

Appendix 1

Summary of Key Audit Findings

Recruitment and Induction

An effective recruitment, selection and induction process helps to ensure that staff have the necessary knowledge, skills and experience to fulfil their responsibilities and achieve their objectives. Recruiting managers are expected to ensure that they induct and develop employees throughout their time with the Council. A formal induction period is three months, during which the new appointee should receive a formal introduction to the relevant department, their work and the various policies and procedures applicable to them.

The scope of the audit was to ensure that:

- The recruitment and selection process is fair, open, and transparent and in accordance with Council policy and business need;
- All relevant pre-employment checks are completed for all new starters, and;
- New staff (or existing staff new to their role) are introduced to the Council (or new role) effectively so as to become productive and efficient employees.

Based on the work carried out, we were able to provide an opinion of **reasonable assurance** over the controls in place. In particular, we found that:

- Policies and procedures have been developed to govern the manner in which staff are recruited, selected and inducted;
- Appropriate authority is obtained to recruit to vacant posts;
- Vacancies are publicised for a minimum of two weeks in accordance with the Council's recruitment policy;
- Selection processes are fair and transparent, and;
- Line managers provide corporate induction using the prescribed Corporate Induction Checklist.

However, some opportunities for improvement were identified in relation to ensuring that:

- Proof of eligibility to work in the UK is always obtained;
- There is a higher uptake of training by officers involved in the recruitment and selection of new employees;
- Checks are implemented to confirm that new employees are properly inducted (and in a timely manner) in accordance with Council policy;
- The importance of effective induction and the role it plays in staff retention is promoted (where, since April 2016, approximately 10% of new starters left within a year of joining the Council).

Appropriate actions to address all of the findings of this audit were agreed with management within a formal action plan.

Procurement Cards

Procurement cards (P-cards) are a flexible way for staff to buy goods and services. Benefits include being able to buy direct from the internet and local suppliers, enabling more efficient purchasing and better pricing.

At the time of our review, there were 467 P-card holders across the Council, including Schools and Public Health. Between 1 April 2016 and 23 May 2017, £2.4m of payments have been made on P-cards in over 36,000 transactions.

In September 2015, Internal Audit conducted a comprehensive review of purchasing card (P-card) expenditure which highlighted a number of potentially inappropriate transactions in breach of P-card policies. The result of this exercise was shared with Finance Managers to investigate further in conjunction with departmental management teams, with any suspected instances of fraud being referred back to internal audit for formal investigation and opportunities taken to remind staff of correct practice. It was agreed that a similar exercise would be completed twelve months later to establish whether practices had improved. In addition, it was also agreed that a full audit of P-cards would be conducted as part of the internal audit plan for 2017/18; the scope of which was to ensure that:

- P-cards are only issued to appropriately authorised and trained employees, and;
- P-cards are only used for goods and services wholly, exclusively and necessarily for council use, and for best value to be attained.

In relation to the audit, we were able to provide an opinion of **reasonable assurance**. Whilst we found the overall P-card control framework to be robust, especially in relation to the issuing of procurement cards, the provision of appropriate training and correct amount of VAT being claimed by users, we identified areas where controls could be improved further to strengthen the overall control environment.

Areas for improvement included ensuring that:

- All P-card transactions are in accordance with the Council's P-card policy and an appropriate use of public funds. Whilst there has been an improvement since the previous review of card usage, in completing this more recent analysis we again identified potentially inappropriate activity. This has been reported to Finance Managers for further investigation;
- Supporting documentary evidence for transactions is retained for the term set out in the P-card policy, and;
- There are controls in place for the renewal of cards.

The findings from our review were reported to management and a number of actions were agreed to mitigate the risks identified.

Bankline

The Council's Bank (Natwest) provides direct access to Council bank accounts to undertake secure banking transactions via a corporate online banking service called Bankline. A limited number of users have access to Bankline for making CHAPS and faster payments as well as the day to day management of Council bank accounts. In addition to this, there are 118 schools set-up on Bankline in order to process BACS payments. Total CHAPS payments over the last twelve months amount to approximately £764m.

