



## AUDIT COMMITTEE

FRIDAY, 13 SEPTEMBER 2019

10.00 am COMMITTEE ROOM - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)  
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke,  
Philip Daniel, Michael Ensor and Daniel Shing

### A G E N D A

- 1 Minutes of the previous meeting (*Pages 3 - 10*)
- 2 Apologies for absence
- 3 Disclosures of interests  
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items  
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
- 5 External Auditor's Report 2018/19: Statement of Accounts update (*Pages 11 - 12*)  
Report by the Chief Finance Officer.
- 6 Internal Audit Progress Report Q1 2019/20 (*Pages 13 - 32*)  
Report by the Chief Internal Auditor.
- 7 Oversight of SAP 'Super User' Access Controls - Update report (*Pages 33 - 44*)  
Report by the Chief Finance Officer.
- 8 Work programme (*Pages 45 - 50*)
- 9 Any other items previously notified under agenda item 4

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5 September 2019

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## AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at CC2 - County Hall, Lewes on 12 July 2019.

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PRESENT Councillors Colin Swansborough (Chair) Councillors  
Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke,  
Philip Daniel, Michael Ensor and Daniel Shing

ALSO PRESENT Kevin Foster, Chief Operating Officer  
Ian Gutsell, Chief Finance Officer  
Ola Owolabi, Head of Pensions  
Russell Banks, Chief Internal Auditor  
Nigel Chilcott, Audit Manager  
Andy Cottell, Democratic Services Manager

### 1 CHAIR'S ANNOUNCEMENTS

1.1 The Chair welcomed the two new Committee members, Councillors Martin Clarke and Michael Ensor to the Committee.

1.2 The Committee recorded a vote of thanks to former Committee member, Councillor John Barnes for his long standing contribution to the work of the Audit Committee.

### 2 MINUTES OF THE PREVIOUS MEETING HELD ON 25 MARCH 2019

2.1 The Committee RESOLVED to agree the minutes of the meeting held on the 25 March 2019 as a correct record.

### 3 APOLOGIES FOR ABSENCE

3.1 There were no apologies for absence.

### 4 DISCLOSURES OF INTERESTS

4.1 There were none.

### 5 URGENT ITEMS

5.1 There were none.

## 6 MONITORING OFFICER'S ANNUAL REVIEW OF THE CORPORATE GOVERNANCE FRAMEWORK 2018/19

6.1 The Democratic Services Manager introduced the report. This item relates to the annual review of the Corporate Governance Framework. Each Chief Officer has reviewed the framework and confirmed that all management actions for the 2018/19 year have been undertaken. The management actions for the coming year are listed in Annex A of Appendix 3 of the Governance Committee report. The Governance Committee report also notes that in the most recent Annual Audit Letter the External Auditors confirmed that Annual Governance Statement (AGS) was consistent with their understanding of the Council's governance arrangements and did not identify any issues.

6.2 The Committee discussed the contents of the report to the Governance Committee and the appendices. A summary of the Committee's comments is given below.

### Governance Committee report

6.3 It was confirmed that the External Auditors still examine the Council's governance arrangements through the Annual Governance Statement (AGS), since the formal responsibility to assess them was removed when the Comprehensive Area Assessment (CAA) was abolished. Grant Thornton will look at Council's governance arrangements and will comment on them in the Audit Findings report. It was clarified that the former CAA function was the responsibility of Audit Commission and not the External Auditors.

6.4 All Chief Officers sign the assurance statements for their departments to confirm that there are proper governance arrangements in place, and there are effective risk assessment and internal control arrangements. The statements are not standard, as the requirements for each department varies with the nature of work of the department. This is a self-assessment process, but Internal Audit also checks these arrangements are in place through their audit work.

### Local Code of Corporate Governance (Appendix 1)

6.5 Appendix 1 of the Governance Committee report contains a list of key policies and processes on which corporate governance framework sits. Each row in the table relates to the statutory items that the Council has to consider. The Committee commented that it was hard to interpret the information in this appendix and understand why some items are ticked and others not, without a narrative.

6.6 It was explained that the information contained in the table in appendix 1 aims to highlight the key elements of each policy or process, and how they contribute to the corporate governance framework. The Committee was informed that the contribution of each policy against the seven headings has previously been reviewed by the Governance Committee. The Committee agreed that it would be helpful to include a narrative in future reports.

### Actions to Strengthen Governance (Annex A)

6.7 The Committee noted that the number of actions listed under each department varied, with two listed for Adult Social Care and Health. It questioned whether two actions were sufficient given the scale and scope of the work being undertaken by the Adult Social Care and Health department. The Chief Operating Officer clarified the actions listed in Annex A are a statement about where the focus of work will be for the coming year, which is over and above the other governance arrangements that are already in place. It is not meant to represent everything that is being undertaken by each of the departments. Each Director can specify what actions are highlighted for the coming year, which reflects the nature of work that each department undertakes.

6.8 It was clarified that the first bullet point action under Adult Social Care and Health regarding a revised approach to system governance for managing NHS financial recovery, reflects the changed environment of the Sustainability and Transformation Plan arrangements. The local NHS Healthcare Trusts are in state of financial recovery and this item reflects the Council's role in this as the system moves towards more financial sustainability. The Committee agreed to recommend that the current description of this action should be amended in the report to make it easier to understand.

6.9 It was clarified that there is already an Inter Authority Agreement (IAA) in place for the Orbis Partnership, and a revised IAA will be introduced from April 2020 (Business Services actions, first bullet point). The revision is more about reframing that agreement rather than changing or adding partners.

6.10 The Committee RESOLVED to:

- 1) Note the report;
- 2) Request that a narrative to explain the table in Appendix 1 is circulated to the Committee and included in future years reports; and
- 3) Recommend that the Governance Committee amends the text of the Adult Social Care and Health bullet point action regarding system governance for managing NHS financial recovery (Annex A) to make it easier to understand.

## 7 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2018/19 (INCLUDING INTERNAL AUDIT PROGRESS REPORT QUARTER 4, 2018/19)

7.1 The Chief Internal Auditor introduced the report. The report is in a similar format to previous years which includes a summary of the internal audit work carried out during the year and an overall Internal Audit opinion. The Chief Internal Auditor confirmed that he is able to give an overall opinion of reasonable assurance. Section 3.2 of the Internal Audit Annual report gives an explanation of how the overall opinion is reached, and section 4 outlines the information used as a basis for the overall audit opinion. Section 5 of the Annual report provides a summary of key internal audit issues including details of the audits that have received an opinion of partial assurance and an update on anti-fraud and corruption work. There were twelve audits that were still in progress at end of year, and the outcome of these audits will be reported in the following quarter (quarter 1 of 2019/20).

7.2 The Annual report also contains details of the amendments made to the Audit Plan during the year, which have already been reported to the Committee. The final sections of the report provide information on the Internal Audit performance over the year against the targets and standards that have been set and a summary of audits undertaken during 2018/19 (appendix B). Annex B of the report provides details of the Audits completed in quarter 4 of 2018/19.

