

Summary of Key Audit Findings for Quarter 4 2016/17

Orbis Integrated Budget

The Orbis Partnership is responsible for delivering services from a joint operating budget, which is currently shared by East Sussex County Council (ESCC) and Surrey County Council (SCC) in accordance with an Inter-Authority Agreement (IAA).

An Orbis Joint Committee (OJC), comprising members from both authorities, has been established to oversee the delivery of the services delivered jointly through the Orbis Partnership. The IAA details the responsibilities of the OJC in respect of the Joint Operating Budget and specifies the services included in the Partnership. The Joint Operating Budget must be managed effectively to ensure it is delivered in line with both Councils' expectations and to ensure that its benefits are fully realised.

The gross Orbis Joint Operating Budget for 2016/17 is £62.6m. Income is budgeted at £9.5m, leaving a net budget of £53.1m. This was approved by ESCC full Council on 9 February 2016 and SCC Cabinet on 22 March 2016. SCC and ESCC contribute to the net budget in the ratio of 70:30. This is known as the Agreed Contribution Ratio (ACR).

Included within scope of this audit were the following areas:

- Governance;
- Roles and responsibilities;
- Rules and regulations;
- Risk management;
- Reporting;
- Costing;
- Agreed contribution ration, and;
- VAT.

In concluding our work, we were able to give an audit opinion of **substantial assurance**. This was because:

- Members and officers have undertaken a large amount of work to ensure governance structures are in place to manage not just the joint budget, but the services it is used to deliver. The IAA has brought a formal, legal framework to the governance arrangements. The approach, whereby the costs and income are apportioned on a fixed, though reviewable, basis, allows management to concentrate on the provision of services whilst continuing to manage the Orbis budget;
- The operating costs of Orbis have been identified;
- Responsibilities for managing the Orbis budget are clear;
- Timely budget reporting is in place;
- Risk management arrangements have been established for both the Orbis budget and programme.

Some opportunities for improvement were, however, identified, including the need to:

- Ensure there are equal numbers of ESCC and SCC Members at meetings of the Orbis Joint Committee to ensure fairness in decisions made;
- Establish a detailed Orbis budget development plan which sets out objectives and milestones/dates;

- Implement a mechanism to measure the level of service provided to the constituent authorities which, in turn, will increase opportunities to demonstrate value for money being delivered to each sovereign authority.

In completing this review, we were aware that certain aspects of the Orbis Joint Operating Budget were still being developed. In acknowledgement of this, we provided an appendix to our report that highlighted areas of continued development and our view of the risks associated with these, for management consideration and action where appropriate. In addition, we also acknowledged that the recent decision for Brighton and Hove City Council to join Orbis would have a further significant impact on the integrated budget.

The findings of our review were reported to the Orbis Leadership Team and a comprehensive set of actions were agreed to mitigate the risks identified.

Procure to Pay

Procure to Pay is the end to end process from procurement of services to the payment of the supplier. The central Accounts Payable (AP) Team is responsible for the processing of payments to suppliers using the AP system which is sub-module within SAP, the Council's main financial system. The Procurement Team manages the creation of new suppliers, the creation of purchase orders and goods receipting.

The key control objectives of this review were as follows:

- Only authorised staff can commit the organisation to expenditure by approving orders for goods, works or services, or by using purchase cards;
- Purchase orders are raised only with valid suppliers;
- Invoices are only processed against approved goods receipt notes or with appropriate authorisation to evidence the accuracy and validity of the invoice;
- There is adequate segregation of duties between the creation and maintenance of vendor master records, and the ordering and payment functions;
- All commitments, liabilities and payments are captured and accurately coded, and;
- Commitments and liabilities are fully satisfied within time limits agreed.

Based on the audit work carried out, we were able to provide an audit opinion of **substantial assurance** in this area, with a number of areas of good practice being identified. Only a small number of opportunities for improvement were found, none of which were considered to be of a high risk nature.

Pension Fund - External Control Assurance

There are currently eleven different fund managers who invest on behalf of the East Sussex Pension Fund. The Fund was last valued by the Council's actuaries at 31 March 2013 with assets of £3,344M and liabilities of £2,885M, representing a funding level of 82.1%.

The main purpose of this audit was to ensure that adequate internal controls and assurance is provided over fund manager systems through statutory reporting from the relevant investment managers, custodians and property managers.