This review evaluated controls in relation to user access, data input and payments, and the adequacy of business continuity arrangements. Our work found that controls were in place and generally operating as expected, resulting in an audit opinion of **reasonable assurance**. However, whilst robust controls were in existence in relation to system access, opportunities to improve controls in other areas were identified, including the need to:

- Further strengthen segregation of duty controls within the system, including in relation to usage within schools;
- Ensure adequate business continuity arrangements are in place so that the Council can continue to manage its daily banking activities in the event that Bankline becomes unavailable, and;

- Establish a standardised approach to CHAPS payments to ensure adequate audit trails exist and correct approval processes are followed.

A number of actions to improve controls in the above areas were agreed with management, all of which are due to be implemented by November 2017.

Orbis – Comparison of Personnel Policies

Orbis is a public sector shared service which aims to grow and strengthen through its partners, increasing collective buying power and streamlining processes to provide better, more efficient services.

The nature of the partnership means that individuals working for Orbis may be employed by any one of the three founding partners. This means that employees working within the same team will be obliged to observe the policies of their sovereign organisations. An inconsistent or contradictory policy framework may lead to issues of confusion, error or omission, inappropriate decision making or HR disputes. With the development of an integrated management structure, there is a greater need for a clear and consistent framework of governance over Orbis activity. Whilst there are likely to be areas where policies and procedures between partner organisations will remain potentially quite different, it is important that these differences are clearly identified and understood, especially by staff working across the partnership.

Our review set out to identify and evaluate some of the key policies across East Sussex and Surrey County Council. Overall, we found that the policies reviewed are broadly similar, although some relatively minor differences were identified where there is potential for confusion and inappropriate decision-making, particularly in relation to the following policy areas:

- Codes of Conduct;
- Email Use Policy;
- Social Media;
- Drugs and Alcohol at Work, and;
- Travel and Expenses.

Management are in the process of reviewing the differences that we have highlighted and, in particular, the implication for managers working across more than one partner. Further work will now be undertaken on a comparison with Brighton and Hove City Council policies.

Storage Area Network

A Storage Area Network (SAN) is a specialized, high-speed network that provides block-level network access to storage. SANs are typically composed of hosts, switches, storage elements, and storage devices that are interconnected using a variety of technologies, topologies, and protocols.

SANs are often used to:

- Improve application availability (e.g. multiple data paths);
- Enhance application performance (e.g. off-load storage functions, segregate networks, etc.), and;
- Increase storage utilization and effectiveness (e.g. consolidate storage resources, provide tiered storage, etc.), and improve data protection and security.

SANs also typically play an important role in an organization's Business Continuity Management (BCM) activities.

This audit, undertaken by Mazars Public Sector Internal Audit on behalf of ESCC, evaluated the following areas:

- SAN governance roles and responsibilities - that effective accountability exists for storage design and risk management activities;
- SAN capacity management and configuration monitoring arrangements – that storage operational efficiency is maximised and monitored, and;
- SAN administration access, audit and change controls - to minimise the risk of potential service availability disruptions.

Overall, Mazars were able to provide an audit opinion of **substantial assurance** in this area, with controls found to be in place and operating effectively. Only one opportunity for improvement was identified, relating to the completion of a SAN security risk assessment to ensure that it has been implemented in line with the SAN manufacturer's best practice vendor configuration and back-up solution guidance. Appropriate action to address this was agreed with management.

Schools Funding Formula

The government is planning to implement major changes to the arrangements in place for the calculation and allocation of schools funding. Under the current arrangements, funding is distributed through the dedicated schools grant (DSG). Consultation then takes place with the Schools Forum to determine how funding will be distributed between schools. Under the new proposals, there will be greater centralised controls with less power given to the Schools Forum and local authorities to allocate funds.

The scope of this audit was to ensure that the risks associated with changes to the schools funding formula are being managed and communicated with schools to ensure they are best prepared for this change, through:

- Ensuring there is sufficient guidance and support in place at ESCC to manage the process and ensure schools are informed and understand the changes, and;
- Ensuring schools and other stakeholders are actively involved in the consultation process, with a coordinated approach across East Sussex Schools.

In assessing the arrangements in place for managing the move to the Schools Funding Formula, we found that ESCC has a robust framework in place to support schools and we were therefore able to provide an opinion of **substantial assurance**. This includes:

- The Schools Finance team at ESCC having an in-depth knowledge of the current process and the proposed changes;
- The Schools Finance team and Children's Services working together to ensure that the message to schools is consistent;
- Bursar forums being held with content stressing the difficulties schools are facing from the real term cuts in funding and detailed explanations on changes to the funding structure and the timeframe of its implementation, encouraging schools to be active in the consultation process, and;
- The creation of five year budget planning spreadsheets, with evidence of schools benefiting from these, especially those with a current deficit that need to be able to demonstrate a robust recovery plan.