7.3 It was clarified that the terms 'audit' and 'review' are used interchangeably in the report and there is no difference between them. In the context where management actions are agreed, an action is an individual activity that has to be carried out as a result of a review to improve the control environment. Any high risk actions will be tracked and the Internal Audit Team will seek written confirmation that those actions have been completed.

### Quarter 4, Audit Opinions

7.4 The Committee discussed the audits that were completed during quarter 4, and those that received a partial assurance opinion. The Committee made the following comments and points for clarification.

- Staff travel and expenses. The audit summary describes the areas that were audited and the key areas for improvement. In particular, the outcomes of the audit highlighted the authorisation of claim forms and the rejection of claims where forms were not signed or did not have the right supporting information.
- Home to School Transport. It was confirmed that a process for checking that valid insurance is held by operators is now in place. There was no indication that valid insurance was not in place, but the evidence that checks were being made needed to be recorded appropriately.
- SAP Upgrade. It was confirmed that a formal upgrade procedure sign-off was put in place before the upgrade was undertaken. This was identified early on in the project and was rectified as part of the project. There was no suggestion that the upgrade was not going to be signed-off by the Project Board, and there was a check point milestone on the project plan. It was more an issue of what the sign-off looked like (i.e. what documentation was produced to formally record the sign-off) than there being no procedure in place.
- Academy Schools. It was confirmed that the Internal Audit Team are not involved in the auditing of academy schools, which are not maintained by the Council.

7.5 The Committee RESOLVED:

- 1) To note report;
- 2) That there were no significant control issues that need to be included in the Council's Annual Governance Statement arising from the report; and
- 3) That the Council's system for internal audit has proved effective during 2018/19.

## 8 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE AND 2018/19 STATEMENT OF ACCOUNTS

8.1 Marcus Ward from Grant Thornton, the Council's External Auditors, introduced report. The key findings from the audit are outlined in the Audit Findings report. The Auditors propose to issue an unqualified audit opinion on the Council's accounts and Value for Money (VFM) statement. There are no adjustments that affect bottom line and there are two management recommendations that are detailed in the report. It is evident from the audit of the accounts that the Council has its finances under control.

### Audit Findings - Other Issues and Key judgements and estimates

8.2 Other findings reported on as part of the audit include:

- The McCloud Judgement is likely to have an impact on pension liabilities and should be accounted for as part of Pension Fund liabilities, but does not have a material impact on the accounts. The Auditors are comfortable with position management have taken on this and it will be dealt with as part of the triennial pension fund valuation.
- Valuation of Property, Plant and Equipment. The audit has examined this and the valuation of investment properties to check how they have been valued. The Auditors do not foresee there being any material issues in respect of these valuations.
- Net Pension Liability. The audit has examined the assumptions used for the valuation of the Pension Fund liability and the Auditors conclude that they are fair and accurate. They are therefore comfortable with the valuation and the valuation of the 'difficult to value' investments.
- Going Concern. It is evident that Council has its finances under control in relation to the 'Going Concern' judgement contained in the audit.

### Value for Money (VFM)

8.3 This is the part of the audit where the Auditors examine the financial sustainability of the Council. The Auditors are satisfied that the Council has got the processes and procedures in

place for the key risks, the Medium Term Financial Plan (MTFP) and the key assumptions that underlie this. The Auditors have highlighted some of their work in this area in the report, which took an in depth look at the Council's financial planning arrangements.

8.4 In terms of reserves, ESCC is in a good financial position in relation to other local authorities as illustrated by the graph on page 17 of the Audit Findings report, which shows the level of reserves held as a percentage of net revenue expenditure. The Value for Money assessment focused on two specific areas: Joint Working with Health and Brexit. The report finds arrangements for work with NHS on social care are proactive in moving issues forward. In terms of Brexit, what the Council has put in place seems a reasonable and sensible analysis of the potential scenarios.

8.5 The Auditors have no issues to report in terms of fraud or other issues. Overall they reflected that these are a good set of accounts, with only a small number of presentational changes required to the draft accounts made public on 31 May 2019. Grant Thornton confirmed their independence as auditors.

#### Action Plan

8.6 The two management recommendations made by the Auditors are:

- Access to client maintenance functionalities (SCC4) in SAP. When the Auditors looked at IT arrangements a small number of users have access to change a wide range of items in the financial management system (SAP). The recommendation is that these access arrangements are reviewed to make sure management is happy with the level of access. The Chief Finance Officer outlined that an initial review of access has been undertaken and the focus of work is on how access and changes are monitored. The IT&D department have been asked to look at this issue and draft a response.
- Journals with no description. During their review of journals, the Auditors found a number of journals that had no description. Journals are manual changes to the general ledger (e.g. moving items around) and there is a risk that these can be used to override management controls or hide transactions. It is important to be able to scrutinise all journals and the documentation that supports them to lessen the potential for fraud. Having a journal description is best practice and helps keep an audit trail in place. The Chief Finance Officer outlined that there is a spreadsheet with the details of journals with no narrative, including the member of staff who actioned the journal. All staff will be reminded that journal narrative is best practice. Management will also investigate if the description can be made a mandatory field when inputting journals on the SAP system.

8.7 The Committee discussed the External Auditors Audit Findings report and the key points are summarised below.

8.8 SAP system access. It was clarified that users with access to full system rights can access financial and non-financial information such as that contained in the Human Resources module of SAP. The use of the system by the seven users who have full access rights is monitored. Grant Thornton clarified that it was the oversight of the access and the changes that are being made that is the important issue. It was agreed that the Chief Finance Officer will bring an update report on the oversight arrangements to the next Audit Committee meeting.

8.9 The Committee questioned whether the statement in the second paragraph under the heading 'Financial governance - savings plans' (in the second column on page 16 of the Audit Findings report) was correct when it states "The temporary shortfall in year was compensated by £7.3m of additional one-off savings...". The Chief Finance Officer responded that this may be a typographical error and this point may refer to the use of one-off funding opportunities to mitigate the approved slippage of savings. The Chief Finance Officer will discuss with Grant

Thornton outside of the meeting and will report back to the Committee. Darren Wells, of Grant Thornton commented that this will not alter the overall opinion of the audit findings, and that it is appropriate to reflect the one-off nature of this funding/saving in the report. (*Post meeting note: The Chief Finance Officer has confirmed that the Auditors report does not use the correct terminology, and the Auditors will change the report to replace “additional one-off savings” with “one-off funding” and the Governance Committee has been informed*).

8.10 The Committee noted that the graph illustrating the level of reserves held shows the percentage in relation to the net revenue budget of the Council, rather than the absolute quantity held. The Chief Finance Officer advised that further details of the level of reserve balances held is available in appendix 2 of the State of County report.

8.11 The Committee discussed the impact of the McCloud Judgement and the actuarial re-valuation of the pension fund. The Auditors confirmed that they will review the position regarding the impact on pension fund liabilities each year, and it will be included in next year’s report. They will flag this item in their report, especially if provision for this item has not been accounted for or becomes material.

