

Report to: **Audit, Best Value and Community Services Scrutiny Committee**
Date: **8 November 2016**
By: **Chief Operating Officer, Business Services Department**
Title of report: **Internal Audit Progress Report – Quarter 2 (01/7/16 – 30/9/16)**
Purpose of report: **To provide Members with a summary of the key audit findings, progress on delivery of the audit plan and the performance of the internal audit service during Quarter 2.**

RECOMMENDATIONS

- 1. Members are recommended to consider and agree any action that should be taken in response to the issues raised in any of the audits carried out during Quarter 2;**
 - 2. Identify any new or emerging risks for consideration for inclusion in the internal audit plan.**
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1. Background

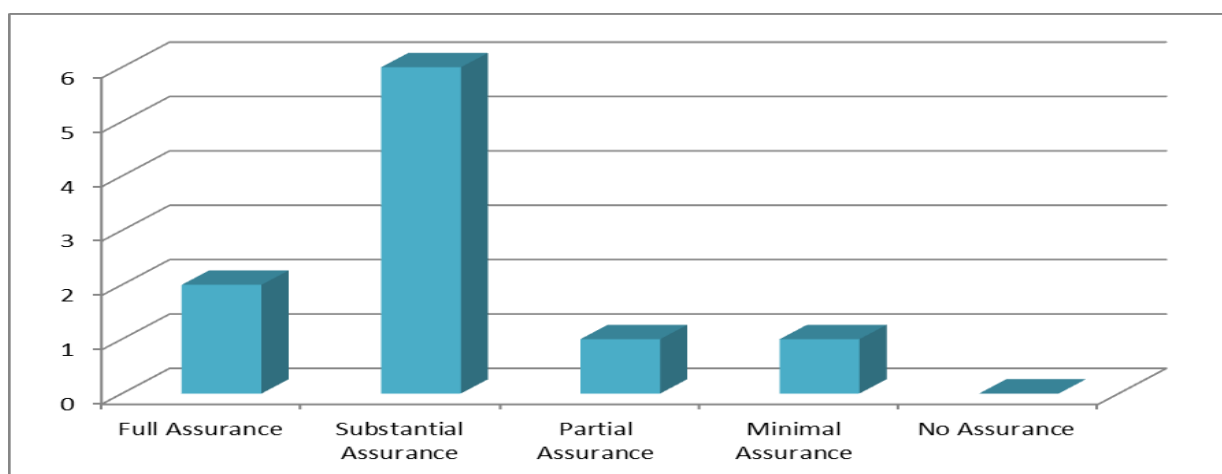
1.1 This progress report covers work completed between 1 July 2016 and 30 September 2016.

2. Supporting Information

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

3. Conclusion and Reasons for Recommendation

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



3.2 Overall, of the 10 formal audits completed where an audit opinion was provided, 2 received 'full assurance', 6 received 'substantial assurance', 1 received 'partial assurance' (relating to a school) and 1 (also a school) received 'minimal assurance'. There were no opinions of 'no assurance'.

3.3 Although the same range of internal audit opinions are issued for all audit assignments, it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Head of Assurance continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control.**

3.4 The overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to recommendations raised and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on by Internal Audit throughout the year.

3.5 Formal follow up reviews continue to be carried out for all audits where either 'minimal' or 'no' assurance opinions have been given and for all higher risk areas receiving 'partial' assurance. A schedule of all audits where future follow up reviews are planned is provided at the end of Appendix A, which will continue to be updated on an ongoing basis. In addition, arrangements are in place to monitor implementation of all individual high risk recommendations. At the time of writing this report, all high-risk recommendations due had been implemented.

3.6 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from the Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.

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

**KEVIN FOSTER,
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BACKGROUND DOCUMENTS:
Internal Audit Strategy and Annual Plan 2016-17

Summary of Key Audit Findings

Treasury Management

Treasury management is defined as the 'management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

This is an annual review carried out in order to test controls employed to ensure there is effective management of risk to East Sussex County Council (ESCC) financial assets. In addition to testing of transactions between the period of January to June 2016, the review sought to confirm implementation of audit recommendations arising from our previous audit.

Based on this work, we have been able to provide **full assurance** over the control environment with only two recommendations being made, both of which were considered to be low risk.

Pension Fund Governance and Investments

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all participating employers in East Sussex. The scheme provides retirement benefits for County Council employees and also for employees of Brighton & Hove City Council, the five boroughs and district councils in East Sussex, together with various other scheduled and admitted bodies.