There is evidence of schools acting on the guidance received. There has been an increase in schools carrying out staffing restructures and changes in class sizes as well as greater

collaborative working; for example, through the setting up of federations in order to share senior staff and their costs.

Only one opportunity for improvement was identified as a result of our work. This related to the need for targeted training and awareness for Headteachers, in addition to that already provided to bursars and governors. Schools could be better prepared for the changes by ensuring all Headteachers are fully aware of the financial pressures and changes in funding arrangements, and the action that needs to be taken. As a result of this, it was agreed with management that training and/or guidance would be established specifically for Headteachers, by January 2018.

It is important to recognise that the completion of the consultation does not conclude the need to offer this support to schools. Many schools are projecting a deficit in years two or three of their current three year budget plans, meaning there is a fundamental need to continue to press the importance of taking action now and explore ways of working which challenge the conventional systems.

Education Improvement Partnerships

Education Improvement Partnerships (EIPs) are groups of schools working together across an area to improve outcomes for pupils at all schools. EIP funding from the local authority aims to develop sustainable partnerships that improve pupil outcomes by facilitating school to school support and joint projects and activities.

The overall budget for EIP funding contributed by East Sussex County Council (ESCC) in 2017/18 is £300,000. The budget for 2018/19 will be £100,000. Schools are being encouraged to undertake their own income generating activities in order to support the future sustainability of the EIP programme.

The scope of the audit was to ensure:

- An effective consultation process identifies clear objectives for EIP funding that benefits all schools;
- EIP expenditure is aligned to objectives and budgets are managed effectively;
- EIP funds are visible in school accounts and financial reports are issued to stakeholders;
- Governance arrangements ensure appropriate review and authorisation of expenditure, and;
- Financial liability for staff employed using EIP funding is apportioned appropriately.

A sample of 3 EIPs was chosen at random in order to undertake audit testing on financial arrangements in place at EIP budget holding schools. In undertaking our work, we were able to provide **reasonable assurance** over the control framework for EIPs on the basis that sound governance arrangements are in place in relation to the EIP environment, effective financial planning and moderation processes ensure activity is aligned to strategic objectives and adequately costed before any funding is released, and effective monitoring is undertaken on a regular basis.

Some areas of improvement were identified, including the need to ensure that:

- Individual EIP's incorporate formal financial governance arrangements, including in relation to Schemes of Delegation for managing joint partnership budgets, and;
- Where EIP Coordinators have been taken on as employees (using EIP funding which is decreasing year-on-year) rather than external consultants, the extent of any potential financial liability in relation to redundancy costs is determined.

It should also be noted that there is a continued reliance on ESCC officers to provide guidance and support to EIPs. Should ESCC oversight reduce along with funding, EIP governance arrangements (particularly at local executive group level) will need to be strengthened.

A small number of actions in relation to the above areas were agreed with management as part of a formal action plan for improvement.

LCS/ContrOCC

The Liquid Logic Children's System (LCS) is the Council's records and case management authorisation system for children in need, looked after children and adoption. The Children's ContrOCC system is the Council's contracts and budget management system for Children's Social Care clients. This system is used to make payments to care providers. An automated interface allows LCS and ContrOCC to share key information. In the financial year 2016/17, payments totalling £10.7 million were made from the Children's ContrOCC system to care providers, which represent an average of £892,000 per month.

The scope of the audit was to review the adequacy of controls within LCS and the Children's version of ContrOCC and to follow-up the issues reported to the LCS Implementation Board as part of our support to the implementation of LCS in 2016. This included a review of the following control objectives:

- Appropriate system administration and access controls are in place within the two systems;
- Controls exist to ensure that data input within the two systems aligns with the approved packages of care;
- All care and support plans are reviewed and approved at an appropriate level, with service provision taking place once approval has been received, and;
- Payments are complete, accurate and timely and are only made to bona fide providers of care.

Overall, we were able to provide **reasonable assurance** over the adequacy of controls in place. Whilst a number of areas of good practice were identified, there were a small number of opportunities to further improve controls, including the need to:

- Introduce a routine monitoring process to identify dormant LCS user accounts, which increases the risk of unauthorised access;
- Implement a process to monitor and identify gaps in the LCS workflow approval process, therefore reducing further the risk of inappropriate approvals and payments, and;
- Document and complete formal testing of the disaster recovery process for LCS.