8.12 As the Government has been refused permission to appeal the McCloud Judgement, the advice from the Auditors is that the Council should reflect this obligation in the accounts. That is why they have suggested the Council amend the accounts, but because it is not material, they are happy to accept the management approach taken to this issue. The Chief Finance Officer outlined that an allowance for the impact of the judgment may be included, by the actuaries, in the contingency factors for triennial valuation of the pension fund.

8.13 The Committee RESOLVED to:

- 1) Note the report and did not have any issues that it wished to bring to the attention of the Governance Committee; and
- 2) Request an update report is brought to the next meeting on the financial management system (SAP) access oversight arrangements.

## 9 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE FOR THE PENSION FUND AND 2018/19 STATEMENT OF ACCOUNTS

9.1 Marcus Ward from Grant Thornton introduced report. He outlined that the accounts for the East Sussex Pension Fund were a good set of accounts. The accounts are based on the last full valuation of the Pension Fund which was carried out in 2016, and also include a note on the impact of the McCloud Judgement. The External Auditors will be issuing an unqualified opinion and have highlighted the same two management recommendations in the Action Plan as for the ESCC accounts.

9.2 The Committee discussed the report and asked if a key to the risk scores for the East Sussex Pension Fund Risk Register (pages 6 & 7 of the East Sussex Pension Fund Annual Report and Accounts) could be provided in future. The Chief Finance Officer confirmed that a key to this table will be included in the report.

9.3 The Committee RESOLVED to:

- 1) Note the report and its appendices; and
- 2) Note management actions detailed on page 13 of the Independent Auditor’s report to those charged with governance.

## 10 STRATEGIC RISK MONITORING - QUARTER 4, 2018/19

10.1 The Chief Operating Officer introduced the report. Strategic risk monitoring is also part of the Reconciling Policy, Performance and Resources (RPPR) process, and was included in the quarter 4 Council Monitoring report that went to Cabinet recently. A Climate risk has been added to Strategic Risk Register to reflect the risk from climate change. The covering report also summarises any changes to the strategic risks and the management responses to them.

10.2 The Committee discussed the report and welcomed the addition of the Climate risk and a No-Deal Brexit risk to the strategic risk register. A summary of the comments made by the Committee during the discussion of the strategic risk register is given below.

- RPPR. The Committee noted that the existing text of this risk makes no mention of the increasing difficulty of delivering savings in the current financial climate. The Committee agreed that it would be worth suggesting a revision to the wording of this risk. The Chief Operating Officer agreed to discuss an amendment to the wording with the Corporate Management Team.
- Local Economic Growth – The Committee commented that it is reassuring to see that there are some risks that are rated as 'green'. It also commented that it was not solely the responsibility of the Council to deliver economic growth, and perhaps a form of wording that reflects the leverage that the Council has and what it can deliver may be more appropriate. The Chief Operating Officer will discuss re-wording the risk outside the meeting.
- Departmental risk registers. The Committee asked whether it would be possible to examine the departmental risk registers, which sit below the strategic risk register. The Chief Operating Officer outlined that it would be possible to share the contents of the departmental risk registers with interested Committee members.
- Workforce. It was noted that Workforce issues are a common problem for all local authorities and not just confined to East Sussex County Council (ESCC).

10.3 The Committee RESOLVED to note the current strategic risks and the risk controls / responses being proposed, and welcomed the addition of the Climate and No-Deal Brexit risks to the strategic risk register.

## 11 WORK PROGRAMME

11.1 The Chair invited the Committee to discuss any items that it would like to add to the future work programme. The Committee noted that it had been agreed during the meeting that the Chief Finance Officer would bring a report to the next meeting to update the Committee on the review of managing and monitoring and 'super user' access to the SAP financial system, referred to in the Audit Findings report (item 7).

11.2 It was agreed that the explanation of the Local Code of Corporate Governance framework details contained in Appendix 1 of the Governance Committee report (pages 15 and 16 of the agenda) will be emailed to the Committee rather than being presented as a separate report at the next meeting.

11.3 There were no further additions or changes to the future work programme of the Committee.

The meeting ended at 11.43 am.

Councillor Colin Swansborough  
Chair

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Report to: **Audit Committee**

Date: **13 September 2019**

By: **Chief Finance Officer**

Title of report: **External Auditor's Report 2018/19: Statement of Accounts Update**

Purpose of report: **To update the Committee on changes to the 2018/19 Statement of Accounts after approval by the Governance Committee on 16 July 2019**

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## **RECOMMENDATIONS – The Audit Committee is recommended to:**

- (i) Note the report and verbal update from the Chief Finance Officer on the status of the 2018/19 Statement of Accounts.**
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### **1. Background**

1.1 The 2018/19 Statement of Accounts, together with the external auditor's (Grant Thornton UK LLP (GT)) audit report, were presented for review and discussion to the Audit Committee on 12 July 2019. The reports were then presented, with verbal feedback from the Audit Committee, to the Governance Committee on 16 July 2019, where they were approved.

1.2 Subsequent to this approval, GT requested additional information to support the IAS 19 Pensions note within the accounts. The resulting additional information had a material impact on the accounts, thereby requiring the accounts to be adjusted. As a consequence of these actions, the Council was not in a position to publish its 2018/19 Statement of Accounts, together with the External Audit opinion, by the national deadline of 31 July 2019. The Council's website currently presents the latest draft, with a note explaining the delay.

### **2. Supporting Information**

2.1 International Accounting Standard (IAS) 19 sets out the accounting treatment, for presentation in the Statement of Accounts, of future pension liabilities that may arise from employee retirement benefits.

2.2 As part of the closure of accounts process, an IAS 19 statement is requested from the East Sussex Pension Fund actuary, Hymans Roberson. In order to meet the 31 May deadline for the sign off and publication of the draft Statement of Accounts, to enable public scrutiny, this information is requested in March/April. As a consequence, Hyman's will have to estimate certain elements of the statement. The use of estimates is reasonable and has been approved in previous years' Statement of Accounts.

2.3 Through the course of the audit of the accounts, assurance had been given by GT that the IAS 19 was appropriate and that no further update was required.

2.4 On 29 July, GT contacted the Chief Finance Officer to request an updated IAS 19. The reason for this request was there was a high likelihood that the return on pension assets (processed through the Comprehensive Income and Expenditure Account) and the pension liability (recorded on the balance sheet) was significantly misstated. The auditor had highlighted this issue at another local council that was a member of the East Sussex Pension Scheme.

Enquiries were made with the actuary to resolve the issue at that council and the actuary's response to audit enquiries made clear this was an issue for all councils in East Sussex. The revised IAS19 report from Hymans Robertson showed a material change to the original return received by ESCC in April. The impact on the comprehensive income and expenditure account - deficit on provision of services is £6.24m and the pension liability on the balance sheet was revised from £472.64m to £521.41m. The accounts have been updated to reflect the revised IAS19 report.

2.5 The amended 2018/19 Statement of Accounts were passed to GT for final review. The auditor has confirmed that the accounts have been amended appropriately. The formal sign off of the Statement of Accounts can now proceed and the Notice of completion of the audit published.

