

Somerset County Council
Audit Committee
- 24 June 2010

Paper **A**
Item No. 5

Internal Audit: Annual Report 2009/10

Cabinet Member: David Huxtable, Cabinet Member for Resources

Division and Local Member: All

Corporate Director: Roger Kershaw (Resources)

Lead Officer: Jacky Barnes – Group Manager, Governance

Authors: *Ian Baker & Chris Gunn – Group Auditors,*
Jacky Barnes – Chief Internal Auditor

Contact Details: e-mail: ian.baker@southwestaudit.gov.uk or tel: 07917 628774

1. Summary/link to the Corporate Plan

- 1.1** Delivery of the corporate plan requires strong internal control. This report gives the Internal Audit Opinion on the strength of that control during 2009/10.

2. Issues for Consideration

- 2.1** Members are asked to note:

- The performance of Internal Audit against the Annual Plan for 2009/10.
- The Internal Audit opinion on the adequacy and effectiveness of the Council's internal control framework.

These are summarised and discussed in more detail in section 3 below.

3. Purpose and Background

- 3.1** The Accounts and Audit Regulations (England) 2003 requires public authorities to publish an Annual Governance Statement (AGS).
- 3.2** The Statement is an annual review of the System of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. Guidance from the CIPFA Finance Advisory Network which states that "the Head of Internal Audit should provide a written annual report to those charged with governance timed to support the Annual Governance Statement"¹.

¹ Meeting the Requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 (IPF Publication)

- 3.3** The same report states that the annual report from the Head of Internal Audit should:
- include an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
 - disclose any qualifications to that opinion, together with the reasons for the qualification;
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
 - compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
 - comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement.

- 3.4** The Internal Audit service for Somerset County Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually and the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit provides an independent and objective opinion on the authority's control environment by evaluating its effectiveness. To deliver this opinion the work carried out by Internal Audit includes:
- 4 –Year Plan of Operational Audit Reviews
 - Annual Review of Key Financial System Controls

- 3.5** The audit plan for 2009/10 was presented to the Audit and Resources Sub-Committee on 27 March 2009.

Audits Completed

- 3.6** **Operational Audits** - Operational audits are a detailed evaluation of a service or function's control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

- 3.7** For Operational Audits SWAP aim to provide management and Members with a level of assurance on the robustness of the internal control environment. The following categories of assurance have been agreed:

▲★★★★ Comprehensive	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
▲★★★★ Reasonable Assurance	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
▲★★★★ Partial Assurance	Most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
▲★★★★ No Assurance	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

- 3.8** The current status of operational audits completed by SWAP during the plan year and previously reported to Committee are as follows:

Review Area	Status	Opinion/Comment
Economy and European Services	Drafting	
Financial Assessments & Benefits & Strategic Service Partnerships – Financial Assessments & Benefits	Deferred	Audit time utilised on LAA Performance Reward Grant
Adults Social Care – Care Delivery – Direct Payments & Other Budgets	Draft	Draft Report has led to further work and support is being given to identify key risks in relation to Direct Payments – The report will be finalised after this work is completed.
Community & Public Bus Services	Final	Reasonable
Democratic Services – Community Budgets	Final	Reasonable
Finance - Procurement	Drafting	Discussion Document with Management
Finance – Purchasing Cards	Final	Partial
Contract Management – County Wide	Final	Reasonable
Catering Follow Up	Final	Non-Opinion
Social Inclusion & Access – Reducing Exclusions in Schools	Final	Partial
Extended Schools & Workforce Reform – YP Workforce Development Strategy	Deferred	To complete review of Contact Point
EMS (Quality/Use of Management Information)	Final	Partial
Planning & Admissions	Final	Reasonable
Social Inclusion & Access – Pupil Referral Service	Final	Partial

