the basis of this work internal audit provided a report to the CBOSS Project Board in March 2004 concluding that there were no significant control issues that would impact on the Board's decision to sign off the blueprinting phase of the project. However, there is still a considerable amount of work to be done on the project and there is an ongoing need to manage and control the project's identified strategic and operational risks up to and beyond the initial go live date. In particular the report to project board highlighted risks in relation to meeting the project's challenging timescales, ensuring that testing is robust and contingency plans are in place to manage any slippage.

6.4 During the year a number of audits have reported on systems where controls are not satisfactory. In all these cases management have agreed to take action to strengthen the controls in place. These systems are highlighted below and will all be subject to follow up during 2004/05:

### **Commissioning of Works (Transport and Environment)**

6.5 This report concerned the commissioning of works within the Waste Management Group in Transport and Environment. Overall, internal controls were found to be unacceptable in a number of specific areas with significant control weaknesses being identified. These related mainly to lack of compliance with the Council's Financial Regulations and Contract Standing Orders. A comprehensive management action plan has been agreed with the Assistant Director, Projects and Contract Management Division, including specific dates for implementing the agreed recommendations.

### **Client Contracting – Cleaning Services (Education and Libraries)**

6.6 This review highlighted significant weaknesses relating to non-compliance with the Anti-Fraud & Corruption Strategy and Code of Conduct for Employees. A complete and up to date register of business interests, a record of gifts and hospitality both offered and received, and a record of Education and Libraries staff who are members of secret societies has not been maintained in the Education and Libraries Department in line with the Council's requirements. The review also highlighted that the methodology for recommending cleaning contractors for goods, works and services to schools in various cleaning areas was not clearly documented. It was therefore not possible to state that the approach adopted is fair and equitable and in line with Contract Standing Orders. Overall the controls within the system were assessed as unacceptable. A management action plan has been agreed with the Assistant Director – Strategy and Resources and the Education and Libraries Contract Manager.

### **Debtors (Corporate Body)**

6.7 During 2003/04, two reports were issued in relation to Debtors. The first was issued in April 2003 following completion of the 2002/03 fieldwork whilst the second was issued at the year of the year relating to the 20043/04 planned work. Both audits resulted in a weak opinion as a result of failure to implement previous audit recommendations addressing control weaknesses. These weaknesses mainly relate to the management of accounts 'on hold' within the system and aspects of the Council's debt recovery process. In terms of the Council's overall finances the amounts of debt on hold are relatively modest. During the year a pilot exercise was undertaken to implement the agreed actions on debts on hold. The pilot showed that the current system was not capable of the necessary changes without significant additional investment. The CBOSS Project has also been a contributing factor in the overall lack of progress. However, a weak audit opinion has been reported for the last three years in succession and the identified risks in relation to failing to effectively recover debt remain and still require action. A further management action plan, including timescales and responsibilities, has now been agreed with both CRD Finance and Legal Services.

### **Insurance (Corporate Body)**

6.8 This review found that, in general, controls relating to the claims handling were good with only minor weaknesses identified. However, some significant weaknesses were identified in respect of the recording of insurance fund accounting information within LAFIS and the reconciling of claim information recorded in LAFIS to Local Authority Claims Handling System (LACHS) and establishment of associated responsibilities. A comprehensive management action plan has been agreed with the Insurance and Risk Management Officer, which includes identification of responsibilities and timescales for implementing the report's recommendations.

### **Supporting People (Social Services)**

6.9 This review recognised the Council's award of an excellent rating by the ODPM for its shadow Supporting People Strategy and the difficulties experienced following the launch initiative in collecting and reconciling data received from the various Housing Benefit offices and efforts made to ensure the accuracy of the Platinum Cut submission. From the audit work completed during the review of the Supporting People initiative and the testing carried out, Internal Audit's overall opinion is that the efficiency and effectiveness of procedures and associated controls in place is weak. The reason for this is due to a number of control weaknesses being identified during the review, in particular, inaccurate provider returns and incorrect amendments to client contract end dates resulting in incorrect payments being made and delays in completing client

assessments holding up payments to providers. A management action plan has been agreed primarily with the Supporting People Project Manager.

### **Adoption Allowances (Social Services)**

6.10 From the audit work completed during the review of pre/inter-country and adoption allowances and from the testing carried out, Internal Audit is of the opinion that the controls in place are weak. The reason for this opinion is due to a number of control weaknesses that were identified during the review which included the lack of documentary evidence retained to support the approval of an allowance payment, inaccuracies found between data housed in Carefirst and FOPPS, inadequate recording of inter-country adoption payments and a lack of compliance with operational guidance. A management action plan has been agreed with staff from the Children and Families and Finance and Resources Divisions.

### **Other issues**

6.11 The majority of the key internal controls audited during 2003/04 were found to be in place and functioning satisfactorily. In most cases recommendations were made to improve the level of control in place and management need to ensure that these are successfully implemented. Key audit findings are reported on a quarterly basis to Chief Officers and Audit and Best Value Scrutiny Committee.

6.12 During the year internal audit have worked closely with managers to support the development of risk management and control frameworks in major projects within the County Council, in addition to the work referred to earlier in relation to CBOSS, this has included:

- Waste PFI - During 2003/2004 internal audit have continued their pro-active involvement in the Waste PFI Project. Joint audit meetings are continuing to be held with members of the Waste Management Team, Brighton & Hove City Council Internal Audit and the Audit Commission.
- Renewal of Outsourced Contracts Project - A major project commenced during 2003 in relation to the future provision of highways and vehicle services. Internal audit attend the working group meetings for this project and provide advice and support on audit and control issues as appropriate. This work will continue in 2004/05.
- Corporate Governance – ongoing support for the development of the Council's governance framework and the provision of assurance statements in line with statutory requirements and best practice.

## **7. Internal Audit Performance**

7.1 Internal Audit is subject to external performance assessment. The Audit Commission's Audit and Inspection Annual Letter confirmed that external audit continue to place reliance on our internal audit work. The CPA refresh also confirmed that both the internal audit service and the Council's arrangements for the prevention and detection of fraud and corruption continue to score 4/4.

7.2 Internal Audit performance against a range of agreed targets is also monitored on a regular basis by Audit and Best Value Scrutiny Committee. During the year performance against efficiency targets improved on 2002/03, however vacancy levels meant that just under 90% of the original plan was delivered. Workplans were managed accordingly to ensure that the highest risk areas were given priority. Performance against effectiveness targets has been very positive with both customer feedback and the acceptance of recommendations exceeding their targets.

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Background documents

Strategic Audit Plan 2003-06

<http://esccewebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB30Apr2003StrategicAuditPlan2003-06.pdf>

Internal Audit Progress Report Q1

<http://esccewebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB18Jul2003InternalAuditReport.pdf>

Internal Audit Progress Report Q2

<http://esccewebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB25Nov2003InternalAudit.pdf>

Internal Audit Progress Report Q3

<http://esccewebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB11mar2004item6internalauditprogressreport.pdf>