### **3. Conclusion and reasons for recommendations**

3.1 The Committee is recommended to note the update from the Chief Finance Officer on the statement of accounts.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Ian Gutsell, Chief Finance Officer  
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Local Member(s): All

Background Documents: None

Report to: **Audit Committee**  
Date: **13 September 2019**  
By: **Orbis Chief Internal Auditor, Business Services Department**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/19 – 30/06/19)**

Purpose of report: **To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.**

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## RECOMMENDATIONS

Members are asked to:

1. 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 2019 and 30 June 2019.

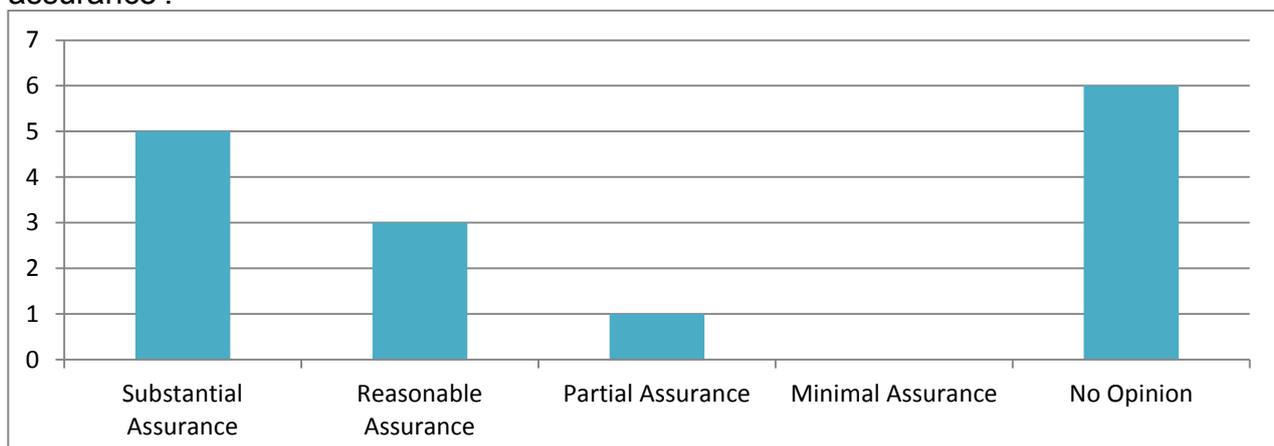
### 2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2019-20 which was approved by Audit Committee on 25 March 2019.

### 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 nine formal audits finalised during the quarter in which an opinion was given, five received opinions of 'substantial assurance', three received 'reasonable assurance' and one received 'partial assurance'. There were no opinions of 'minimal assurance'.



3.3 Although the same range of internal audit opinions are issued for all audit assignments (where an opinion is relevant), 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 Chief Internal Auditor continues to be able to provide 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 audit findings 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 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'.

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 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.

3.7 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in Appendix A. All targets have been assessed as on target (green).

RUSSELL BANKS, ORBIS CHIEF INTERNAL AUDITOR, BUSINESS SERVICES DEPARTMENT

Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992

BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2019-20

# Internal Audit and Counter Fraud Quarter 1 Progress Report 2019/20

## CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

## 1. Summary of Completed Audits

### Budget Setting

1.1 The continued savings agenda within local government means that the setting of realistic and properly informed budgets is ever more important. Where budgets are developed without using all relevant information, they are more likely to overspend, resulting in increased pressure on Council services.

1.2 This review appraised the process for the development of the Council's budget, how it was calculated and the evidence base available to support it, in order to provide assurance that:

- A sustainable budget is set that is clearly linked to the Council's priorities, and:
- Controls ensure that the budget is set based on all relevant information.

1.3 In providing an audit opinion of **substantial assurance**, we found that the Council's robust Reconciling Policy, Performance and Resources (RPPR) process and its Core Service Offer ensured a sustainable and balanced budget was set for 2019/20. There is sufficient challenge in both budget setting and budget monitoring activities to identify and investigate inefficiencies. Processes, including RPPR ensure that expenditure and the Council's priorities are aligned.

1.4 We identified no areas for improvement during the audit and there were consequently no findings in our report.

### General Ledger

1.5 The Council's general ledger operates via the SAP accounting system. It aims to provide complete and accurate data for the production of the annual accounts and financial returns. Between 1 April 2018 and 31 March 2019, 210,738 individual line items were entered into SAP, amounting to 7,226 journals.

1.6 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Up to date and approved policy, regulations and supporting procedures, in line with statutory requirements and accounting standards, are in place.
- All direct journal input to the general ledger is complete, accurate and correctly authorised.
- Transactions posted from feeder systems into control accounts are complete and accurate.
- Unrecognised accounts or suspense balances are reviewed and cleared on a timely basis.
- Adequate bank reconciliation procedures are in place.

1.7 As a result of our work we were able to provide an opinion of **substantial assurance**. We found that the general ledger appears to be well controlled and accurate with appropriate review and authorisation processes in place. We also found that appropriate segregation of duties is in place in order to reduce the risk of fraud or error.

1.8 A small number of opportunities to improve the control environment were, however, identified. These included the need to:

- include adequate and meaningful header text and narrative on all transactions (also recently raised by External Audit);
- review and update the ESCC Accounting Guidance document, and;
- improve the storage and organisation of reconciliation documents in relation to the Spydus (Libraries) feeder system.

1.9 Management has agreed appropriate action to address all of these issues.

### **Pension Fund Governance and Investments**

1.10 East Sussex County Council (ESCC), in its capacity as the administering authority, administers and manages the East Sussex Pension Fund. The current value of the Fund's assets is £3.6bn. The Fund is made up of 136 employers, ranging from District and Borough Councils, Education Bodies, Admitted bodies which include Charitable Trusts, Housing Associations and Private Contractors, East Sussex Fire and Rescue Service and East Sussex County Council. There were 23,710 active members, 30,379 deferred members and 20,586 pensioners as at March 2018.

1.11 Since the last audit was carried out, in March 2018, the Fund achieved the Government's deadline to have LGPS Investment Pools operational by 1 April 2018. The East Sussex Pension Fund (ESPF) has joined with 10 other pension administering authorities to form the ACCESS Pool.

1.12 The purpose of the audit was to provide assurance that controls are in place to ensure that:

- All entries relating to the Fund have been accurately recorded in the general ledger in a timely manner;
- Monitoring arrangements over the Fund and fund managers are sufficiently robust;
- Investment returns are received in full in a timely manner;
- Governance arrangements provide effective strategic oversight for the management and investment of the Fund;
- The Fund is administered in accordance with best practice and legislative requirements, and;
- Risk management arrangements are suitably robust.

1.13 In providing an opinion of **substantial assurance**, we concluded that the Fund is being administered in accordance with best practice and effective risk management processes are in place. Measures are being introduced in order to meet the continuing changes in Pension Fund legislation and the rules in relation to investments.