A formal action plan incorporating all of the findings from our review, none of which were considered high risk, was agreed with management. Given that this is one of the Council's key financial systems and that our review covered the 2016/17 period, a further review will be undertaken prior to the end of this financial year.

Direct Payments

Direct Payments are payments made to individuals to meet some or all of their eligible health care and support needs for those who need help to stay in their own home. Adult Social Care have responsibility for assessing client care needs, completing Individual Service Agreements with clients and conducting financial assessments to determine client contributions.

Business Operations within the Business Services Department have responsibility for activating pre-paid card accounts, making payments to clients and monitoring accounts. The Direct Payments Project Team in Adult Social Care provides contract management and support. In 2016/17, approximately £20 million was paid out to Direct Payment clients.

The scope of the audit was to ensure:

- Pre-paid cards are issued to verified clients only;
- Direct Payment monies are being used for their intended purpose;
- Clients in receipt of Direct Payments are subject to ongoing monitoring to ensure correct amounts are paid and an appropriate level of care is received;
- Roles, responsibilities and accountabilities are clear within all stages and teams;
- Appropriate action is being taken to ensure the successful procurement of, and transition to, a new pre-paid card provider.

In providing an opinion of **reasonable assurance**, we found that, generally, controls were adequate. Some areas for improvement were, however, identified, including in relation to the:

- Enhancement, through automation, of reconciliation controls;
- Implementation of a formal monitoring process for direct payment pre-paid card accounts to assist in ensuring that expenditure is appropriate, and;
- Monitoring and reporting of client balances held that are outside the agreed tolerance limits.

Actions to ensure these and other improvements in control are made were agreed with management as part of a formal action plan.

Social Care Non-Attendance and Deaths

The Council's Adult Social Care service provides home care (sometimes known as domiciliary care) and other non-residential (i.e. day care) social services which allow clients to remain in their homes and retain a good level of personal freedom.

The main homecare providers use an electronic Real Time Telephone Monitoring (RTTM) system for recording homecare visits. The smaller service providers of homecare, as well as other non-residential care providers, are expected to keep a manual record i.e. timesheet or activity sheet, to record visits and attendance.

Non-attendance by appointed home care providers (or where a client does not attend day care services) can cause neglect of vulnerable clients that the Council is supposed to be supporting and financial loss to the Council where payment for services is still made. This audit was concerned with both the neglect aspect and providing assurance that payments are only made for valid social care clients who are actually receiving care, including that controls are in place which:

- Minimise payment for non-attendance at scheduled/planned visits;
- Ensure services are ceased in a timely manner as a result of the notification of the death of a client, and;
- Ensure that payments made by the Council to providers in respect of home care and other non-residential care are accurate and complete.

In identifying a number of areas of good practice and controls, we were able to provide an audit opinion of **reasonable assurance**. A small number of opportunities for improvement were identified, including:

- The need to monitor the number or level of missed visits by service providers on a regular (i.e. monthly/quarterly) basis, and;
- Ensuring that providers log out of the RTTM in a timely manner at the end of a visit, to reduce the risk that payment is made for visiting hours that have not been provided.

Appropriate action to address these and other areas were agreed with management.

Waste PFI Contract – Pricing Model

East Sussex County Council (ESCC) is a waste disposal authority and must arrange for the disposal of waste and recycling collected in the area by the waste collection authorities, as well as providing household waste recycling sites/facilities for local residents. As a result of the level of investment required to build and operate these facilities, the Council sought a waste management Private Finance Initiative (PFI) contract to enable the private sector to invest in and deliver these. In April 2003, ESCC and Brighton and Hove City Council (BHCC) awarded their Integrated Waste Management Services PFI Contract worth £962m to South Downs Waste Services Ltd, subsidiary of Onyx Aurora – now known as Veolia Environmental Services, for a period of 25-years, which has been extended to 30 years (2033).

The contract stipulates that the Council should pay the contractor a Unitary Charge for the provision of the services. The components of the Unitary Charge are prescribed by the contract and some components are determined by formulas set out within this. A spreadsheet known as the 'Pricing Model' has been developed by ESCC to calculate the components in accordance with the formulas set out in the waste management contract.