Responsibility for the overall direction of the Fund's investment policy lies with the Pension Committee. The Pension Board is there to assist the scheme manager in securing compliance and providing assurance in the governance of the scheme administration. Day to day management of the investments has been delegated to external fund managers, who report to the Pension Committee quarterly on their activities.

The key control objectives of this review were to ensure that:

- All Pension Fund investments are completely, accurately and correctly recorded in the general ledger, including the proper segregation of ESCC and ESPF assets;
- Pension Fund and fund managers' performance are monitored, with appropriate action taken in the event of under-performance;
- All Pension Fund income is received promptly and completely;
- Risks to the availability, integrity and security of data are adequately managed;
- The Fund has a statement of objectives which is linked to measurable targets and performance indicators;
- Comprehensive risk management arrangements are in place for the Fund;
- The investment strategy is appropriate and strategy decisions are implemented correctly and in a timely manner.

Based on the work carried out, we were able to provide **full assurance** that controls are in place and operating effectively. Only three recommendations for improvement were made, including the need to:

- Ensure that statutory deadlines for distributing Annual Benefit Statements to active and deferred pension scheme members are met and that, where these are not, consider the action that needs to be taken to address this, including the reporting of breaches;

- Complete the development and publication of a Pension Administration Strategy in accordance with advised government good practice;
- Develop a customer satisfaction survey to allow participating Scheme members to feedback on the service received and to use this to inform future service provision.

An action plan covering the above areas was agreed in full with management.

Pensions – Altair Data Merge

The East Sussex Pension Fund, managed by ESCC, is administered using the Altair system. Orbis Business Operations identified a potential saving from moving the Altair system from an externally hosted environment to a shared environment at the Surrey County Council Data Centre. As a result, a decision was made to transfer the East Sussex database to the Surrey Data Centre and to merge to the two databases.

Due to the high number of scheme members and employers within the East Sussex Pension Fund, this represented a large and complex exercise with a number of risks to the successful migration of records.

The main purpose of our work, as agreed with management, was to provide assurance to the Pensions Programme Board that the risks associated with four key aspects of the merge were properly managed. The main focus areas were:

- Project Planning Arrangements;
- Data Quality and Migration;
- Testing Arrangements, and;
- System Security and Administration.

In completing this work, we raised a small number of issues for consideration by the Board where, due to the limited timescales available, we were unable to obtain confirmation prior to go-live. These included the need for the Board to seek the necessary assurances that:

- Appropriate contingencies are in place in the event of failure of the combined system;
- All user acceptance testing has been properly completed and adequate reassurance from the project team is obtained where this is not the case, and;
- User roles, which control the access to member data between East Sussex and Surrey pension funds, have been properly tested to ensure that data can only be accessed by authorised individuals.

A report outlining the above findings was issued to the Pensions Programme Board in order to inform their decision-making process. In all cases, this work will be followed up by Internal Audit as part of our Pension Fund Processes and Systems audit due to be undertaken later in the year.

HR/Payroll

HR/Payroll is one of the Council's core financial systems and as such is subject to at least key control testing every year. The main purpose of this audit has been to seek assurance that:

- The recruitment and selection process is fair, open and transparent, and in accordance with Council policy;
- All employees on the payroll system are valid employees of ESCC;
- Payments are made only for hours worked or allowable expenses;
- Gross payroll costs and material deductions are properly calculated and in accordance with approved pay rates or staff contracts;

- Payroll costs are properly accounted for in the main accounting system, and;
- Segregation of duties is in place between those making payments and those creating/amending payroll records.

Based on the work completed, we have been able to provide an opinion of **substantial assurance** over the control environment within the HR/Payroll system. Generally, the systems of control were found to be adequate and operating as intended. Some areas for further improvement were, however, identified, principally relating to:

- Implementing additional payroll exception reports to assist in identifying potential errors or omissions prior to payroll runs, and;
- Exploring opportunities for introducing validation checks on rates of overtime pay, and investigating instances of unusually high or excessive overtime hours for accuracy, validity and compliance with the Council's policy on Working Time Regulations.

All the recommendations arising from the audit have been agreed with management and will be followed up by Internal Audit as part of our 2017/18 review.