1.14 Strategic oversight of the management and investment of the Fund is effective, with robust monitoring arrangements in place for the Fund and for fund managers. Investment returns are received in a timely manner and entries relating to the Fund are accurately recorded within the general ledger of the Council's accounting system.

1.15 Since the previous audit in this area was carried out, improvements in control have been made and the actions agreed in our report have been implemented. There were no required actions on this occasion.

### **Pension Fund External Control Assurance**

1.16 In addition to the Pension Fund Governance and Investments audit summarised above, a separate review was conducted to ensure independent external control assurance is obtained on pension fund managers' administrative and accounting procedures. **Substantial assurance** was provided in this area as controls were found to be in place and operating effectively, including the receipt and evidence of appropriate review, by Council officers, of independent external assurance reports obtained from all investment fund managers on an annual basis. No actions were raised as a result of this audit.

### **Purchase to Pay**

1.17 Purchase to Pay is the end to end process from procurement of services to the payment of the supplier. The central Accounts Payable team is responsible for the processing of payments to suppliers using SAP, the Council's main financial system.

1.18 The objective of the audit was to provide assurance that:

- Orders are raised for goods, works and services in accordance with standard financial procedures and the needs of the Council;
- All payments are subject to review and approval to ensure they are valid and that goods, works or services have been received and are correctly processed;
- Payment runs are subject to appropriate review and authorisation;
- Only vendors that meet the needs of the Council and that do not already exist within SAP are set-up. All vendor's details are maintained accurately in SAP, and;
- Transactions in the accounts payable system are completely and accurately transferred to (or reflected in) the general ledger.

1.19 In providing an opinion of **substantial assurance**, our limited sample testing indicated that the purchase to pay system is operating effectively with all necessary key controls found to be in place. Only two relatively minor opportunities for improvement were found and appropriate action was agreed with management to address these.

## Capital

1.20 The Capital Programme sets out the Council's investment plans to support its core services in the delivery of priority outcomes. It provides provision for essential school places, investment in roads and transport infrastructure, enhancing the life of existing assets and ensuring they are fit for purpose, and supporting invest to save schemes.

1.21 The current programme, which runs to 2022/23, includes planned gross expenditure of £363.2m which will be financed through a range of funding streams.

1.22 In reviewing nine individual capital projects, the purpose of the audit was to provide assurance that:

- Governance arrangements ensure that all capital projects are supported by robust plans covering timescales and cost and are aligned with Council objectives;
- Capital projects are monitored, controlled and reported in a timely and effective manner in terms of cost, timescales, quality and outcome, and;
- Any potential variations in delivery of individual capital projects in terms of time and budget are identified through the project management process and are reported to stakeholders in sufficient time to allow effective decision-making.

1.23 Overall, we found that the majority of the projects we reviewed had appropriate governance arrangements in place in order to make key decisions and to give clear direction. In addition, projects were generally supported by clear plans, mitigating actions had been identified to minimise identified risk, and progress and budgets were being monitored regularly and reported to project boards. We were therefore able to give an opinion of **reasonable assurance**.

1.24 Some areas for improvement were, however, identified, including in relation to one project where a project board and project initiation document had not been established when the audit commenced. In addition, in two cases, the basis upon which the original costings for the projects were developed and on which the budgets were approved had been underestimated and, as a result, the projects had identified budget shortfalls.

1.25 In addressing the findings of our review, management agreed to ensure that Project Managers are reminded of the necessity to critically review and challenge their understanding of project requirements and scope in order to develop a fully funded solution and to ensure effective project governance arrangements are in place.

### **BACS Payments**

1.26 BACS transactions are processed by the Income and Banking team at Surrey County Council (SCC) on behalf of East Sussex County Council (ESCC). Transactions processed relate to payroll, debtors and creditors.

1.27 This audit concentrated on the use of the BACS system for processing payments, with the purpose of the audit to provide assurance that:

- BACS files can only be created by authorised officers and are subject to appropriate validation;
- The transfer of BACS files is subject to robust controls, and that;
- Processed BACS files are subject to verification and validation.

1.28 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that BACS files are subject to validation and submission by authorised officers, BACS payment files from the ESCC SAP system are subject to secure and robust practices and there are appropriate separation of duties in place throughout the process.

1.29 However, a small number of opportunities to improve the overall control environment were identified. These included the need to:

- develop detective controls to detect any manipulation of BACS files that are transferred via email, and;
- ensure that records of those officers who are able to authorise payments remain up-to-date and are reviewed regularly.

1.30 Appropriate actions to address the findings of this review were agreed with management in a formal action plan.

### **General Data Protection Regulation (GDPR) Compliance**

1.31 In April 2016, the European Union introduced the GDPR. This Regulation is intended to strengthen data protection rights for individuals within the EU and came into effect on 25th May 2018. Failure to comply with the GDPR could result in substantial fines by the Information Commissioner's Office and reputational damage.

1.32 The purpose of this review was to provide assurance that ESCC has sufficient processes and controls in place to comply with the GDPR and to provide assurance over the GDPR governance framework. The scope of the audit was also to follow-up progress made in implementing the actions agreed in the preceding 'Preparedness for GDPR' review which received an audit opinion of reasonable assurance.

1.33 Mazars LLP conducted this piece of work on our behalf and were able to provide an opinion of **reasonable assurance** as to the Council's compliance with GDPR. Many aspects of the Information Commissioner's Office (ICO) '12 Steps towards GDPR compliance' were found to have been achieved, with only a small number of opportunities for improvement, none of which were considered high priority in nature. These included ensuring that:

- a process to check staff understanding of their GDPR obligations is established;
- there is adequate version control for the Data Protection and Information Security Policy, and;
- ESCC's Record of Processing Activities (ROPA) is fully complete with all required information as per the ICO's ROPA template.

1.34 Actions to address the findings of the review were agreed with management.

### Home Care Contract Management

1.35 Homecare is vital for people with care and support needs who wish to remain at home, yet it is a particularly fragile part of the social care market. Whilst some providers are running sustainable businesses, others are on the verge of collapse or have already ceased trading. Commissioners, providers and regulators are all concerned about the strength of the social care market, and there is increasing public awareness of the pressures on the homecare sector through the national media.

1.36 Apex Prime Care Ltd is one of the Council's top seven providers of homecare services. It provides homecare for the elderly and specialist support for anyone who cannot wholly look after themselves. Clients vary from the frail elderly to younger people with physical and/or mental disabilities who have chosen to live in their own homes. Apex Prime Care Ltd is responsible for ensuring that the homecare service provided meets the Council's needs, including compliance with safeguarding requirements.

1.37 The Apex Prime Care Ltd contract commenced on 25 October 2014 and is due to run until 26 October 2021. The contract is valued at £13,454,220 over its seven-year lifetime. £4.23m has been spent with Apex Prime Care Ltd since June 2016. The service is demand led and the actual level of spend is therefore subject to change.

1.38 Key areas of contract management were reviewed as part of this audit, including governance and performance management arrangements, payment and change control processes, and contingency/business continuity arrangements.