The scope of the audit was therefore to provide assurance that the Pricing Model calculates:

- The relevant components of the Unitary Charge accurately and completely in accordance with the Waste Management Services Contract, taking into account any subsequent contract variation(s), and;
- Each Council's (ESCC and BHCC) share of the relevant components of the Unitary Charge in accordance with the Joint Working Agreement.

Our review found the Pricing Model to be robust and we were therefore able to provide **substantial assurance** in this area. Based on the testing we completed, we found that the model has been configured to accurately and completely calculate all the components of the Unitary Charge that were reviewed in accordance with the waste PFI contract. Only a small number of minor opportunities for improvement were identified and these were agreed with management.

School Audits

As reported in our quarter 1 progress report, 23 school audits (20 Primary, 2 Secondary, and 1 Special) and 5 follow-up visits are planned across the remainder of 2017/18, beginning in quarter 3. These have been determined through a risk assessment of factors, including the date of the last audit, Schools Financial Value Standard (SFVS) returns and input from the Schools Risk Review Group.

We have continued to provide advice, guidance and training to all schools to improve the level of financial control and scrutiny from Governors. This has included attending the Governor Local Area Forum with colleagues from Finance to provide an update on Schools Finance and other key topics. These sessions were aimed at further embedding the role of the Governing Body into school financial arrangements. We have also attended Bursar and Business Manager Forums to provide technical updates.

With our Orbis partners, we also continue to issue school information bulletins, providing guidance for Governors.

Anti-Fraud and Corruption

Investigations

During quarter 2, we received a number of referrals in relation to possible fraud and other concerns which required preliminary investigation by internal audit. These included investigation into:

- Two possible failures to declare conflicts of interest following matches from the National Fraud Initiative (NFI) Companies House data. Our investigations found no evidence of fraud or corruption, but identified weaknesses within the governance arrangements in the associated service areas. We have since recommended improvements for both areas investigated.
- An allegation into a conflict of interest within Adult Social Care where a member of staff was providing service users with the contact details of a family member who worked self-employed as a Personal Care Assistant, and also recommended service users to a residential care home where the family member also worked. Our investigation found no evidence of dishonesty or deliberate attempts to circumvent procedures. However, the staff member concerned was subject to standard setting by management.

A number of other investigations are in progress. We will report on these once they have been completed and the cases closed.

National Fraud Initiative

As part of the bi-annual NFI data matching exercise (that matches electronic data within and between public and private sector bodies to prevent and detect fraud), we have undertaken a number of validation checks to ensure that matches have been investigated effectively and lessons have been learnt regarding the internal control environment and minimising future matches. Instances where fraud or error has been recorded by investigating officers have been reviewed by internal audit as part of the validation checks. To date, officers have made sound progress in reviewing the data matches, with in excess of £24,000 being identified as either fraud or error.

Counter Fraud

Our proactive counter fraud work during the quarter has included:

- A review of Procurement Card (P-Card) transactions in order to detect inappropriate and fraudulent use. See 'Procurement Cards' above.
- A high level review to assess the adequacy of controls to guard against payment fraud where the Council has recently been subject to increasing fraud attempts, including in relation to spear phishing, ransomware and bank mandate fraud. Overall, we found that, in the areas reviewed (those most likely to be affected by this, i.e. Accounts Payable and Treasury Management) controls were generally adequate. Only one area for improvement was identified; this related to the need to ensure that all bank account change requests are bona-fide through checks on the legitimacy of such requests.

In addition to an assessment of the controls in place, we provided training for officers in the Accounts Payable team to raise awareness of the current fraud threat.

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):

- Data Centre Move
- Child Protection Information Sharing
- Atrium – Works Delivery Module
- Atrium – Estates AP and AR Interfaces
- Schools Funding Formula Preparation
- SEND Budget Management
- Broadband – Annual Return to BDUK
- ASC Payment and Income Processes

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	2018-19
Corporate Contract Management	Partial	2018-19
Contract Management – Adecco	Partial	2017-18
Property Pre Contract Checks	Partial	2017/18
Schools Federations and Partnerships	Partial	2017/18
Information and ICT E-Safety Controls in Schools	Partial	2017/18
Peacehaven Community School	Minimal	2017/18
Langney Primary School	Minimal	2017/18
Staplecross Methodist Primary School	Minimal	2017/18
Harbour Primary and Nursery School	Minimal	2017/18
St Mary the Virgin CE Primary School	Minimal	2017/18