

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

Date: **14 March 2017**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 3 (01/10/16 – 31/12/16)**

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 3.**

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 3;**
 - 2. Identify any new or emerging risks for consideration for inclusion in the internal audit plan.**
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1. Background

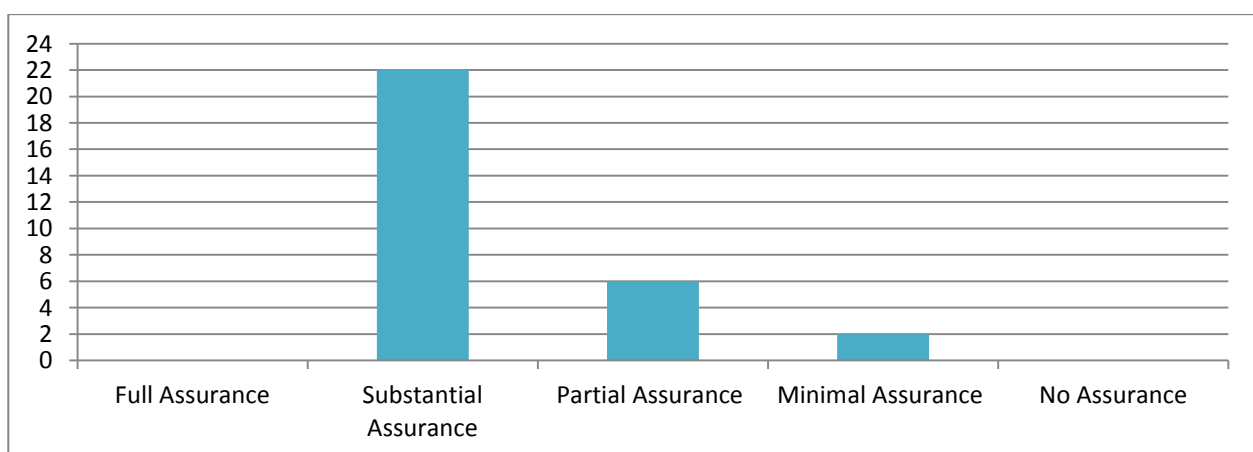
1.1 This progress report covers work completed between 1 October 2016 and 31 December 2016.

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 3 are summarised in Appendix 1.



3.2 Overall, of the 30 formal audits completed, 22 received 'substantial assurance' opinions (16 of which were schools), 6 received 'partial assurance' (5 of which were schools), and 2 received 'minimal assurance' (both of which were schools). This includes those school audits completed by Mazars (see 3.5 below). For the two schools that received an opinion of minimal assurance, we have obtained a commitment from management to address the required actions

as a priority and will be undertaking further follow-ups in due course to ensure that this takes place. 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 As explained in previous progress reports, work has been taking place to strengthen financial governance in schools, particularly through a new training programme for governors, headteachers and school business managers and the delivery of a wider programme of school audits. This additional audit work, delivered in conjunction with Mazars Public Sector Internal Audit Limited, is intended to assess financial governance in a much larger sample of schools, not just those deemed to be higher risk, as well as gauging the effectiveness of the new training programme. Details of the schools audits completed so far have been summarised within Appendix 1.

3.6 Formal follow up reviews continue to be carried out for all audits where either 'minimal' or 'no' assurance opinions have been given and for all higher risk areas receiving 'partial' assurance. A schedule of all audits where future follow up reviews are planned is provided at the end of Appendix 1, 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 (Appendix 2).

3.7 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from the Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix 1.

3.8 Progress against agreed performance targets (focussing on quality / customer satisfaction, compliance with professional standards, and cost / coverage) can be found in Appendix 3. All targets, with the exception of two amber scores relating to the percentage of the audit plan completed and client manager customer satisfaction, have been assessed as on target (green).

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BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2016-17

Summary of Key Audit Findings

Accounts Receivable 2016/17

The Accounts Receivable system is administered through SAP and is one of the Council's key financial systems. The control objectives of this audit were to ensure that:

- All income generating activities are identified and accurately invoiced to customers;
- All invoices are paid and the income is correctly identified and accounted for and reflected in the accounts;
- There are robust controls in place to minimise the extent of debt and provide for the prompt follow-up of overdue accounts;
- Write-offs, credit notes and refunds are valid and are properly authorised;
- There is adequate segregation of duties in the invoicing and receipting function;
- All payments received by credit card are managed in compliance with the Payment Card Industry (PCI) data security standards.