Cyber Security

Cyber security is associated with the techniques, processes and practices designed to protect a user's or organisation's cyber environment, including networks, devices, software and data, from attack, damage or unauthorised access. This is an area of growing importance due to the increasing reliance on computer systems and the internet, wireless networks, such as Bluetooth and Wi-Fi, and the growth of smart devices, including smartphones. Vulnerabilities in relation to cyber security include denial of service and direct access attacks, phishing and social engineering.

This review has therefore been carried out, as part of our 2016/17 audit plan, to evaluate the Council's cyber security management arrangements, particularly in relation to the adequacy and effectiveness of controls in place. The review has been undertaken by specialists from Mazars and has sought to assess alignment with the Her Majesty's Government 'Cyber Essentials Scheme' through examination of the following areas:

- Boundary firewalls and internet gateways;
- Secure configuration of systems;
- Access control;
- Malware protection;
- Patch management; and,
- Overall governance in relation to cyber security risk and mitigation.

In completing this work, an audit opinion of **substantial assurance** was provided. Overall, a robust framework of internal control in relation to cyber security was found, including:

- The existence of a mature Information Governance Framework;
- Appropriate independent annual effectiveness assessments of the Council's internet gateway and boundary firewall security solutions;
- Arrangements in place to take the necessary action where any security issues or concerns are identified in firewall security assessments reports;
- Secure configuration requirements are clearly documented and defined in the ICT Security and Safeguarding Policy;
- Clearly documented corporate password policy and access control requirements are in place and procedures exist to setup and decommission accounts; and,
- The Council's preferred anti-virus solution is deployed to all end user devices and anti-virus parameters are properly enabled.

Some recommendations for further improvement were, however, noted, including the need to:

- Enforce compliance with the ICT Security and Safeguarding policy in relation to privileged administrator accounts;
- Ensure any issues identified through patch management monitoring logs are addressed/appropriately mitigated to reduce the risk of system vulnerabilities being exploited;
- Consider enhancing security activity key performance indicators to improve governance monitoring over cyber security risks;
- Ensure the ICT Security and Safeguarding Policy is subject to regular review and update where appropriate, and;
- Consider, through a cost versus benefit exercise, obtaining accreditation to the Cyber Essentials Scheme to further promote general public confidence in the Council's security solution.

An action plan to address the issues above was developed and agreed in full with management.

Grants and Loans to External Partners/Bodies and Organisations

This review was undertaken to assess the robustness of controls in relation to the provision of grants and loans by the Council to external partners, bodies and organisations, where both financial and reputational risks exist. In completing this audit, we sought to identify all grants and loans made available by ESCC and to test a sample of these in order to appraise the control environment.

Our review identified the following main types of grants and loans provided by the Council:

- Commissioning grants (via the Commissioning Grants Prospectus);
- Grants and loans to businesses directly funded by ESCC (via the Economic Development Team);
- Grants to businesses via central government funding (via the Economic Development Team);
- Public health grants, and;
- Other grants via the Economic Development Fund.

Overall, we found that key controls were in place and being adhered to and were therefore able to provide an opinion of **substantial assurance**. Some opportunities for improvement were identified however, particularly relating to:

- Improving central record keeping of all grants provided by the Council;
- Ensuring that all of the required information is in place prior to release of grants and that there is always appropriate evidence in support of match funding, where this is a requirement;
- Strengthening monitoring arrangements over delivery partners to help ensure compliance with project specific conditions;
- Ensuring that funds advanced to delivery partners for loaning to businesses are held in a separate and designated bank account in accordance with formal agreements and that excessive balances are returned to ESCC on a regular basis.

All of the recommendations made as part of this review were agreed in full with management who are committed to ensuring that these are implemented.

Freedom of Information, Environmental Information Regulation and Data Protection Subject Access Requests

The Freedom of Information Act (FOIA) and the Environmental Information Regulations (EIR) aim to make it easier for anyone to access information on public authorities, including how they carry out their duties, why they make the decisions that they do and how they spend public money.

Subject to certain exemptions, the FOIA gives a general right of public access to all types of non-personal recorded information held by the ESCC. As well as requiring the Council to provide this information when the public request it, the Act also requires it to produce a publication scheme, which commits an Authority to make information available to the public as part of its normal business activities.

The EIR allow the public access to environmental information held by public authorities – for example, information about land development, pollution levels, energy production, and waste management.