Staffing Services – Schools Payroll	Final	Partial
Sustainable Development – Energy Procurement & Management	In Progress	Waiting further evidence
Sustainable Development – Renewable Energy	Final	Reasonable
Customer Access & Communications – Public Relations	Final	Partial
Business Development	Deferred	Time utilised to support Scientific Services potential move to a Trading Unit.
Somerset Skills and Learning	In Progress	Non- Opinion
Social Inclusion & Access - Educational Attendance Work Service	Drafting	
Special Educational Needs - Casework Service	Deferred	Dropped in agreement with Client due to recruitment freeze and resources required to complete Schools FMSiS.
Extended Schools & Workforce Reform – Extended Schools	In Progress	
Planning & Admissions - Planning - Schools Organisation	Deferred	Dropped in agreement with Client due to recruitment freeze and resources required to complete Schools FMSiS.
Commissioning and Social Work - Child Protection Services	In Progress	
WORKSTEP	Deferred	Time used to support Rural Renaissance Grants.
Carers Commissioning	Deferred	Time used to support service with identification of key risks and controls relating to Direct Payments
Sustainable Development - Sustainable Construction	Deferred	This will now be picked up in Q2 of 2010/11
Network Contract Management	Completed	Time used on Contract Advice for Tender.
Mental Health	Deferred	Time used to support Rural Renaissance Grants. Will be picked up in 2010/11 with support on LD Project Review.

3.9 Where audits have been deferred these have been done so following full consultation with the relevant Head of Service/Director and the SWAP Client Officer (the Group Manager, Governance). Generally these audits have been deferred to meet the ever changing challenges and risks that face the organisation. It is therefore necessary on such occasions for the audit plan to be flexible in order to meet these priorities. I am satisfied that where audits have been deferred, they have been replaced by a review or need that has been of added value to the County Council. Two of the audits were deferred as a result of a post being frozen within SWAP. All deferred audits have been factored into the 2010/11 Annual Plan.

3.10 The following audits received a 'Partial' Assurance level and have not been previously reported to Committee.

3.11 **Reducing Exclusions in Schools** - (See Appendix 'A' for level 4 or 5 Agreed Actions)

The focus of this audit was to ensure that the number of exclusions from mainstream schools is minimised and educational needs are identified and supported at an early stage. The audit identified that there was not always adequate involvement of pupils and parents in the development of Individual Educational Plans or Annual Reviews. Support Plans were not always timely and there was a lack of evidence that these were regularly reviewed.

3.12 However, the Auditor's opinion recognised that there was also some good evidence to demonstrate that a graduated response is being followed by schools. In particular in relation to one of the eight pupils in the sample the support given was found to be of a very high standard. Continual improvement in behaviour was recorded which resulted in this pupil being taken off their Pastoral Support Programme for a period of seven months.

3.13 Schools have already said that they want to work with the Local Authority to learn from shared experiences. Furthermore there are plans to use this partnership approach to produce best practice guidelines and to produce a training package for schools, including induction training for Heads and Governors. The findings from the report can be used to contribute to this work.

3.14 **Staffing Services – Schools Payroll** - (See Appendix 'A' for level 4 or 5 Agreed Actions)

The Auditor's opinion was summarised as follows:

It is pleasing to report that there has been some impact of the work undertaken by SCC Management and Southwest One HR services in respect of weaknesses previously identified. For example, this year there were no reported issues in relation to risks relating to payments made to supply teachers.

3.15 However, testing confirmed that on-going concerns still exist around:

- the lack of evidence of CRB Clearance for staff, including supply teachers;
- incomplete list 99 clearance for staff appointed prior to receiving CRB Clearance;
- the lack of evidence of medical clearance prior to appointment;
- School Pay and Safeguarding Children Policies being out of date;
- the lack of evidence of pre-appointment checks including proof of identification and the obtaining of two references.

3.16 Due to the potential significance of findings in relation to safe recruitment, work needs to continue with schools, particularly the smaller ones, to encourage them to follow SCC policies and guidance.

3.17 In light of the continuation of significant findings a further audit has been included as part of the 2010/11 audit plan.

3.18 **Capita One - EMS (Quality/Use of Management Information)** - (See Appendix 'A' for level 4 or 5 Agreed Actions)

The Auditor's opinion was summarised as follows:

One of the key challenges facing the Directorate is ensuring that the system is utilised consistently and effectively across the Service teams. The Systems Team is keen to promote the philosophy of 'One' system where data is entered on time and accurately once, and used multiple times by officers across the Directorate.

3.19 During the course of the audit it was observed that there is the opportunity to share good practice across the various service areas. This is particularly relevant to the embedding of exception reports. There is also a key need for all service managers to identify the information they require to enable them to make effective management decisions.