As a result of our work, we were able to provide an opinion of **substantial assurance** over the key controls in place. Whilst this was the case, our testing did identify some areas for improvement, including the need to strengthen control over SAP user access permissions and improving the monitoring of debt for commercial customers.

All recommendations arising from our review, none of which are of a high risk nature, have been agreed with management and will be followed up as part of future audits.

Review of ESCC Annual Governance Framework

This review sought to assess ESCC's current governance arrangements, in particular those set out within our Local Code of Corporate Governance, against the recently updated guidance from CIPFA on 'delivering good governance' in Local Government.

In summary, our review found a high level of consistency between the Council's existing arrangements and those recommended in the updated guidance. Some further additions to the core principles within our Local Code of Corporate Governance were recommended as part of the review and these have been agreed with management, who have drafted an updated Code due to be approved during the early part of 2017.

ICT Asset Management Follow-Up

In 2014/15, an audit of ICT asset management was carried out by specialist IT auditors from Mazars. The review sought to provide assurance over the following areas:

- IT asset management policy and strategy;
- Maintenance of IT asset registers;
- Security of hardware;
- Asset loss management procedures, and;
- Disposal procedures.

Whilst arrangements for security and disposal of hardware were found to be effective, improvements were required in a number of areas, resulting in an audit opinion of partial assurance.

A follow-up review has therefore been undertaken to assess the extent to which the previously agreed recommendations have been implemented. In completing this work, it was found that most actions had either been fully or partially implemented, resulting in an updated opinion of **substantial assurance**. A small number of lower risk issues remained and actions to address these were discussed and agreed with management.

CSD Personal Budgets

By March 2018, support for children and young people with Special Educational Needs (SEN) or disabilities will be replaced by Education, Health and Care (EHC) Plans and families will be offered personal budgets to fulfil these plans.

Personal budgets enable the council to share decisions about support with children and their families, with the belief that if people have more control of the resources available to them, they will find solutions and the support that best works for them. The main aim is on outcomes for young people and their budgets can therefore be spent on any service that achieves the outcomes specified in their support plans.

At the time of completing this audit, there were approximately 186 children in receipt of direct payments of which approximately 70 were on personal budgets. The remaining 116 are on the old style 'support packages', which must be converted into personal budgets by March 2018.

Our review focussed on the following control objectives:

- There are effective processes in place to ensure that personal budget applications, approvals, procurement of goods/services and ongoing monitoring are appropriate;
- Monies provided under the personal budget are being used for their intended purpose;
- Adequate controls exist, including ongoing monitoring, to ensure that clients in receipt of personal budgets are paid the correct amounts;
- Roles, responsibilities and accountabilities are clear within the direct payment process and that these processes are efficient.

Given the specialist skills and knowledge required by social workers and practitioners in this area, our audit work did not include a review of the eligibility criteria surrounding the need for support; instead we reviewed systems and controls in place from the assessment stage onwards.

Overall, based on the audit work carried out as part of this review, we were able to provide **substantial assurance** over the controls in place. In particular, we found that:

- For new cases, family assessments are completed at the initial referral stage;
- The level of social care funding available to a child is calculated in line with approved methodology;
- All proposed personal budgets are submitted to the Resource Review Panel for approval;
- On a monthly basis, Children's Services reconcile the actual level of payments made (per child) against the budgeted direct payment for each child.

Some opportunities to further improve controls were also agreed with management as part of a formal action plan, principally relating to monitoring potentially excessive account balances and ensuring all personal budget costs are identified accurately.