Under the Data Protection Act (DP), and via a Subject Access Request (SAR), an individual may request from the Council any personal information they hold about them. Under certain circumstances, a request may be made on behalf of another. The provision of copies of any personal data held by ESCC is subject to certain exemptions.

The overall objectives of this audit were to ensure that:

- There is a publically available process by which individuals are able to make formal requests for information under FOI, EIR and DPA;
- The recording, maintaining and response to FOI, EIR and DP (subject access) requests are adequate and are dealt with in the required timescales;
- Adequate mechanisms are in place to record and report upon FOI, EIR and DP (subject access) requests, and;
- Adequate training and awareness is in place in relation to staff roles and responsibilities for FOI, EIR and DP (subject access) requests.

Overall, our review concluded that there are robust controls in place in relation to FOI, EIR and DP requests, particularly in relation to the initial recording of requests, clear reporting lines and management reporting. In addition, it was pleasing to note that guidance over the process for dealing with highways related requests had been issued to the new highways provider, Costain, by ESCC. We were therefore able to provide an audit opinion of **substantial assurance**.

Some minor opportunities for improvement were also recommended, including:

- Implementing a process of formal review where departments do not meet the internally agreed deadlines in respect of FOI requests;
- Reviewing the current system for collating specific information relating to requests, where currently this can sometimes be fragmented, resulting in cost, time and quality implications;
- Compiling regular statistics in relation to EIR and DP requests (as is already in place for FOI requests) to assist in identifying potential areas of concern and implementing corrective action;
- Implementing an efficient process to record and report on complaints received in respect of FOI, EIR and DP requests, and;
- Identifying training requirements for relevant staff.

A formal action plan, incorporating all the recommendations arising from our review (none of which were considered high risk) was agreed with management.

Cultural Compliance Reviews

We are continuing to deliver a programme of 'cultural compliance' reviews within different teams across the Council intended to provide assurance that services are delivered effectively and in compliance with appropriate Council policies and procedures. The reviews focus on the following areas:

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

One audit has been completed in quarter 2. This was within the Facilities Management Team (Business Services Department), the results of which are summarised below:

Facilities Management

The aim of this service is to provide the facilities management function to the Council's corporate and operational estate. This includes the Council's principal external facilities management contract and also subsidiary contracts. In addition, Facilities Management oversees services to schools and manages the ESCCape Canteen within County Hall.

Overall, we were able to provide an opinion of **substantial assurance**. We found that the service complies with the majority of Council policies, with only a small number of areas for improvement being identified, including the need to ensure:

- A formal contract is in place with the contractor responsible for the collection and disposal of ESCC's confidential waste;
- Adequate reconciliations take place in respect of income received within the ESCCape Canteen, and;
- All staff complete a declaration of interests.

Special Educational Needs and Disabilities (SEND) - Expenditure in Schools

Every school is required to identify and address the special educational needs (SEN) of the pupils that they support. All mainstream schools are provided with resources to support those with additional needs, including pupils with SEN and disabilities. Most of these resources are determined by the local funding formula.

Schools have an amount identified within their overall budget, called the notional SEND budget. This is not a ring-fenced amount, and it is for the school to provide appropriate support from the whole of its budget. Schools are expected to fund the first £6,000 of provision for any individual pupil out of their budget share. In addition to this, schools receive further funding in the form of high needs top-up for individual pupils where the nationally expected provision is deemed to be in excess of £6,000. The funding will vary depending on the specific needs of the pupil.

The main purpose of this audit was to review how SEND funding is used in schools and to ensure that it is fit for the purposes intended. In addition, as a result of an updated SEND Code of Practice being introduced in September 2014, we also reviewed some areas of compliance in relation to this to give assurance that schools are meeting their statutory requirements and further key areas of good practice.

In completing this work, we were able to provide an audit opinion of **substantial assurance**. In relation to the sample of schools visited (six primary and three secondary schools), we found that SEND funding is spent on those children for whom the funding is intended and there is general compliance with the SEND Code of Practice. Some specific areas of good practice were noted in individual schools and we have recommended that these are shared more widely.

A small number of opportunities for improvement were also identified, including the need, in some instances, for:

- Schools to ensure they publish a 'SEND Information' report on their websites in accordance with the statutory requirements of the Code of Practice;
- Special Educational Needs Coordinators (SENCO's) at schools to have greater involvement in the budget setting process in order to have more input into the deployment of SEND funding, in accordance with their key responsibilities;
- SENCO's to form part of school Senior Leadership Teams so that they can be more effective in their role in determining the strategic development of the SEND policy and provision within schools, and;
- Schools to implement mechanisms to better understand the cost of additional SEND provision, i.e. provision over and above that which is ordinarily available.