1.39 Throughout the review, it was evident that the contract manager and his team were focussed on the relationship with the supplier to ensure that a continuing level of good quality care is provided to service users. However, in acknowledging the difficulties the Council is currently facing, as with others, in this challenging marketplace, our work highlighted a number of areas where improvement is needed and we were only able to provide an opinion of **partial assurance** as a result. Management recognised the need to stimulate the market to encourage the introduction of new providers and to work closely with existing ones to maintain good working relationships. This has contributed, with other factors, to a blurring of the roles of commissioning, procurement and contract management. This lack of clarity has weakened the management of the contract.

1.40 Key areas for required improvement included the need to:

- Ensure roles and responsibilities for governance, commissioning and contract management are clearly defined;
- Develop a contract management plan to help ensure that management of the contract is consistent and effective;
- Define and agree clear key performance indicators to enable effective monitoring of the contract performance and to ensure complete and accurate performance data is provided by the contractor and validated by officers;
- Strengthen risk management, business continuity and financial vetting arrangements.

1.41 The findings from our review were discussed with management and appropriate actions agreed to address these through a formal management action plan. A follow-up review will be undertaken later in the year to confirm that the agreed actions have been implemented.

## Broadband UK

1.42 The 'e-Sussex' project, led by ESCC in partnership with Brighton & Hove City Council, was launched to improve internet access for homes and businesses in East Sussex. The project is overseen by Broadband Delivery UK (BDUK), part of the Department for Digital, Culture, Media and Sport.

1.43 During 2018/19, the Council received £17,265 as the final instalment of the £3m grant funding for the second phase of the programme. Under the first phase, the Council received £10.7m. The purpose of our work was to confirm that expenditure had been incurred in accordance with the terms of the grant and that the figures stated in the annual return were correct.

1.44 No formal audit opinion is given with this work, but we were able to sign the annual return as correct. There were no findings arising and therefore no actions for improvement were needed.

### **Making Tax Digital**

1.45 HMRC has introduced new rules for submitting VAT returns which they refer to as 'Making Tax Digital for VAT' (MTD).

1.46 MTD requires VAT registered businesses with a taxable turnover above the VAT threshold (currently £85k) to keep records in digital form and to file VAT returns using software. Currently, VAT data is entered manually via an HMRC webpage.

1.47 MTD is being implemented in two stages. In the first stage, which HMRC regard as a soft landing period, businesses will be required to submit VAT information digitally via the API platform. However, HMRC will accept the use of 'cut and paste' or 'copy and paste' as being a digital link between systems for these VAT periods. In the second stage, which commences from the first VAT return on or after 1 April 2020, all businesses must have digital links in place so that, once approved, the information flows between source systems and HMRC's system without human intervention.

1.48 We reviewed the adequacy of arrangements relating to the first phase of the Council's preparedness for the compulsory introduction of digital tax-keeping records. Our work was undertaken whilst these preparations were taking place and has therefore been restricted to interviews with key personnel to understand how it was being progressed. Based on our work, we found that the solution for phase 1 would ensure HMRC requirements are met and we found that adequate controls were in place to ensure the accuracy of transfer of data.

1.49 Some areas for improvement were, however, identified, including improving the governance arrangements of the project for the more complex second phase, particularly in relation to the:

- Development of a more formal project plan;
- Regular review, update and reporting of the risk and issues log;
- Need to consider and agree the resources required for the second phase, and;
- Documenting of the solutions for both the first and the second phase.

1.50 All of the above actions were agreed with management. We will assess the robustness of the preparations for MTD phase 2 later in the year.

## **Logotech Treasury Management System**

1.51 The Treasury Management function at ESCC and Surrey County Council (SCC) has historically used Excel spreadsheets to record financial information such as the authorities' cash flow, investments and forecasted returns. Brighton and Hove City Council (BHCC) have been using a treasury management system from Logotech for this purpose for a number of years, running a locally installed application. Recently, an updated version of Logotech's system has been procured cross-Orbis. This is an up-to-date, cloud based version of the software currently in use at BHCC.

1.52 As of June 2019, ESCC had been using the Logotech system for a short period of time, following a period of parallel operation where both this and the previously used spreadsheets were maintained.

1.53 In completing a piece of work to provide assurance over the adequacy of controls within the Logotech system, we deemed these to be sufficient. We found that the system had actually increased controls and efficiency when compared with previous processes and had served to help standardise treasury management practice across Orbis.

## **Orbis Customer Access Platform Procurement**

1.54 Internal Audit was requested to review the procurement of the Orbis Customer Access Platform (OCAP), which had suffered a number of delays which nearly resulted in the supplier withdrawing from the procurement exercise. The purpose of the review was to determine whether the procurement process was efficient and to identify any areas where bottlenecks had occurred.

1.55 We found that the status, though not accuracy, of legal advice was not clearly understood by its recipients. There is a need to establish a distinction between advice given to provide the basis for a decision by management and the provision of mandatory guidance on compliance; e.g. advising that a proposed course of action does not meet legal requirements. There is a need to separate and clarify the role of compliance enforcement from commercial decision-making and, therefore, managed risk-taking.

1.56 The project was complicated by the changing responsibilities throughout its life. The lead authority, and therefore contract owner, was switched from Surrey County Council to East Sussex County Council shortly after the procurement commenced and there were also changes to key personnel. These changes resulted in breaks in continuity, which may have affected the consistency of approach applied by the Council.

1.57 There were complexities arising from the making of a direct award to a 'reseller' on a framework, which then sourced a solution-provider (Cherwell) with which we ultimately had a direct contract in addition to the contractual arrangement through the framework.

1.58 These were magnified by the raising of legal queries about contract terms at a late stage in the process and the lengthy period over which they were raised. It was not clear whether these issues could have been identified (or anticipated) and addressed earlier in the procurement process.

1.59 The lack of a consolidated position from which to begin negotiations with Cherwell may have weakened the Council's negotiating position. On a number of occasions, officers believed that contract agreement was near, only for further queries to be raised by both parties, including as a result of ambiguities arising from the presence of multiple versions of key documents. The length of time and the intermittent nature of the dialogue, together with the uncertainty it created, led to a deterioration of the relationship with, and nearly the loss of, the supplier.

1.60 This was an additional piece of work to identify the cause of known issues and, therefore, no opinion was given. We are now working with management to agree the most appropriate way to address these issues, including informing future audit work.

## Waivers

1.61 As a result of a number of delays and the late receipt of waiver applications received by senior officers, we were asked to review the waiver process to ascertain where delays may be occurring. The waiver process is used on rare occasions when compliance with Procurement Standing Orders cannot be achieved. The waiver process provides a mechanism to manage and record such instances.

1.62 Following a high-level review of the waiver process, we found waivers are sometimes used to extend contracts beyond their agreed terms for tactical reasons; e.g. because an opportunity to improve value for money through combining contracts has been identified. In these cases, the negotiations that support the extensions may take longer than expected, resulting in the waivers being presented late for approval.