Looked After Children (LAC) Community Family Work Service – Cultural Compliance Review

As part of our programme of 'cultural compliance' audits within different teams across the Council, we reviewed the LAC Community Family Work Service during the last quarter, focussing on the following areas:

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

The LAC Community Family Work Service provides supervised contact for looked-after children and their families, non-LAC contact for children subject to safeguarding plans, Life Story Book work and reunification Family Support. The service sits under the wider Looked After Children's service that includes other services such as LAC Social Work Teams, Fostering, Adoption and Residential special placement etc. The service operates from three locations across the County at the Meeching Centre in Newhaven, Hailsham Resource Centre in Dunbar Drive and The Ridgeway in Hastings.

At the time of our audit, the service was working with a total of 191 families and 363 children. The service has 43 (34.89 FTE) staff and a further 13 'claims only' staff. It has an annual budget allocation of £1,056,300 for the financial year 2016/17, of which approximately 90% (£954k) relates to staffing costs.

As a result of our work, we were able to give an opinion of **substantial assurance** over the controls in place within the above team, with the service being found to be operating in compliance with the majority of Council policies that we covered during the audit.

Some opportunities for further improvement were, however, identified, primarily in relation to strengthening business risk management and ensuring that mandatory e-learning training is undertaken by all staff.

All recommendations arising from the review, none of which were high risk, have been agreed in full with management.

Troubled Families Programme

The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that commenced 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.

The DCLG require Internal Audit to review a proportion of claims being made as part of the TF2 programme. A representative sample of at least 10% of each claim is required to be reviewed and, therefore, audit testing of a sample of 18 families has been undertaken from the recent claim for 171 families. The control objectives of our review were as follows:

- Robust procedures are in place for the completion and approval of Troubled Families Claims;
- Robust procedures are in place for the creation and maintenance of evidence in support of troubled families claims;

- Appropriate roles and responsibilities for all parties involved are in place;
- Robust procedures are in place to facilitate the communication between the relevant departments/agencies involved.

Since our last audit review of the Troubled Families programme, improvements have been made in a number of areas where weaknesses had previously been found. As a result, we have now been able to provide an opinion of **substantial assurance**.

Of the sample of cases we reviewed, we found appropriate evidence that each of the families were eligible for the Troubled Families programme and that valid claims had been made. A small number of recommendations for further improvement were also identified and agreed with management, none of which were high risk.

Schools Themed Review of Federations and Partnerships

The main purpose of this audit was to review the governance arrangements associated with school partnerships and federations, collaborative agreements and inter-school traded services.

The following partnerships/ federations were visited as part of this review:

- The Woodlands Federation – Punnett's Town Community, Broad Oak Community and Dallington C.E. Primary Schools;
- The Pioneer Federation – East Hoathley C.E. and Chiddingly Primary Schools;
- St Thomas Becket C.E. Federation – Blackboys C.E. and Framfield C.E. Primary Schools;
- The Riverside Federation - Etchingham C.E. and Bodiam C.E. Primary Schools; and
- Plumpton, Hamsey Community and Barcombe C.E Primary School Partnership & Federation.

Our audit identified a number of areas of good practice, with governors and staff positively embracing working in partnership. Existing and newly recruited staff were attracted by the increased opportunity for career progression and benefitted from additional training and networking that could be provided in a cost effective way. Executive Headteachers, senior leaders and governors felt that this had improved the quality of governance and teaching in their schools. None the less, there were a number of aspects of the arrangements that we felt would benefit from more robust strategic leadership and planning and these weaknesses put some of the service objectives at risk. This resulted in an audit opinion of **partial assurance**.

The main area for improvement related to ensuring that a shared strategic vision for each partnership is developed and that these are supported by robust business plans to help ensure the benefits to all parties are realised. Opportunities for improved and better co-ordinated support to partnerships and federations from council departments were also identified.

All recommendations arising from the review were agreed with management from both the Standards and Learning Effectiveness Services and Finance and these will be subject to formal follow up by Internal Audit as part of our 2017/18 audit plan.

Trading Standards South East Ltd (TSSE)

Trading Standards South East Ltd (TSSE) is a partnership of 19 local authority Trading Standards services in the south east of England who work together in the pursuance of initiatives designed to protect consumers and safeguard businesses.

TSSE receive, administer and are accountable for grant funding in relation to a number of consumer related projects, including the National Scams Team (NST) which is hosted by East

Sussex Trading Standards Service. The NST was set up in 2012 to identify and support potential victims of mass marketing scams.