The recommendations arising from this review were agreed with Children's Services management who have committed to implement them by the end of 2016, through communication to schools in the form of further guidance and training.

Safeguarding in Children's Services

As part of our 2016/17 audit plan, we sought to undertake a short piece of work, in conjunction with colleagues from Children's Services, to help identify and map the various sources of assurance in relation to the safeguarding of children.

It is recognised that this is an area where there is already an extensive scrutiny and inspection regime in place, including from Ofsted, and therefore our work focussed on gaining a better understanding of the overall framework around safeguarding children, to help better inform our future risk assessment and audit planning. No specific findings or recommendations have been made as a result.

Individual School Audits

We are continuing our school work in two main areas:

- Audits in a sample of higher risks schools and follow-ups where poorer audit opinions have been given. The risk nature of these audits is assessed from a number of factors including the time since the last audit. This work is delivered by our own internal audit team, and;
- A wider programme of audits of randomly selected schools, delivered through Mazars Public Sector Internal Audit.

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

In quarter 2, two school audits were completed in-house, as follows (the next round of Mazar's school audits began in September 2016):

Higher Risk and Follow Up Audits (Delivered in House)	Location	Type	2016/17 Budget £'000	Opinion
Langney Primary School	Eastbourne	Community	£1,797	Minimal Assurance
Northiam C. E. Primary School – Follow up Review	Northiam	Voluntary Controlled	£413	Partial Assurance

Investigations

During the quarter, investigations into two pension related overpayments were undertaken jointly with Business Operations. These were identified through the National Fraud Initiative (NFI) data matching exercise, which highlighted that pension payments had continued to be made after the individuals concerned had died.

In both cases, pension payments were stopped and overpayments totalling £6,135 were recovered.

Additional Audit Reviews

Through discussions with management, the following reviews have been added to the audit plan during the course of the year on the basis of risk (see 3.6 above):

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

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

Audit Areas Scheduled for Future Follow Up

Audit Area	Original Audit Opinion	Date of Planned Follow Up
Compliance with Procurement Standing Orders	Partial Assurance	2016/17
Contract Management	Partial Assurance	2016/17
Pension Process and Systems	Partial Assurance	2016/17
Direct Payments	Partial Assurance	2016/17
Property Pre-Contract Checks	Partial Assurance	2016/17
Management of Staff Transfers and Leavers	Partial Assurance	2016/17
Microsites	Minimal Assurance	2016/17
Information and ICT E-Safety Controls in Schools	Partial Assurance	2016/17
Special Educational Needs and Disabilities (SEND)	Partial Assurance	2016/17
Western Road County Primary School	No Assurance	2016/17
Shinewater Primary School	Minimal Assurance	2016/17
Northiam CEP School	No Assurance	2016/17
Castledown Primary School	Minimal Assurance	2016/17
Sacred Heart Catholic Primary School	Minimal Assurance	2016/17
Parkside Primary School	Minimal Assurance	2016/17

Audit Area	Original Opinion	Audit	Date of Planned Follow Up
Langney Primary School	Minimal Assurance		2017/18
Northiam Primary School	Partial Assurance		2017/18

High Risk Recommendations Overdue

Action has been taken against all of the high risk recommendations due to be implemented.

Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance
Client Satisfaction					
Chief Officer/DMT	Consultation / Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through Chief Officer consultations in February / March 2015, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	A	86%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	G	Confirmed through ongoing liaison throughout the year and via approval of audit strategy and plan.
ABV&CSSC	Chairs Briefing and Formal Meetings	Quarterly / Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through annual review of effectiveness and feedback from committee as part of quarterly reporting.
Cost/Coverage					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools (to be reviewed for 2015/16)	Annual	1. Cost per Audit Day; 2. Cost per £m Turnover; equal to or below all authority benchmark average	G	Opportunities to improve benchmarking being explored. Last results available are for 2012, these show: 1. £316 against average of £325 2. £559 against average of £1,004
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	G	On-going via attendance at County Chief Auditors Network, Home Counties Audit Group and Sussex Audit Group.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of audit plan completed.	G	46.5%

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