1.63 Waivers are sometimes completed when there is an urgent need for action to be taken for reasons of safeguarding. In these cases, it may help to ensure that senior officers are advised in advance that a waiver is being prepared. There is also evidence that there are instances of departments requesting waivers because budget uncertainty has led them to defer tendering until a point at which too little time remains.

1.64 We found that there are a number of areas where controls could be strengthened. These related to:

- The need to ensure that all contracts are recorded on the contract management system, In-Tend, to improve the Procurement Team's ability to initiate re-procurement activity in a timely manner; and

- Strengthening the understanding of the waiver process, and the time it can take, across the Council so that requests are initiated in good time.

1.65 No opinion was given as a result of this work, but results are being used to support further work in this area. We also expect that the requirement for forward procurement planning introduced in the recently revised Procurement and Contract Standing Orders will improve performance.

### **Troubled Families**

1.66 The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local authority received from the Department for Communities and Local Government (DCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.67 Children's Services submit periodic claims to the DCLG to claim grant funding under its 'payment by results' scheme. The DCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 17 of the 167 families included in the April/July 2019 grant.

1.68 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced. All of the families in the sample of claims reviewed had firstly met the criteria to be eligible for the TF2 programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the TF2 grant determination programme had been complied with.

## 2. Counter Fraud and Investigation Activities

### Proactive Counter Fraud Work

2.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

#### National Fraud Initiative Exercise

2.2 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The council is required to submit data every two years, and matches are sent back to the Council for investigation. The results from the 2018 exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any outcomes from this work will be provided as part of future internal audit progress reports.

#### Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit are in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. A refreshed Counter Fraud Strategy will be reported to Audit Committee in November.

#### Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

#### Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for Internal Audit in 2019/20. Areas identified include:

- Conflict of Interest
- Gifts and Hospitality
- Payments to GPs and Pharmacies
- Purchasing and Fuel Cards

## Fraud Awareness

2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. An awareness campaign is planned to coincide with Internal Fraud Awareness Week in November.

## Reactive Counter Fraud Work - Summary of Completed Investigations

### Employee Misconduct

2.7 Internal Audit provided support to a management investigation following concerns that an employee had submitted duplicate overtime claims. Following conclusion of the investigation, it was found that there was no intent to deceive by submitting duplicate claims and the employee was provided with appropriate guidance and training to ensure future accuracy.

## 3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 1, 100% of high priority actions due had been implemented.

## 4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan so far this year:

- Orbis Customer Access Portal - Lessons Learned from Procurement Exercise
- Waivers
- Broadband UK Grant Return
- Troubled Families
- Logotech Treasury Management System

4.2 In order to allow these additional audits to take place, to-date the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2020/21 plan as part of the overall risk assessment completed during the annual audit planning process. These changes are made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- IT&D Project Management

## 5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	Approved by Audit Committee on 25 March 2019
	Annual Audit Report and Opinion	By end July	<b>G</b>	2018/19 Annual Report and Opinion approved by Audit Committee on 12 July 2019
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	28.6% completed to draft report stage by end of Q1 (against a Q1 target of 22.5%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings  June 2019 - internal self-assessment completed
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	<b>G</b>	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	85% <sup>1</sup>

<sup>1</sup> Includes part-qualified staff

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

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Report to: **Audit Committee**

Date: **13 September 2019**

By: **Chief Finance Officer**

Title of report: **Oversight of SAP “Super User” Access Controls – Update**

Purpose of report: **To update the Committee on the review of SAP “Super User” access raised by Grant Thornton in their 2018/19 Audit Report**

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**RECOMMENDATIONS – The Audit Committee is recommended to:**

- (i) Note the update report and actions taken to review SAP “Super User” access.**
- 

## **1. Background**

1.1 The Council’s external auditors (Grant Thornton UK LLP (GT)) as part of their 2018/19 Audit Findings Report, presented to the Audit Committee on 12 July 2019 and the Governance Committee on 16 July 2019, raised within the report’s Action Plan a concern regarding SAP access:

**Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights).** 13 users with firefighter ID’s have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.

**Recommendations:** The profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed.

This report provides an update in the actions taken and management response.

1.2 In addition, Internal Audit had undertaken an audit of SAP Application Controls in 2018. The audit opinion was Reasonable Assurance. The audit contained six actions agreed by management, including three rated as medium priority. In the context of the issue raised by GT, it was agreed to undertake a follow-up review to ensure management actions had been undertaken.

## **2. Supporting Information**

2.1 IT&D have undertaken a review of the access to client maintenance functionalities, specifically SCC4, as set out in GT’s report. Although there are 13 users which have access to the transaction SCC4, this access alone does not allow them to unlock the production environment. To be able to this, access to the object S\_TABU\_DIS vales SS and activity 02 is also required.

2.2 SAP access roles are ‘packages’ of related authorisations in the system usually for a specific business role or a process. In SAP, access to transactions cannot be given directly to the user but have to be delivered in these ‘packages’. There are 2 SAP access roles in ESCC with access to SCC4 which are assigned permanently to the 3 Basis Team resources in the internal support team. However, during critical project activities such as during the annual

systems update, access to the SAP basis access roles is granted to extra resources (as authorised by the SAP Technical Manager) to be able to perform critical project activities.

2.3 Going forward the two existing SAP basis access roles will be modified to remove the ability to open the production system for changes with the transaction code SCC4. The access to open the client with direct table access in SAP will also be removed. There will be a new access role built specifically for the opening of the SAP client and the access will only be granted to the internal SAP Basis Team.

2.4 Additional SAP access can only be assigned to the user account without separate authorisation if the request comes from the process owner or if the requested access comes from the list of authorisation roles that do not require the process owner's approval. The Security Team runs monthly and ad hoc reports on user access in order to monitor users with critical transactions or inappropriate data access. The line managers are periodically requested to review their team's SAP access.

2.5 The Internal Audit Report: SAP Application Controls 2019/20 is attached at Appendix A. and presents an audit opinion of Substantial Assurance. Section 6 of the report provides as summary of the originally agreed six management actions and confirms that all but one have been implemented.

2.6 The management action for the development of additional templates to enable changes to be documented by IT&D has not been fully completed. An improved template and process has been developed to help facilitate the change request process in IT&D, but this has yet to be implemented.

### **3. Conclusion and reasons for recommendations**

3.1 The Committee is recommended to note the report and actions taken to review SAP "Super User" access and previously agreed Management Actions from the Internal Audit Report: SAP Application Controls 2018/19.