3.20 Key findings during this review identified that there is currently no reconciliation between SCC HR data and the Capita One Training Manager and Personnel modules. There are insufficient interfaces in place for the local service teams to readily access the data they require for their role. There are current risks around the accuracy of the data and how this may be interpreted to support operational roles.

3.21 In addition it was found that in the majority of service areas, data used in Capita One management reporting is being held outside of the Capita One system. If data is held outside the system, there may be security issues, as well as data not being available to management for a comprehensive review. Data cannot be collated and amalgamated so easily if it is in different locations.

3.22 **Customer Access and Communications** - (See Appendix 'A' for level 4 or 5 Agreed Actions)

This audit focussed on the corporate customer feedback process and the Auditor's opinion was summarised as follows:

It is recognised that the service has recently undergone considerable change

over the previous six months and has made significant improvements such as:

- key changes to the Corporate Feedback Policy and process;
- the development of SAP CRM Corporate Feedback to act as a recording and reporting tool;
- in- house training on SAP CRM for system users during October 2009.

- 3.23** The audit review has identified that due to system errors within SAP CRM there is as yet no formal monitoring of feedback and it is not possible to report on learning outcomes from complaints. In addition to this, the feedback from customer satisfaction surveys is not reported on, again because the system is unable to provide the required reports.
- 3.24** Management have already identified and documented the system defects and work is in progress with the client team and Southwest One, to resolve these.
- 3.25** I am confident that once the system is working effectively the service will gain reasonable assurance, as the other areas reviewed were found to be satisfactory.
- 3.26** It is essential now for management to ensure delivery against the aims and objectives described in the Corporate Strategy; to address the actions agreed from this audit; and be satisfied that their revised policies and procedures are being effectively operated.
- 3.27** **Managed Audits** - The Managed Audit process focuses primarily on key risks relating to the Council's major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance.
- 3.28** Managed audits completed by SWAP during the period April 2009 to March 2010 are as follows:

Review Area	Status	Opinion/Comment
Capital Accounting	Final	Non-Opinion
Creditors	Draft	Non-Opinion
Main Accounting	Draft	Non-Opinion
Debtors	Draft	Non-Opinion
Payroll	Not Started	
Treasury Management	Final	Non-Opinion
Pensions - Administration	Draft	Non-Opinion
Pensions - Investments	Final	Non-Opinion

- 3.29** Due to the introduction of SAP and the extra work required to provide the Audit Commission with assurance on operating controls for the key financial systems, there has been some delay in completing the Managed Audit reviews. The Payroll audit was deferred as the service was in the process of introducing the new system. The Audit Commission agreed to place reliance on the previous system based on last years work. Parallel work carried out on SAP at Taunton Deane and Police provided assurance on system controls, but there will still be a requirement to complete detailed compliance testing on SCC transactions.

- 3.30** While SCC Finance and representatives of SWOne have endeavoured to address problems encountered during the early part of SAP implementation, a number of control weaknesses have been identified through this process. Staff across the County Council experienced problems with using elements of the SAP system. This led to a need to introduce alternative working methods and at times this compromised internal controls. Reconciliation and budgetary information was delayed and large numbers of duplicate payments were processed.
- 3.31** Management, in consultation with representatives from Southwest One, the Audit Commission and SWAP, took the initiative to track these issues and have endeavoured to ensure the situation was recovered. In order to ensure that all matters have been effectively addressed, management have requested that SWAP follow up on all agreed actions during the next month, during which time detailed compliance testing will be completed on the Payroll system.
- 3.32** **Schools Audits** - are carried out to perform a review of key controls under following headings: Governance, Budget Planning, Budget Monitoring, Income, Expenditure, Unofficial Fund, Data Security and Asset Security. 51 Schools audits were completed as planned and a list of the most common findings will be provided to C&YP Finance to present to School Finance Officers. Within the scope of the reviews there were no significant findings that would present a significant risk to the County Council.
- 3.33** **Financial Management Standards in Schools (FMSiS)** – The FMSiS has been developed by the Department for Children School and Families (DCSF) and Institute of Public Finance (IPF). The standard itself is a simple statement of what a school that is financially well managed should look like. Effective financial management is essential to enable schools to make the most of their resources, to meet school priorities and to ensure proper controls are in place over the large amounts of public money devolved to them.
- 3.34** With the 103 Assessments completed this year, the first three year cycle of assessing all Schools has been achieved. The Assessment carried out by Internal Audit provides the School with either a 'Pass' or 'Fail'. Whilst I do not have the final figures, as we are awaiting confirmation of outstanding evidence, the indication is that a 'Fail' will be the exception; to date only two have failed.
- 3.35** **Grants Audits** – Grant claims are audited to provide funding providers with assurance that their monies have been spent in accordance with the grant offer conditions. Funding providers include the DCLG, DEFRA, SWRDA and EU. The following Grants have been reviewed:

Grant Area	Assessment
Minehead – Mart Road	Qualified
Supporting People	Unqualified
WAVE – Claim 2	Qualified
WAVE – Claim 3	Qualified
LAA – Performance Reward Grant	Unqualified
Rural Renaissance	Unqualified

- 3.36 Governance Reviews** - The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting these reviews at all our Client Sites. As these audits focus on the key controls we do not normally provide an opinion. The following Governance Reviews were planned as follows:

Review Area	Status
Absence Management	Draft
Data Quality – SCC PI's	Final
Fees and Charges	Draft
Income Collection	Final
Gifts and Hospitality	Final
Business Continuity (Communications)	Draft
Efficiency Statements (NI 179)	Deferred
Information Governance	Final
Risk Management	Completed
Performance (Service Planning)	Deferred
Corporate Policy	Final
Expense Claims	Final
Health and Safety (Lone Working)	Final
Partnership Arrangements	Draft

- 3.37** The Audit of NI179 was deferred due to the Auditor going on long term sick and will be covered in quarter 2 of this year. Service Planning was deferred as the process was under review and Risk Management was covered by Audit input to the introduction of the new risk management system.
- 3.38** In some cases these reviews have highlighted a lack of consistency or awareness of corporate standards and for some the need to introduce or reinforce corporate policies. Management have agreed recommendations and in the case of Gifts and Hospitality introduced a revised Policy which has been promoted across the Authority. However, in the case of Fees and Charges very little progress has been made to date.

- 3.39 Other Reviews** – Other reviews are requested from time to time by management through the Client Officer. Such reviews are generally requested where management have identified an issue that they would like audit input or advice on and as such these reviews are Non-Opinion. There have been 5 such reviews this year as follows:

Review Area	Status
Contract Review SCC – West Somerset Community College	Final
Data Quality – SWOne PI's	Final
Review of Contact Point2	Final
Risk and Control identification for Direct Payments	Completed
Scientific Services – Assistance with the possible move to a Trading Unit.	Final

- 3.40 Information System Reviews** – IS Reviews are completed to provide the Authority with assurance with regards to their compliance with industry best practice. There were 8 Information System Reviews in the 2008/9 Plan however 5 of these have been deferred mostly due to the impact of SAP implementation; audit resources have been utilised to provide SAP advice. The following audits were scheduled for the year and the table shows the current status of each audit.

Review Area	Status	Opinion/Comment
Social Networking	Draft	
Somernet Infrastructure Management	Draft	
SAP PIR	Completed	On-Going Advice
Network Security – Firewall Change Management	Final	Reasonable
Threat Protection	Final	Reasonable
Corporate Information Security Controls (SISG)	Completed	Facilitation of Group
Bankline	Final	Reasonable
ICT Strategy – Corp ICT	Deferred	
CONFIRM	Drafting	
E-Procurement PORT (Now SAP)	Deferred	
Looked after Children (LAC)	Draft	
EMS (One)	Deferred	

- 3.41** The completed IS reviews have resulted in all three obtaining Reasonable Assurance with an indication that others in progress or at draft will achieve the same. This is an improvement over last year.