Based on the work carried out, we were able to provide **full assurance** over the control environment in this area. We found that:

- Controls are in place to ensure external assurance reports are provided by fund managers in a timely manner. Action is taken where reports are overdue;

- All external assurance reports had been produced by an appropriate organisation, who we consider to have the necessary qualifications to conduct this type of work;
- Evidence confirms the external assurance reports have been reviewed by an appropriate ESCC officer. Any exceptions noted within the reports are considered in terms of the potential impact they may have on the Pension Fund.

No control weaknesses or opportunities for improvement were identified.

Procurement Standing Orders

Procurement Standing Orders (PSO) set out how ESCC authorises and manages expenditure. They provide a framework to ensure that ESCC obtains value for money and complies with legislation relating to public expenditure. New PSO were introduced in 2016. They represented a complete re-write of their predecessors (Contract Standing Orders) with the aim being to unify (as far as possible) procurement practice across East Sussex and Surrey County Councils.

Our review covered compliance with PSO, the procurement decision-making process and the management of conflicts of interests in this area. Also, that contracts are in place to support major expenditure. Our work involved testing a sample of recent procurement exercises that have been completed since the launch of the revised PSO (i.e. after April 2016). We also assessed the implementation of agreed actions following the previous audit of Contract Standing Orders (undertaken in 2015/16) which received an audit opinion of partial assurance.

Based on the work that we completed, we have again had to provide a **partial assurance** audit opinion. This is as a result of improvements being required in a number of areas, including the need to:

- Aggregate expenditure with individual suppliers to help ensure value for money and compliance with PSO and EU procurement thresholds;
- Increase clarity over the circumstances when waivers to PSO need to be obtained;
- Strengthen the waiver approval process by including information on the supplier's history (e.g. previous waivers and the overall level of spend) etc.;
- Ensure that officers involved in procurement activity have completed a declaration of interest and that, where positive declarations are made, adequate arrangements are put in place to manage these.

It was pleasing to note, however, that the majority of actions from the previous audit had been implemented.

Appropriate action to address all of the findings of this audit has been agreed with management within a formal action plan. We will complete a follow-up of this review later in 2017/18 to assess the progress made.

Online Travel Solution

During the quarter, we have advised on risks and controls in relation to the project to change the ESCC travel and expense claims process to an electronic, spreadsheet based system. The project is currently at the pilot stage, with only Orbis teams at ESCC having access to the new system as part of a controlled group of users. The intention is to expand this pilot further to Children's Services staff and then onto the remainder of staff within the authority once an agreed system with relevant controls is in place. There is also a planned development of an 'App' to further modernise the system.

Our review focussed on the following key areas:

- Adequacy of controls in place for the revised online travel/expense claims system;
- System security and administration;
- Compliance with regulations, and;
- Usability of the process.

In undertaking this work, we identified a number of opportunities for further improvement in control, including ensuring that:

- Only authorised officers/managers can approve claims;
- Exception reporting is in place to help prevent or detect erroneous or fraudulent claims;
- The reasons for journeys made is clearly recorded;
- Automation is increased, reducing the need for manual intervention;
- Personal and sensitive data is adequately protected;
- The requirements of HMRC are complied with, particularly in relation to the submission and retention of receipts.

We reported the above issues to senior management and it has been agreed that, until such time that the above issues are addressed, no further roll-out of the new system would take place. Consequently, we continue to work with the project team to provide advice and support as the developments progress.

Cloud Computing

Cloud computing is the practice of using a network of remote servers hosted on the internet to store, manage and process data, rather than a local server or personal computer. The National Institute of Standards and Technology and the Cloud Security Alliance define cloud computing as a 'model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g. networks, servers, storage, applications and services) that can be provisioned and released with minimal management effort or service provider interactions'.

This review was therefore carried out, as part of our 2016/17 audit plan, to evaluate the Council's arrangements in relation to cloud computing, particularly in relation to the adequacy and effectiveness of controls in place in the following areas:

- Cloud governance and risk management;
- Contractual compliance and key performance indicator monitoring;
- Change management, and;
- Cloud computing security controls.

The audit was undertaken by specialists from Mazars who, in noting that only very limited use is currently made of cloud computing within the Council (which therefore limits the Council's risk exposure), were able to provide an audit opinion of **substantial assurance**. The overall management of current cloud computing activity within ESCC was found to be adequate with a robust framework of control in place, providing a sound basis for future activity. It was, however, noted that management would want to ensure this framework remains sufficient should cloud usage within the Council significantly increase.