A grant award of £500k has recently been made by the Department for Culture, Media and Sport (DCMS) to the NST over a 2 year period to manage telephone scams through the National Call Blocking Project. Although grants to the NST have traditionally been paid direct to TSSE by the grant awarding body, the new £500k grant has been paid direct to ESCC which means that ESCC is ultimately accountable for how the money is spent.

This review has sought to provide assurance on the overall effectiveness of controls to properly account for grant funding awarded to ESCC. It identifies areas of concern or weakness where improvements can be made to ensure that grant funds are properly managed in order to reduce associated financial and reputational risks.

Based on the work carried out, we have been able to provide **substantial assurance** over the controls in place. A formal legal agreement is in place between ESCC and TSSE and this includes appropriate terms and conditions relating to use of the grant, accounting, monitoring and reporting.

As part of the review, we took the opportunity to examine payment controls within TSSE and found some opportunities for these to be strengthened. We also identified one issue relating to the accounting for income between TSSE and ESCC and have agreed an appropriate action with management to resolve this. None of these issues are considered to be of a high risk nature.

DfT Incentive Fund Self-Assessment

In December 2014, the Department for Transport (DfT) announced that £6 billion would be made available between 2014/15 and 2020/21 for local highways maintenance capital funding. Of this, £578 million has been set aside for an incentive fund scheme. This will be used to reward councils who, through evidence, can demonstrate that they are working towards best practice transport asset management and delivering works programmes that deliver value for money.

During 2016/17, only authorities in Bands 2 and 3 received their full share, whilst authorities in Band 1 received 90% of their share. The percentages for Bands 1 and 2 decrease in each subsequent year, with only authorities in Band 3 being awarded their full share of the funding up to 2020/21.

In order for a Band score to be ascertained, each authority needs to complete a self-assessment consisting of 22 questions. These are divided into the following sections:

- Asset Management;
- Resilience;
- Customer;
- Benchmarking and Efficiency;
- Operational Delivery.

For 2017/18, ESCC intend to achieve Band 3 status and therefore seek to receive 100% of their Band 3 incentive fund allocation (£885k). However, the DfT plans to undertake some audits/spot checks to verify that authorities are able to substantiate their answers within the above self-assessment. Should the DfT not be satisfied that the evidence provided meets the requirements for a particular level, further evidence may be requested and the authority's score could be revised.

We were asked by the Highways Team to provide an independent view as to the adequacy and completeness of evidence collated to achieve Band 3 status. Whilst we were not able to comment on any technical aspects of the DfT questions or associated ESCC responses, due to

the technical knowledge required, we agreed to undertake a sample-based review of 5 of the 22 questions, focussing on those questions considered to be of major importance.

Our work incorporated raising a number of queries during the review and liaison with relevant staff, during which we identified some areas where responses or supporting evidence could be further strengthened to help avoid any subsequent challenge from the DfT. These have been communicated to the Highways Team in the form of a report for consideration and action where appropriate.

Chailey School – Internal Control Report

Following completion of an investigation relating to the loss of income from Chailey School during the summer (see details below under 'Investigations'), we issued an internal control report during quarter 3 highlighting a number of control weaknesses which together, may have contributed to the subsequent loss of income.

These related primarily to strengthening segregation of duties over income, introducing reconciliation controls and improving general security over cash. All recommendations made in our report have been implemented by the school with immediate effect.

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 3, 4 school audits were completed in-house, as follows:

Higher Risk and Follow Up Audits (Delivered in House)	Location	Type	2016/17 Budget £'000	Opinion
Castledown Primary School and Nursery (Follow-Up)	Hastings	Community School	1,658	Substantial Assurance
Western Road Community Primary School (Follow-Up)	Lewes	Voluntary Controlled	759	Partial Assurance
St Thomas a Beckett Junior School (Follow-Up)	Eastbourne	Voluntary Aided	927	Partial Assurance
Peacehaven Community School	Peacehaven	Foundation School	5,678	Minimal Assurance

The following 19 school audits have been completed by Mazars:

Randomly selected Primary Schools	Location	Type	2016/17 Budget £'000 (excl over/under spend)	Opinion
St Pancras Catholic Primary School	Lewes	Voluntary Aided School	503	Substantial Assurance
East Hoathly CofE Primary School	East Hoathly	Voluntary Controlled School	451	Substantial Assurance
Pashley Down Infant School	Eastbourne	Community School	984	Substantial Assurance
Sandown Primary School	Hastings	Community School	1,695	Substantial Assurance
The Haven Voluntary Aided CofE/Methodist Primary School	Eastbourne	Voluntary Aided School	1,426	Substantial Assurance
Rotherfield Primary School	Rotherfield	Community School	649	Substantial Assurance
Punnetts Town Community Primary School	Eastbourne	Community School	446	Substantial Assurance
St John's Meads Church of England Primary School	Eastbourne	Voluntary Aided School	771	Substantial Assurance
Chiddingly Primary School	Chiddingly	Community School	411	Substantial Assurance
Crowhurst CofE Primary School	Battle	Voluntary Controlled School	476	Substantial Assurance
Fletching Church of England Primary School	Uckfield	Voluntary Controlled School	410	Substantial Assurance
Ninfield Church of England Primary School	Ninfield	Voluntary Controlled School	625	Substantial Assurance
Stone Cross School	Pevensey	Community School	1,415	Substantial Assurance
Hellingly Community Primary School	Hellingly	Community School	853	Substantial Assurance
Burwash CofE School	Burwash	Voluntary Controlled School	648	Substantial Assurance
St Michael's Primary School	Withyham	Community School	435	Partial Assurance
Ashdown Primary School	Crowborough	Community School	1,594	Partial Assurance
Anney Catholic Primary School	Seaford	Voluntary Aided School	765	Partial Assurance
Harbour Primary and	Newhaven	Community	1,700	Minimal Assurance

Randomly selected Primary Schools	Location	Type	2016/17 Budget £'000 (excl over/under spend)	Opinion
Nursery School		School		

Actions have been agreed to manage the risks associated with any finding identified at each school and follow up reviews will be carried out at all those with opinions below partial assurance.

Investigations

During the summer of 2016, Internal Audit received a report relating to missing income from one of the County's secondary schools. An extensive investigation was subsequently undertaken which established that a total of £3,633 was unaccounted for, primarily relating to income for school trips and other activities.

Our investigation, involving detailed analysis of school records and interviews with relevant staff, found evidence that the funds had been received by the school, and subsequently lost, over a twelve month period. Whilst it was not possible to prove 'beyond reasonable doubt' who was responsible for taking the funds, it was clear that one member of staff in the school was directly responsible for receiving, accounting for and banking the income over the period concerned. Consequently, disciplinary action has been taken against this individual who has subsequently been dismissed from the school.

Additional Audit Reviews

Through discussions with management, the following reviews have been added to the audit plan during the course of the year on the basis of risk (see 3.7 above):

- 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
- Property Works – Pre Contract Checking Arrangements
- Accounts Payable Data Analysis
- SAP Development Advice
- ICT Email Fraud Risk
- Homecare Process
- Annual Governance Framework
- ASC Procurement
- Highways Contract – Insurance Lessons Learnt
- Highways DfT Incentive Fund
- Proactive Ant-Fraud Income Assessment

In agreement with management, the following audits have been removed from the 2016/17 audit plan and will be considered for inclusion in the 2017/18 plan as part of the overall risk assessment completed during the annual planning process:

- ICT Project Management
- Legal Case Management System

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
Special Educational Needs and Disabilities (SEND)	Partial Assurance	2016/17
Shinewater Primary School	Minimal Assurance	2016/17
Ocklynge Junior School	Minimal Assurance	2016/17
Langney Primary School	Minimal Assurance	2017/18
Peacehaven Community School	Minimal Assurance	2017/18
Harbour Primary and Nursery School	Minimal Assurance	2017/18
Schools Federations and Partnerships	Partial Assurance	2017/18
Information and ICT E-Safety Controls in Schools	Partial Assurance	2017/18

Appendix 2

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	88.2%
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.	A	62.5% against a quarter 3 target of 67.5%

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.