- 3.42 SCC - Summary of Activity** – The following table summarises achievement against the 2009/10 plan:

Review Type	No Planned	No. Final/Draft or in Progress
Operational	30	22
Managed Audit	7	7
Governance	14	12
IS Review	12	9
Schools Audits	51	51
Schools FMSiS	103	103
TOTALS:	217	204
Other	0	4
IS Review of (Contact Point)	0	1
REVISED TOTALS:	217	209

- 3.43** Of 217 reviews planned, 209 reviews were completed, representing an achievement of 96%.
- 3.44** I am encouraged by the reduction in audits being deferred without valid reason, as appeared to be the case last year. Senior Management have been fully engaged and committed to the plan, and as stated above, we now have a robust process for ensuring audits are deferred only after appropriate assessment and consultation.
- 3.45** For all of the reviews an agreed action plan has been drawn up with the cooperation of the service management to address identified control weaknesses.
- 3.46** For those areas not covered by the Internal Audit Plan, the Group Manager, Governance has sought assurance from the relevant Director as to the adequacy of the internal control environment. A signed statement has been returned for each Directorate offering further assurance that necessary controls are operating as intended. These assessments have formed part of the Annual Governance Review.
- 3.47** The performance of SWAP as the Internal Audit providers for Somerset County Council is considered and assessed by the Audit Commission to ensure that they can place reliance on the work produced by SWAP. This year a triennial review of SWAP was completed and the Commission concluded:
- During our review we found that SWAP complies in general with the CIPFA Code, and we can rely on their work for the purposes of our external audit. There were some departures from the Code, but these are not serious in nature and will not require significant work to ensure full compliance in the short term.*
- 3.48** I can report that six of the nine recommendations have already been addressed.
- 3.49** In addition to this work each of our Client Officers carries out an annual review of internal audit effectiveness. The Head of Service, Finance and Property has completed this for SCC and a separate report is prepared for the Audit Committee.

3.50 *Group Auditor's Opinion*

Somerset County Council has been through a period of significant change during 2009/10. A change in Administration and implementation of a new financial system has been played out against a background of a difficult financial climate and a recruitment freeze. Clearly these factors are likely to have had an impact on the control framework of the County Council.

- 3.51** On the positive side a major updating of the Constitution has been agreed and we will be monitoring progress with implementation during 2010/11. On the other hand governance reviews in some instances have highlighted a lack of corporate standards, which has resulted in a number of inconsistent practices across Directorates and services. As ever, management have been responsive to our findings and recommendations and agreed action plans have been put in place as a result.
- 3.52** Our annual review of the key financial controls has identified a number of control weaknesses which can be attributed to issues surrounding the implementation of SAP. Staff across the County Council have experienced problems with using elements of the SAP system. This has led to having to work around the system and put a great deal of time and effort in trying to cope with the work arounds, which in turn has caused major disruption in some areas and had an adverse impact on the assessment of operating controls. The problems the Council experienced during the implementation of SAP in respect of the payment of invoices, the raising of and collection of monies owed to the Council have had a significant effect on back office services.
- 3.53** However, the Internal Auditors were pleased to find that the Council has been actively monitoring the SAP issues through to completion and that managers have already taken action to deal with these issues or have agreed action plans timetabling improvements to the Council's internal control framework. Anecdotal evidence suggests that now that adequate training is being provided and staff are becoming more familiar with the system confidence in the use of the system is being restored and as the system becomes embedded we can look forward to significant improvements in the control environment.
- 3.54** In other operational areas, to date, there were six reviews where we were able to offer only Partial Assurance. Whilst these areas are clearly of concern to the services concerned I do not believe the findings present a significant risk to the County Council as a whole, other than those relating to the Safe Recruitment in Schools.
- 3.55** For the previous two years the Schools Payroll Audit, which focuses on Safe Recruitment has highlighted a number of repeat issues. In 2009/10 we were asked to increase our sample of Schools to include a wider range of Schools to enhance the level of assurance management can take from the review. Unfortunately, this year again, whilst recognising some improvement, we have only been able to offer Partial Assurance. While it should be recognised that Local Authorities cannot 'force' Schools into compliance, only encourage them, the potential for reputational damage to the County Council that could result from failure in this area is high.

- 3.56** A major factor for my assurance relies on the operation of the key financial controls being in place and the corporate governance framework operating effectively. Based on the findings of the managed audit and governance reviews together with the six operational reviews receiving partial assurance, I feel able to offer overall, only 'Partial' assurance that internal controls were in place and working well for 2009/10.

4. Consultations undertaken

- 4.1** Consultation has been carried out with the Lead Auditors, Client Audit representatives and the Group Auditor.

5. Implications

- 5.1** Any implications for the Audit Plan have been discussed and approved by management. Where appropriate, reviews not completed have been scheduled into the audit plan for next year.

6. Background papers

- 6.1** None.

Note For sight of individual background papers please contact the report author