Only one potential area for improvement was identified, relating to the use of advanced security management tools to maximise the full potential of available cloud security options and to assist in detecting data security breaches.

East Sussex Learning Portal

The East Sussex Learning Portal (ESLP) is a web based self-service system for booking online training. In early 2016, a project was initiated to introduce a system for making online payments in respect of training courses, as opposed to payments by cheque. The original intention was for the payments system to fully integrate with the Council's SAP system; however, for ease of implementation, and due to the relatively low volume of transactions involved, a decision was taken by the project to adopt a manual process for updating SAP.

Our work in this area involved assessing the adequacy of controls in relation to the online payments system, prior to its full implementation in March 2017. This included a review of the reconciliation process for ensuring that funds are received into the Council's bank account and accounted for correctly.

Overall, we considered controls within the payments system to be robust. Only one opportunity for improvement was identified, relating to the refund process and the need to complete a monthly reconciliation to ensure that amounts refunded are accurately reflected within the ESLP and SAP.

In completing this work, we also observed the security risk assessment of the ESLP system undertaken by the Information Technology and Digital Services (IT&D) division, which identified a number of security issues. We noted that adequate resolution of key risks had taken place and that areas of lower risk would be resolved over time. This was signed-off by senior management prior to implementation.

A formal audit of the online payments system in 2017/18 will be undertaken to assess the effectiveness of controls in operation.

East Sussex Better Together (ESBT) Programme Management

The aim of ESBT is to develop a coordinated local health and social care system that ensures patients receive proactive, joined-up care, supporting them to live as independently as possible and achieving the best outcomes. A 150-week transformation plan has been developed to integrate health and social care system in East Sussex by 2018. The programme started in August 2014 and is led by two local NHS clinical commissioning groups (Eastbourne, Hailsham and Seaford CCG and Hastings and Rother CCG), East Sussex Healthcare NHS Trust, Sussex Partnership Foundation NHS Trust, and East Sussex County Council. The 3 commissioning organisations (CCGs and ESCC) have a combined annual budget of £850 million to commission health and social care services.

The purpose of our work in this area was to assess the overall effectiveness of controls in place for managing the delivery of the ESBT programme. We reviewed programme objectives, monitoring of progress against these and the management of associated risk. We also reviewed a sample of individual workstreams within the programme in order to assess how these were being managed. This followed our previous audit of ESBT (completed in 2015) that focussed on governance, risk management and management of the pooled Better Care Fund. We therefore took the opportunity to review the implementation of all previously agreed recommendations.

Overall, we found a number of areas of good practice in relation to the management of the ESBT programme and, based on the work carried out, were able to provide an audit opinion of **substantial assurance**. Areas of good practice included:

- The establishment of clear programme and workstream objectives, delivery plans and milestones;

- Strong oversight and monitoring by the Programme Board;
- The replication of key programme-level governance controls at workstream level;
- Representation of the Council at Board level;
- Effective risk management arrangements, and;
- The establishment and monitoring of performance indicators for measuring the impact of the programme on services and people's health outcomes.

In undertaking this review, we identified a small number of areas where arrangements could be further improved. These included:

- Introducing further controls to manage conflict of interest and safeguard the impartiality and integrity of future procurement exercises, especially where care providers are members of the ESBT Programme Board and involved in discussions and decisions about service re-design;
- Ensuring patients and/or service users are represented on the Programme Board and workstream steering/working groups, and;
- Reporting the minutes of the ESBT Programme Board to ESCC Cabinet as required in the Section 75 Agreement, which outlines the responsibilities for administering the pooled budget.

The findings of the review were discussed with management and actions to address these were agreed, together with appropriate timescales for implementation. Our assurance work on both ESBT and the Connecting4You Programme will continue in 2017/18.

Adult Social Care Financial Assessments

In order to ascertain an Adult Social Care service user's required contribution (if any) to their package of care, a financial assessment is required to be undertaken. These vary from an actual visit to the service user or a light touch (telephone) financial assessment.

As part of our pro-active counter fraud work, we completed a review of the processes for conducting financial assessments within ESCC. The main aim of the review was to assess the processes and procedures in place within the Income Assessment Team (the team responsible for assessing, and reassessing, the income contribution payable by adults both entering, and already in, ESCC care) so as to ensure that the financial position declared by the service user is a true and accurate record. In addition, we also attempted to ascertain if all reasonable opportunities were being utilised to confirm the accuracy of the claimant's finances using other information, internally and externally.