**IAN GUTSELL**  
**Chief Finance Officer**

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Local Member(s): All

Background Documents: None



# Internal Audit Report

## SAP Application Controls (Follow-Up) 2019/20

### Final

Assignment Lead: Paul Fielding, Principal Auditor  
Assignment Manager: Mark Winton, Audit Manager  
Prepared for: East Sussex County Council  
Date: September 2019

**Report Distribution List**

Draft Report:

Matt Scott, Orbis Chief Information Officer  
Ian Gutsell, Chief Finance Officer  
Lorraine Juniper, Head of Projects & Innovation  
Tahiana Jefferis, Enterprise Apps & Portfolio Manager  
Gavin Paul, Technical & Security Manager  
Linda Whiteman, Business Platform Support Manager  
Alex Rodrigues, Business Platform Support Team Leader

Final Report (as draft report plus):

Kevin Foster, Chief Operating Officer  
Nicky Wilkins, Head of Strategy & Engagement (ESCC)

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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## 1. Introduction

- 1.1. The SAP system is the council's key software system for its financial management, budgeting and reporting functions. The system is also used for making payments to employees, suppliers and billing of revenue. SAP is a mission critical system at the council and there are risks that inaccuracy or lack of availability of SAP would prevent receipt and disbursement of cash, as well as producing inaccurate management information.
- 1.2. An audit of SAP Application Controls was undertaken in 2018. The audit opinion was Reasonable Assurance. The audit contained 6 actions agreed with management, including 3 rated as medium priority.
- 1.3. Whilst we would not ordinarily undertake a follow-up of a Reasonable Assurance audit, this follow-up is being undertaken at the request of the Chief Finance Officer, in response to the technical SAP audit undertaken by External Auditors (Grant Thornton), which identified concerns at a technical level, specifically in terms of permissions granted to key individuals.

## 2. Scope

- 2.1. The primary purpose of this audit was to follow up previously agreed actions. This will be done with regards to the risks and control objectives of the original audit.
  - System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
  - Data processed through the interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
  - Outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
  - System updates and enhancements are performed in a consistent manner and subject to enough testing and authorisation before implementation; and
  - Defined support arrangements are in place to manage changes within the system.
- 2.2. This report does not seek to provide assurance over, or a response to areas of concern highlighted by the Grant Thornton report.

### 3. Audit Opinion

**Substantial Assurance** is provided in respect of **SAP Application Controls (Follow-Up) 2019/20**. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

### 4. Basis of Opinion

- 4.1. We have been able to provide **Substantial Assurance** over the controls operating within the area under review because all but one of the agreed actions from the 2018 audit have been implemented.
- 4.2. We found that guidance in relation to access of restricted roles within SAP had been updated in line with current practices and had been made available to officers. Sample testing of requests to access these restricted roles found that in all cases evidence of approval had been obtained prior to access being given.
- 4.3. A process to monitor user access with stream leads had been re-implemented to ensure that access is being reviewed, particularly in the case of restricted roles.
- 4.4. The change request process for updates and developments within the SAP system, including roles and responsibilities, has now been fully updated and documented in line with current practices.
- 4.5. Processes have been implemented to undertake checks on the activity of members of the SAP Security team within the system.
- 4.6. The one outstanding action is in relation to the update of the template used to document change requests for updates and developments. Our review found that a new template had been designed but has yet to be fully implemented by the team.

**5. Action Summary**

5.1. There is one finding repeated in this report from the previous audit. In addition, there are no new findings.

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	0	N/A
Low	Represents good practice but its implementation is not fundamental to internal control	1	1
<b>Total number of agreed actions</b>		<b>1</b>	

6. Implementation Action Tracking from Previous Audit

Original Agreed Action	Original Risk Rating	Implementation Status	Revised Risk Rating
<p><b>Restricted Role Permissions</b></p> <p>A review to be undertaken of the specific instances highlighted within the audit report. Work to be undertaken to ensure that staff within the team are fully aware of the assignment of restricted roles within SAP</p>	Medium	Action Implemented	N/A
<p><b>User Access Review</b></p> <p>The process by which user access is monitored regularly, including potential conflicts, with stream leads will be reinstated with a process for monitoring the effectiveness of this activity introduced.</p>	Medium	Action Implemented	N/A
<p><b>System Administrator Checks</b></p> <p>A process will be implemented where members of the SAP Security team across Surrey and East Sussex will be tasked with reviewing each other's activity within SAP.</p>	Low	Action Implemented	N/A
<p><b>Change Request Process</b></p> <p>Work will be undertaken to ensure that the change request process will be fully documented.</p>	Medium	Action Implemented	N/A

<p><b>Documentation of Change Requests</b></p> <p>The template currently used to document changes within IT&amp;D is not always applicable for all changes made. Work will be undertaken to develop additional templates that will be more applicable to the process.</p>	<p>Low</p>	<p>Action Repeated</p>	<p>Low</p>
<p><b>Records of System Testing</b></p> <p>Discussion to be held with stream leads to make them aware of the importance of documenting the testing they undertake. A template is to be produced that can be used to record the results of specific tests.</p>	<p>Low</p>	<p>Action Implemented</p>	<p>N/A</p>

7. Detailed Findings and Agreed Actions

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>Documentation of Change Requests</b></p> <p>An improved template and process has been developed to help facilitate the change request process for system updates and developments within IT&amp;D. The template itself is robust, covering various sections of a change process including the requirement for the change, a technical walk-through and authorisation.</p> <p>However, this template and process has yet to be implemented by IT&amp;D. The original audit highlighted issues with the current process, where change requests were not being fully documented due to the template being used not being applicable for changes being made.</p>	<p>When auditable trails are not fully documented this reduces the ability to effectively scrutinise changes being made to the system.</p>	Low	<p>The template currently used to document changes within IT&amp;D is not always applicable for all changes made. Work will be undertaken to develop and implement a template more applicable to the process.</p>
<p><b>Responsible Officer:</b></p>		<p>Alex Rodrigues, Business Platform Support Team Leader</p>	<p><b>Target Implementation Date:</b></p>	<p>October 2019</p>

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# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

## Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

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## Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
To be agreed		
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
To be agreed.		
Training and Development		
Title of Training/Briefing	Detail	Date
To be agreed.		

Future Committee Agenda Items		Author
<b>13 September 2019</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer

SAP Access Controls	An update report on the oversight arrangements for SAP 'super users' following the management recommendation made by the External Auditors, Grant Thornton, in the Audit Findings report for 2018/19.	Ian Gutsell, Chief Finance Officer
External Auditor's report for 2018/19	An update on the work to finalise the Council's Statement of Accounts for the financial year 2018/19, following a request from the Council's External Auditors, Grant Thornton, for further information on future pension liabilities.	Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
<b>22 November 2019</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2018/19 and outturn for the first six months of 2019/20, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
<b>27 March 2020</b>		
External Audit Plan 2019/20	This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors

External Audit Plan for East Sussex Pension Fund 2019/20	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2020/21	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Cath Edwards, Service Improvement and Risk Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
<b>10 July 2020</b>		
Monitoring Officer's Annual Review of the Corporate Governance Framework	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2019/20	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress report – Quarter 4, 2019/20, (01/01/20 – 31/03/20).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor

Review of Annual Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Review of Annual Pension Fund Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2019/20 (01/01/20 – 31/03/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
<b>18 September 2020</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2020/21 (01/04/20 – 30/06/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2020/21 (01/04/20 – 30/06/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
<b>20 November 2020</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor

Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2019/20 and for outturn for the first six months of 2020/21, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer

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