Our review focussed on the following five areas:

- That the process for undertaking financial assessments is robust, with all relevant and reasonable opportunities taken to confirm the accuracy of the financial information provided;
- Additional sources of information to confirm the accuracy of the financial assessment are obtained where reasonable and relevant;
- Best practice within other local authorities is obtained and implemented;
- Where there are suspicions that the individual being assessed is not providing an accurate position, these suspicions are recorded and dealt with appropriately, and;
- There are robust processes over the reporting and management of any whistleblowing information.

Overall, we found an effective process in place for undertaking financial assessments and that the information (internal and external) necessary to perform these is identified and available. Our work did highlight some potential opportunities for improvement, however, and these were shared with management for consideration and action where deemed appropriate. These included:

- The development of management reports to identify delays between the package of care commencing and the financial assessment being undertaken (where delays can result in ESCC being unable to claim back contributions from service users);
- Using individual's tax returns (where applicable) as an additional source of financial information;
- Researching the individual's name or company on Companies House to ascertain if the service user is still in receipt of a salary or dividend, and;
- Maintaining a central register of deprivation of asset cases (where service users are suspected of withholding information in order to limit their contribution to care) that have been referred to the ESCC Legal Team so that these can be monitored.

These areas were discussed with management and actions for improvement agreed. Further work in this area will be carried out as part of the 2017/18 Internal Audit plan.

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 Department of Communities and Local Government (DCLG) require Internal Audit to verify a proportion (10%) of claims prior to a grant submission by the Local Authority for the TF2 programme. We therefore reviewed 16 of the 161 families included in the February/March 2017 grant.

In completing this work, we found that valid claims had been made. All of the families in the sample of claims reviewed had 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.

Highways Lessons Learned

Following the award of the new Highways contract with effect from May 2016, ongoing issues were identified relating to the delayed admission of the new contractor to the East Sussex Pension Fund, principally as a result of the absence of a bond to provide protection against future redundancy risks.

Whilst management action was being taken to resolve the issue as a matter of priority, it was agreed that Internal Audit would conduct a brief lessons learned exercise, intended to establish the specific circumstances leading to this issue and whether any additional measures can be put in place to help avoid repetition.

The objectives of this review were to:

- establish the circumstances leading up to the identification of this pensions issue and also the action that has been taken upon discovery;
- identify the management controls to ensure that all appropriate contractual arrangements are in place and are complied with at the commencement of the contract, and;
- recommend any further controls that could be implemented to help prevent future repetition and, where necessary, to ensure any issues are dealt with promptly and effectively.

Our work found that the issues identified resulted not from any single cause within the Council, but from the cumulative effect of a wide range of factors. These included an insufficient understanding of the complex pension issues involved in the TUPE transfer of staff and a lack of understanding of the roles and responsibilities of the various teams involved in this project, especially the East Sussex Pension Fund Team (which represents the Pension Fund rather than the County Council).

In finalising our report, a number of actions were identified and agreed with management including:

- development of clear policies and guidance documents covering roles and responsibilities for major procurement activities involving TUPE transfers;
- improving communication and engagement between stakeholders on complex projects;
- reviewing the technical expertise available to support major procurement activities involved TUPE transfer and ensuring that this is fully engaged when dealing with projects involving TUPE transfers;
- strengthening tender documentation to ensure all the necessary information is provided by contractors to enable effective TUPE transfers;
- ensuring all pension related risks are properly identified and assessed as part of major procurement projects.

During the period of our review, all pension issues associated with the highways contract had been resolved.

Community Infrastructure Levy – Position Statement

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008, as a tool for local authorities in England and Wales to help deliver infrastructure to unlock new development in the respective local plan area.

In England, levy charging authorities are district and metropolitan district councils, borough councils, unitary authorities, national park authorities, The Broads Authority, Mayoral Development Corporations and the Mayor of London. The CIL regulations, which govern what the CIL can be spent on, requires charging authorities to set out a list (Local Plans) of projects or types of infrastructure that it intends to fund, or may fund, through the levy.

ESCC is not a charging authority but can apply for CIL funding from the CIL charging authorities to secure monies to deliver Council infrastructure required to support the housing and employment growth identified in their Local Plans. Each charging authority has, and manages its own, bidding and governance processes.

There are a number of risks associated with CIL, not least in relation to the potential not to identify, bid for and secure CIL funding, therefore impacting on the Council's ability to deliver the infrastructure projects/schemes it needs to support and sustain growth.

The scope of our work in this area was to provide an audit position statement examining the ESCC preparations for CIL, including the provision of advice and guidance on key risk and control areas that management would want to monitor and consider in preparation for applying for CIL funding.

In completing this work, it was clear that there is already a breadth of knowledge in relation to CIL and its associated risks. Management had already considered and implemented a number of measures to help ensure risks are appropriately managed, and we were able to provide further advice in this area. We will undertake additional work on CIL once it has become more embedded to ensure that controls are operating as intended and that risks to ESCC are being appropriately managed.

Individual School Audits

We are continuing our schools work in two main areas:

- Audits in a sample of higher risk schools and follow-ups where poorer audit opinions have been given. 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 school work is to assess financial governance in more schools, not just those deemed to be higher risk, and to gauge the effectiveness of a training programme delivered to governors, headteachers and school business managers. A summary of the results of opinions arising from this work in the final quarter of 2016/17 is set out in the following tables:

Higher Risk and Follow Up Audits (Delivered in house)	Location	Type	2016/17 Budget £'000	Opinion
St Marks C.E. Primary School, (Follow up)	Uckfield	Voluntary Aided School	392	Substantial Assurance
Ocklynge Junior School (Follow up)	Eastbourne	Community School	2,719	Substantial Assurance
Parkside Primary School (Follow up)	Heathfield	Community School	705	Substantial Assurance
Priory School	Lewes	Foundation School	5,411	Substantial Assurance
Sacred Heart Catholic Primary School (Follow up)	Hastings	Voluntary Aided School	808	Partial Assurance
Randomly Selected Audits (Delivered by Mazars)	Location	Type	2016/17 Budget £'000	Opinion
Ticehurst and Flimwell CEP School	Wadhurst	Voluntary Controlled School	547	Substantial Assurance
Blackboys CE Primary School	Uckfield	Voluntary Aided School	454	Substantial Assurance
Framfield CE Primary School	Uckfield	Voluntary Aided School	444	Substantial Assurance

St Michael's CE Primary School, Playden	Rye	Voluntary Controlled School	435	Substantial Assurance
Herstmonceux CE Primary School	Hailsham	Voluntary Controlled School	776	Substantial Assurance
St John's CE Primary School	Crowborough	Voluntary Aided School	731	Substantial Assurance
Icklesham CE Primary School	Winchelsea	Voluntary Controlled School	507	Substantial Assurance
Beckley CE Primary School	Rye	Voluntary Controlled School	448	Substantial Assurance
Netherfield CE Primary School	Battle	Voluntary Controlled School	575	Substantial Assurance
Peacehaven Heights Primary School	Peacehaven	Community School	2,052	Substantial Assurance
Firle CE Primary School	Lewes	Voluntary Controlled School	420	Partial Assurance
Chailey St Peter's CE Primary School	Chailey	Voluntary Controlled School	517	Partial Assurance
Groombridge St Thomas CE Primary School	Groombridge	Voluntary Aided School	727	Partial Assurance
Bourne Primary School	Eastbourne	Community School	1,588	Partial Assurance
St Mary the Virgin CE Primary School	Hartfield	Voluntary Aided School	389	Minimal Assurance
Staplecross Methodist Primary School	Robertsbridge	Voluntary Controlled School	418	Minimal Assurance

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:

- Annual Governance Framework
- East Sussex Learning Portal
- National Fraud Initiative - Pension Investigations
- Pensions Process Integration and Altair System Merge
- On-line Staff Claims System
- Property Works – Pre Contract Checking Arrangements
- Accounts Payable Data Analysis
- SAP Development Advice
- ICT Email Fraud Risk
- ICT Asset Management Follow-Up

- Homecare Process
- ASC Procurement
- Proactive Anti-Fraud Income Assessments (Financial Assessments)
- Highways DfT Incentive Fund
- Highways Contract – Lessons Learnt
- Broadband Annual Return to BDUK

The following audits, originally scheduled for 2016/17, have been removed from the plan, primarily because they are either project work which has not progressed sufficiently, or to allow resources to be focussed on emerging higher risk areas and unplanned investigations. Where appropriate, the work has been rescheduled for delivery within the 2017/18 audit plan. In all cases, these changes have been agreed with both the Chief Finance Officer and senior departmental managers:

- ICT Project Management
- ICT Orbis
- Legal Case Management System
- Capital
- Commissioning Arrangements
- Highways Contract Management